banknorwegian

Norwegian Finans Holding Group

2019

Pillar 3

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1. CAPITAL ADEQUACY RULES

Pillar 3 is a regulatory requirement for the publication of information about capital and risk conditions. This document provides a description of Bank Norwegian's risk and capital management and should satisfy the requirements for the public disclosure of financial information as stipulated in the Capital Adequacy Regulation.

Periodic information on the capital adequacy ratio and the minimum capital requirements is available in the Group's quarterly reports. All figures are stated in NOK thousand unless otherwise stated.

For information not available in this document with attachments, we refer to «Om oss/IR» on our website; https://www.banknorwegian.no/OmOss

1.1 Capital adequacy regulations

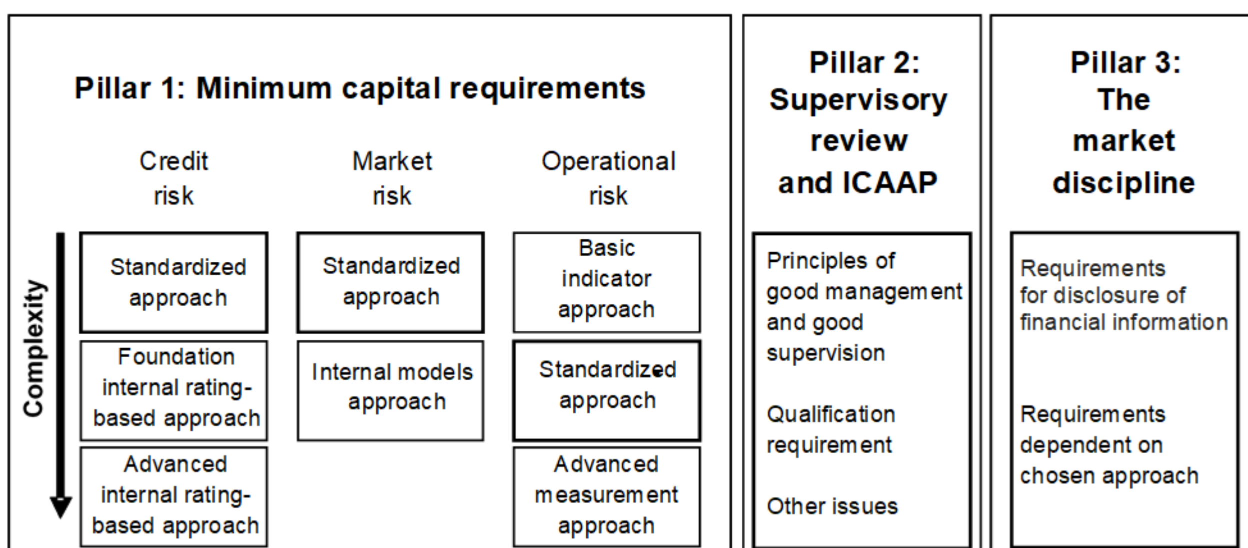
The capital adequacy regulations are based on a standard for calculating capital adequacy where the purpose is to reinforce the stability of the financial system through the following instruments:

- Risk sensitive capital requirements
- Regulatory requirements for risk management and control
- Supervisory follow-up
- Information to the market

The regulations are intended to ensure there is agreement between how the authorities stipulate capital adequacy requirements for financial institutions and the approaches the financial institutions use to calculate and evaluate their capital requirements. The capital adequacy rules and regulations are based on the following three pillars:

- Pillar 1: Minimum eligible capital requirements
- Pillar 2: Evaluation of the overall capital requirements and supervisory follow-up
- Pillar 3: Public disclosure of information

The figure below shows the content of the capital adequacy regulations.

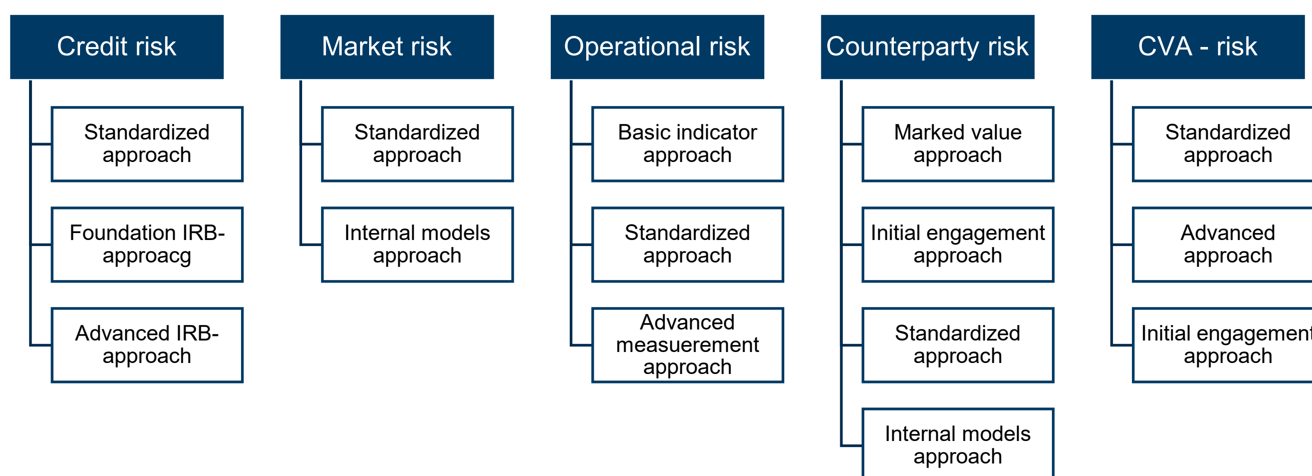


Pillar 1 – Minimum eligible capital requirements

Pillar 1 concerns the minimum eligible capital requirements for credit risk, operational risk and market risk, for which the minimum capital adequacy ratio requirement has been set at 8%. In addition to this comes a total buffer requirement of 7.2% as at 31 December 2019.

Capital adequacy ratio is defined as the relationship between the bank's total primary capital and its risk-weighted assets.

The capital adequacy regulations contain various methods for calculating the capital requirement, standardized approach and internal rating-based approaches. Under the standardized approach the capital requirement is based on official credit ratings, and under the internal models' approach the capital requirements is based on the bank's internal risk assessments. The different methods are shown in the figure below.



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 for calculating the capital requirement for operational risk 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. Calculated CVA-risk and counterparty risk are included under market risk and credit risk respectively in the tables in this report.

Pillar 2 – Assessment of capital requirement and supervisory review

Pilar 2 sets requirements for the companies' capital assessment process, called the ICAAP process where ICAAP is an abbreviation for the Internal Capital Adequacy Assessment Process. The purpose of the process is to conduct a structured and documented process for assessing the Group's risk profile to ensure that the Group has sufficient capital to cover the risks associated with the business. In addition, companies must have a strategy to maintain adequate capital levels. The assessed capital requirement shall cover risks which have not been taken into consideration when calculating the minimum requirement according to Pillar 1.

In the fall of 2016, the Financial Supervisory Authority published a circular 12/2016 "The Financial Supervisory Authority practice for assessing risk and capital requirement". Some attachments to the circular were updated in the summer of 2019. The Group has adapted its ICAAP process in accordance with the circular. The process is based on an assessment of exposure and the quality of management and control, where the capital requirement is mainly based on the methodology presented in the circular. In cases where the Financial Supervisory Authority does not have its own methods, the analyses are supplemented with alternative calculation methods, for example from the English Banking Authority ("The PRA's methodologies for setting Pillar 2 capital").

The Financial Supervisory Authority will monitor and evaluate the Group's risk exposure and risk management, the internal assessment of capital requirements and associated strategy, as well as the Group's ability to ensure compliance with the authorities' capital requirements. The Financial Supervisory Authority can assign 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 contribute to increased market discipline and to make it easier to compare companies. The companies shall publish information that enables the market participants to assess the companies' risk profile, capitalization, and risk management and control. The information shall be provided in a comprehensible way that makes it possible to compare different companies. The information is to be published at least annually at the same time as the annual report, but companies must also consider whether parts of the information should be published more frequently.

2. CONSOLIDATION

Consolidation of the capital adequacy follows the rules in Chapter 18 of the Financial Institutions Act on «Companies in financial groups, consolidation, etc.».

The consolidated financial statement has been prepared in accordance with IFRS and a description of the accounting principles is presented in the annual report.

Norwegian Finans Holding ASA owns 100% of the shares in Bank Norwegian AS and Lilienthal Finance Ltd. Norwegian Finans Holding ASA 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 an 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

At the end of 2019, the Group is subject to a requirement for common equity tier 1 of 11.7%, as well as a requirement for total capital under pillar 1 of 15.2%.

In addition, the capital requirement under Pillar 2 is set at 4.2% at the end of 2019. The purpose of the Pillar 2 requirement is to capture capital requirements related to risks that are not or only partially covered by the capital requirements under Pillar 1. In 2019, the Financial Supervisory Authority imposed an additional requirement for a buffer of 3.0% in order to distribute excess capital.

The bank's common equity tier 1 target was 18.9% at the end of 2019.

In January 2020, the Financial Supervisory Authority decided that the Group should have a Pillar 2 requirement of 5.8% of the calculation basis for Pillar 1, with a minimum of NOK 2,030 million. The Group is also expected to maintain a management buffer of 1.0%. In

accordance with the bank's capital management policy, the bank must have an internal management buffer of 1.25%.

On March 13, 2020, the Ministry of Finance decided to reduce the requirement for countercyclical capital buffer from 2.5% to 1.0% with immediate effect. At the same time, both the Swedish and Danish authorities have set the countercyclical capital buffer to 0%. This reduces the bank's effective capital requirement by 1.22 percentage points.

The regulatory requirement for common equity tier 1 and total capital adequacy, is reduced to 16.25% and 19.75% respectively, and the Bank's common equity tier 1 target will thus be 17.5% as of March 31, 2020.

3.1 Regulatory total capital – Pillar 1

3.1.1 Total capital and capital ratios

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 December 31, 2019 for the group, the holding company and the bank.

			31.12.2019
Amounts in NOK 1000	Norwegian Finans Holding ASA	Bank Norwegian AS	Norwegian Finans Holding Group
Total capital			
Share capital	186 695	183 315	186 695
+ Share premium reserve	972 295	966 646	972 295
+ Other reserves	181 844	7 503 649	7 679 717
- Deferred tax assets and intangible assets	2 682	150 902	529 143
Common equity Tier 1	**1 338 151**	**8 502 708**	**8 309 564**
+ Additional Tier 1 capital	-	635 000	635 000
Tier 1 capital	**1 338 151**	**9 137 708**	**8 944 564**
+ Tier 2 capital	-	822 688	822 688
Total capital	**1 338 151**	**9 960 395**	**9 767 252**
Common equity Tier 1 %	**87,53 %**	**21,62 %**	**21,23 %**
Tier 1 capital %	**87,53 %**	**23,23 %**	**22,85 %**
Total capital %	**87,53 %**	**25,32 %**	**24,95 %**

Subordinated loans

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, 2019 is 4.87%, with the first interest adjustment on March 21, 2020.

On June 16, 2017 the bank issued a subordinated loan with a nominal value of 200 MNOK. The loan's maturity date is June 16, 2027. 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 June 16, 2022, and quarterly thereafter. The agreement includes a regulatory or fiscal redemption right at par. The interest is 3 months NIBOR + 3.75 percentage points. The interest rate at December 31, 2019 is 5.57%, with the first interest adjustment on March 16, 2020.

On October 2, 2018 the bank issued a subordinated loan with a nominal value of 550 MSEK. The loan's maturity date is October 2, 2028. 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 October 2, 2023, and quarterly thereafter. The agreement includes a regulatory or fiscal redemption right at par. The interest is 3 months

STIBOR + 3.75 percentage points. The interest rate at December 31, 2019 is 3.664%, with the first interest adjustment on January 2, 2020.

Perpetual subordinated loan

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, 2019 is 7.12%, with the first interest adjustment on March 23, 2020.

On June 14, 2017 the bank issued a tier 1 capital instrument with a nominal value of 300 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 June 14, 2022, 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, 2019 is 7.07%, with the first interest adjustment on March 16, 2020.

On October 2, 2018 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 October 2, 2023 and quarterly thereafter. The agreement includes a regulatory or fiscal redemption right at par. The interest is 3 months NIBOR + 5.40 percentage points. The interest rate at December 31, 2019 is 7,17%, with the first interest adjustment on January 2, 2020.

3.1.2. Calculation basis and capital requirement

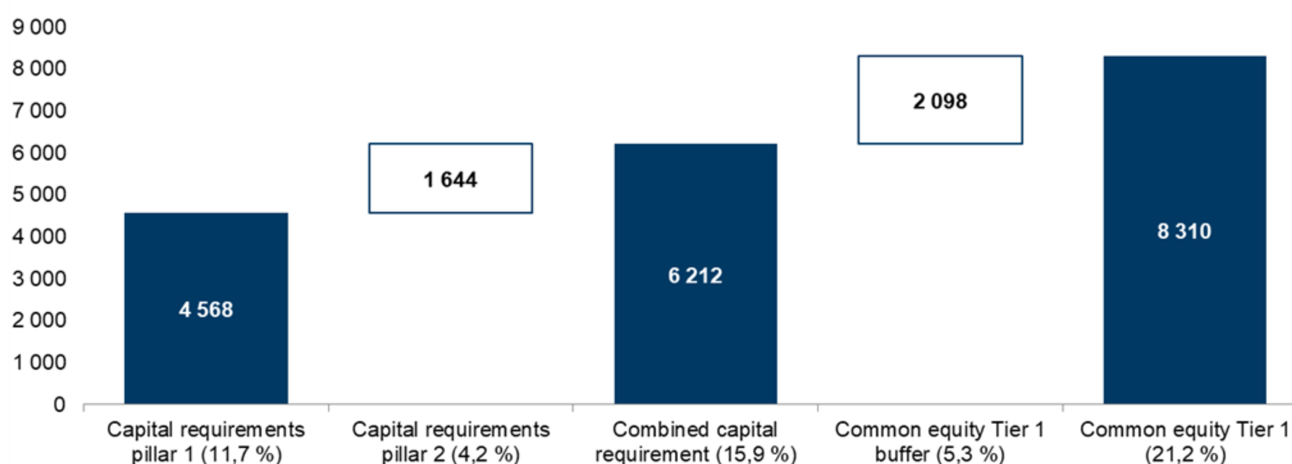
The group uses the standardized approach for calculating credit risk, and the standardized approach for calculating operational risk.

Calculation basis and capital requirement			**31.12.2019**
Amounts in NOK 1000	Norwegian Finans Holding ASA	Bank Norwegian AS	Norwegian Finans Holding Group
Calculation basis			
Credit risk			
Covered bonds	-	336 787	336 787
+ Regional governments or local authorities	-	87 123	87 123
+ Institutions	223	1 350 762	1 161 242
+ Loans to customers	-	26 750 970	26 750 970
+ Defaulted loans and other commitments	338 311	4 892 542	4 892 542
+ Equity positions	1 190 240	44 818	44 818
+ Other assets	-	139 901	139 948
+ Operational risk	-	5 728 738	5 728 063
+ Market risk	-	1 575	1 575
Total calculation basis	**1 528 774**	**39 333 216**	**39 143 067**
Capital requirement			
Credit risk			
Covered bonds	-	26 943	26 943
+ Regional governments or local authorities	-	6 970	6 970
+ Institutions	18	108 061	92 899
+ Loans to customers	-	2 140 078	2 140 078
+ Defaulted loans and other commitments	27 065	391 403	391 403
+ Equity positions	95 219	3 585	3 585
+ Other assets	-	11 192	11 196
+ Operational risk	-	458 299	458 245
+ Market risk	-	126	126
Capital requirement at 8 %	**122 302**	**3 146 657**	**3 131 445**
Capital requirement at 11.7 %	**191 097**	**4 590 029**	**4 567 840**
Minimum common equity tier 1 capital requirement at 4.5%	68 795	1 769 995	1 761 438
Capital conservation buffer at 2.5%	38 219	983 330	978 577
Systemic risk buffer at 3.0%	45 863	1 179 996	1 174 292
Counter-cyclical buffer at 1.7%	38 219	656 708	653 533

The group has operations in Norway, Sweden, Denmark and Finland. At December 31, 2019, the countercyclical capital buffer was 2.5% for Norwegian and Swedish loan commitments, 1.0% for Danish loan commitments and 0% for Finnish loan commitments. At December 31, 2019 the entity-specific countercyclical capital buffer was 1.7% for the group and the bank, and 2.5% for the holding company.

3.2. Regulatory common equity tier 1 – Pillar 1 and Pillar 2

The figure below provides a graphical presentation of the Group's capital situation with focus on common equity tier 1 as of December 31, 2019. Numbers are in NOK million.



3.3 Leverage ratio

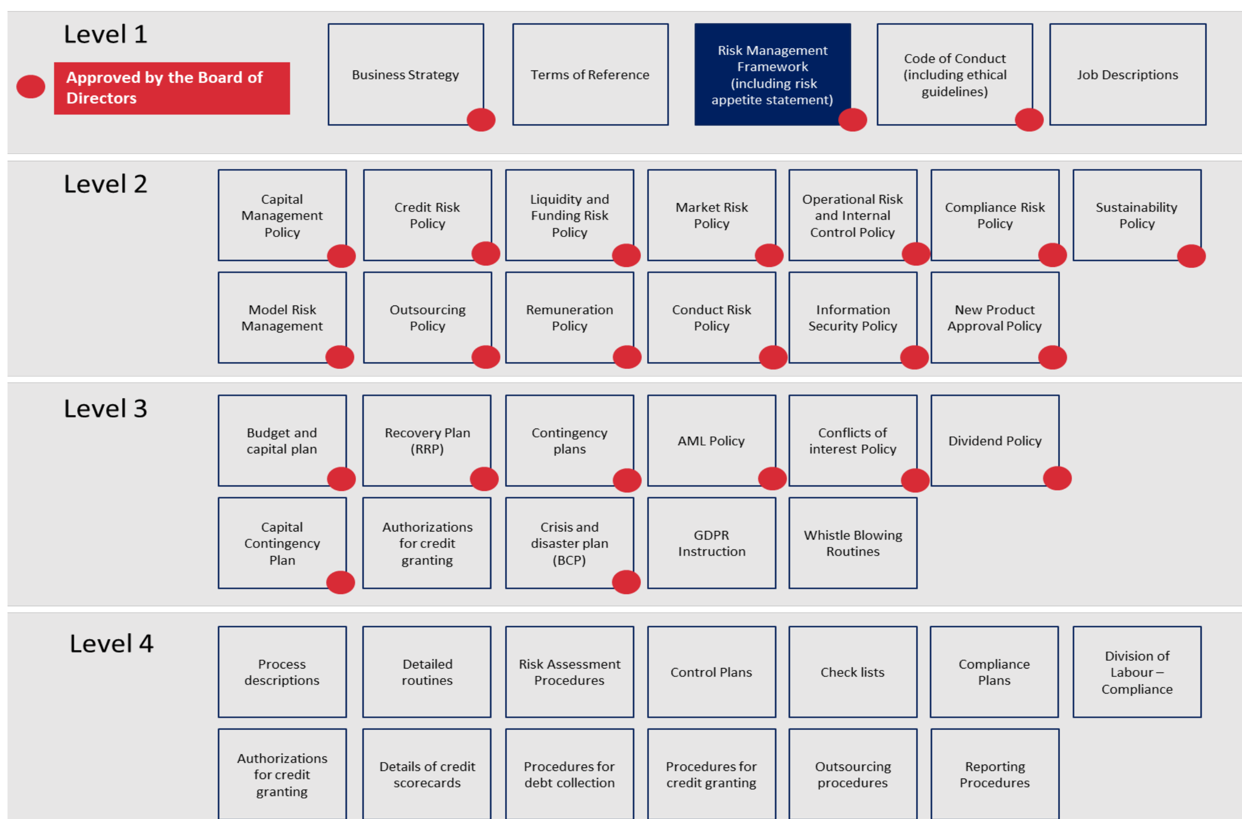
Leverage ratio is calculated as the Group's tier 1 capital as a proportion of the Group's total commitments. The total commitment is defined as the sum of on-balance assets and off-balance undrawn credit lines, guarantees and undrawn limits. The Group is at December 31, 2019, subject to a minimum requirement of 5% leverage ratio.

The table below presents the leverage ratio at December 31, 2019 for the group, the holding company and the bank.

Leverage ratio			**31.12.2019**
Amounts in NOK 1000	Norwegian Finans Holding ASA	Bank Norwegian AS	Norwegian Finans Holding Group
Tier 1 Capital	**1 338 151**	**9 137 708**	**8 944 564**
Off-balance sheet items	-	4 560 637	4 560 637
+ On-balance sheet items	1 526 985	57 606 007	57 039 185
Total commitment	**1 526 985**	**62 166 644**	**61 599 822**
Leverage ratio	**87,63 %**	**14,70 %**	**14,52 %**

4. RISK MANAGEMENT AND CONTROL

During the past year, the Bank has invested large resources in improving the bank's risk management framework to an EBA-level. The bank's document hierarchy is illustrated below.



4.1 Purpose

Sound risk and capital management are central to Bank Norwegian in terms of long-term value creation. Internal control aims to ensure efficient operation and proper management of risks of significance for the attainment of business goals.

This goal shall be achieved through:

- A strong organizational culture characterized by a high level of risk awareness;
- A good and effective risk management;
- A good organization that ensures targeted and independent management and control;
- A good understanding of the risks that drive earnings;
- Striving for optimal capital utilization within the framework of the adopted business strategy; and
- Avoidance of unexpected individual events that can damage the Bank's financial position.

The bank has established a Board-approved risk management framework with its own policies for all significant risks with associated risk appetite, key risk indicators (KRI) and tolerance levels. The overall purpose and objective of the risk management framework is to provide guidance, principles and expectations for Bank Norwegian's risk management processes and to ensure that material risks will be managed in accordance with Bank Norwegian's business objectives and risk appetite.

As outlined in the risk management framework and in the business strategy, the Bank shall primarily generate earnings through exposure to unsecured lending in the retail segment.

Other financial risks are limited by the defined risk limits. The risk limits are determined in relation to the Bank’s buffer capital and risk-bearing capacity.

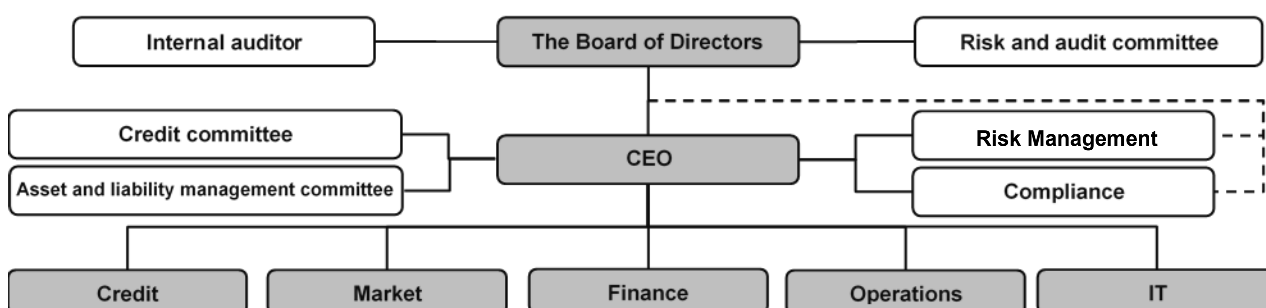
4.2 Elements of the bank's risk management

In order to ensure sound management and control of risk, the bank relies on the following elements of the bank's risk management;

- Roles and responsibilities;
- Policies, guidelines and procedures for managing and controlling risk;
- Strategic planning and capital planning;
- Reporting and monitoring; and
- Recovery- and contingency plans.

4.2.1 Roles and responsibilities

Illustration of governing bodies in the Norwegian Finans Holding Group



The Board exercises supervision and shall ensure that the Bank has a sound system for managing and controlling risk. It defines overall goals, policies, guidelines and authorization for the Bank’s risk management and control activities. The Risk and Audit Committee shall ensure that the Bank is audited effectively by an independent auditor and satisfactorily fulfils its financial reporting obligations under applicable laws and regulations, and that internal risk management and internal control systems function effectively.

The CEO shall ensure that the Board-approved objectives, guidelines and authorizations for the Bank’s risk management and internal control are complied with and shall ensure the effective management and control of risk. Heads of departments that report to the CEO are responsible for the control, reporting and monitoring of self-imposed and statutory requirements.

The business divisions and staff units are responsible for risk management within their areas of responsibility. This means that the managers should make sure that proper risk management is established and executed, and that it is performed in accordance with the management documents, authorizations, routines and instructions.

The Credit Risk Department is responsible for monitoring the Bank’s adopted credit risk policy and procedures, and shall ensure regular reporting and monitoring.

The Finance Department is responsible for complying with the requirements and guidelines set out in the bank's policies for capital management, liquidity and funding risk, and market risk. The Finance Department shall ensure regular reporting and monitoring.

The Risk Management Function reports to the CEO and is responsible for independent control, monitoring and reporting to executive management and the Board. The Head of Risk Management shall follow up the Bank's risk management framework and related key risk indicators (KRI) for credit risk, liquidity- and funding risk, market risk, operational risk, as well as capital management and business risk. The Risk Management Function shall also ensure that all significant risks are identified, measured and reported by the relevant units.

The Compliance Function reports to the CEO and is responsible for independent control, monitoring and reporting of compliance with self-imposed and statutory requirements. The Chief Compliance Officer is responsible for following up key risk indicators (KRI) defined in the bank's compliance risk policy, as well as conduct risk policy.

The Internal Audit Function shall assist the Board and CEO in discharging their responsibilities for ensuring satisfactory internal control. It shall also assess the appropriateness and effectiveness of the Bank's management and control processes.

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 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.

4.2.2 Policies, guidelines and procedures for managing and controlling risk

The bank has established a Board-approved risk management framework with its own policies for all significant risks with associated risk appetite, key risk indicators (KRI) and tolerance levels.

The bank has established policies for capital management, credit risk, liquidity and funding risk, operational risk and internal control, sustainability, model risk, outsourcing, remuneration, conduct risk, information security, new product approval (NPAP), anti-money laundering (AML), conflicts of interest, and dividend. These policies and associated procedures and routines provide guidelines for the bank's efforts to identify and monitor various risks.

4.3.3 Strategic planning and capital planning

The Board approves strategic plans that are subject to ongoing review. The capital plan is a key element of the strategic planning process. Capital planning shall ensure adequate capitalization of the Bank beyond the legal minimum, and demonstrate the expected capital requirements and plan for raising capital. The plan shall also demonstrate the need for debt financing during the period.

The bank's overall attitude to and principles for capital management are stated in the Capital Management Policy.

Determining the capital adequacy targets takes several factors into consideration, such as regulatory requirements, the bank's balance sheet management, earnings and retention of capital, credit practices and credit quality, risk diversification, ownership and access to capital. The Group's targets for common equity tier 1 and total capital adequacy shall ensure sufficient capital to meet government-imposed capital requirements and safeguard the protection of the Group's creditors.

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 five-year period. The plan shall also present the required need for debt financing in the period.

The bank projects the expected development in capital adequacy and buffer capital on a monthly basis with a five-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

Bank Norwegian has established a set of thresholds that are used to monitor and review the risk exposure compared to its risk appetite. The key risk indicators are followed up and reported according to a "traffic light approach" for each risk indicator.

The Risk Management Function are responsible for ongoing and periodic risk reporting, and for ensuring that all risk factors are within the approved risk limits.

The Risk appetite related to profitability and capital will be reported to the Board of Directors on a monthly basis. Other indicators impacting profits and capital will be available through daily and weekly reports to the CFO and the executive management. The head of the risk management function is responsible for independent reporting to the Board at least every quarter.

4.3.5 Recovery and contingency plans

The Group has established a Board-approved recovery plan in addition to various contingency plans for ensuring sufficient capital and liquidity in the event that internal and/or external factors have a negative impact on the Bank’s solvency or liquidity.

4.3 Central risk groups

The Group is exposed to a variety of risks where the main risk groups are:

- **System risk** is the risk that financial instability will disrupt the provision of financial services to an extent that can lead to significant negative effects on production and employment.
- **Credit risk** is the risk of losses resulting from a customer’s or other counterparty’s inability and/or unwillingness to fulfil its obligations.
- **Market risk** is the risk of losses due to changes in observable market prices, such as interest rates, share prices or currency rates.
- **Liquidity and funding risk** are the risk of being unable to fulfil obligations or finance assets, including desired growth, without significant extra costs.
- **Operational risk** is the risk of losses due to weak or inadequate internal processes or systems, human error or external incidents.
- **Reputation risk** is the risk of a failure in earnings and access to capital due to failing confidence in the market, i.e. customers, counterparties, stock market and authorities.
- **Business and strategic risk** is the risk associated with unexpected income and cost fluctuations due to factors other than credit risk, market risk, and operational risk.
- **Compliance risk** is the risk that the Group will incur public sanctions/penalties, financial losses or a damaged reputation as a result of a failure to comply with laws, regulations or guidelines from the authorities.
- **Conduct risk** is the risk of loss of license, other public sanctions or criminal sanctions, loss of reputation or financial loss as a consequence of the bank’s business methods or the employees’ conduct materially jeopardizing customers’ interests or the integrity of the market.

- **Regulatory risk** is the risk that changes to the regulatory framework significantly affect the bank's profitability, capital requirements or framework conditions in a negative way.
- **Sustainability risk (ESG risk)** is divided into the following three categories:
  - The risk of loss as a result of changes in natural, climate and/or environmental conditions (E).
  - The risk of loss due to non-compliance with regulatory requirements or market expectations related to human rights, labour rights and good business practice (S).
  - The risk of loss due to non-compliance with regulatory requirements or market expectations of governance and control (G).

4.4. Internal Capital Adequacy Assessment Process (ICAAP)

In accordance with section 13-6 (1) of the Financial Undertakings Act, the bank shall at all times keep an overview of its risk and assess whether the capitalization is reasonable according to the risk level. Based on this, the Bank conducts annually an internal capital adequacy assessment process (ICAAP) consisting of both a risk management and a capital management part, both of which are based on an overall target and strategy process.

The purpose of the capital assessment process is to ensure a structured and documented process for assessing the Group's risk profile in order to ensure that the Group has sufficient capital to cover the risk associated with the business. The process shall be integrated into the Group's other management processes.

In summary, the process can be illustrated as follows:

The ICAAP shall be based on the Group's business strategy, risk strategy and associated risk appetite. In this context, reference is made to the Bank's risk management framework (RMF) and associated document hierarchy.

The Bank's risk assessment is based on the Bank's financial position (earnings, balance sheet and capital adequacy) at the reporting date and forecasts for the current year, as well as projections for the subsequent 3-4 years.

The Bank shall conduct an evaluation of the Group's management and control of all risks at the reporting date, while the results of prepared stress tests shall be assessed as part of the Bank's overall capital requirement.

Annually the bank prepares an ICAAP document documenting analyzes and conclusions. An independent risk report shall be reported to the Board every quarter. The risk report shall show the status of all key risk indicators described in the Bank's RMF, as well as an overall risk assessment of all risk areas. In addition, the Board shall be submitted updated calculations of regulatory capital requirements and associated pillar 2 add-ons as well.

ICAAP shall form the basis for updating the Group's capital plan, revising the risk strategies and policy documents.

5. 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 instalments 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.

5.1 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 established 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. 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 and portfolio quality boundaries determined by PD levels and share of default.

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

As of January 1, 2018, the bank uses IFRS 9 for calculation of all loan loss allowance and loan loss provisioning numbers. IFRS 9 requires that all calculations of write-downs and allowances on loans are conducted based on factors with potential to influence expected loan losses (ECL) going forward. The bank has developed advanced models to as best as possible predict current credit quality of the current loan portfolios, and implicitly ECL.

All models under IFRS 9 were implemented in parallel with existing models to ensure adequate implementation quality running internally since June 2017. All models are back-tested, calibrated, and validated on a monthly basis, aligning the results with the expected and observed levels of probability of default (PD), loss given default (LGD), early repayment and Loan loss allowance (LLA)-levels. The historic levels of LLA and loan loss provisions

(LLP) are also triangulated in towards the new Expected credit loss (ECL)-models and their outcomes.

The models are forward looking PD estimates. This entails separate models on LGD before and after a default has occurred. The bank is utilizing models for exposure at default (EAD). Triggers are utilized for classifying accounts into Stage 1, 2 or 3. All classification is according to the IFRS 9 guidelines; where Stage 1 is healthy, Stage 2 has a worsening of credit quality compared to recognition and Stage 3 is in default at 90 days past due. The triggers measure a degradation of credit quality by comparing the PD at origination against the PD calculated at the time of reporting, as well as observation of a forbearance flag, 30 days past due, cross product default or a history of delinquency over the past three months. The bank has developed explicit models for expected lifetime on all unsecured loans per country, measured against the contractual lifetime and current down payment schedule. The chosen methodology for each model is based on the respective maturity of the portfolio as well as the access to data in that particular market. The models are validated according to best practice for each model type, and includes both an out of time and an out of sample validation during the build-phase.

The PD-models apply an adjustment factor based on macro-simulations built especially for each product and each country, based on the NIGEM methodology from the UK. Through thousands of simulations, a base, an optimistic and a pessimistic scenario for expected credit losses are established. The final model outcome is weighted through the management's assessment of the probable macro future.

In addition to the initial set-up of the IFRS 9 models, the NFH Group has established a robust framework for the daily operations, maintenance and development.

5.3 Loan portfolio information

5.3.1 Gross loans and loan loss allowance by customers and geography

								31.12.2019
					Loan loss allowance			
Amounts in NOK 1000	Stage 1	Stage 2	Stage 3	Gross loans	Stage 1	Stage 2	Stage 3	**Total**
Instalment loans Norway	7 999 722	2 063 588	2 573 790	12 637 099	80 380	103 819	754 011	11 698 889
Credit card loans Norway	5 824 972	862 289	812 344	7 499 606	37 765	53 238	263 137	7 145 466
Instalment loans Sweden	2 185 929	1 082 078	1 354 141	4 622 148	55 479	62 960	528 540	3 975 168
Credit card loans Sweden	2 149 014	506 081	363 405	3 018 501	9 750	29 111	152 705	2 826 935
Instalment loans Denmark	3 266 952	243 881	944 127	4 454 960	47 840	36 935	524 047	3 846 139
Credit card loans Denmark	729 045	55 505	209 370	993 920	13 921	9 341	91 912	878 746
Instalment loans Finland	6 113 516	1 207 147	1 217 531	8 538 194	109 419	159 519	380 331	7 888 925
Credit card loans Finland	1 715 782	513 680	162 021	2 391 482	10 502	31 243	49 504	2 300 234
Total	**29 984 932**	**6 534 249**	**7 636 728**	**44 155 910**	**365 055**	**486 167**	**2 744 186**	**40 560 502**
Provision coverage ratio per stage					**1,22 %**	**7,44 %**	**35,93 %**	

5.3.2 Changes in loan loss allowance in the period

Amounts in NOK 1000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan loss allowance as at 1.1.19	235 381	325 937	1 410 676	1 971 993
Transfers :				
Transfers between Stage 1 and Stage 2	-71 095	255 413	-	184 318
Transfers between Stage 1 and Stage 3	-42 515	-	567 392	524 877
Transfers between Stage 2 and Stage 1	26 579	-76 797	-	-50 218
Transfers between Stage 2 and Stage 3	-	-181 722	569 379	387 657
Transfers between Stage 3 and Stage 2	-	10 886	-75 777	-64 891
Transfers between Stage 3 and Stage 1	908	-	-24 677	-23 769
New financial assets issued or purchased	114 107	82 182	96 178	292 466
Financial assets derecognized in the period, including down payments	-59 646	-41 706	-78 482	-179 835
Modification of contractual cash flows from non-discounted financial assets	161 336	111 975	533 888	807 199
Charge-offs due to derecognition in the period	-	-	-254 390	-254 390
Loan loss allowance as at 31.12.19	**365 055**	**486 167**	**2 744 186**	**3 595 408**

5.4 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 & Poor's, Moody's and/or Fitch be relevant.

5.5 Capital requirement

As stated in Chapter 3.1.2, the minimum requirement for the Group's capital requirement (8%) amounts to NOK 2,673 million as of December 31, 2019. Considering buffer requirements (Pillar 1), Pillar 2 requirements, as well as internal management buffer, the bank must effectively keep NOK 6,315 million in common equity tier 1 capital for the Group's credit risk (18.9%).

6. OPERATIONAL RISK

Operational risk is the risk of losses resulting from:

- **People:** violations of routines/guidelines, lack of competence, unclear policy, strategy or routines, internal failures.
- **Systems:** failure of ICT and other systems.
- **External causes:** crime, natural disasters, other external causes.

6.1 Management and control

The process for managing operational risk shall, when possible, ensure that no individual incidents caused by operational risk seriously damage the Group's financial position.

The management of operational risk is based on the Policy for Operational Risk and Internal Control. Risk assessments are carried out both at the overall level, but also within different processes that the Bank is exposed to at all times. Special systems have been established for following up risk assessment control measures and improvement measures, as well as for reporting adverse events. Incidents that have impacted or could impact the Group's profitability and/or reputation are systematically followed up.

In addition to an annual review of significant operational risks and control measures, management performs a continuous evaluation of the operational risk situation, and risk reducing measures are implemented as necessary. Ongoing reporting of operational loss incidents and internal control deviations is made to management and the Board.

The Group's operating concept is based to a large extent on the purchase of services from external suppliers. The agreements contain provisions relating to quality standards and are continuously followed up by the Bank in accordance with the outsourcing guidelines.

Given the risk inherent in using Information and communications technology, this area is subject to continuous monitoring. ICT-related Key Risk Indicators (KRIs) are closely monitored and included in the bank's risk reporting to the Board and executive management team. The Internal Audit also carries out independent reviews and tests of the Bank's security in the area.

6.2 Capital requirement

The capital requirement for operational risk is calculated using the standardized approach.

The table below presents increasing commitment amount in recent years due to solid revenue growth in the period. The risk weight is set at 150% and as stated in Chapter 3.1.2, the minimum requirement for the Group's capital (8%) amounts to NOK 458 million as of December 31, 2019. Considering buffer requirements (Pillar 1), Pillar 2 requirements and internal management buffer, the bank must effectively hold NOK 1,083 million in common equity tier 1 for the Group's operational risk (18.9%).

Engagement amount	
2016	2 654 893
2017	3 852 401
2018	4 948 831
Total income - average	**3 818 708**

7. MARKET RISK

Market risk is the risk of loss due to changes in observable market variables such as interest rates, foreign exchange rates and shares/equity instruments. The risk associated with falls in value in the real estate market is also included in market risk. The same applies to the risk of changes in the market value of bonds, certificates and funds as a consequence of general changes in credit spreads (spread risk).

7.1 Management and control

The management of market risk is based on the Board approved Policy for Market Risk, which sets limits to the exposure in various risk categories. Risk exposure and development are continuously monitored and reported to the Board and executive management team.

Interest rate risk arises as a result of the balance sheet items having different remaining interest rate commitment terms. The Board of Directors has adopted limits for the total interest rate risk, both in the accounting and economic perspective. Economic interest rate risk is an expression of actual interest rate risk, while accounting interest rate risk includes those items that are recognized at fair value in the balance sheet.

The bank's investment portfolio is mainly invested with short interest rates. The bank only offers products with administratively set interest rates and no fixed interest rates are offered. The interest rate fixing in the Bank's financial instruments and products is largely coincident in the economic perspective, where administrative interest rate risk is considered. Any exposure beyond the interest rate risk limits shall be hedged with hedging instruments. Interest rate risk is closely followed by both first and second line and the exposure are regularly reported to the Board and executive management team.

Currency risk arises because the bank has differences between assets and liabilities in each currency. Board approved limits have been established for the net exposure in each currency, as well as the limits for aggregate net currency exposure. The Bank's framework defines quantitative targets for maximum net exposure in currency, measured in NOK.

Through its core business, the Bank has currency exposure in SEK, DKK and EUR and currency exposure is hedged using forward exchange contracts.

The Bank has no market risk associated with real estate and very limited equity risk.

7.2 Exposure and capital requirements

As of December 31, 2019, the Group has no trading portfolio and thus no market risk is calculated under Pillar 1. Capital requirements for the bank's interest portfolio and equity positions are instead included as credit risk in a regulatory context.

7.2.1 Market risk related to interest rate risk

Interest rate risk arises because interest bearing assets and liabilities have different remaining fixed rate terms. The Board has set limits for the total interest rate risk.

The Board of Directors has adopted limits for the total interest rate risk, both in the accounting and economic perspective. Economic interest rate risk is an expression of actual interest rate risk, while accounting interest rate risk includes those items that are recognized at fair value in the balance sheet.

The bank's investment portfolio is mainly invested with short interest rates. The bank only offers products with administratively set interest rates and no fixed interest rates are offered. The interest rate fixing in the Bank's financial instruments and products is largely coincident in the economic perspective. Administrative interest rate risk has not been taken into account, i.e. the effect of the fact that in practice there will be a lapse between a change in markets interest rates and the bank having adjusted the terms and conditions for deposits and loans at floating rates of interest. Any exposure beyond the interest rate risk limits shall be hedged with hedging instruments. Interest rate risk is closely followed by both first and second line and the exposure are regularly reported to the Board and executive management team.

The table below shows the effect on profit after tax based on a one percentage point parallel shift in the yield curve.

	Interest rate risk, 1% change	
Amounts in NOK 1000	**2019**	**2018**
Cash and deposits with the central bank	-1	-1
Loans and deposits with credit institutions	-43	-31
Loans to customers	-34 812	-32 441
Certificates and bonds	-27 864	-18 155
Financial derivatives	-	-
Total assets	**-62 721**	**-50 628**
Deposits from customers	49 736	48 464
Debt securities issued	9 564	1 877
Financial derivatives	-	-
Subordinated loan	500	778
Total liabilities	**59 800**	**51 118**
Tier 1 capital	825	590
Total equity	**825**	**590**
Total interest rate risk, effect on profit after tax*	**-2 096**	**1 081**

**Negative figures indicates that the Bank loses on an increase in interest rates.*

Although the calculations above show that the Bank will incur a loss from an increase in interest rates, the way in which the increase in interest rates happens is not insignificant. The table below shows yield curve risk, i.e. the risk of the yield curve shifting differently within the different time periods when there is a change in interest rates, by measuring the Bank's net interest rate exposure within the different periods.

Yield curve risk	2019	2018
0 - 1 month	-680	-724
1 - 3 months	14 638	12 824
3 - 6 months	-6 191	-4 683
6 - 12 months	-9 356	-4 907
1-3 years	-508	-1 430
3-5 years	-	-
> 5 years	-	-
Total interest rate risk, effect on profit after tax	**-2 096**	**1 081**

7.2.2 Market risk related to currency exposure

Currency risk arises because the bank has differences between assets and liabilities in each currency.

Board approved limits have been established for the net exposure in each currency, as well as the limits for aggregate net currency exposure. The Bank's framework defines quantitative targets for maximum net exposure in currency, measured in NOK.

Through its core business, the Bank has currency exposure in SEK, DKK and EUR and currency exposure is hedged using forward exchange contracts. In accordance with the Bank's internal framework, net positions in single currencies and in total may amount up to 2% of eligible capital.

The table presents net currency exposure including financial derivatives as at 31 December, as well as the effect on after-tax profit/loss of a 3% change in FX-rates.

Currency	2019	2018
SEK	-37 388	-40 276
DKK	109 888	7 592
EUR	-114 547	48 997
Total	**-42 047**	**16 312**
Effect on after-tax profit/loss of a 3 percent change in FX-rates	-946	367

7.2.3 Spread risk

Rating	Credit quality step	Increase in spreads*	Portfolio	Average maturity (years)	Stresstest**
AAA	1	0,0 %	5 841 864	0,48	-
AAA	1	0,9 %	-	-	-
AA	1	0,0 %	1 310 154	1,27	-
AA	1	1,1 %	436 053	0,95	2 672
A	2	1,4 %	2 318 489	1,68	31 234
BBB	3	2,5 %	1 373 191	1,76	34 643
BB	4	4,5 %	-	-	-
B or lower	5	7,5 %	-	-	-
Not rated	-	3,0 %	-	-	-
OMF AAA	1	0,7 %	3 371 237	0,84	11 506
OMF AA	1	0,9 %	-	-	-
Total capital add-on			**14 650 988**	**0,95**	**80 056**

* 0 % spread indicates government bonds (or other 0 %-weighted bonds).

** The potential for loss is multiplied by a factor of 0.6 according to current Pillar 2 methodology.

7.2.4 Equity risk

The bank has the following exposure in equities and equity instruments as of December 31, 2019.

	Book value 31.12.2019	Market value 31.12.2019
Vn Norge AS	44 420	44 420
Vipps AS*	443	443

**Not assessed market value*

The shares are held in the bank portfolio as part of Bank Norwegian's ordinary operations and industry affiliation, and Bank Norwegian has no trading portfolio of shares.

In accordance with the Bank's “Market Risk Policy”, the Bank shall not have any equity investments other than strategic and / or operational investments approved by the Board of Directors.

8. LIQUIDITY AND FUNDING RISK

Liquidity risk is the risk of not being able to meet commitments or unable to finance assets, including desired growth, without significantly increased costs. Funding risk is defined as the risk that the Group will not be able to settle its loans on settlement date, or that new loans must be issued at, relatively speaking, substantially worse terms.

8.1 Management and control

The management of liquidity and funding risk is based on the Board approved Liquidity and Funding Policy which stipulate requirements concerning the time horizons for which the Group must be independent of new external funding, the size and quality of the liquidity reserve, and the duration and diversification of funding. Risk exposure and development are continuously monitored and reported to the Board and executive management team.

Deposits from customers represent the Group's most important source of funding. In addition to deposits, the Group is funded by loans in the Norwegian and international securities markets.

In December 2019, the Bank issued in total NOK 3.6 billion in new loans as part of the bank's strategy to increase the Bank's diversification and reduce the need for deposits as a source of funding. However, the borrowing was accelerated due to the Norwegian Financial Supervisory Authority's decision on MREL requirements.

The bank's liquidity management is considered good, both in terms of ongoing liquidity management, use of stress tests, amount control on refinancing needs, formalized contingency plans and organization.

To ensure satisfactory division of work between the departments and the people who take positions on the Group’s behalf and the departments and persons responsible for settlement, control and reporting, the Group has established an organization in which executive and controlling functions are independent of each other.

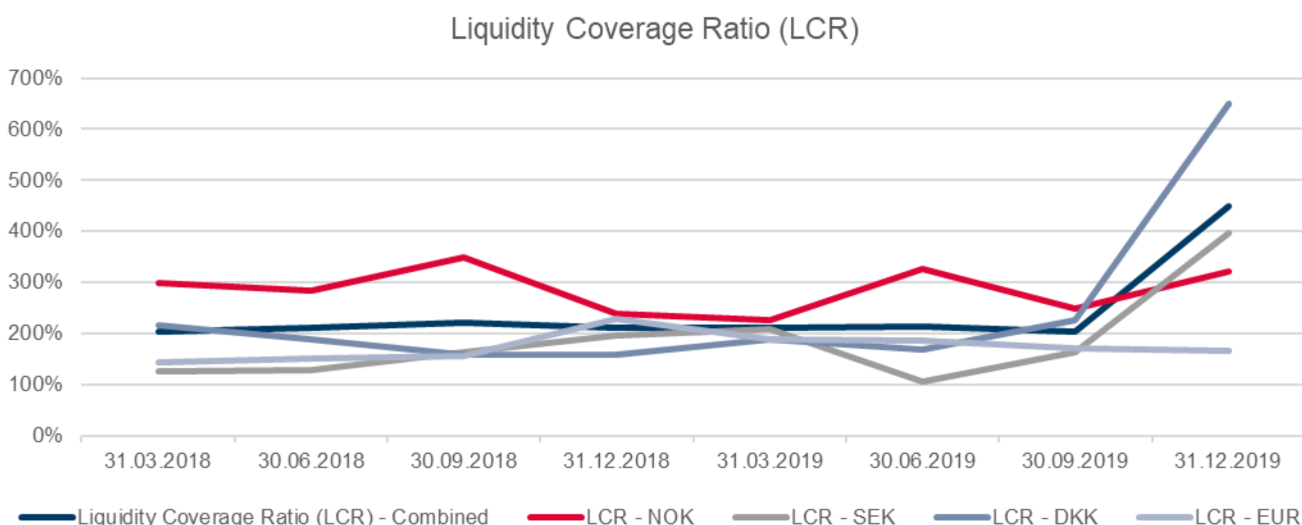
8.2 Exposure and capital requirements

Based on the current balance sheet structure, product portfolio and liquidity management, it is considered that there is no need hold Pillar 2 capital for liquidity and funding risk. Instead, the Group attaches considerable importance in establishment of conservative limits, as well as managing these limits to reduce the likelihood of adverse events occurring.

Below are some key figures that show the bank’s endurance.

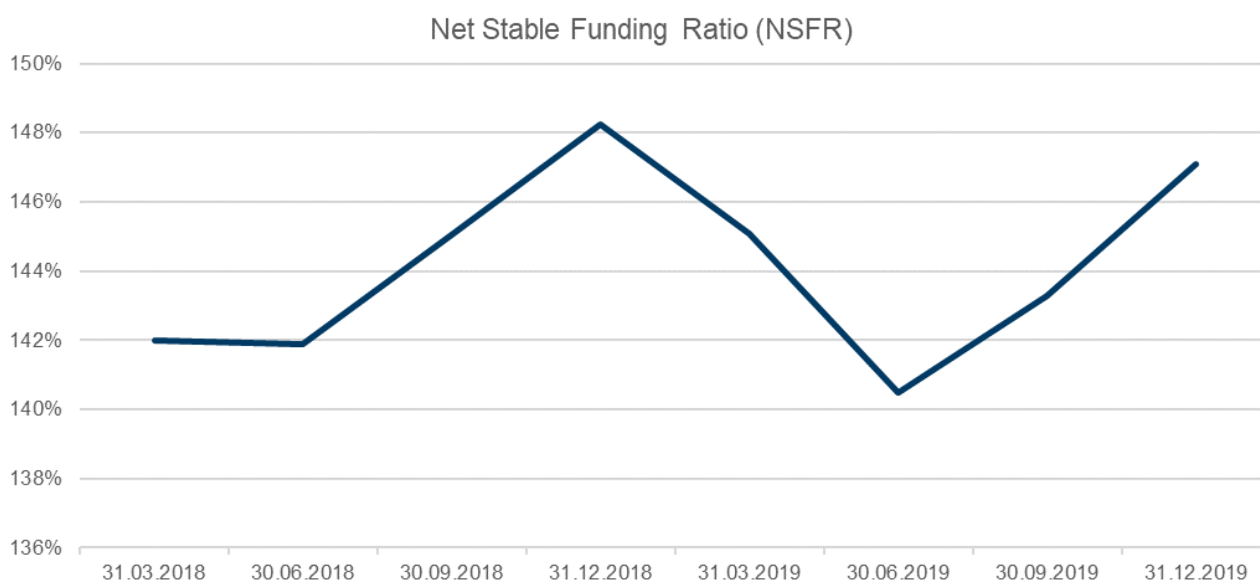
8.2.1 Liquidity Coverage Ratio

The Liquidity Coverage Ratio, referred to as LCR, defines a stress scenario that lasts for 30 days. The graph below shows the bank's LCR development over the past couple of years at the total level, as well for all the bank's significant currencies (NOK, SEK, DKK and EUR).



8.2.2 Net Stable Funding Ratio

The Net Stable Funding Ratio, referred to as NSFR, describes the extent to which the Group is long-term financed. The graph below shows the bank's NSFR development over the past couple of years.



8.2.3 Survival in a normal and custom defined stress situation

In a normal situation, the bank should have a survival of over 12 months without access to external financing. The bank also has a survival target of 6 months for a bank or market-specific stress situation, as well as a minimum of 3 months for a combination stress situation.

The result of the bank's stress test at December 31, 2019 is presented below;

Survival horizon - Stress testing (in months)	Target zone	Limit Breach	Status Q4-2019
Basis scenario - excluding external funding	≥ 12	< 6	36
Bank specific crisis	≥ 6	< 3	13
Market specific crisis	≥ 6	< 3	14
Combination stress	≥ 3	< 1	8

9. COMPLIANCE RISK

Compliance risk is the risk that the Bank will incur public sanctions, penalties, other criminal sanctions, loss of reputation or financial losses caused by failure to comply with acts, regulations, official guidelines and mandatory public orders.

9.1 Management and control

Management and control of the Bank's compliance risk is based on the Board of Directors' adopted Compliance Risk Policy. The Group has a low tolerance for compliance risk, and there is zero tolerance of deliberate infringement of regulations.

10. CONDUCT RISK

Conduct risk is the risk of public sanctions, criminal sanctions, loss of reputation or financial loss caused by the Bank's business methods or the employees' conduct materially jeopardizing customers' interests or the integrity of the market.

10.1 Management and control

Management and control of the Bank's conduct risk is based on the Board of Directors' adopted Conduct Risk Policy.

All employees are required to contribute to ensuring that customers' needs and entitlements are adequately handled, including by providing professional and honest customer services to ensure that the bank's customers can make clear and well-informed choices.

Key instruments to ensure good business conduct include, among other things, ethical guidelines/Code of Conduct, internal information and training initiatives, implementation of risk analyses, in addition to a well-functioning procedure to handle customer complaints.

11. SUSTAINABILITY RISK (ESG RISK)

Nature, climate and environmental risk could primarily impact the bank, directly or indirectly, in the form of higher credit losses due to customers exposed to such risk. The risk category materializes through increased financial or reputational risk and is handled as such.

The risk associated with social conditions, business practice and inadequate corporate governance is managed as an integral part of the risk categories operational risk (including the risk associated with the area of money laundering), compliance risk and conduct risk.

11.1 Management and control

Management and control of the Bank's conduct risk is based on the Board of Directors' adopted Sustainability Policy and associated guidelines for sustainability. These have been approved by the Board and integrated into our day-to-day operations. Responsible lending, protecting customers' privacy, preventing economic crime and safeguarding our employees are priority areas that entail long-term obligations and provide the basis for our social mission. Please refer to the bank's annual report and the sustainability report for further details.

12. APPENDICES

Appendix 1

Reconciliation to financial accounts

NOK in thousands	Total capital in financial accounts	31.12.2019 Total capital for capital adequacy purposes
Share capital	186 695	186 695
Share premium reserve	972 295	972 295
Retained earnings and other reserves	7 679 717	7 679 717
Deferred tax assets	-3 502	-3 502
Intangible assets	-510 840	-510 840
Additional valuation adjustment		-14 802
Common equity Tier 1	**8 324 366**	**8 309 564**
Additional Tier 1 capital	635 000	635 000
Tier 1 capital	**8 959 366**	**8 944 564**
Tier 2 capital	822 688	822 688
Total capital	**9 782 054**	**9 767 252**

Appendix 2

Disclosure of main features of regulatory capital instruments

1	Issuer	Bank Norwegian AS	Bank Norwegian AS	Bank Norwegian AS	Bank Norwegian AS	Bank Norwegian AS	Bank Norwegian AS
2	Unique identifier (e.g. CUSIP, ISIN, or Bloomberg identifier for private placement)	NO0010774318	NO0010797319	NO0010833320	NO0010774326	NO0010797988	NO0010833130
3	Governing law for the instrument	Norway	Norway	Norway	Norway	Norway	Norway
	Regulatory treatment						
4	Transitional CRR rules	Additional Tier 1 capital	Additional Tier 1 capital	Additional Tier 1 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
5	Post-transitional CRR rules	Additional Tier 1 capital	Additional Tier 1 capital	Additional Tier 1 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
6	Eligible at company / group / company and group level	Company and group level	Company and group level	Company and group level	Company and group level	Company and group level	Company and group level
7	Instrument type (types to be specified for each jurisdiction)	Perpetual subordinated loan	Perpetual subordinated loan	Perpetual subordinated loan	Subordinated loan	Subordinated loan	Subordinated loan
8	Amount recognized in regulatory capital (in NOK million as at December 31, 2019)	MNOK 210	MNOK 300	MNOK 125	MNOK 100	MNOK 200	MNOK 550
9	Nominal amount of instrument	NOK 210,000,000	NOK 300,000,000	NOK 125,000,000	NOK 100,000,000	NOK 200,000,000	NOK 550,000,000
9a	Issue price	At par	At par	At par	At par	At par	At par
9b	Redemption price	At par	At par	At par	At par	At par	At par
10	Accounting classification	Equity	Equity	Equity	Subordinated loan - amortized cost	Subordinated loan - amortized cost	Subordinated loan - amortized cost
11	Original date of issuance	September 21, 2016	June 14, 2017	October 2, 2018	September 21, 2016	June 16, 2017	October 2, 2018
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated
13	Original maturity date	No maturity date	No maturity date	No maturity date	September 21, 2026	June 16, 2027	October 2, 2028
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	September 21, 2021. At par. In addition regulatory and fiscal call.	June 14, 2022. At par. In addition regulatory and fiscal call.	October 2, 2023. At par. In addition regulatory and fiscal call.	September 21, 2021. At par. In addition regulatory and fiscal call.	June 16, 2022. At par. In addition regulatory and fiscal call.	October 2, 2023. At par. In addition regulatory and fiscal call.
16	Subsequent call dates, if applicable	Quarterly at each interest payment date. December 21, March 21, June 21 and September 21 each year.	Quarterly at each interest payment date. September 14, December 14, March 14 and June 14 each year.	Quarterly at each interest payment date. October 2, January 2, April 2 og July 2 each year.	Quarterly at each interest payment date. December 21, March 21, June 21 and September 21 each year.	Quarterly at each interest payment date. September 16, December 16, March 16 and June 16 each year.	Quarterly at each interest payment date. October 2, January 2, April 2 og July 2 each year.
	Coupons/dividends						
17	Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating	Floating	Floating
18	Coupon rate and any related index	3 month NIBOR + 5,25 %	3 month NIBOR + 5,25 %	3 month NIBOR + 5,40 %	3 month NIBOR + 3,00 %	3 month NIBOR + 3,75 %	3 month STIBOR + 3,75 %
19	Existence of a dividend stopper	No	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory	Mandatory
21	Existence of a step up or other incentive to redeem	No	No	No	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
	Convertible or non-convertible						
23	Convertible or non-convertible	Convertible	Convertible	Convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	- In severe cases of insolvency or if necessary to avoid liquidation. - Financial Supervisory Authority of Norway or other competent public authority may instruct conversion.	- In severe cases of insolvency or if necessary to avoid liquidation. - Financial Supervisory Authority of Norway or other competent public authority may instruct conversion.	- In severe cases of insolvency or if necessary to avoid liquidation. - Financial Supervisory Authority of Norway or other competent public authority may instruct conversion.	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A	N/A
30	Write-down features	Yes	Yes	Yes	Yes	Yes	Yes
31	If write-down, write-down trigger (s)	- Common equity tier 1 ratio falls below 5.125 percent at issuers company level or group level. - In severe cases of insolvency or if necessary to avoid liquidation. - Financial Supervisory Authority of Norway or other competent public authority may instruct write-down.	- Common equity tier 1 ratio falls below 5.125 percent at issuers company level or group level. - In severe cases of insolvency or if necessary to avoid liquidation. - Financial Supervisory Authority of Norway or other competent public authority may instruct write-down.	- Common equity tier 1 ratio falls below 5.125 percent at issuers company level or group level. - In severe cases of insolvency or if necessary to avoid liquidation. - Financial Supervisory Authority of Norway or other competent public authority may instruct write-down.	The loan shall be written down in accordance with relevant current regulation, "Finansforetaksloven" § 21-6. "Beregningsforskriften" § 16 no. 4.	The loan shall be written down in accordance with relevant current regulation, "Finansforetaksloven" § 21-6. "Beregningsforskriften" § 16 no. 4.	The loan shall be written down in accordance with relevant current regulation, "Finansforetaksloven" § 21-6. "Beregningsforskriften" § 16 no. 4.
32	If write-down, full or partial	Full and partial	Full and partial	Full and partial	Full and partial	Full and partial	Full and partial
33	If write-down, permanent or temporary	Permanent or temporary	Permanent or temporary	Permanent or temporary	Permanent	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	- Can be written up by assigning a portion of the accumulated profit. Any interest shall be calculated on the written down amount. - Total write-up and interest should not exceed the profit after tax multiplied with additional tier 1 capital's share of the tier 1 capital. - Overall write-up and interest relating to additional tier 1 capital shall in combination with other allocations be within maximum allocation amount in accordance with CRR / CRD IV regulations § 6.	- Can be written up by assigning a portion of the accumulated profit. Any interest shall be calculated on the written down amount. - Total write-up and interest should not exceed the profit after tax multiplied with additional tier 1 capital's share of the tier 1 capital. - Overall write-up and interest relating to additional tier 1 capital shall in combination with other allocations be within maximum allocation amount in accordance with CRR / CRD IV regulations § 6.	- Can be written up by assigning a portion of the accumulated profit. Any interest shall be calculated on the written down amount. - Total write-up and interest should not exceed the profit after tax multiplied with additional tier 1 capital's share of the tier 1 capital. - Overall write-up and interest relating to additional tier 1 capital shall in combination with other allocations be within maximum allocation amount in accordance with CRR / CRD IV regulations § 6.	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated loan.	Subordinated loan.	Subordinated loan.	Senior bonds and certificates.	Senior bonds and certificates.	Senior bonds and certificates.
36	Non-compliant transitioned features	No	No	No	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A	N/A

Appendix 3

Own funds disclosure

		(A) 31.12.2019 NOK in thousand	(B) regulation (EU) no 575/2013 article reference	(C) amounts subject to pre-regulation (EU) no 575/2013 treatment or prescribed residual amount of regulation (EU) no 575/2013
Common Equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	1 158 990	26 (1), 27, 28 and 29	
2	Retained earnings	5 745 564	26 (1) (c)	
3	Accumulated other comprehensive income (and other reserves)	-46 898	26 (1) (d) and (e)	
3a	Funds for general banking risk	-	26 (1) (f)	
4	Amount of qualifying items referred to in article 484 (3) and the related share premium accounts subject to phase out from CET1	-		
5	Minority interests (amount allowed in consolidated CET1)	-	84	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	1 981 051	26 (2)	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**8 838 707**	**Sum of rows 1 to 5a**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amounts)	-14 802	34 and 105	
8	Intangible assets (net of related tax liability) (negative amount)	-514 342	36 (1) (b) and 37	
9	Empty set in the EU			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in article 38 (3) are met) (negative amount)	-	36 (1) (c) and 38	
11	Fair value reserves related to gains or losses on cash flow hedges	-	33 (1) (a)	
12	Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40 and 159	
13	Any increase in equity that results from securitized assets (negative amount)	-	32 (1)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	33 (1) (b) and (c)	
15	Defined-benefit pension fund assets (negative amount)	-	36 (1) (e) and 41	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f) and 42	
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36 (1) (g) and 44	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2), 79, 469 (1) (a), 472 (10) and 478 (1)	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	-	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3) and 79	
20	Empty set in the EU			
20a	Exposure amount of the following items which qualify for a RW of 1250 %, where the institution opts for the deduction alternative	-	36 (1) (k)	
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	36 (1) (k) (i) and 89 to 91	
20c	of which: securitization positions (negative amount)	-	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b) and 258	
20d	of which: free deliveries (negative amount)	-	36 (1) (k) (iii) and 379 (3)	
21	Deferred tax assets arising from temporary differences (amount above 10 % threshold, net of related tax liability where the conditions in article 38 (3) are met) (negative amount)	-	36 (1) (c), 38 and 48 (1) (a)	
22	Amount exceeding the 15 % threshold (negative amount)	-	48 (1)	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36 (1) (i) and 48 (1) (b)	
24	Empty set in the EU			
25	of which: deferred tax assets arising from temporary differences	-	36 (1) (c), 38 and 48 (1) (a)	
25a	Losses for the current financial year (negative amount)	-	36 (1) (a)	
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	36 (1) (l)	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-	Sum 26a and 26b	
26a	Regulatory adjustments relating to unrealized gains and losses pursuant to articles 467 and 468	-		
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR	-		
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	36 (1) (j)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-529 143**	**Sum of rows 7 to 20a, 21, 22, 25a, 25b, 26 and 27**	
29	**Common Equity Tier 1 (CET1) capital**	**8 309 564**	**Row 6 plus row 28**	
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	-	51 and 52	
31	of which: classified as equity under applicable accounting standards	-		
32	of which: classified as liabilities under applicable accounting standards	-		
33	Amount of qualifying items referred to in article 484 (4) and the related share premium accounts subject to phase out from AT1	-	486 (3) and (5)	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	635 000	85 and 86	
35	of which: instruments issued by subsidiaries subject to phase out	-		
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**635 000**	**Sum of rows 30, 33 and 34**	
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52 (1) (b), 56 (a) and 57	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	56 (b) and 58	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	-	56 (c), 59, 60 and 79	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	56 (d), 59 and 79	
41	Empty set in the EU	-	Sum of rows 41a, 41b and 41c	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) no 575/2013	-	469 (1) (b) and 472 (10) (a)	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) no 575/2013	-		
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	-		
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	**Sum of rows 37 to 41 and row 42**	
44	**Additional Tier 1 (AT1) capital**	**635 000**	**Row 36 plus row 43.**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**8 944 564**	**Sum of row 29 and row 44**	
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	-	62 and 63	
47	Amount of qualifying items referred to in article 484 (5) and the related share premium accounts subject to phase out from T2	-	486 (4) and (5)	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	822 688	87 and 88	
49	of which: instruments issued by subsidiaries subject to phase out	-		
50	Credit risk adjustments	-	62 (c) and (d)	
51	**Tier 2 (T2) capital before regulatory adjustments**	**822 688**	**Sum of rows 46 to 48 and row 50**	
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63 (b) (i), 66 (a) and 67	

53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	66 (b) and 68	
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70 and 79	
54a	Of which new holdings not subject to transitional arrangements	-		
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	-		
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	66 (d), 69 and 79	
56	Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) no 575/2013 (i.e. CRR residual amounts)	-	Sum of rows 56a, 56b and 56c	
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) no 575/2013	-	469 (1) (b) and 472 (10) (a)	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) no 575/2013	-		
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR	-	468	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	**Sum of rows 52 to 56**	
58	**Tier 2 (T2) capital**	**822 688**	**Row 51 plus row 57**	
59	**Total capital (TC = T1 + T2)**	**9 767 252**	**Sum of row 45 and row 58**	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) no 575/2013 (i.e. CRR residual amounts)	-	472 (10) (b)	
60	**Total risk weighted assets**	**39 143 067**		
Capital ratios and buffers				
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount)**	**21,2 %**	**92 (2) (a)**	
62	**Tier 1 (as a percentage of total risk exposure amount)**	**22,9 %**	**92 (2) (b)**	
63	**Total capital (as a percentage of total risk exposure amount)**	**25,0 %**	**92 (2) (c)**	
64	**Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)**	**11,7 %**	**CRD 128, 129, 130, 131 and 133**	
65	**of which: capital conservation buffer requirement**	**2,5 %**		
66	**of which: countercyclical buffer requirement**	**1,7 %**		
67	**of which: systemic risk buffer requirement**	**3,0 %**		
67a	**of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer**	**0,0 %**	**CRD 131**	
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**16,7 %**	**CRD 128**	
69	**[non relevant in EU regulation]**			
70	**[non relevant in EU regulation]**			
71	**[non relevant in EU regulation]**			
Amounts below the thresholds for deduction (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 66 (c), 69 and 70	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10 % threshold and net of eligible short positions)	-	36 (1) (i), 45 and 48	
74	Empty set in the EU			
75	Deferred tax assets arising from temporary differences (amount below 10 % threshold, net of related tax liability where the conditions in article 38 (3) are met)	-	36 (1) (c), 38 and 48	
Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	-	62	
77	Cap on inclusion of credit risk adjustments in T2 under standardized approach	-	62	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	62	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	62	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)				
80	Current cap on CET1 instruments subject to phase out arrangements	-	484 (3) and 486 (2) and (5)	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3) and 486 (2) and (5)	
82	Current cap on AT1 instruments subject to phase out arrangements	-	484 (4) and 486 (3) and (5)	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4) and 486 (3) and (5)	
84	Current cap on T2 instruments subject to phase out arrangements	-	484 (5) and 486 (4) and (5)	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5) and 486 (4) and (5)	

Appendix 4

Disclosure of information in relation to the compliance of institutions for a countercyclical capital buffer

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer													
		General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
Row		Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Own funds requirement weights	Countercyclical capital buffer rate
		10	20	30	40	50	60	70	80	90	100	110	120
10	Norway	19 741						1 579			1 579	0,45	2,50 %
10	Sweden	7 517						601			601	0,17	2,50 %
10	Denmark	5 505						440			440	0,12	1,00 %
10	Finland	11 350						908			908	0,26	0,00 %
20	**Total**	**44 113**						**3 529**			**3 529**	**1,00**	**1,67 %**

Amount of institution-specific countercyclical capital buffer		
Row		**Column**
		10
10	Total risk exposure amount	39 143 067
20	Institution specific countercyclical buffer rate	1,67 %
30	Institution specific countercyclical buffer requirement	653 533