# Pillar 3

## Disclosure of central risk information 2016

Norwegian Finans Holding ASA

Bank Norwegian AS

**CONTENTS**

## 1. CAPITAL ADEQUACY RULES

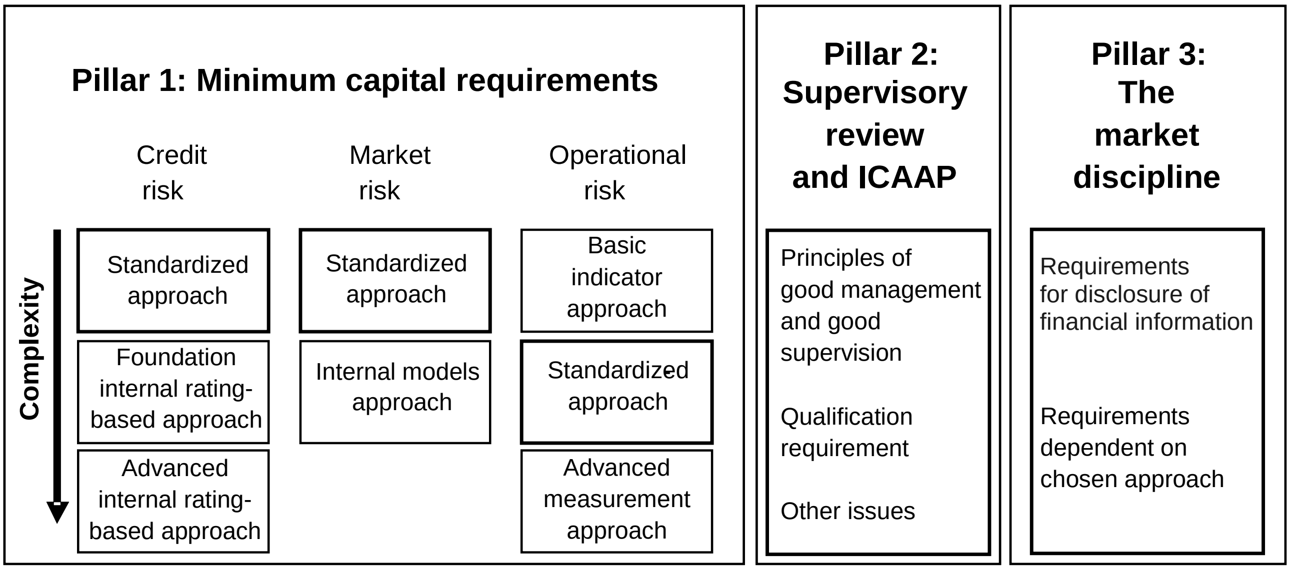
### 1.1 Prevailing capital adequacy rules

The EU directive for capital adequacy was introduced in Norway as of January 1, 2007. The regulations (Basel II) are based on a standard for capital adequacy calculations from Bank for International Settlements (BIS). The purpose of the capital adequacy regulations is to strengthen the stability of the financial market by:

- More risk-sensitive capital requirements
- Better risk management and control
- Closer supervision
- More information to the market

The capital adequacy regulations are based on three pillars:
Pillar 1: Minimum capital requirements
Pillar 2: Assessment of capital requirement and supervisory review
Pillar 3: Disclosure of information by the institutions

The figure below illustrates the contents of the capital adequacy regulations.




**Pillar 1 - Minimum capital requirements**

The regulations entail a capital requirement of 8% and, in addition to capital requirement for credit risk, there is an explicit capital requirement for market risk and operational risk. Banks can choose between different methods for calculating the capital requirement; the standardized approach and internal rating-based approaches. Using the standardized approach, the capital requirement is based on official credit ratings, while with internal measuring methods the capital requirement is based on the bank's internal risk assessments. Bank Norwegian bases its calculation of capital requirement on the standardized approach for credit risk and the standardized approach for operational risk. The bank changed from the basic indicator approach to the standardized approach in the 3rd quarter of 2016. The bank has no trading portfolio or exposure requiring the bank to include a capital requirement for market risk.

**Pillar 2 - Assessment of capital requirement and supervisory review**

Pillar 2 is based on two main principles. Banks must have an internal capital assessment process for assessing the total capital requirement in relation to risk profile, and a strategy for maintaining their capital level. The total capital requirement shall cover risks which have not been taken into consideration when calculating the minimum requirement according to Pillar 1. The supervisory authorities will examine and evaluate banks' internal assessment of capital requirement and strategies. In addition, the supervisory authorities will monitor and ensure adherence to the capital requirements imposed by the authorities. The supervisory authority can establish individual capital requirements, require reduction in the risk level or require improved management and control if it is not satisfied with the outcome of this process.

**Pillar 3 – Disclosure of information**

The purpose of Pillar 3 is to supplement the minimum requirements in Pillar 1 and the supervisory review in Pillar 2. Pillar 3 shall contribute to increased market discipline by requiring disclosure of information that enables the market, including analysts and investors, to assess the institution's risk profile and capitalization, and management and control. The information requirements require that all institutions must disclose information on their organizational structure and procedures for risk control and management. In addition, there are requirements to disclose the capital level and structure, and risk exposure, where the latter is dependent on the calculation methods chosen by banks in Pillar 1.

The purpose of this document is to give a description of risk and capital management in Bank Norwegian and to meet the requirements to disclose financial information according to the capital adequacy regulation section IX (Pillar 3).

### 1.2 Basel III (CRD IV) – new regulations

The Basel Committee's standards for capital and liquidity management ("Basel III") apply to credit institutions and securities firms in the EEA through the EU's capital adequacy directive ("CRD IV").

As implemented in Norway, these new capital and liquidity standards entails a common equity tier 1 ratio, tier 1 capital ratio and total capital ratio of a minimum of 11,5 %, 13,0 % and 15,0 %, respectively. Included in this requirement is a countercyclical capital buffer that will vary between 0 - 2.5%, and is entity specific. The buffer is an average of the rates that apply in each country where the entity has loan commitments, weighted with the proportion of the capital requirement that is attributable to loan commitments in the individual countries. The Norwegian and Swedish countercyclical capital buffer requirement increased to 1.5% during 2016 and increases to 2.0% as of March 19, 2017 in Sweden, and December 31, 2017 in Norway.

Other regulations imposed by the CRD IV regulations are a requirement of leverage ratio, liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). LCR measures the size of the entity's liquid assets to the net cash outflow over a 30-day stress period. NSFR measures the amount of stable funding relative to the amount of required stable funding over a 1-year period. The liquidity reserve requirement is phased in with a minimum of 70 percent from December 31, 2015, a minimum of 80 percent from December 31, 2016 and a minimum of 100 percent from December 31, 2017.

## 2. CONSOLIDATION

Bank Norwegian AS is a wholly-owned subsidiary of Norwegian Finans Holding ASA. Norwegian Finans Holding does not engage in any other operations. The same consolidation method is used for accounting and capital adequacy purposes.

Norwegian Finans Holding ASA, Bank Norwegian AS and Norwegian Finans Holding Group shall at all times maintain a appropriate capital adequacy.

There are no legal restrictions to swiftly transfer capital or repayment of liabilities between the parent company and subsidiary.

## 3. TOTAL CAPITAL AND CAPITAL REQUIREMENTS

### 3.1 Total capital

The table below presents information on total capital, including common equity tier 1, tier 1 capital and supplementary capital, and relevant additions, deductions and limitations at 31.12.2016 for the group, the holding company and the bank.

| | | | **31.12.2016** |
|---|---|---|---|
| *Amounts in NOK 1000* | Norwegian Finans Holding ASA | Bank Norwegian AS | Norwegian Finans Holding Group |
| **Total capital** | | | |
| Share capital | 180,105 | 176,800 | 180,105 |
| + Share premium reserve | 481,980 | 473,160 | 481,980 |
| + Other reserves | 5,008 | 2,333,223 | 2,338,191 |
| - Deferred tax assets and intangible assets | 3,946 | 68,795 | 72,741 |
| **Common equity tier 1** | **663,148** | **2,914,388** | **2,927,535** |
| + Additional Tier 1 capital | - | 335,000 | 335,000 |
| **Tier 1 capital** | **663,148** | **3,249,388** | **3,262,535** |
| + Tier 2 capital | - | 274,915 | 274,915 |
| **Total capital** | **663,148** | **3,524,303** | **3,537,450** |
| | | | |
| **Common equity tier 1 %** | **100.80 %** | **13.66 %** | **13.72 %** |
| **Tier 1 capital %** | **100.80 %** | **15.23 %** | **15.29 %** |
| **Total capital %** | **100.80 %** | **16.52 %** | **16.58 %** |

**Subordinated loans**

On December 11, 2013 the bank issued a subordinated loan at a nominal value of 175 MNOK. The loan's maturity date is December 11, 2023. Upon prior approval from the Financial Supervisory Authority of Norway, the bank can use the right to early redeem the loan at par, the first time on December 11, 2018, and quarterly thereafter. The agreement includes a regulatory redemption right at par. The interest is 3 months NIBOR + 2.65 percentage points. The interest rate at December 31, 2016 is 3.79%, with the first interest adjustment on March 13, 2017.

On September 21, 2016 the bank issued a subordinated loan with a nominal value of 100 MNOK. The loan's maturity date is September 21, 2026. Upon prior approval from the Financial Supervisory Authority of Norway, the bank can use the right to early redeem the loan at par, the first time on September 21, 2021, and quarterly thereafter. The agreement includes a regulatory or fiscal redemption right at par. The interest is 3 months NIBOR + 3.00 percentage points. The interest rate at December 31, 2016 is 4.18 %, with the first interest adjustment on March 21, 2017.

**Perpetual subordinated loan**

On December 11, 2013 the bank issued a tier 1 capital instrument with a nominal value of 125 MNOK. Upon prior approval from the Financial Supervisory Authority of Norway, the bank can use the right to early redeem the loan at par, the first time on December 11, 2018, and quarterly thereafter. The agreement includes a regulatory redemption right at par. The interest is 3 months NIBOR + 4.10 percentage points. The interest rate at December 31, 2016 is 5.24 %, with the first interest adjustment on March 13, 2017.

On September 21, 2016 the bank issued a tier 1 capital instrument with a nominal value of 210 MNOK. Upon prior approval from the Financial Supervisory Authority of Norway, the bank can use the right to early redeem the loan at par, the first time on September 21, 2021, and quarterly thereafter. The agreement includes a regulatory or fiscal redemption right at par. The interest is 3 months NIBOR + 5.25 percentage points. The interest rate at December 31, 2016 is 6.43 %, with the first interest adjustment on March 21, 2017.

## 3.2 Calculation basis and capital requirement

The group uses the standardized approach for calculating credit risk, and the standardized approach for calculating operational risk.

| **Calculation basis and capital requirement** | | | **31.12.2016** |
|---|---|---|---|
| *Amounts in NOK 1000* | Norwegian Finans Holding ASA | Bank Norwegian AS | Norwegian Finans Holding Group |
| **Calculation basis** | | | |
| **Credit risk** | | | |
| Covered bonds | - | 76,611 | 76,611 |
| + Institutions | 1,729 | 666,680 | 668,408 |
| + Loans to customers | - | 17,212,261 | 17,212,261 |
| + Defaulted loans and other commitments | 656,164 | 1,752,276 | 1,752,276 |
| **+ Operational risk** | - | 1,627,574 | 1,627,380 |
| **Total calculation basis** | **657,892** | **21,335,402** | **21,336,936** |
| **Capital requirement** | | | |
| **Credit risk** | | | |
| Covered bonds | - | 6,129 | 6,129 |
| + Institutions | 138 | 53,334 | 53,473 |
| + Loans to customers | - | 1,376,981 | 1,376,981 |
| + Defaulted loans and other commitments | 52,493 | 140,182 | 140,182 |
| **+ Operational risk** | - | 130,206 | 130,190 |
| **Capital requirement at 8 %** | **52,631** | **1,706,832** | **1,706,955** |
| **Capital requirement at 11,2 %** | **75,658** | **2,394,743** | **2,394,920** |
| Minimum common equity tier 1 capital requirement at 4,5% | 29,605 | 960,093 | 960,162 |
| Capital conservation buffer at 2,5% | 16,447 | 533,385 | 533,423 |
| Systemic risk buffer at 3,0% | 19,737 | 640,062 | 640,108 |
| Countercyclical buffer at 1,2% | 9,868 | 261,203 | 261,226 |

The group has operations in the Scandinavian countries. At December 31, 2016, the countercyclical capital buffer was 1.5% for Norwegian and Swedish loan commitments and 0% for Danish and Finnish loan commitments. At December 31, 2016 the entity-specific countercyclical capital buffer was 1.2% for the group and the bank, and 1,5% for the holding company.

### 3.3 Leverage ratio

Norwegian institutions can choose whether they want to report the leverage ratio as an average of monthly observations, or at the end of each quarter up to and including the 4th quarter of 2017. The table below presents the leverage ratio at 31.12.2016.

| **Leverage ratio** | | | **31.12.2016** |
|---|---|---|---|
| *Amounts in NOK 1000* | Norwegian Finans Holding ASA | Bank Norwegian AS | Norwegian Finans Holding Group |
| **Tier 1 capital** | **663,148** | **3,249,388** | **3,262,535** |
| Off-balance sheet items | - | 2,146,557 | 2,146,557 |
| + On-balance sheet items | 660,861 | 30,252,069 | 30,257,375 |
| **Total commitment** | **660,861** | **32,398,626** | **32,403,932** |
| **Leverage ratio** | **100.35 %** | **10.03 %** | **10.07 %** |

## 4. RISK MANAGEMENT AND CONTROL

### 4.1 Purpose

The risk and capital management in Bank Norwegian shall contribute to achieving the bank's strategic aims, and at the same time secure a solid financial stability. This will be achieved through:

- A strong organizational culture marked by a high awareness of risk management.
- A good understanding of the risks that drive earnings.
- Striving for optimal capital utilisation within the framework of the adopted business strategy.
- An avoidance of unexpected individual operational events that could substantially damage the group's financial position.

The board of directors has established a business strategy and guidelines for management and control of important risks. The business strategy and guidelines for risk management and control establish that the bank, primarily, will generate earnings by credit exposure in unsecured loan commitments in the retail customer segment. Other financial risks will be limited within internal established risk limits. The risk limits are determined in relation to the bank's current buffer capital and risk-bearing capacity.

### 4.2 Risk groups

- **Credit risk:** losses resulting from customers' inability or unwillingness to meet their obligations.
- **Market risk:** losses resulting from changes in interest rate levels, foreign currency and securities.
- **Interest rate risk:** losses resulting from changes in the underlying interest rates, and are related to differences in the fixed interest rate on the bank's financial instruments and products.
- **Liquidity risk**: that the bank is not able to meet all its financial obligations as they fall due without greater implications to the profit.
- **Operational risk**: losses as a result of failing or incorrect internal procedures, actions carried out by employees and technology, or as a result of external operational events, and legal risk.
- **Business and strategic risk**: lack of profitability or fluctuations in profit as a result of loss of revenue, reduced cost efficiency, again as a result of market or regulatory conditions, and wrong choice of direction.

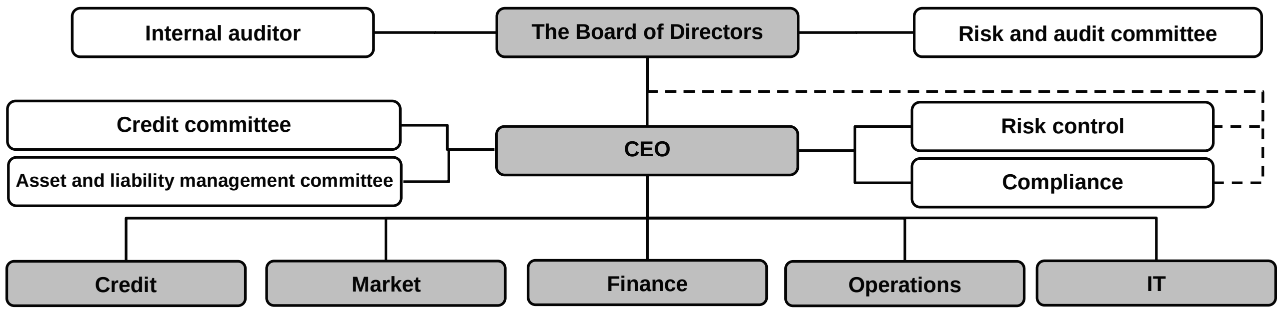
### 4.3 Elements in the bank's risk management

To ensure appropriate risk management and control, the bank is based on the following elements:

- Responsibility and organization.
- Guidelines and procedures for managing and controlling risk.
- Strategic planning and capital planning.
- Reporting and monitoring.
- Contingency plans.

### 4.3.1 Responsibility and organization

Illustration of governing bodies in the Norwegian Finans Holding Group.




The board of directors oversees and shall ensure that the bank has an appropriate system for managing and controlling risk. The board of directors shall ensure that the group has a capital adequacy that is proportionate to the regulatory requirements and risk exposure. The board of directors defines overall goals, policies and authorizations for the bank's risk management and control activities.

The CEO shall ensure that the objectives, guidelines and authorizations approved by the board of directors for the bank's risk management and control are complied with, and shall ensure an effective management and control of risk.

The risk control function shall ensure that all significant risks are identified, measured and reported by the relevant departments. The finance department is responsible for the risk control function. The manager of the risk control function reports to the CEO. The finance department and the credit department are responsible for ensuring that the operational monitoring and controling of risk is according to approved targets and guidelines, and shall arrange for ongoing reporting and monitoring.

The compliance function is subject to the finance director, who reports to the CEO, and is responsible for independent control, reporting and ensuring that the bank adheres to self-imposed and statutory requirements.

The asset and liability management committee is an advisory body for the CEO and is responsible for controlling, reporting and monitoring that the bank adheres to self-imposed and statutory requirements.

The asset and liability management committee is an advisory body to the CEO and shall ensure compliance of the CEO's responsibility for management and control of financial risk. The asset and liability management committee shall supervise the activities within funding, liquidity management and management of balance sheet products. Furthermore, the asset and liability management committee ensures independent control of reporting.

The credit committee is an advisory body for the CEO for credit decisions, the development of credit policy guidelines, and for the execution of the bank's credit policy guidelines and procedures.

### 4.3.2 Guidelines and procedures for managing and controlling risk.

The board of directors has established guidelines for managing and controlling financial risk, credit risk and operational risk. The guidelines set targets, policies for risk management, risk tolerance and risk limits, control system, reporting and contingency plans. In addition to the guidelines, there are instructions, authorizations and procedure manuals within the respective guidelines.

### 4.3.3 Strategic planning and capital planning

The board of directors approves strategic plans that are subject to ongoing review. A central element in the strategic development process is the bank's and the group's capital planning. The capital planning shall ensure solid capitalization of the bank beyond the legal minimum requirements and present the expected capital requirements and plan for the raising of capital over a three year period. The plan shall also present the required need for debt financing in the period. The capital plan sets out the group's capital adequacy targets. Determining the capital adequacy targets takes several factors into consideration, such as regulatory requirements, the bank's balance sheet management, earnings and earnings retention, credit standards and credit quality, risk diversification, ownership and access to capital. The bank projects the expected development in capital adequacy and buffer capital on a monthly basis with a three year projection horizon, giving the administration and the board of directors a strong tool for managing and controlling risk.

#### 4.3.4 Reporting and monitoring

Reporting and monitoring are key elements in the group's risk management and control. The risk control function is assigned to the finance and credit departments, who are responsible for ongoing and periodical reporting of the development in the bank's risk position, and ensuring that all risk positions are within the approved risk limits. Risk positions are reported to the CEO on a daily, weekly and monthly basis, and to the board of directors on a monthly basis.

#### 4.3.5 Contingency plans

The bank has established board-approved contingency plans to ensure an appropriate capital adequacy and liquidity position in the event that internal and or external factors affect the bank's solvency or liquidity in a strong adverse direction.

## 5. ICAAP (Internal Capital Adequacy Assessment Process)

### 5.1 Process for assessment of risk exposure and capital requirement

The bank's ICAAP document concerns Bank Norwegian AS as this is the operational unit of the group and there is no operations in Norwegian Finans Holding ASA.

The bank works actively with capital planning. On an annual basis, a capital plan is prepared which outlines the need for issuing debt securities and subordinated capital over a three year period. The capital plan is subject to ongoing revision by the bank's asset and liability management committee which holds monthly meetings. The capital situation is discussed by the board of directors monthly. The bank's forecasting model is updated monthly with a three year projection horizon. Monthly and ad hoc simulations provide the necessary forecasting information enabling management to be in advance with developing initiatives.

The ICAAP document is based on the capital plan approved by the board of directors. Further sensitivity tests, scenario calculations and stress tests are carried out to asses the risk and requirement of capital adequacy.

The bank's ICAAP document is treated by the board of directors as an integral part of the bank's strategy process, and is updated with risk measurements to capture any developments after the board of directors's approval of strategy and budget. The ICAAP document is reviewed by the internal auditor and the audit report is submitted to the board of directors for the completion the ICAAP document.

The capital adequacy targets and capital planning are based on the bank's overall strategy and risk management policies, as approved by the board of directors annually. Capital adequacy are reported quarterly to the Norwegian Financial Supervisory Authority and monthly to the board of directors.

### 5.2 Capital requirement – Pillar 2

Economic capital requirement describes the bank's need for capital to cover the bank's actual risk. The table below presents the split of economic and regulatory capital between the different risk groups based on the risk exposure at 31.12.2016.

**Capital requirement - Pillar 2**

| *Amounts in NOK 1000* | 31.12.2016 |
|---|---|
| Credit risk | 2,212,060 |
| Operational risk | 182,683 |
| **Minimum capital requirement - Pillar 1 - at 11,2%** | **2,394,743** |
| Market risk | 15,659 |
| Business risk and strategic risk | 11,224 |
| **Economic capital requirement - Pillar 2 - at 11,2%** | **2,421,626** |
| Common equity tier 1 | 2,914,388 |
| **Capital buffer/(capital requirements)** | **492,762** |

## 6. CREDIT RISK

Credit risk is the risk that the bank is not being repaid what it is entitled to in the form of interest and installments because the borrower does not have the will and/or ability to repay.

The bank's business objective is primarily to receive customer deposits and to offer credits the retail market. Credit risk is therefore a source of revenue and a strategic risk for the bank. Bank Norwegian offers only unsecured loans, and credit risk constitute the main component of the bank's total risk.

### 6.1 Management and control

The bank's board of directors has prepared a credit policy that functions as the bank's overall guideline for granting of credit. The paragraphs below describe some of the elements of the bank's credit policy in more detail.

**The bank's credit strategy** is defined in the bank's credit policy and is establihed by the board of directors and updated at least annually. The group's credit strategic limits are composed in such a way that it measures and picks up changes in the ongoing risk exposure in an expedient and efficient way, including anticipating losses and the need for buffer capital.

**The bank's credit authorization regulations** are established by the board of directors, and updated at least annually. The board of directors delegates authorization to the CEO, within specified limits, for the operational responsibility of decisions in credit cases. The CEO can redelegate authorizations to others. Credit authorizations are personal and are assigned, among other things, from a risk perspective.

**The bank's credit guidelines** are based on an automated decision support system where the applicant receives an automatic refusal or a conditional approval at the time of application. Credits are granted based on a qualitative and quantitative analysis with a positive conclusion on the customer's future willingness and ability to pay. The analysis of willingness to pay identifies the characteristics of the customer that predict future payment conduct, while the analysis of the customer's ability to repay is a a quantitative evaluation of the customer's ability to repay his obligations, given the customer's current and anticipated future economic situation. The case officer's role is to afterwards check if the conditions for the conditional approval are present. The customers are regularly risk assessed based on a behaviour score, if sufficient history is available. For new customers, and customers in new(er) markets, the application score is used in addition to any clearly negative observations, such as default on loan agreement. This risk classification is used in the bank's risk-based product pricing. The bank follows up credit quality through, for example, ongoing reporting and credit committee meetings. The board of directors has set limits for the maximum exposure per customer based on the type of commitment.

### 6.2 Definition of default and loss in value and method for calculating write-downs

Defaulted loans comprise of loans which are more than 90 days overdue according to payment schedule.

All the bank's loans are recognised at amortised cost. An impairment loss is recognised when there is objective evidence that a loan or group of loans has been impaired. The bank has prepared its own guidelines for write-downs on loans.

The criterion for calculating the losses on individual loans is the existence of objective evidence that the value of the loan has fallen. Objective evidence that the value of a loan has fallen includes observable data made known to the group regarding the following loss incidents:

1. Debtor suffering significant financial difficulties.
2. Non-payment or other type of significant breach of contract.
3. Granted postponement or new credit for the payment of an instalment, agreed to changes in the interest rate or other contractual terms as a result of the debtor's financial problems.
4. It is considered probable that the debtor will enter into debt settlement proceedings or other financial restructuring, or that bankruptcy proceedings will be opened for the debtor's estate.

Write-downs on groups of loans are performed if there is objective evidence that there is a fall in the value of groups of loans with the same risk characteristics. When evaluating the write-down of groups of loans, the loans shall be divided into groups with approximately the same risk characteristics with regard to the debtor's ability to pay on the due date. A fall in value is calculated on the basis of the borrower's income, liquidity, financial strength and financial structure, as well as securities furnished for the commitments.

Write-downs for losses cover losses in the commitment portfolio that have occurred. The evaluations of what commitments are regarded as doubtful are based on the conditions that exist on the date of the balance sheet. The loan portfolio is followed up monthly and an evaluation of individual and group write-downs is made in this connection. A critical evaluation is made in connection with the recognition of any fall in the value of the loan portfolio. Write-downs due to a fall in value are based on a risk classification in accordance with the established guidelines stipulated in the group's credit guidelines.

Write-downs represent the difference between the book value and the present value of the estimated future cash flow. The current effective interest rate is used when calculating the present value.

## 6.3 Loan portfolio information

### 6.3.1 Total commitments after write-downs

| *Amounts in NOK 1000* | 31.12.2016 |
|---|---|
| Overdraft facilities and lines of credit | 2,147 |
| Credit cards | 6,286,175 |
| Instalment loans | 18,945,625 |
| **Gross loans** | **25,233,948** |
| Undrawn credit limits | 21,465,571 |
| **Total commitment** | **46,699,519** |
| | |
| **Gross loans** | **25,233,948** |
| - individual write-downs on loans | 201,116 |
| - write-downs on groups of loans | 630,208 |
| **Net loans to and receivables from customers** | **24,402,625** |

### 6.3.2 Total commitments by industry

| *Amounts in NOK 1000* | | 31.12.2016 |
|---|---|---|
| Retail market | Gross loans | 25,233,948 |
| | Undrawn credit limits | 21,465,571 |
| **Total** | | **46,699,519** |

### 6.3.3 Total commitments by remaining maturity

| *Amounts in NOK 1000* | Up to 1 month | 1 - 3 months | 3 - 12 months | 1 - 5 years | Over 5 years | Without any term | Total |
|---|---|---|---|---|---|---|---|
| Net loans | 15,585 | 5,663 | 97,450 | 2,448,662 | 15,683,828 | 6,151,437 | 24,402,625 |
| Undrawn credit limits | - | - | - | - | - | 21,465,571 | 21,465,571 |
| Individual write-downs on loans | - | - | - | - | - | 201,116 | 201,116 |
| Write-downs on groups of loans | - | - | - | - | - | 630,208 | 630,208 |
| **Total** | **15,585** | **5,663** | **97,450** | **2,448,662** | **15,683,828** | **28,448,331** | **46,699,519** |

### 6.3.4 Overdue, not written down commitments

| *Amounts in NOK 1000* | 5 - 30 dager | 31 - 60 dager | 61 - 90 dager | Over 90 dager | Total |
|---|---|---|---|---|---|
| Retail market | 1,660,733 | 564,275 | 218,282 | 1,263,835 | 3,707,125 |
| **Total** | **1,660,733** | **564,275** | **218,282** | **1,263,835** | **3,707,125** |

### 6.3.5 Total commitments and defaulted loans by geographical location

| *Amounts in NOK 1000* | Undrawn credit limits | Gross loans | Of which: gross defaulted loans | Individual write-downs on loans | Write-downs on groups of loans |
|---|---|---|---|---|---|
| Norway | 15,114,225 | 14,629,135 | 929,649 | 158,081 | 293,787 |
| Sweden | 5,163,795 | 5,440,208 | 574,196 | 43,035 | 206,752 |
| Denmark/Finland | 1,187,551 | 5,164,606 | 150,356 | - | 129,668 |
| **Total** | **21,465,571** | **25,233,948** | **1,654,201** | **201,116** | **630,208** |

### 6.3.6 Change in individual write-downs and depreciation for the period

| *Amounts in NOK 1000* | Individual write-downs on loans |
|---|---|
| Individual write-downs on loans 31.12.15 | 63,607 |
| Realized losses in the period | 7,176 |
| Individual write-downs on loans including gains/losses resulting from changes in exchange rates | 130,333 |
| **Individual write-downs on loans 31.12.16** | **201,116** |

### 6.3.7 Change in write-downs on group of loans and depreciations for the period

| *Amounts in NOK 1000* | Write-downs on groups of loans |
|---|---|
| Write-downs on groups of loans 31.12.15 | 328,367 |
| Write-downs on groups of loans including gains/losses resulting from changes in exchange rates | 301,841 |
| **Write-downs on groups of loans 31.12.16** | **630,208** |

### 6.4 Use of official rating for the purpose of capital adequacy

By using the standardized approach, capital requirements may be dependent upon the counterpart's official rating. Official rating will not be relevant for the bank's loan customers, but may be applicable for issuers of securities for the bank's liquidity placements. In such instances will either Standard & Poors, Moody's and/or Fitch be relevant. At the time of reporting, the bank has no commitments for which ratings affect the capital adequacy.

### 6.5 Capital requirement

Given the bank's product spectre with many small loans in the retail market, broad geographical distribution, good procedures for granting and collecting on loans, strong creditor protection, a solid write-down practice, in addition to a low and stable level of credit losses, the bank's credit risk is considered to be at a level that is more than adequately covered in Pillar 1.

## 7. MARKET RISK

The bank's market risk exposure relates to the investment portfolio and foreign exchange exposure in connection with cross-border operations. The bank's board of directors has prepared guidelines that shall ensure appropriate risk management consistent with the bank's balance sheet management strategy and relevant legal requirements.

### 7.1 Management and control

Market risk is regulated in the bank's risk management policies. The guidelines are reviewed at least annually by the board of directors.

Losses due to changes in the interest rate levels are restricted through limitations to duration. The bank's investment portfolio is invested with a short term to maturity. Loss in value due to changes in the credit risk weighting is limited with a limit for maximum term to maturity by instrument and for the loan portfolio. The guidelines also set limits based on credit risk weights, credit rating, maximum exposure for each counterparty. Guidelines have also been established for monitoring and reporting. The bank's investment portfolio is managed by Storebrand Kapitalforvaltning and is regulated by mandate agreements. The market risk is monitored continuously by the finance department and is reported monthly to the asset and liability management committee and to the board of directors.

Exposure to foreign currency is hedged. Limits have been established for maximum foreign currency hedging deviation.

### 7.2 Capital requirement

The bank has no trading portfolio or exposure requiring the bank to include a capital requirement for market risk under Pillar 1. In order to take into account market risk in the investment portfolio, capital is set aside in accordance with Pillar 2 based on calculations according to the standardized approach for market risk. A position risk is calculated equivalent to 3.125% of the investment portfolio and a 11.2% capital reserve.

## 8. INTEREST RATE RISK

The board of directors has defined guidelines that set limits for the maximum interest rate risk. The guidelines are reviewed at least annually by the board of directors.

### 8.1 Management and control

The bank's investment portfolio is invested with a short term to maturity. The bank offers exclusively products with administratively set interest rate terms. Fixed interest terms are not offered. The interest rate commitment term for the bank's financial instruments coincides thus with the term for the products. Any exposure exceeding the interest rate risk limits shall be mitigated by using hedging instruments. A scheme has been established for ongoing monitoring and reporting of the interest rate risk to the board of directors.

### 8.2 Capital requirement

It is considered that there is no need for further capital reserves for interest risk under Pillar 2, as financial losses resulting from interest rate changes are considered covered by the capital reserve for market risk.

## 9. OPERATIONAL RISK

The board of directors has specified, through its guidelines for internal control, that the operational risk of its business operations shall be low. The bank shall have an appropriate, effective and efficient operation, with consistent high quality. The bank will monitor and manage the operational risk in an active and responsible manner. The bank offers a limited selection of standardized products to the retail market, which contribute to limit the risk.

### 9.1 Management and control

In addition to an annual review of significant operational risks and control measures, the management performs a continuous evaluation of the operational risk situation, and risk-reducing measures are implemented as necessary. There are regular reporting of operational loss events and internal control deviations to management and the board of directors. Loss history shows very low losses.

The bank's operation concept is largely based on purchasing services from external suppliers. The agreements contain clauses on quality standards and they are monitored continously by the bank in accordance with the outsourcing guidelines.

To ensure efficient, high quality operations, the bank continuously seek to automate processes. Continous efforts are made to further improve production capacity and quality.

Contingency plans have been established and insurance agreements have been entered into, that defend the bank against large operational loss events. The bank offers a limited and simple selection of standardized products in the retail market, and which contribute to limit the risk.

### 9.2 Capital requirement

It is considered that that there is no need for additional capital reserve for operational risk as the risk is considered to be more than adequately covered in Pillar 1 and historical data shows very low operational losses.

## 10. LIQUIDITY RISK

The bank's liquidity policy describes how the bank shall maintain a solid liquidity position. The bank shall maintain a minimum holding of liquid assets, and ensure stable access to varied and cost-effective funding, appropriate for the bank's asset-mix.

### 10.1 Management and control

The board of directors of Bank Norwegian has adopted guidelines for managing the bank's liquidity situation to ensure that the bank maintains a solid liquidity position. The guidelines are reviewed at least annually by the board of directors. The guidelines set risk limits for liquidity management and define a reporting scheme. The bank manages its liquidity position by means of summaries illustrating cash flows in the short term and by means of liquidity due date summaries. The board of directors appproves a funding plan for the following year in connection with the budget and capital planning. The funding plan shows anticipated funding gap, known maturities, and a plan for obtaining financing to ensure maintenance of the liquidity requirements.

The asset side is financed by core deposits from the retail market, senior debt securities and subordinated capital. To reduce the liquidity risk, a maximum deposit limit per customer of NOK 2 million has been set to achieve the best deposit terms.

### 10.2 Capital requirement

The liquidity risk is evaluated as low at the time of this report. A large portion of the bank's assets consists of marketable securities, including substantial holdings of certificates issued by the Norwegian government and deposits in the Central Bank of Norway. The bank offers competitive deposit terms to ensure stable customer deposits. The bank has issued debt securities in Norway with a varied maturity structure. Based on today's balance sheet structure, product portfolio and liquidity management arrangement, there is no need for a separate Pillar 2 capital reserve.

## 11. BUSINESS AND STRATEGIC RISK

The bank bases its operations to a great extent on cooperation with and the trademark of the airline Norwegian. Norwegian's good reputation has contributed to strong customer growth, but, on the other hand, the bank may be vulnerable in the event of a decline in Norwegian's reputation.

There will be factors of uncertainty associated with lower customer acquisition and volumes, reduced interest rate margins, inadequate cost-effectiveness and inappropriate technological choices. A decline in the economy may result in weaker growth, higher losses and weaker earnings and, at the same time can make raising of capital difficult. Expansion into new markets entails increased uncertainty. Business risk demands that the board of directors and management have good planning processes and adaptability to reduce losses.

### 11.1 Capital requirement

The basis for calculating business and strategic risk is an estimated annual fluctuation in profit after tax of 100 MNOK. A capital reserve of 11.2% is made in Pillar 2.