**Annual Report
2012**

FOLKIA™

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Annual Report 2012

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REPORT OF THE BOARD OF DIRECTORS FOR 2012

GENERAL

Folkia prepares its consolidated financial statements in accordance with IFRS; see section 3-9 of the Norwegian Accounting Act. The company's financial statements are prepared in accordance with Norwegian Generally Accepted Accounting Principles (NGAAP) and the regulations concerning annual financial statements, etc., for banks and financing institutions of 16 December 1998. The directors' report also covers the group's operations; see section 3-3a of the Accounting Act.

The financial statements are prepared on a going concern basis. The financial statements give a true and fair view of the assets, liabilities, financial position and results as of 31 December 2012.

ABOUT THE GROUP

The Folkia Group is a finance group that provides everyday financial services in the Nordic and Baltic regions. As at 31 December 2012, the group's operations consisted of the parent company, Folkia AS, and its branches in Sweden, Finland and Estonia. Denmark is operated via the Swedish branch. Non-operating subsidiary Folkia AB in Sweden also consists in the group.

Folkia is a licensed Credit- and Finance Institution. Approval was given by the Norwegian Ministry of Finance on 19 December 2007. Information about the license and permitted activities can be found in the Norwegian Financial Institutions Act Section 3-3, 1-2 and 1-5 no.1. Folkia AS's home state Supervisor is Finanstilsynet, Norway.

On December 28th 2012, Folkia AB finalized a part distribution to its owner Folkia AS. Folkia AB is scheduled to be liquidated as soon as the legal process with Folksam is completed.

The company's head office is in C. J. Hambros Plass 2C, NO-0164 Oslo. The Group's operational support office for all markets is in Stockholm.

REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Operating revenues

The group's operating revenues came to 113 MNOK in 2012, up from 105 MNOK in 2011.
The parent company's operating revenues amounted to 114 MNOK in 2012, compared to 103 MNOK in 2011.

Operating expenses
The group's operating expenses were 100 MNOK in 2012, as against 97 MNOK in 2011.
The parent company's operating expenses came to 105 MNOK in 2012, compared to 99 MNOK in 2011.

Higher credit losses in Finland 2012 are a vital explanation for the increased cost both in the group- and parent company's operating expenses, approx. an additional 8 MNOK.

Research and Development activities

Folkia continually develop its in house system, including our FOSS system (Folkia Operational Service System). Development work is recognized in the balance sheet when it is probable that the future economic benefits linked to the assets will accrue. Folkia has not conducted any research activities that would have any impact on the financial statement.

Goodwill impairment
The carrying amount of goodwill in the consolidated financial statements is assessed annually for any impairment in value. There was no impairment in value in 2012.

Credit losses
The group's losses on loans were 31 MNOK in 2012 compared to 18 MNOK in 2011. The increase is mainly explained by a selling of the entire old Finnish credit portfolio to avoid an increased loss.

BALANCE SHEET, FINANCING AND LIQUIDITY
The group's balance sheet total as at 31 December 2012 was 199 MNOK, compared to 206 MNOK in 2011.

The group is mainly financed by equity. 78% in 2012 compared to 77% in 2011 (Total equity/Total balance). The group has a credit facility of 40 MSEK in Sweden and 3 MEUR in Finland with Svea Ekonomi.

The group's liquidity situation is still good. As at 31 December 2012, the group had cash holdings of 23 MNOK. The group's cash flow was satisfactory throughout 2012. The cash flow was improved by selling of old receivables.

The parent company's balance sheet total as at 31 December 2012 was 181 MNOK, down from 199 MNOK in 2011. The company had no distributable equity as at 31 December 2012.

MAIN TRENDS

While latter half of 2011 was characterized by an increased stability in revenues and operating profits, Folkia were pleased to show that the stability remained during the beginning of 2012, which turned out to be a year of change in many ways.

During 2012, Folkia has been preparing a new product range, designed to meet both our customers' needs and the regulator's new requirements, primarily in Finland. There has been a lengthy process for new legislation in Finland, which has influenced heavily the entire Microloan market in Finland. The content and timing of the draft legislation met our anticipations and we have continuously been preparing for the new legislation according to plan.

Albeit the Microloan markets in Sweden, Denmark, Norway and Estonia are smaller than the Finnish – in relative terms – there are ongoing discussions about increased regulation in these markets too. Thus, the main trend as we see it is that more regulations will come. In that regard, Folkia is very well prepared, already being a well-managed licensed company under supervision. Folkia has and will at all times aim to apply the highest legal, regulatory and industry standards.

MARKET AND PRODUCTS

In 2012, the group's services primarily consisted of the provision of Microloans – small unsecured loans with a short term to maturity for temporary needs.

The most important achievement for Folkia during 2012 with bearing on all markets of operation was to become a VISA Principal Member. The VISA membership together with Folkia's license as a credit- and finance company make it possible to launch credit cards virtually in the entire EU/EEA. The VISA membership will also provide ample of opportunities for new solutions using hand held devices. With our technology driven organization we are aiming at being one of the first movers in this upcoming market. In parallel, Folkia has also been preparing a new loan product range consisting of larger loans with longer maturity to provide a flexible offering both to existing and new customers.

Since the re-launch in Norway in 2011 the inflow of customers has been steadily increasing, but at a slower pace than expected. Marketing costs are high compared to e.g. Sweden and Finland, and although the effects of TV- and radio campaigns have doubled the inflow of new customers, the growth and ROIs for the campaigns have not quite met our expectations. We believe that continuing the basic brand building efforts will eventually pay off.

In Denmark we have launched a new web, simplified the application process, increased the product range and optimized the pricing and increased marketing which has resulted in a strong increase of new customers in Q3 and Q4.

Sweden is still Folkia's biggest and most important market where we have seen an increased competition from Finnish companies during 2012. A combination of growth aspirations and risk reduction due to the anticipated new legislation in Finland is likely to be the reason for this. New competitors have launched campaigns with free loans. The effect on the margins In Sweden has been devastating but these effects are slowly beginning to wear off and the market is slowly getting back to normal.

In Estonia the government has approved the use of electronic IDs, i.e. Bank-ID, Mobile-ID and ID-cards. As the banks don't allow our industry to use their Bank-IDs and only companies with a license from the finance inspection are allowed to use Mobile-IDs and ID-cards we have a unique competitive advantage. Consequently we have increased our efforts in Estonia to capture this growth opportunity. We have already extended our product offering, optimized our pricing and integrated ID-cards in the application process. Going ahead we continue to integrate Estonia in our group back-end system and we also aim to introduce even more sophisticated scoring models to drive down credit losses and become more competitive from a pricing perspective. The marketing spending was also increased during the latter half of 2012 which resulted in a boost of sales and many new customers.

As been noted above under main trends, it stands to reason that in 2013 the product offering in Finland - for all creditors in the segment of small loans – will need to be altered in order to comply with the new legislation. The most drastic change to come is the implementation of a cap for charges and costs which can be collected from the consumers, expressed as an annual percentage rate of the principal of the loan.

According to the legislation to come, the maximum annualized percentage rate of charges would be 50 percentage points above the reference rate defined in Section 12 of the Finnish Interest Act (633/1982, as amended), which, at the current reference rate being approximately one percent would mean 51 percent annually. This would mean the end of the small loan market in Finland as we know it today. It shall be noted that the proposed limitations would not be applied to pure commodity linked credits (provided there is no possibility to withdraw cash) or credits with a principal loan amount of EUR 2,000 or more.

As been noted above, the content and timing of the draft legislation met our anticipations and we, being a licensed company, have continuously been preparing for the new legislation according to plan. It may be noted that it remains to be seen how the market will react to the new product offering and the new regulatory landscape in Finland, but it is our firm understanding that the need for consumer credit in Finland will not disappear with the introduction of new legislation. Thus, there will still be customers in need of credit and Folkia intends to come out with an offering that will attract even more customers than today. It shall be further noted that the company does not intend to increase its overall risk profile and will consequently monitor in particular the credit risk with even higher scrutiny than today given Folkia's new product offering to come in Finland.

PRICE AND COMPETITION

The operating profit remained solidly positive despite an increased marketing spending during 2012. We believe that the possibility to launch credit cards will be a strong and additional competitive advantage, not the least in the important market Sweden, where we have seen an increased competition from Finnish companies during 2012. This has carried effect on Folkia's micro loan business as well, but we acknowledge the importance – and have the tools – to grow our market share and mitigate decreasing volumes in the micro loan market.

INVESTMENTS AND FINANCE

The main investment in Folkia during 2012 is the VISA Principal Membership and the preparations for a launch of Credit Card in all markets. The Visa project represents a whole new dimension for Folkia and allows us to serve our customer in a unique and professional manner. Folkia will be able to offer its customers a credit card with embedded products that has never been launched in this market segment. The visa project will be backed up by the launching of a new web containing new features. Folkia own systems will be upgraded to meet our new products.

During 2012 we signed a new agreement with our Swedish collection partner. The new agreement have already reduced our collection related costs and simplified the collection process significantly. The liquidity status will also improve with this new agreement. Folkia will tie up liquidity on shorter terms. In general, the operating liquidity status of the company is good. During this process we also took the opportunity to sell a large share of the old Swedish credit portfolio which affected the April result positively.

As been mentioned above regarding the regulatory situation in Finland, with respect to credits up to EUR 2000, we have anticipated that the Finnish Parliament will pass the proposed new legislation. Facing that upcoming situation in Finland, Folkia has acted and sold the entire Finnish stock, which resulted in a write off of MEUR 1. However, the aim was to avoid further increased and escalating losses from 2013 and onwards.

ORGANIZATION, EMPLOYEES, CULTURE AND INTERNAL ENVIRONMENT

Folkia has strengthened its competence in all markets and in all operational support units, keeping strong focus on diversity and equality in the work place. Folkia has always placed emphasis on giving women and men the same opportunities for professional and personal development, salary and promotion. 50 % of the personnel in Folkia are female. There are no female directors in Folkia.

The total sickness absence was 478 days, which equals 6% of the total hours worked. Of the total sickness absence 261 days are related to long term absence. No work-related injuries or accidents took place.

EXTERNAL ENVIRONMENT, RISKS AND CAPITAL ADEQUACY

There are no circumstances relating to the operations, including input factors and products that may result in a significant effect on the external environment

The group is exposed to various types of financial risks. In relation to the group’s balance sheet as at 31 December 2012 these are: foreign exchange risks and credit risks linked to loans in local currencies in the group’s markets, foreign exchange risks linked to intercompany loans, credit risks linked to excess liquidity and trade debtors, and in part liquidity risks linked to the repayment of loans. The group has implemented routines and policies to handle the various risks and these are described in further detail in note 3 to the consolidated financial statements.

The group’s capital adequacy ratio was 20 % as at 31 December 2012, compared to 19 % in 2011. The capital adequacy ratio is significantly higher than the minimum requirement of 8 %.

In Sweden the enforcement officer released new statistics regarding our industry in August which led to increased media coverage of our industry in general and Folkia in particular. The focus has been on the high APR and we have taken part in the debate through interviews where we have tried to explain the effects of calculating APR for small loans with short loan periods. We have also more proactively launched a marketing campaign where we calculated the APR on the late fee charged by the Swedish television when the TV-license is not paid on time. Our ambition was to show the effect of applying APR on fees related to short-term loans. We have received plenty of positive feed-back on our reply to SVT, both from customers, other media and even competitors. When SVT and other media paint a picture regarding our product that is both misleading and in some instances not correct at all, we simply need to alter that picture and present true facts about Folkia and our business through various channels.

On 30 August 2011 Folksam ömsesidig sakförsäkring and Folksam ömsesidig livföräkring (jointly “Folksam”) filed a lawsuit against Folkia at the Stockholm District Court for trademark and company name infringement, claiming among other things that Folkia’s use of FOLKIA, FOLKLÅN, FOLKGIRO and FOLKONOMI infringes on FOLKSAM’s trademarks and company names. Folkia contested Folksam’s lawsuit in its entirety in Folkia's Statement of Defense. On 26 October 2011 Folkia filed a counterclaim against Folksam. Folkia is of the view that Folkia had not infringed on any of Folksam’s trademarks or company names and, consequently, that the legal basis for Folksam’s claim was unjustified.

Main hearing in the case in Stockholm District Court took place on 4-5 October 2012, and the Court judgment was rendered on 7. December 2012. The Stockholm District Court shared Folkia's view that the use of Folkia as trademark and company name had not infringed on Folksam's trademarks or company names. Furthermore, the Court declared two of Folksam's trade mark registrations for FOLKSAM as void for the services banking, credit institution, debit card services and credit card services. The judgment has been appealed by both parties to the Svea Court of Appeal. It stands to reason that any comprehensive IPR process is consuming both internal time and resources for Folkia as well as costs for external party counsel.

CORPORATE GOVERNANCE

The Board held 8 meetings in 2012. The key issues discussed were strategy, the group’s developments, structure, transactions, improving efficiency and development projects. The Board also discussed a number of policy documents linked to compliance with the authorities’ requirements.

The Credit Committee, which is a subcommittee of the Board, meets regularly and reviews the company’s credit risk relating to the loan portfolio and the levels of provisions for loan losses.

CORPORATE ISSUES AND MANAGEMENT

Folkia will eventually explore the window of opportunity that exists in mobile banking. The management is well prepared for such opportunities, and preparations in the organization have been initiated during 2012 to increase the competitive edge in relation to new product offering and technical development.

FUTURE PROSPECT

Folkia is now well positioned to take advantage of the trends in the financial market regarding low end financing, mobile payments and mobile banking. Folkia holds an EU license and has been approved as a Visa issuing body. Folkia will launch credit cards within 6 months. Folkia has developed a whole new product range of longer loans on new terms which can be embedded in the credit card.

CONTINUANCE

The banking industry will face radical changes in the years to come. Already we see mobile banking taking more than half of the transaction volume in mature markets. Folkia is well positioned holding a financial license and a Visa Principal Membership to take advantage of these trends. Although we are not satisfied with the Group Result by the end of the year, we look forward to 2013 with confidence. In times when the regulatory landscape is being scrutinized and subject to possible changes, we have acquired further tools not only to manage these changes, but also to turn them into strategic competitive advantages. Folkia now have the difficult situation created in Finland by regulatory changes under control. Folkia's constant focus on compliance, the credit- and finance licensed maintained since 2007 and the VISA Principal Membership acquired in 2012 will no doubt open up many interesting business possibilities for the Folkia Group in 2013.

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Oslo, 22nd of March, 2013
The Board of Folkia AS

Finn Terje Schøyen
Chairman of the Board

Mikko Marttinen
Director

Eilif Bjerke
Director

Stig Herben
Director

Leif Bjørnstad
Director

Raivo Aavisto
Director

Hördur Bender
CEO

In NOK (all Financial Statements)

Consolidated statement of comprehensive income

	Note	2012	2011
Interest and similar income on loans to and receivables due from customers		112 762 955	104 956 005
Other income		-	142 762
Total interest income and similar income		**112 762 955**	**105 098 767**
Salaries and administrative expenses	16	-21 314 956	-29 120 144
Depreciation intangible assets	6	-5 637 517	-6 790 400
Depreciation tangible fixed assets	5	-801 886	-858 420
Losses on loans	9	-31 044 013	-17 833 885
Other operating expenses	17	-41 352 147	-40 157 108
Impairment of other receivable		-	-2 511 761
Impairment of shares available for sale	7a, 8	-	-77 273
Total operating expenses		**-100 150 519**	**-97 348 990**
Operating result		**12 612 436**	**7 749 777**
Financial income	18	3 656 592	4 755 109
Financial expenses	18	-5 717 413	-6 517 042
Net financial items		**-2 060 821**	**-1 761 932**
Result before tax		**10 551 615**	**5 987 844**
Tax	19	-11 909 503	-622 068
Result for the year		**-1 357 888**	**5 365 776**
Other comprehensive income			
Exchange differences on translating foreign operations		-2 038 848	-130 659
Other comprehensive income for the year		**-2 038 848**	**-130 659**
Total comprehensive income for the year		**-3 396 736**	**5 235 117**

Consolidated statement of financial position

	Note	2012-12-31	2011-12-31
ASSETS			
Non-current assets			
Tangible fixed assets	5	723 832	1 070 106
Software and scoring model	6	4 793 332	6 124 628
Trademarks/brands and licences	6	10 134 617	10 134 617
Customer relationships	6	2 402 731	5 054 636
Goodwill	6	45 889 905	45 889 905
Deferred tax assets	19	16 942 668	21 565 521
Financial assets available for sale	8	-	-
Loans and deposits	22	14 075 751	1 127 963
Total non-current assets		**94 962 837**	**90 967 376**
Current assets			
Microloans and other receivables	7a, 7b, 9	75 912 831	82 281 754
Pre-paid costs	9	4 184 440	8 662 778
Income accrued but not received	9	-	-
Cash and cash equivalents	10, 7a, 7b	23 456 874	24 466 270
Total current assets		**103 554 146**	**115 410 802**
Total assets		**198 516 983**	**206 378 178**

	Note	2012-12-31	2011-12-31
EQUITY			
Equity attributable to the company’s shareholders			
Share capital	11, 25	87 034 580	87 034 580
Own shares	11, 25	-814 580	-814 580
Share premium	11	73 999 898	73 999 898
Retained earnings	12	-3 002 137	-1 644 249
Foreign currency translation reserve	12	-1 752 348	286 500
Total equity		**155 465 412**	**158 862 149**
LIABILITIES			
Current liabilities			
Accounts payable and other current liabilities	7a, 13	16 948 240	8 586 164
Deferred income		5 073 560	4 355 104
Accrued expenses	13, 15	3 766 309	5 035 134
Loans (credit facility)	7a, 14	17 263 461	29 539 626
Total current liabilities		**43 051 571**	**47 516 029**
Total liabilities		**43 051 571**	**47 516 029**
Total equity and liabilities		**198 516 983**	**206 378 178**

Oslo, 22nd of March, 2013
Board of Folkia AS

Finn Terje Schøyen
(Chairman of the Board)

Mikko Marttinen

Eilif Bjerke

Stig Herben

Leif Bjørnstad

Raivo Aavisto

Hördur Bender
(CEO)

Consolidated statement of changes in equity

	Note	Share capital	Share premium	Retained earnings	Foreign currency translation reserve	Total equity
Equity at 1 January 2011		**86 220 000**	**73 999 898**	**-5 897 578**	**417 159**	**154 739 479**
Adjusting incorrect balance				-1 112 446		-1 112 446
Currency translation difference					-130 659	-130 659
Result for the year				5 365 776		5 365 776
Equity at 31 December 2011	11,12	**86 220 000**	**73 999 898**	**-1 644 249**	**286 500**	**158 862 149**
Registered share capital		87 034 580				
-own shares		814 580				
Equity at 1 January 2012		**86 220 000**	**73 999 898**	**-1 644 249**	**286 500**	**158 862 149**
Currency translation difference					-2 038 848	-2 038 848
Result for the year				-1 357 888		-1 357 888
Equity at 31 December 2012	11,12	**86 220 000**	**73 999 898**	**-3 002 136**	**-1 752 348**	**155 465 412**
Registered share capital		87 034 580				
-own shares		814 580				

Consolidated statement of cash flows

	Note	2012	2011
Cash flow from operations			
Result before tax		10 551 615	5 987 844
Ordinary depreciation tangible assets	5	801 886	858 420
Depreciation of intangible assets	6	5 637 517	6 790 400
Impairment of shares available for sale	8	-	77 273
Impairment on other receivable		-	2 511 761
Accrued interest affecting cash flow		1 058 966	-2 313 032
Adjustment for other entries affecting cash flow		108 893	-1 288 688
Net financial expenses/ income		1 579 116	2 094 443
Income tax paid		-4 800 928	-2 324 292
Changes in accounts receivables		19 568 049	-7 139 224
Changes in other receivables		-21 668 577	-2 764 074
Changes in accounts payables		1 253 501	-14 968 680
Change in other payables		1 555 722	1 485 762
Net cash flow from operations		**15 645 760**	**-10 992 087**
Cash flow from investing activities			
Investments in tangible fixed assets	5	-470 543	-256 841
Investments in intangible assets	6	-1 757 532	-2 299 554
Net cash flow used for investing activities		**-2 228 075**	**-2 556 395**
Cash flow from financing activities			
Interests paid		-1 689 341	-2 110 472
Interests received		110 225	16 029
Change in credit facility	14	-12 276 165	29 539 626
Net cash flow used for financing activities		**-13 855 281**	**27 445 183**
Effects of exchange rate changes on the balance of cash held in foreign currencies		**-571 800**	**-37 456**
Change in cash, cash equivalents		**-1 009 396**	**13 859 245**
Cash, cash equivalents as of 1 January	10	24 466 270	10 607 025
Cash, cash equivalents as of 31 December	**10**	**23 456 874**	**24 466 270**

Notes to the consolidated financial statements

1 General information

Folkia AS (the Company) and its branches and subsidiary (together called the Group) offer simple, everyday financial services at fixed prices and on conditions which are clear to customers. Folkia offers short-term microloans with 30- to 90-day terms and also arranges "Folklån", with terms ranging from one to three years.

Folkia is a licensed Credit- and Finance Institution. Approval was given by the Norwegian Ministry of Finance on 19 December 2007. Information about the license and permitted activities can be found in the Norwegian Financial Institutions Act Section 3-3, 1-2 and 1-5 no.1. Folkia AS's home state Supervisor is Finanstilsynet, Norway.

Folkia acquired Folkia AB in December 2007 and in January 2009 Folkia acquired Monetti Oy and DFK Holding ApS with former subsidiaries Monetti AS and Dansk Finansieringskompagni ApS, all of which have similar operations. The Financial Supervisory Authority of Norway (Finanstilsynet) made a premise at the time of the acquisition of Folkia AB, Dansk Finansieringskompagni Aps and Monetti Oy that these subsidiaries should be transformed into branches within reasonable time. These subsidiaries became branches during 2010.

As at 31 December 2012, the Group consisted of the parent company, Folkia AS, and its branches in Sweden, Finland and Estonia as well as Folkia AB (non-operating). Denmark is operating via the Swedish branch. DFK Holding ApS and Dansk Finansieringskompagni ApS was liquidated during 2010.

On December 28th 2012, Folkia AB finalized a part distribution to its owner Folkia AS. Folkia AB is scheduled to be liquidated as soon as the legal process with Folksam is completed. For more information, see note 23b.

The company's head office is at CJ Hambros plass 2 C, 0164 Oslo. The Group's operational head office for all markets is located in Stockholm.

The consolidated financial statements were approved by the company's board on March 22nd 2013.

1.1 Adoption of new and revised International Financial Reporting Standards and Interpretations

Standards and Interpretations affecting amounts reported in the current period

There are no new or revised interpretations that will have an impact on the Group's financial statements in the current period.

Standards and Interpretations adopted with no effect on the financial statements

The following new and revised or amended Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
Amendment to IFRS 7	*Disclosures - transfers of financial assets*	October 2010	The Group has applied the amendments to IFRS 7 Disclosures – Transfers of Financial Assets in the current year. The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets – with no significant impact on the Group.
Amendments to IFRS 1	*First-time adoption of IFRSs after period of severe hyperinflation and Removal of fixed dates for first-time adopters*	December 2010	1 July 2011
Amendments to IAS 12	*Deferred Tax - Recovery of Underlying Assets*	December 2010	1 January 2012

Standards and Interpretations in issue but not yet adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations had been issued by the IASB but were not effective for the financial year ended 31 December 2012.

Management anticipates that these Standards will be adopted in the Group's financial statements for the period beginning 1 January 2013 or later. Effective dates are as applicable for IFRSs as adopted by the European Union as these in some cases may deviate from the effective dates as issued by the IASB. Management has considered the potential impact of the adoption of these new and revised/amended Standards and Interpretations and they should not have any significant impact on the Group's financial statement. Standards and Interpretations that are clearly not relevant for the Group's financial statements have not been included in the below schedule.

Standard/ Interpretation	**Title**	**Date of issue**	**Applicable to accounting periods commencing on**
IFRS 10	*Consolidated Financial Statements*	May 2011	1 January 2014
IFRS 11	*Joint Arrangements*	May 2011	1 January 2014
IFRS 12	*Disclosure of Interests in Other Entities*	May 2011	1 January 2014
IFRS 13	*Fair Value Measurement*	May 2011	1 January 2013
Amendments to IAS 1	*Presentation of Items of Other Comprehensive Income*	June 2011	1 July 2012
IAS 19 (as revised in 2011)	*Employee Benefits*	June 2011	1 January 2013
IAS 27 (as revised in 2011)	*Separate Financial Statements*	May 2011	1 January 2014
IAS 28 (as revised in 2011)	*Investments in Associates and Joint Ventures*	May 2011	1 January 2014
Amendments to IFRS 7	*Disclosures - Offsetting Financial Assets and Financial Liabilities*	December 2011	1 January 2013
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*	December 2011	1 January 2014
Amendments to IFRS 1[1]	*Amendments for government loan with a below-market rate of interest when transitioning to IFRSs*	March 2012	1 January 2013
Amendments to IFRS 10, 11 and 12[1]	*Amendments to transitional guidance*	June 2012	1 January 2013
Amendments to IFRS 10, IFRS 12 and IAS 27[1]	*Amendments for investment entities*	October 2012	1 January 2014
Improvements to IFRSs (Various Standards and Interpretations)[1]	*Improvements to IFRSs*	May 2012	1 January 2013
IFRS 9[1]	*Financial Instruments*	November 2009 and subsequent amendments (amendments to IFRS 9 and IFRS 7 issued 16 December 2011)	IASB mandatory date 1 January 2015 postponed by the EU

[1] The standard/revised standard/amendment has as at the date of issue of these financial statements not yet been adopted by the EU.

2 Summary of significant accounting policies

Below is a description of the most significant accounting policies applied when preparing the consolidated financial statements. These policies were applied consistently in all the periods presented.

2.1 Basis for preparation

Folkia AS's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as approved by the EU.

The consolidated financial statements have been prepared under the historical cost convention with the following modifications:
- Financial assets available for sale are measured at fair value with changes in fair value recognized in the consolidated statement of comprehensive income

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. The application of the company's accounting policies also requires the management to exercise its judgments in the process of applying the group's accounting policies. Areas that to a large extent contain such discretionary assessments or a high level of complexity or areas in which assumptions and estimates are important to the consolidated financial statements are disclosed in note 4.

2.2 Consolidation principles

Subsidiaries

Subsidiaries are all entities in which the Group has the power to govern the entity's financial and operational policies through owning more than half of the voting capital. Subsidiaries are consolidated from the date when control is transferred to the Group and are excluded from consolidation from the accounting year after the year when control ceases.

Intercompany transactions, balances and unrealised profits have been eliminated.

Business combinations

The acquisition method of accounting is used when recognising the acquisition of businesses. The consideration transferred is measured as the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange.

Identifiable purchased assets, liabilities assumed and contingent commitments that have been acquired or incurred are recognised at fair value as at the acquisition date. Goodwill is measured as the excess of the sum of the consideration transferred over the fair value of identifiable net assets in the acquired.

2.3 Establishment of branches

In 2010 Folkia went through a restructuring process and operations are since then managed by branches of Folkia instead of subsidiaries. For accounting purposes, the transaction was performed applying the carrying values of the assets and liabilities transferred at group continuity.

2.4 Segment reporting

The Group is not subject to any requirement of separate segment reporting.

2.5 Translation of foreign currencies

(a) Functional currency and presentation currency

The financial statements of the individual entities in the Group are prepared using the currency which is mainly used in the economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Norwegian kroner (NOK), which is both the functional currency and presentation currency of the parent company.

(b) Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the transaction date exchange rate. At the end of a reporting period, monetary items (assets and liabilities) in foreign currencies are translated at the exchange rate prevailing on the statement of financial position date.

(c) *Group companies*

The statement of comprehensive income and statement of financial position for Group entities (none with hyperinflation) whose functional currency differs from their presentation currency are translated as follows:

(a) - the statement of financial position is translated at the closing rate on the statement of financial position date

(b) - the statement of comprehensive income is translated at the average rate (if the average does not provide a reasonable estimate of the accumulated effects of using the transaction rate, then the transaction rate is used)

(c) - translation differences are recognised directly in Other Comprehensive Income

Goodwill and fair value adjustments to assets and liabilities acquired in a business combination are recognised as assets and liabilities in the acquired entity and translated at the exchange rate prevalent at the date of the statement of financial position.

2.6 Tangible fixed assets

Tangible fixed assets are recognised in the financial statements at their cost of acquisition less depreciation (carrying amount). The cost of acquisition includes costs directly attributable to the acquisition of the asset.

Fixed assets are depreciated according to the straight-line method, so that the fixed assets' original cost is depreciated to the residual value over the estimated useful life, which is:

Fixtures, fittings and equipment: 3 – 5 years

The useful life and residual value of fixed assets are assessed on each statement of financial position date and changed if necessary.

When a fixed asset's carrying amount is higher than the estimated recoverable amount, the value is written down to the recoverable amount. Gains and losses on disposals are recognised net in the statement of comprehensive income under other (losses)/gains, and comprise the difference between the sales price and carrying amount.

2.7 Intangible assets

(a) *Goodwill*

Goodwill is the difference between the original cost of the purchase of a company and the fair value of the Group's share of the net identifiable assets in the company on the acquisition date. When a subsidiary is acquired, the goodwill is classified as an intangible asset. Goodwill is tested annually for impairment and is recognised in the statement of financial position at its original cost less impairments. Goodwill impairment charges are not reversed. Gains or losses on the sale of a company include the carrying amount of the goodwill relating to the sold company.

For subsequent testing of the need for goodwill impairment, this is allocated to relevant cash generating units. The amount is allocated to the cash generating units or groups of cash generating units that are expected to benefit from the acquisition in which the goodwill arose. Further information see note 6.

(b) *Trademarks (brands)*

Trademarks/brands that have been acquired separately are recognised in the accounts at their historical cost. Trademarks/brands that have been acquired through a business combination are recognised in the statement of financial position at their fair value on the takeover date. Trademarks with indefinite useful lives are not amortised, but tested for impairment annually. Trademarks/brands that have a limited useful life and are recognised in the statement of financial position at their original cost less accumulated amortisation. Trademarks/brands are amortised according to the straight-line method over their estimated useful life (15-20 years).

(c) *Contractually regulated customer relationships*

Contractually regulated customer relationships acquired through business combinations are recognised in the statement of financial position at their fair value on the acquisition date. The contractually regulated customer relationships have a limited useful life and are recognised in the statement of financial position at their original cost minus accumulated amortisation. Amortisation takes place in a straight line over the estimated life of the customer relationship.

(d) *Software and licences*

The costs of maintaining software are charged to expenses as they are incurred. Development expenses that are directly attributable to the design and testing of identifiable and unique software that is controlled by the Group are recognised in the statement of financial position as intangible assets provided the following criteria's are met:
- it is technically possible to complete the software so that it will be available for use;
- the management intends to complete the software and to use or sell it;
- it is possible to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- sufficient technical, financial or other resources are available for completing and using or sell the software
- the costs can be measured reliably

Other development expenditures which do not meet these criteria are charged to expenses as they are incurred. Development expenses that have originally been charged to expenses cannot be recognised in the statement of financial position as an asset at a later date.

Software that is recognised in the statement of financial position is amortised in a straight line over its estimated useful life (max. of 5 years).

Software licenses that have been acquired are recognised in the statement of financial position at the original cost (including the costs of making the programs operative) of the specific program. These costs are amortised over the estimated useful life (3 to 5 years).

2.8 Impairment of non-financial assets

Intangible assets with an indefinite useful life, such as goodwill, are not amortised and are assessed each year for any impairment. Tangible fixed assets and intangible assets that are depreciated are reviewed for impairment when there are indications that future earnings cannot justify the asset's carrying amount.

Impairment is recognised in the statement of comprehensive income as the difference between the carrying amount and the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. When assessing impairment, the fixed assets are grouped at the lowest level where it is possible to identify independent cash flows (cash generating units). Non-financial assets, other than goodwill, that have suffered impairment are reviewed for possible reversal at each reporting date.

2.9 Noncurrent assets (or disposal groups) held for sale

Noncurrent assets (or disposal groups) are classified as held for sale when their carrying amount will mainly be realised through a sale transaction and a sale is considered to be highly probable. They are measured at the lower of the carrying amount and fair value less costs to sell if the carrying amount is mainly to be realised through a sales transaction and not continued usage.

2.10 Financial assets

2.10.1 Classification

The Group classifies financial assets in the following categories:
• At fair value through profit and loss
• Loans and receivables – applies to microloans, deposits, cash and cash equivalents and interests receivables.
• Assets that are available for sale – applies to a share investment in SIP Nordic 100
The classification depends on the purpose of acquiring the asset. The management classifies financial assets when they are acquired.

(a) *Financial assets at fair value through profit and loss*

Financial assets at fair value through profit and loss are financial assets held for trading purposes. A financial asset is classified in this category if it has primarily been acquired with the aim of providing a profit from short-term price fluctuations. Derivatives are classified as held for trading purposes unless they are part of a hedge. Assets in this category are classified as current assets. Folkia had no derivatives or financial assets at fair value through profit or loss in 2012.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or defined payments that are not traded in an active market. They are classified as current assets unless they fall due more than 12 months after the statement of financial position date, in which case they are classified as fixed assets. Loans and receivables are classified as Microloans, "other receivables" and "other loans" in the statement of financial position.

(c) *Financial assets that are available for sale*

Financial assets that are available for sale are non-derivative financial assets that Folkia chooses to place in this category or which are not classified in any other category. They are included in the fixed assets unless the management intends to sell the investment within 12 months after the statement of financial position date.

2.10.2 Recognition and measurement

Loans and receivables are recognised in the financial statements at amortised cost. Loans and receivables are short-term and charges are taken to income over their term to maturity (simplified effective interest rate method).

Financial assets that are available for sale and financial assets at fair value through profit and loss are valued at their fair value after initial recognition in the statement of financial position. When securities that are classified as available for sale are sold or written down (impaired), the total change in value that has been recognised in equity is recognised in the statement of comprehensive income as a gain or loss on investments in securities.

The effective interest on interest-bearing instruments, calculated using the effective interest rate method, is recognised in the statement of comprehensive income under other incomes.

On each statement of financial position date, the Group assesses whether there are objective indicators that indicate a fall in the value of individual assets or groups of financial assets. A fall in the value of shares and equivalent instruments recognised in the statement of comprehensive income is not reversed through the statement of comprehensive income. The impairment test for accounts receivable is described in a separate note.

2.11 Account receivables – microloans

Upon initial recognition in the statement of financial position, short-term loans are measured at their fair value. When measured subsequently, microloans are valued at an amortized cost determined using the effective interest rate method (simplified), less provisions for incurred losses.

The provisions for losses are recognized in the financial statements based on historical trends and separate individual assessments. Folkia tracks its historical data of collected amounts and unpaid amounts on receivables. When receivables are impaired, the receivable's carrying amount is reduced to the receivable's recoverable amount.

2.12 Cash and cash equivalents

Cash and cash equivalents consist of cash, bank deposits, other short-term, easily sold investments with a maximum original term of three months and amounts drawn on an overdraft facility. In the statement of financial position, credit facility is included in loans under current liabilities.

2.13 Share capital and share premium

Ordinary shares are classified as equity.

Expenses which are linked directly to the issuance of new shares or options are recognised as a reduction in the payment received in the equity net of attributable income tax.

When own shares are bought, the payment, including any transaction costs less tax, is recognised as a reduction in equity (allocated to the company's shareholders) until the shares are annulled or reissued. If own shares are later reissued, the payment, less direct transaction costs and associated tax effects, is recognised as an increase in the equity allocated to the company's shareholders.

2.14 Accounts payable

Accounts payable are measured at their fair value when initially recognised in the statement of financial position. When subsequently measured, accounts payable are valued at amortised cost.

2.15 Loans

A loan is recognised in the financial statements at its fair value when it is paid out. In subsequent periods, the loan is measured at amortised cost.

Loans are classified as current liabilities unless there is an unconditional right to postpone the payment of the debt for more than 12 months after the statement of financial position date.

Should any convertible loan be issued in which a fixed amount can be converted into a fixed number of shares, the fair value of the debt part is calculated by using the market interest rate for a corresponding non-convertible loan. This amount is classified as debt and recognised at its amortised cost until it expires due to conversion or falls due on the loan's maturity date. The remainder of the payment is allocated to the conversion option and included in the equity, less tax.

2.16 Tax payable and deferred tax

The tax for a period consists of the income tax payable and deferred tax. Tax is recognised in the statement of comprehensive income apart from when it relates to entries that have been recognised directly in equity. If this is the case, the tax is also recognised directly in equity.

The income tax is calculated in accordance with the tax laws and regulations that have been adopted, or substantively adopted, by the tax authorities on the statement of financial position date. Legislation in the countries in which the Group's subsidiaries or associates operate and generate taxable income applies to the calculation of the taxable income. Management evaluates the Group's tax positions for each period in situations where the prevailing tax laws are subject to interpretation. Provisions for estimated tax payments are made based on management's assessment.

Estimated deferred tax on all the temporary differences between the values of assets and liabilities for tax purposes (tax base) and consolidated financial statement purposes (carrying value) has been recognised in the statement of comprehensive income using the debt method. If deferred tax arises on the initial statement of financial position recognition of a liability or asset in a transaction that is not a Business Combination and which on the transaction date does not affect the results for accounting purposes or the results for tax purposes, it is not recognised in the statement of financial position. Deferred tax is determined using tax rates and tax laws that have been adopted or substantively adopted on the statement of financial position date and which are assumed to be applicable when the deferred tax asset is realised or the deferred tax is paid.

Deferred tax assets are recognised in the statement of financial position to the extent that it is probable that future taxable income will exist and that the temporary differences can be deducted from this income.

Deferred tax is calculated on temporary differences from investments in subsidiaries and associates, except when the Group controls the reversal of the temporary differences and it is probable that they will not be reversed in the foreseeable future.

2.17 Pension commitments, bonus schemes and other employee compensation schemes

(a) *Pension commitments*

The Group has no pension schemes in the form of defined benefit plans. There are formal contribution plans in Norway and Sweden, as part of employees' salary contracts, undertaken to set aside percentage of employees' salaries for future pension benefits or as contributions to pension schemes.

(b) *Other commitments linked to former employees*

The Group has no commitment linked to former employees.

(c) *Share-based remuneration*

The Group has not formalised any scheme involving share-based remuneration

(d) *Severance pay*

None of the Group companies has separate severance pay schemes

(e) *Profit sharing and bonus plans*

The Group has no pre-agreed profit-sharing schemes or bonus plans

2.18 Provisions and credit losses

The Group makes regular provisions for estimated losses on microloans. Folkia mainly use historical data and the knowledge we possesses to make the analyses and level of the provisions.

Credit losses are made for groups of loans depending on status of the receivables, i.e.; whether they have been sold, have fallen due, are being monitored, have been sent for debt-collection, etcetera.

2.19 Revenue recognition

(a) *Sale of services*

The Group sells services in the form of arranging long-term loans (Folklån), and the Group receives an arrangement fee in the form of a profit share from the lender. This agreement means that commission is not paid until the lender has received interest and charges from the borrower. Thus, the income is not recognized until the commission has been finally accrued and paid. According to a contract with the lender, Folkia has no credit risk linked to the loans which it arranges.

(b) *Interest income*

Interest income is recognized in the statement of comprehensive income over time in accordance with the effective interest rate method and in accordance with the duration of the loan.

(c) *Fee revenue*

Fee revenues are recognized in the statement of comprehensive income at fair value and within the period of granting the loan.

2.20 Leases

Leases in which a significant part of the risk and return linked to ownership continues to reside with the lessor are classified as operating leases. Rent paid on operating leases (less any financial incentives provided by the lessor) is charged to expenses on a straight line basis over the lease period.

Leases linked to tangible fixed assets where the Group on the whole has all the risk and return linked to the ownership are classified as finance leases. The Group has no such leases.

Liabilities linked to operating leases are shown in the note at nominal value.

2.21 Fair value estimation

Financial instruments comprise, in addition to bank deposits (cash equivalents):

- microloans to customers
- structured product (certificate SIP Nordic)
- credit facility Svea Ekonomi

The fair value of financial instruments traded in active markets (such as securities that are available for sale or held for trading purposes) is based on the market price on the statement of financial position date. The market price used for financial assets is the prevailing bid price; for financial liabilities the prevailing offer price is used.

The nominal value less impairments to take account of losses incurred on accounts receivable and accounts payable is assumed to equal the items' fair value. The fair value of financial liabilities (which are calculated for note disclosure purposes) is estimated by discounting future contractually agreed cash flows using the Group's alternative market interest rate for corresponding financial instruments. The alternative interest rates for fixed rate loans and the credit facility are estimated to be unchanged.

3 Financial risk management

Risk Management ensures compliance with internal and external Risk Management regulations, such as Basel II, and strong emphasis is placed on reporting risk to the relevant stakeholders in clear and meaningful manner. The Folkia AS (Folkia) Risk Management function is responsible for handling risks according to policies and instructions. The Board is responsible for evaluating its work and its expertise related to risk management and internal control at least once a year. The general manager should give the board relevant and timely information that is of importance to Folkia risk management and internal control, including information on new risks.

Risk shall be estimated and compared to expected revenue to the extent it is economically justifiable. After the Groups risk profile has been defined, it is assessed and appraised. The assessment and appraisal includes the following steps:

1) Assessment of each risk category

Each risk category defined must be individually assessed. The risk assessment must be documented and always result in a qualitative assessment of the risk, but also in a quantifiable amount when possible.

2) Stress testing: Assessment of unforeseen events

Unforeseen events must be defined, which should take exceptional but possible events into consideration. These events may be designated "stress test events" and their consequences should be simulated and documented. The results of the simulations should be reviewed against the Folkia's capital base. The unforeseen events may be based on historical experience or hypothetical scenarios.

3) Assessment of how risks are mitigated and controlled

While all risks cannot be quantified, an analysis should be prepared that describes how the risk is mitigated and controlled. Assessment of the effects of precautionary actions by executives may also be simulated in connection with the assessment, where executives may revise for instance the effects of stress test events in light of realistic possible actions.

Risk factors

Folkia is exposed to various types of risks under Pillar I, which are according to the following:

• Credit risk – Counterparty risk related to microloans receivables and investments of excess liquidity. The method using to calculate the capital required for Credit Risk is according to Standardized Approach. The standardized approach must be used unless Norwegian Financial Supervisory Authority has granted permission to use an advanced approach. The method is used when calculating risk-weighted exposures for credit risk in non-trading activities.

• Operational risks – Legal and compliance risks, systemic risks and human errors. The method used to calculate the Operational Risk is according to Basic Indicator Approach.

• Market risks – Interest rate risks, equity risks and foreign exchange risks not included in the trading book. Here a Standard Methods for Non-Trading Activity is used.

Folkia is exposed to various types of risks under Pillar II, which are according to the following:

- Market risk
- Interest Rate Risk
- Credit Risk
- Reputational Risk
- Strategic Risk
- Political and Regulatory Risk

3.1 Pillar I risks

3.1.1 Market risk

(I) Foreign exchange risk

Market Risk represents in general the risk to earnings and capital arising from adverse movements in the prices of risky assets held for trading, such as bonds, securities, commodities, and similar financial instruments. Since the Group does not actively trade in risky assets, this concept does not apply for its operations. Additionally, Market Risk also arises in conjunction with adverse movements in FX Rates, i.e. FX Risk. Folkia is exposed to FX Risk to the extent that (i) assets and liabilities of the Group are obtained in different currencies, (ii) the base currency used in the financial statements is different from the currency in which the operations are carried out in i.e. balance sheet risk, and (iii) revenues and expenses arise in different currencies.

The Group's loans are currently denominated in SEK and the Group's accounts are denominated in NOK, resulting in net long NOK to SEK exposure due to discrepancy between the denomination of its assets and liabilities and own equity. Consequently, there is no other substantial exposure to other currencies other than SEK.

FX Risk may also arise due to a potential divergence between the denomination of revenues and expenses, which however is not a relevant risk for Folkia, as the major part of the operation is performed in SEK as well as major part of its revenues. Consequently, we find this risk to be negligible.

By the end of December 2012, Folkia had a non-hedged foreign exchange exposure of NOK 76.7m.

Sensitivity analysis

Assessment of the impact of currency fluctuations NOK 1000 as per 31 December 2012

	Change	Result
NOK/SEK	+/- 5%	+/- 2,111
NOK/EUR	+/- 5%	+/- 255
NOK/DKK	+/- 5%	+/- 163

(II) Interest rate risk

Interest Rate Risk is the risk that net interest income is negatively impacted as a result of fluctuations in the prevailing level of interest rates.

Interest Rate Risk connected to the Group's profitability resides solely in the Group's cost of funding. An abrupt and lasting interest rate shock could have a negative impact on the Group's financial results to the extent interest rates and resulting interest expenses on loan facilities are affected by an increase in market interest rates, keeping in mind that the income from the retail loans will remain unchanged. Folkia has a credit facility agreement with an external financing provider and Folkia can borrow at fixed rate accordingly. However, the agreement states that the provider could increase their rates if their own funding is severely affected by an interest rate shock.

Interest Rate Risk could be handled by the Group's ability to set the level of new lending. As such, Folkia can decide upon the lending levels in the balance sheet and can avoid setting the level at which funding would become inflated for the Group.

3.1.2 Credit risk

Credit Risk is the risk to earnings and capital arising from an obligor's failure to repay principal or interest at the stipulated time or failure otherwise to perform as agreed. Credit Risk on Folkia's statement of financial position relates mostly to Folkia's lending to the general public (i). In addition, Folkia is exposed to Credit Risk in the form of counterparty risk relating to (ii) Folkia's cash deposits with banks.

(I) Credit Risk from Consumer Receivables ("Lending to the General Public")

These receivables are generated by on-going daily lending transaction to the general public. The tenor for these credits are rather short i.e. with due dates typically between 1-3 months. Since these loans are to be repaid very quickly the actual amount outstanding loans are thus to be seen as limited. By looking at monthly statistics for the time period of 2012 ("Time period") the average lending amounted to NOK 40.6 m and NOK 47.9 m is invoiced. According to statistics for Q4 2012 roughly 1.5 times the monthly loan amount is on-going exposure, thus indicating that the customers repay the lager part of the amount rather quickly.

A calculated average monthly credit loss rate of approx. 5.0% results in credit losses of NOK 2.6 monthly and NOK 31.0 m annually.

Folkia has maximum lending limits for microloans; loans are not given to existing customers until previous loans have been repaid. Folkia has developed its own scoring model to determine the credit rating of private customers. The Credit Risk Department continuously monitors Folkia's Credit Risk. The Risk Management utilizes inter alia various stress tests in order to determine the required capital buffer to cover the credit risk. Moreover, the Financial Department is responsible for handling the counterparty risk and the Risk Management and CFO reports to the Board of Directors on regular basis.

(II) Counterparty Risk from Deposits at Banks

The excess liquidity generated from the business is placed in accounts within bank with top ratings. The risk consists of the banks not having the repayment capacity placed within the accounts. Standard & Poor's assigns ratings on these counterparties.

Credit risk exposure

Folkia's Credit risk exposure NOK 1000 as per 31 December 2012

Counterpart	**Exposure**
General Public	62,039
Other	23,457
Total exposure	**85,496**

Region	**Exposure**
Sweden	48,031
Finland	15,955
Denmark	3,004
Norway	9,831
Estonia	8,675
Total exposure	**85,496**

3.1.3 Operational risk

Operational Risk is the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events including legal and compliance risks.

Operational Risk can be found within all Folkia’s operating units. The main Operational Risks within Folkia are:

- One or several of the Group’s premises can burn down caused by fire

- The IT systems administrating and managing the lending process can be harmed by a technical break down or power outage and temporary be out of function

- External and Internal Fraud

- Legal and Compliance Risk

- Management Risk

Successful management of Operational Risks on daily basis requires strong internal control and quality assurance, which is best achieved by means of having a proficient management and staff. Folkia manages Operational Risks by continuously improving its internal routines and day-to-day control procedures, and by recruiting market leading and experienced specialists for all functions and positions of responsibility. Furthermore, in order to ensure that the Group is compliant with applicable regulations and legislations, Folkia has a Compliance Officer whose role is to ensure maintained quality, integrity and ethical practices within the operation. The Compliance Officer reports independently to the Board of Directors.

3.2 Pillar II risks

3.2.1 Liquidity and cash flow risks

Liquidity Risk is the risk of higher financing costs due to differences when obtaining financing. Liquidity risk arises when the actual cost of extending a loan or re-borrowing exceeds the expected cost of financing.

Liquidity Risk in the Group is connected primarily to the Group’s funding from an external financing provider and the risk that the provider eliminates further financing with short notice. Moreover, the risk is further connected to the fact that the Group relies on one financing source. In Folkia's opinion, the current competition among financing providers involves several are other suppliers willing to offer financing solutions in case the current provider no longer is able or keen on supplying the Group with financing.

In order to monitor its liquidity position and mitigate liquidity risk the Group uses cash forecasting systems which provides on-going visibility as to imminent, medium-term and long-term liquidity requirement and minimize the risk of facing unforeseen liquidity requirements.

The group deposits its excess liquidity in the bank at a floating interest rate with periodic adjustments. The Group has short term lending connected to microloans with fixed charges. The cash flow from operations is mainly independent of changes to the market interest rate.

3.2.2 Reputational risk

Reputational Risk is the present and future risk of losses triggered by customers’, counterparts’, shareholders’, investors’, and authorities’ negative perception of Folkia.

Reputational Risk is among the most important risks for the Group. Being a relatively small Group with only one business brand, the impact of this risk could damage its entire operations.

Folkia places strong emphasis on the ethical treatment of its debtors in order to protect its own reputation. It also maintains an effective complaints management process by which potential complaints are handled swiftly and fairly.

3.2.3 Strategic risk

Strategic Risk refers to Board and Management’s ability to plan, organize, and in general control the Group operations and its business. The failure of adapting to trends in new techniques, fend of increased competition or in general react to changes to the market fundamentals.

For the Folkia, Strategic Risk arises in the following cases:

- Outsourcing of Operations – one of the Group's suppliers of outsourced services could fail to perform as agreed; or

- New Market or Product – The Group could attempt to enter a new market or to launch a new product and not succeed in the attempt i.e. failing to enter the market or launching a product that nobody wants.

With reference to the development of a new market or product, Folkia is exposed to the possibility of failing to enter the specified market and/or unsuccessfully launching a product. In both instances, Folkia would have incurred the expenses related to such actions without generating the additional revenue the Group would have expected from such market entry or product launch.

To minimize the Strategic Risk from the entry into a market or launch a product, Folkia carries out exhaustive market research and analysis prior to the entry or launch. In addition to budgeting potential revenues and expenses under different scenarios (including stress scenarios), Folkia extensively assesses the probability of success prior to launch in order to minimize the risk of failure. Consequently, the Group is prepared to minimize a potential failure.

3.2.4 Political and Regulatory Risk

Political and Regulatory Risk refers to regulatory changes and modifications, which will negatively affect the Group.

The Group is clearly exposed to regulatory and legislative changes and the way it might affect the Group's operations and its products. The risk has increased considerably during the recent year as regulation regarding the industry has being discussed in several markets. In particular, the Finnish market is expected to be affected by change in legislation putting restriction on interest levels expected to take effect at som point during 2013.

Folkia manages political and regulatory risk by continuously being updated on upcoming legislation, changes in regulations, and political discussions. Moreover, the Group's wide geographical presence also mitigates this risk.

3.3 Capital adequacy

To meet the requirements from the Norwegian Financial Supervisory Authority, Folkia's capitalization is risk-bases, founded on an assessment of all risks inherent in the operations and forward looking, and aligned with strategic and business planning.

Capital requirements for Pillar I Risks are calculated using the Standardized Approach for Credit Risk, and the Basic Indicator Approach for Operational Risk. For market risks the Standard Method for Non-Trading Activities is applied.

Estimated capital need is calculated by adding the capital requirement for Pillar I and the capital needs resulting from Pillar II risks, where Pillar II risks are calculated based on expected potential loss levels from these risks. Folkia considers its current business to be relatively uncomplicated. This is due to the fact that Folkia's main business is the management of small loans; Folkia does not engage in any proprietary trading and Folkia does not raise deposits from the public.

The current capital base as per 31 December 2012 includes NOK 75.3 million of Tier 1 Capital and no Tier 2 Capital. Total capital requirement for the same period for Pillar I and Pillar II amounts to NOK 30.0 and 12.7 m respectively. These sums up to a capital ratio of 2.51 for Pillar I and 1.76 times for Pillar I and II.

Pillar I Allocation

NOK 1000

		2012
	RWAs	**Pillar I Capital Resource Requirement**
Credit Risk	98 864	7 967
Market Risk	76 663	6 133
Operational Risk	106 222	15 933
TOTAL CAPITAL REQUIRED	281 750	30 033
Eligible Capital		75 302
Capital Adequacy Ratio (Capital to RWAs)		20%

Pillar II Allocation

NOK 1000

	2012 Capital Assessment
Pillar I - Credit Risk	7 967
Pillar I - Market Risk	6 133
Pillar I - Operational Risk	15 933
Market risk	6 791
Credit risk	2 730
Operation risk	-
Liquidity risk	-
Interest rate risk	335
Strategic risk	100
Reputation risk	1 014
Recession risk	-
Political/legal risk	1 778
TOTAL CAPITAL REQUIRED	42 781
Capital Base (at assessment date)	75 302
% Capital Headroom	76%

4 Critical accounting estimates and judgements

In the application of the Group's accounting policies management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Estimated impairment in goodwill and other assets

The Group conducts annual tests to assess the impairment of goodwill and intangible assets with unidentified lifetimes. The recoverable amount of cash flow generating units is determined by calculating the value in use. These are calculations which require the use of estimates. In addition, other assets are tested for impairment if there is any indication of a fall in value.

Estimated lifetime of intangible assets

Expected useful life of intangible assets is the period over which the asset is expected to be available for use by the Group. The useful life assessment is based on management’s estimates and assumptions and is reviewed by management at each financial year-end.

Provisions for losses on microloans

The Group makes regular provisions for estimated losses on microloans. Folkia mainly use historical data and the knowledge we possesses to make the analyses and level of the provisions.

Credit losses

Credit losses are made for groups of loans depending on status of the receivables, i.e.; whether they have been sold, have fallen due, are being monitored, have been sent for debt-collection, etcetera.

Deferred tax assets

The Group has in its statement of financial position recognized deferred tax assets linked to losses and an increase in temporary differences due to the branch establish process in 2010. Budgets and forecasts approved by the management show future earnings which justify deferred tax assets being recognized in the statement of financial position.

5 Tangible fixed assets

	Machinery, fixtures, fittings and vehicles
2011 financial year	
Carrying amount 01.01.11	**1 755 144**
Additions	256 841
Effect of foreign currency exchange differences	-1 371
Disposals	-82 088
Depreciation during the year	-858 420
Carrying amount 31.12.11	**1 070 106**
As at 31 December 2011	
Original cost	3 948 929
Accumulated depreciation	-2 878 823
Carrying amount 31.12.11	**1 070 106**

2012 financial year	
Carrying amount 01.01.12	**1 070 106**
Additions	470 543
Translation differences	-14 931
Disposals	-20 910
Depreciation during the year	-780 976
Carrying amount 31.12.12	**723 832**
As at 31 December 2012	
Original cost	4 328 412
Accumulated depreciation	-3 604 581
Carrying amount 31.12.12	**723 832**

Depreciation is charged on a straight-line basis. Estimated useful life is between 3 and 5 years.

6 Intangible assets

	Goodwill	Software (incl. scoringmodell and licenses)	Customer relationships	Trademarks	Total
2011 financial year					
Carrying amount 01.01.11	**45 889 905**	**7 966 291**	**7 721 192**	**10 148 821**	**71 726 209**
Additions	-	2 299 554	-	-	2 299 554
Translation differences	-	-31 460	-	-120	-31 580
Disposals	-	-	-	-	-
Impairment during the year	-	-	-	-	-
Amortization during the year	-	-4 109 758	-2 666 556	-14 085	-6 790 400
Carrying amount 31.12.11	**45 889 905**	**6 124 628**	**5 054 636**	**10 134 617**	**67 203 786**
As of 31 December 2011					
Original cost	45 889 905	19 873 048	13 332 762	10 418 487	89 514 202
Accumulated impairment	-	-458 669	-	-	-458 669
Accumulated amortization	-	-13 289 751	-8 278 126	-283 870	-21 851 747
Carrying amount 31.12.11	**45 889 905**	**6 124 628**	**5 054 636**	**10 134 617**	**67 203 786**
2012 financial year					
Carrying amount 01.01.12	**45 889 905**	**6 124 628**	**5 054 636**	**10 134 617**	**67 203 786**
Additions	-	1 757 532	-	-	1 757 532
Translation differences	-	-103 216	-	-	-103 216
Disposals	-	-	-	-	-
Impairment during the year	-	-	-	-	-
Amortization during the year	-	-2 985 612	-2 651 905	-	-5 637 517
Carrying amount 31.12.12	**45 889 905**	**4 793 332**	**2 402 731**	**10 134 617**	**63 220 584**
As of 31 December 2012					
Original cost	45 889 905	21 146 295	13 332 762	10 413 528	90 782 490
Accumulated impairment	-	-450 661	-	-	-450 661
Accumulated amortization	-	-15 902 303	-10 930 031	-278 911	-27 111 245
Carrying amount 31.12.12	**45 889 905**	**4 793 332**	**2 402 731**	**10 134 617**	**63 220 584**
Amortisation rate	**0%**	**20%**	**20%**	**0%**	

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-flow generating units that are identified as the operations of the Folkia Swedish Branch, Swedish Branch Danish Cash Generating Unit, Folkia AS Norway Finnish Branch, Folkia AS Norway Estonian Branch and Folkia AS Norway. Impairment tests have been carried out in accordance with the prerequisites stated in note 2.7.

The recoverable amount is determined on the basis of an estimated value in use. The starting point is projected cash flows based on a budget and forecasts approved by management for a five-year period. Discount rates after tax of 10.3 % for Folkia Swedish Branch, 9.9 % for Swedish Branch Danish Cash Generating Unit, 10.3 % for Folkia AS Norway Finnish Branch, 13.9% for Folkia AS Norway Estonian Branch and 10.3% for Folkia AS Norway have been used.

Cash flows in excess of the five-year period are extrapolated using an expected growth rate of 2.0 %. This growth rate does not exceed the long-term average growth rate in the markets in which Folkia operates. Management does not believe that any likely changes in the assumptions on which the calculation of recoverable amounts is based will lead to the carrying value exceeding the recoverable amount.

7a Financial instruments by category

As of 31 December 2012	Lending and receivables	Assets measured at fair value through profit and loss (held for trading)	Available for sale	Total
Assets				
Financial assets available for sale	-			-
Accounts receivable and other receivables (long-term)	276 309			276 309
Microloans and other receivables, excl. advance payments and deposits (short-term)	75 912 831			75 912 831
Interest receivable	-			-
Deposits	13 799 442			13 799 442
Cash and cash equivalents	23 456 874			23 456 874
Total	**113 445 457**			**113 445 457**

As of 31 December 2012	Liabilities measured at fair value through profit and loss (held for trading)	Other financial liabilities at amortised cost	Total
Liabilities			
Loans (credit facility)		17 263 461	17 263 461
Accounts payable and other liabilities, excl. mandatory liabilities		16 948 240	16 948 240
Total		**34 211 701**	**34 211 701**

As of 31 December 2011	Lending and receivables	Assets measured at fair value through profit and loss (held for trading)	Available for sale	Total
Assets				
Financial assets available for sale	-			-
Accounts receivable and other receivables (long-term)	422 699			422 699
Microloans and other receivables, excl. advance payments and deposits (short-term)	82 281 754			82 281 754
Interest receivable	-			-
Deposits	705 264			705 264
Cash and cash equivalents	24 466 270			24 466 270
Total	**107 875 987**			**107 875 987**

As of 31 December 2011	Liabilities measured at fair value through profit and loss (held for trading)	Other financial liabilities at amortised cost	Total
Liabilities			
Loans (credit facility)		29 539 626	29 539 626
Accounts payable and other liabilities, excl. mandatory liabilities		8 586 164	8 586 164
Total		**38 125 790**	**38 125 790**

7b Credit quality of financial assets

The credit risk involved in financial instruments that have not fallen due or which have not been subject to impairment can be assessed by using external credit ratings (if available) or historical information on breaches of credit conditions.

	2012	2011
Accounts receivable		
Microloans and other receivable	75 912 831	82 281 754
Total accounts receivable	**75 912 831**	**82 281 754**

The company has maximum lending limits for microloans and standard credit rating requirements and has developed its own scoring model to determine the credit rating of private customers. Loans are not given to existing customers until previous loans have been repaid. The credit risk will thus be limited.

	2012	2011
Bank deposits		
AA-	673 335	378 264
A+	18 795 458	23 154 101
A -	3 524 004	539 681
Undefined/no rating available	464 077	394 224
Total bank deposits	**23 456 874**	**24 466 270**

Financial assets available for sale without an external credit rating		
SIP Nordic 100	0	0

8 Financial assets available for sale

	2012	2011
Carrying amount 01.01	**0**	**77 928**
Acquisition of assets	-	-
Exchange rate difference	-	-653
Impairment	-	-77 273
Carrying amount 31.12	**0**	**0**
Of which classified as fixed assets	-	-
Of which classified as current assets	-	-

The financial assets that are available for sale consist of:

	2012	2011
SIP Nordic 100	0	0

Financial assets that are classified as available for sale are quoted in the following currencies:

	2012	2011
SEK	0	0

The structured product’s value has been set at its market price.

9 Microloans and other receivables

	2012	2011
Microloans	75 685 458	100 656 779
Impairment due to probable losses on microloans	-14 704 141	-20 107 413
Net microloans	**60 981 317**	**80 549 365**
Other receivables	14 931 515	1 732 388
Total microloans and other receivables	**75 912 831**	**82 281 754**
Income accrued but not received	-	-
Pre-paid costs	1 907 294	2 318 468
Deposits	2 277 146	6 344 310
Cash and cash equivalents	23 456 874	24 466 270
Total current assets	**103 554 146**	**115 410 802**

Current assets

The carrying value of microloans and other receivables is equal their fair values.

Microloans that have fallen due for payment but whose due date is less than 46 days in the past are not regarded as being impaired.

	2012	2011
Not fallen due	54 031 930	59 637 712
1 – 30 days after the due date	9 093 215	7 932 576
31 - 60 days after the due date	1 285 956	3 305 475
61 - 90 days after the due date	1 167 139	2 915 149
> 91 days after the due date	10 107 218	26 865 867
Total microloans	**75 685 458**	**100 656 779**

Recognised value of the Group’s microloans net of impairment allowance, per currency in NOK as of 31 December 2012:

	2012	2011
SEK	37 460 452	51 736 238
NOK	4 601 108	714 250
EUR	16 691 172	27 247 315
DKK	2 228 585	851 563
Net microloans	**60 981 317**	**80 549 366**

The change in the allowance for the impairment of accounts receivable is as follows:

	2012	2011
As at 1 January	**20 107 413**	**12 957 938**
Provision during the year	28 546 763	13 897 722
Net receivables that have been written off as losses during the year	-32 658 452	-6 698 304
Reversal of unused amounts	-788 077	-20 099
Currency translations	-503 506	-29 844
As at 31 December	**14 704 141**	**20 107 413**

	2012	2011
Unspecified loan loss provisions at 1 January		
Unspecified loan loss provisions during the period	31 044 013	17 833 885
Unspecified loan loss provisions at 31 December	**31 044 013**	**17 833 885**

The impairment and reversal of impairment of accounts receivable are included in the losses on loans in the statement of comprehensive income. Amounts recognised in the provisions account are written off when there is no expectation of collecting any further cash amounts.

The other classes of accounts receivable and other receivables do not contain any impaired assets.

The maximum exposure to credit risk on the reporting date is the fair value of each class of accounts receivable stated above. The Group has no charge as security.

10 Cash and cash equivalents

	2012	2011
Cash and bank deposits	23 456 874	24 466 270
Total	**23 456 874**	**24 466 270**

The cash and cash equivalents in the cash flow statement comprise the following:

	2012	2011
Cash and cash equivalents	23 456 874	24 466 270
Total	**23 456 874**	**24 466 270**

Of the bank deposits 2012 191 569 NOK, was restricted for payments of advance tax deductions (415 533 NOK in 2011).

11 Share capital and share premium

	No. of shares	Nominal share capital	Share premium	Total
Carrying amount 31.12.08	**12 031 150**	**60 155 750**	**73 999 898**	**134 155 648**
Contribution in kind (Acquisition of subsidiary)	5 265 592	26 327 960		**26 327 960**
Purchase of treasury shares	-52 742	-263 710		**-263 710**
Carrying amount 31.12.09	**17 244 000**	**86 220 000**	**73 999 898**	**160 219 898**
Carrying amount 31.12.10	**17 244 000**	**86 220 000**	**73 999 898**	**160 219 898**
Carrying amount 31.12.11	**17 244 000**	**86 220 000**	**73 999 898**	**160 219 898**
Carrying amount 31.12.12	**17 244 000**	**86 220 000**	**73 999 898**	**160 219 898**

The company has used own shares (treasury shares) in connection with the purchase of the subsidiary in Denmark, DFK Holding – closing January 2009. As of 31 December 2012, the number of shares was 17 406 916 of which 162 916 are the company's own shares.

12 Retained earnings

As of 1 January 2011	**-5 480 419**
Adjustment of incorrect opening balance	-1 112 446
Currency translation difference	-130 659
Result for the year 2011	5 365 776
Carrying amount 31.12.11	**-1 357 749**

As of 1 January 2012	**-1 357 749**
Currency translation difference	-2 038 848
Result for the year 2012	-1 357 888
Carrying amount 31.12.12	**-4 754 485**

13 Accounts payable and other current liabilities

	2012	**2011**
Accounts payable	3 767 021	1 747 163
Govt. charges and special taxes	8 341 560	5 773 705
Salaries owed	49 734	429 590
Accrued expenses	3 322 446	3 495 943
Holiday pay due	1 540 814	1 165 801
Other liabilities	76 257	20 149
Approved, invoiced but not paid out loans	3 616 716	988 947
Total	**20 714 549**	**13 621 298**

14 Loans

	2012	**2011**
Short-term loans		
Loans from credit institutions (credit facility)[1]	17 263 461	29 539 626
	17 263 461	**29 539 626**

[1] *Loans from credit institutions*

The loan has a fixed interest rate of 6.75 % (7.75% in 2011). The loan has no maturity date, security is provided in that an amount equal to 5% (10% in 2011) of the borrowed amount is in an escrow account and there is a charge on microloans for the remaining amount.
The Group is exposed to interest rate changes on these loans based on the following reprising structure:

	2012	**2011**
6 months or less	-	-
6-12 months	-	-
1-5 years	-	-
More than 5 years	-	-
No agreed maturity date	17 263 461	29 539 626
Total loans	**17 263 461**	**29 539 626**

Carrying amount and fair value of loans:	**2012**	**2011**
Carrying amount		
Long-term loans	-	-
Credit facility with a credit institution	17 263 461	29 539 626
Total carrying amount	**17 263 461**	**29 539 626**
Fair value		
Long-term loans	-	-
Credit facility with a credit institution	17 263 461	29 539 626
Total fair value	**17 263 461**	**29 539 626**

The credit facility with a credit institution is linked to an agreement with Svea Ekonomi relating to the collection of microloans. The credit facility is provided at a fixed interest rate of 6.75%. The fair value, i.e., the relevant lending terms as of 31 December 2012, will be the same. The fair value of the loan is therefore the same as the carrying value.

The carrying amounts of the Group's loans in various currencies are as follows:

	2012	**2011**
NOK	-	-
EUR	-	392 698
SEK	20 193 544	30 450 115

The Group has the following unutilised borrowing facilities:

	2012	**2011**
Fixed interest rate – No expiry date agreed on (SEK)	8 925 022	9 828 982
Fixed interest rate – No expiry date agreed on (EUR)	1 307 206	881 610

The facilities which expire within one year are annual facilities that must be renewed on various dates in 2012.

15 Pensions and similar liabilities

	2012	**2011**
Statement of financial position - liability:		
– Pension benefits	**-**	**-**
Costs charged to the statement of comprehensive income		
– Pension costs	1 108 808	1 454 592

In Norway and Finland, the minimum defined contribution pensions (compulsory company pensions) are paid as they become due. In Sweden the costs for agreed pension contribution plans are determined upon individual agreements between the Group and the individual employee. Estonia has no pension cost or pension benefits.

As part of their salary contracts, the Group's managers have the opportunity to enter into their own insurance contracts (cash pension premiums) up to a certain percentage of their fixed salary (contributions to the Compulsory Company Pension are deductible). In Norway, this is paid out regularly to an insurance company or the employee and is treated as salary for tax and employers' national insurance contribution/public charges purposes.

16 Wages and salaries

	2012	2011
Salaries	15 184 699	21 207 327
Employers' national insurance contributions	5 021 449	5 442 543
Pension costs – the year's provisions for defined contribution based pension schemes	1 108 808	1 454 592
Other benefits	-	1 015 682
	21 314 956	**29 120 144**
No. of employees	**23**	**28**

17 Other operating expenses

	2012	2011
External advisors/fees services	9 847 613	11 206 742
Rental expenses	2 213 231	2 397 487
Marketing	16 655 935	11 898 263
Administrative and other expenses	12 635 368	14 654 616
Total other operating expenses	**41 352 147**	**40 157 108**

18 Financial income and expenses

	2012	2011
Interest income –bank deposits	109 939	40 054
Other interest income	453	2 229
Interest expenses	-1 689 331	-2 184 474
Currency gain	3 546 200	4 724 277
Currency loss	-4 028 082	-4 344 018
Net financial items	**-2 060 821**	**-1 761 932**

19 Tax - Deferred tax - Deferred tax assets

Tax:	2012	2011
Tax payable	7 286 650	4 800 928
Change referred tax due to other comprehensive income (OCI)	-	-
Change in deferred tax	4 622 853	-4 178 860
Total tax on result	**11 909 503**	**622 068**
Total tax including OCI	**11 909 503**	**622 068**

	2012	2011
Tax payable for the year	7 286 650	4 567 664
Additional payable tax - previous year	-	233 265
Total tax payable	**7 286 650**	**4 800 929**

Reconciliation of the effective tax rate:	2012	2011
Result before tax including OCI	10 551 613	5 987 844
Tax calculated at 28%	2 954 452	1 676 596
Effect from to additional payable tax - previous year	-	201 461
Reversal of deferred tax assets previous year	3 639 097	-
Non-deductible costs	-1 970 696	-1 251 724
Effects of different tax rates	-	-4 265
Foreign paid tax – non claimable	7 286 650	-
Tax	**11 909 503**	**622 068**
Tax in the statement of comprehensive income	11 909 503	622 068
Tax in the statement of comprehensive income	**11 909 503**	**622 068**

Deferred tax and deferred tax assets and specification of the tax effect of temporary differences and losses carried forward:

Deferred tax assets	2012	2011
Loss carried forward	17 968 329	16 821 486
Intangible assets	-	4 096 385
Other	1 080 431	647 649
Deferred tax assets	**19 048 760**	**21 565 521**

Deferred tax liability		
Intangible assets	2 106 091	-
Deferred tax liability - gross	**2 106 091**	**-**
Deferred tax liability - net	**16 942 668**	**21 565 521**

Deferred tax assets are capitalized based on future income.

20 Liabilities

a) Guarantees and charge:

Folkia has no guarantees or charges in 2012.

b) Operating leases – liabilities where a Group company is the lessee

The future total minimum payments linked to non-terminable leases are as follows:

	2012	2011
Due date within 1 year	1 925 694	1 737 071
Due date between 1 and 5 years into the future	1 519 867	2 979 557
Due date more than 5 years into the future	-	-
Total future minimum lease payments	**3 445 562**	**4 716 627**

The future total minimum payments are not presented on a net present value.

The Group's operating leases are in Sweden, Finland and Norway, consisting of premises- and support agreements. The most material future payments consist of office rental and can be renewed for 3 years at a time with a 9 month period of notice. As at 31.12.2012 the total of deposits for office rental is NOK 662 548. The total minimum payments are gross figures (no deduction for deposits).

21 Business combinations

Information regarding Folkia's historical business combinations is available in the Annual reports of 2011 and 2010.

22 Related parties

The Group has been involved in transactions with the following related parties:

Interactive á Íslandi and Xtarola Limited

Owned by the former Chairman of the board, present CEO and shareholder Hördur Bender.

Nexia DA

Owned by, among others, the current Chairman of the board and shareholder Finn Terje Schøyen.

Auto Rex Oy

Owned by board member and shareholder Mikko Marttinen.

Formentor Oy

Board member and shareholder Mikko Marttinen is a member of the board.

Marinium Oy

Owned by former employee and shareholder Kalle Pykälä.

a) Sales of goods and services

No goods or services have been sold to any of these companies.

b) Purchase of goods and services

Purchase of services from related parties (in NOK 1000):	2012	2011
Interactive á Íslandi	-	1 013
Nexia DA	2 545	1 807
Formentor Oy	304	-
Auto Rex Oy	-	96
Marinium Oy	-	288
Total	**2 849**	**3 204**

The above amounts are inclusive of value added tax where relevant.

The agreement for purchasing of services from Interactive à Ìslandi relates to consultancy services from Hördur Bender. Bender has the position of CEO since March 2011. These consultancy services relates to M&A activities, managing new and existing markets in Norway, Finland and Baltic geographical areas as, and assist management on operating, marketing and strategic decisions. There are no guarantees given or received between Folkia and Interactive à Ìslandi and there are no outstanding accounts as at 31.12.2012 in the statements of the financial position.

The agreement for purchasing of services from Nexia DA relates to consultancy services from the Chairman and Nexia DA. These consultancy services relates to M&A activities, managing new and existing markets but also relates to operational tasks within the Group. There are no guarantees given or received between Folkia and Nexia DA and there are no outstanding accounts as at 31.12.2012 in the statements of the financial position.

The agreements for purchasing of services from Formentor Oy relates to consultancy services provided by Marttinen. The consultancy services relates to managing existing markets in Finland and Baltic geographical areas , and assist management on operating in these regions. There are no guarantees given or received between Folkia and Formentor Oy and there are no outstanding accounts as at 31.12.2012 in the statements of the financial position.

The agreements for purchasing of services from Auto Rex Oy relates to consultancy services provided by Marttinen. The consultancy services relates to managing existing markets in Finland and Baltic geographical areas , and assist management on operating in these regions. There are no guarantees given or received between Folkia and Auto Rex Oy and there are no outstanding accounts as at 31.12.2012 in the statements of the financial position.

The agreements for purchasing of services from Marinium Oy relates to consultancy services provided by Pykälä The consultancy services relates to managing existing markets in Finland and Baltic geographical areas. There are no guarantees given or received between Folkia and Marinium Oy and there are no outstanding accounts as at 31.12.2012 in the statements of the financial position.

c) Remuneration to senior employees

The senior employees comprise the group management and directors. The remuneration to senior employees is shown below:

	2012	**2011**
Salaries and other short-term employee benefits	6 033	11 929
Severance pay	-	-
Pension benefits	547	722
Other long-term benefits	-	-
Share-based remuneration	-	-
Total	**6 580**	**12 650**

Specification of remuneration to senior employees:

Name	2012 Salary and other short-term benefits	2012 Pension benefits	2011 Salary and other short-term benefits	2011 Pension benefits
Hördur Bender, CEO[1]	1 772	179	810	84
-Bonus[1]	690	-	-	-
Other Management[2]	2 621	368	2 240	291
Credit Committee	50	-	50	-
Control Committee	200	-	200	-
Board members	700	-	850	-
Former CEO, Per Spångberg[3]	-	-	1 017	-
Former Management[4]	-	-	6 762	346
Total Group	**6 033**	**547**	**11 929**	**722**

[1] *CEO since March 2011. Bonus relates to work performed in 2011.*

[2] *Present management. CFO and General Counsel.*

[3] *Left the company in March 2011.*

[4] *Former management before reorganization in March 2011.*

d) Statement of financial position items resulting from the purchase and sale of goods and services

There was no purchase or sale of goods or services with related parties in 2012 or 2011.

e) Loans to related parties

	2012	2011
Loans to the group management (and their families):		
Carrying amount 01.01	**0**	**413 722**
Loans granted during the year	-	-
Loans repaid during the year	-	-120 003
Retirement from management group	-	-240 006
Interest income	-	11 035
Adjusted interest (due to retirement from management)	-	-36 769
Interest received	-	-20 852
Correction of previous years wrong calculation	-	-7 127
Carrying amount in SEK	**0**	**0**
SEK/NOK exchange rate 31.12	0,8549	0,8701
Carrying amount 31.12	**0**	**0**

The loans to the group management are on the terms and conditions noted below:

Name and loan amount, all in SEK	**2012**	**2011**
Group Management	-	-
Total	**0**	**0**

Former loans to group management are either repaid or transferred to "Loans to shareholder" as the former group management, also shareholders, no longer work for the company.

	2012	2011
Loans to the shareholders (and their families):		
Carrying amount 01.01	**463 508**	**172 985**
Loans granted during the year	-	-
Transferred loans (due to retirement from group management)	-	240 006
Loans repaid during the year	-150 004	-
Interest income	9 702	13 748
Transferred interest (due to retirement from group management)	-	36 769
Interest received	-	-
Carrying amount in SEK	**323 206**	**463 508**
SEK/NOK exchange rate 31.12	0,8549	0,8701
Carrying amount 31.12	**276 309**	**403 298**

Terms and conditions

These loans are to be paid in the same ratio as disposal of the company shares held by group management. No loans have been given to directors.

Interest rate

The interest rate is the Swedish state loan interest rate + 1% throughout the term of the loan. The interest is capitalized and is to be paid when the loan falls due.

The fair value of the loans is regarded as equivalent to the loans’ book value.

It has not been necessary to make provisions for losses on loans to directors, senior employees or associates in 2012 or previous years.

f) Fees to auditors and other related costs	2012	2011
Statutory audit		
- Deloitte	1 143 798	1 489 701
- other	56 613	103 191
Other assurance services		
- Deloitte	-	-
- other	-	-
Tax services		
- Deloitte	321 376	147 028
- other	-	-
Other non-assurance services		
- Deloitte	162 994	951 411
- other	-	-
Total Deloitte	1 628 167	2 588 140
Total	**1 684 780**	**2 691 331**

Fees include VAT.

23a Events after the end of the reporting period

The Finnish Parliament has approved changes to the regulatory environment, directly addressing small unsecured credits on short term, which are expected to come into force during 2013, including certain annual percentage rate and fee limitations and enhanced requirements for consumer lenders.

23b Contingent liability

On 30 August 2011 Folksam ömsesidig sakförsäkring and Folksam ömsesidig livföräkring (jointly “Folksam”) filed a lawsuit against Folkia at the Stockholm District Court for trademark and company name infringement, claiming among other things that Folkia’s use of FOLKIA, FOLKLÅN, FOLKGIRO and FOLKONOMI infringes on FOLKSAM’s trademarks and company names. Folkia contested Folksam’s lawsuit in its entirety in Folkia's Statement of Defence. On 26 October 2011 Folkia filed a counterclaim against Folksam. Folkia is of the view that Folkia had not infringed on any of Folksam’s trademarks or company names and, consequently, that the legal basis for Folksam’s claim was scarce.

Main hearing in the case in Stockholm District Court took place on 4-5 October 2012, and the Court judgement was rendered on 7 December 2012. The Stockholm District Court shared Folkia's view that the use of Folkia as trademark and company name had not infringed on Folksam's trademarks or company names. Furthermore, the Court declared two of Folksam's trade mark registrations for FOLKSAM as void for the services banking, credit institution, debit card services and credit card services. The judgement has been appealed by both parties to the Svea Court of Appeal.

24 Share capital and shareholder information

The share capital in the parent company as of 31 December 2012 consists of:

	No. of shares	Nominal value	Book value
Shares	17 406 916	5	87 034 580
Total	**17 406 916**	**5**	**87 034 580**

All the shares have equal voting rights.

Ownership structure

The largest shareholders in the company as of 31 December 2012	**Shares**	**Ownership share**
BRENNEN CONSULTING LIMITED	1 740 800	10,0%
CNHL LTD	1 740 690	10,0%
CLEARSTREAM BANKING S.A.	1 372 662	7,9%
INTERACTIVE A ISLANDI EHF	1 361 811	7,8%
LANDSYN EHF	1 301 974	7,5%
DANSKE BANK A/S	1 214 100	7,0%
SHB STOCKHOLM CLIENTS ACCOUNT	904 672	5,2%
RINNE	500 000	2,9%
NEBRASKA INVEST OY	496 356	2,9%
UBS AG ZURICH	433 320	2,5%
SKANDINAVISKA ENSKILDA BANKEN	429 232	2,5%
PAATERO	381 637	2,2%
NORDNET BANK AB	343 331	2,0%
FÖRETAGSBYGGARNA BUSINESS BUILDERS	288 943	1,7%
FIVADO AS	282 787	1,6%
ARION BANK HF	275 993	1,6%
HIETALA	248 064	1,4%
BERASCO LIMITED	242 869	1,4%
OÜ VIADELLA INVESTMENTS	242 826	1,4%
Shareholders with at least 1,2 % ownership	**13 802 067**	**79,3%**

Own shares, FOLKIA AS	110 174	0,6%
Own shares , FOLKIA AS NORGE, FILIAL SVERIGE	52 742	0,3%
Remaining ownerships	**3 441 933**	**19,8%**
Number of shareholders:	**68**	
Number of shares:	**17 406 916**	**100,0%**

Shares owned by directors and the CEO directly or through own companies:

Name	Position	Shares
Hördur Bender[1]	CEO	1 361 811
Finn Terje Schøyen[2]	Chairman of the Board	184 432
Leif Bjørnstad[3]	Director	192 097
Stig Herbern[4]	Director	25 000
Eilif Bjerke	Director	49 000
Mikko Marttinen[5]	Director	672 735
Raivo Aavisto[6]	Director	1 305 600
Total		**3 790 675**

[1]Hördur Bender owns shares indirectly through INTERACTIVE A ISLANDI EHF.

[2]Finn Terje Schøyen owns shares indirectly through AGDER TECHNOLOGY AS.

[3]Leif Bernhard Bjørnstad owns shares indirectly through SMÅFINANS AS.

[4]Stig Magnus Herbern owns shares indirectly through SMH MANAGEMENT A/S.

[5]Mikko Marttinen owns shares privately and indirectly through CNHL LTD. Marttinen controls 30% of CNHL LTD.

[6]Raivo Aavisto owns shares indirectly through BRENNEN CONSULTING LIMITED.
Aavisto controls 75% of BRENNEN CONSULTING LIMITED via BRANDBERG OÜ.

25 Capital adequacy

Capital adequacy 31 December (Group)

Equity and subordinated loan capital

	2012	2011
Share capital	86 220 000	86 220 000
Other equity	69 245 412	72 642 149
Equity	**155 465 412**	**158 862 149**
Deductions:		
Intangible assets	-63 220 584	-67 203 786
Deferred tax assets	-16 942 669	-21 565 520
Core capital	**75 302 159**	**70 092 843**
Net equity and subordinated loan capital	**75 302 159**	**70 092 843**

Minimum requirement equity and subordinated loan capital

Credit risk		
Of which:		
Institutions	375 310	391 460
Mass market commitments	4 265 748	3 578 220
Commitments that have fallen due	612 757	2 717 370
Other commitments	2 713 243	868 868
Total minimum requirement credit risk	**7 967 058**	**7 555 919**
Settlement risk		
Foreign exchange risk	6 133 059	5 199 000
Total minimum requirement market risk	**6 133 059**	**5 199 000**
Operational risk	**15 933 314**	**16 362 658**
Minimum requirement equity and subordinated loan capital	**30 033 431**	**29 117 297**

Capital adequacy

Capital adequacy ratio	20%	19%
Core capital adequacy ratio	20%	19%

The capital adequacy has been calculated in accordance with new capital requirement regulations, Basel II.

FINANCIAL STATEMENT

2012-01-01 - 2012-12-31

Folkia AS
990 892 040

Folkia AS
Income Statement

NOTE		2012	2011
	Interest income and similar incomes		
	Interest and similar income from loans to and receivables due from credit institutions	110 392	42 283
	Interest and similar income on loans to and receivables due from customers	114 017 021	102 785 734
	Other interest income and similar incomes	0	0
3	**Total interest and similar income**	**114 127 413**	**102 828 017**
	Interest expenses and similar expenses		
	Other interest expenses and similar expenses	-1 689 331	-2 110 573
	Total interest expenses and similar expenses	**-1 689 331**	**-2 110 573**
	Net interest and credit commission income	**112 438 082**	**100 717 444**
	Commission and similar expenses from banking services		
	Commission and similar expenses from loans to and receivables from credit institutions	-171 754	-661 253
	Total interest expenses and similar expenses	**-171 754**	**-661 253**
	Net change in value and gain/loss on currencies and securities that are current assets		
	Net change in value and gain/loss on shares, currencies and financial derivatives	-481 882	231 121
	Total net change in value and gain/loss on currencies and securities that are current assets	**-481 882**	**231 121**
	Total other operating revenues	**-481 882**	**231 121**
	Salaries and general administrative expenses		
4	Salary etc	-21 314 956	-28 606 185
	- Salary	*-15 184 699*	*-21 207 327*
	- Pension	*-1 108 808*	*-1 232 672*
	- Social fees	*-5 021 449*	*-6 166 186*
	Administrative expenses	-26 102 526	-22 857 258
	Total salaries and general administrative expenses	**-47 417 482**	**-51 463 442**
	Depreciation, etc, of tangible fixed assets and intangible assets		
5,6	Ordinary depreciation	-11 535 119	-12 800 823
	Total depreciation, etc, of tangible fixed assets and intangible assets	**-11 535 119**	**-12 800 823**
	Other operating expenses		
19	Other operating expenses	-15 077 861	-17 088 685
	Total other operating expenses	**-15 077 861**	**-17 088 685**
	Losses on loans, guarantees, etc		
16	Losses on loans	-31 044 013	-17 833 885
	Total losses on loans, guarantees, etc	**-31 044 013**	**-17 833 885**
	Write down of assets		
7	Write down of shares in group company	-2 028 596	0
	Total write down of assets	**-2 028 596**	**0**
	Result on ordinary operations before tax	4 681 374	1 100 477
18	Tax on result on ordinary operations	-7 171 520	-5 148 053
	RESULT FOR THE YEAR	**-2 490 146**	**-4 047 576**
	TRANSFERS AND ALLOCATIONS		
	Group contribution	0	-2 676 488
9	Transferred to (from) other equity	-2 490 146	-6 724 064
	Total transfers and allocations	**-2 490 146**	**-6 724 064**

Folkia AS
Balance sheet at 31 December

NOTE	ASSETS	2012	2011
	Loans to and receivables from credit institutions		
11,12	Loans to and receivables from credit institutions without an agreed term or cancellation period	22 496 315	24 466 269
	Total net loans to and receivables from credit institutions	**22 496 315**	**24 466 269**
	Loans to and receivables from customers		
11,12,16	Repayment loans	75 685 458	100 656 779
11,12,16	Loss reserves	-14 704 141	-20 107 413
	Total net loans to and receivables from customers	**60 981 317**	**80 549 366**
	Ownership interests in group companies		
7	Shares in group companies	135 422	2 948 097
	Total ownership interests in group companies and other investments	**135 422**	**2 948 097**
	Intangible assets		
6	Goodwill	25 306 456	29 895 436
18	Deferred tax assets	22 427 442	22 335 536
6	Intangible assets	14 873 105	19 363 042
	Total intangible assets	**62 607 003**	**71 594 014**
	Tangible assets		
5	Tangible assets	723 832	1 070 106
	Total Tangible assets	**723 832**	**1 070 106**
	Other assets, deferred expenditure and deferred income		
17	Other assets	16 277 485	9 096 235
	Deferred expenditure/deferred income and deposits	17 698 300	9 313 652
	Total other assets	**33 975 785**	**18 409 888**
	TOTAL ASSETS	**180 919 673**	**199 037 739**

Folkia AS
Balance sheet at 31 December

NOTE	EQUITY AND LIABILITIES	2012	2011
	Liabilities		
20	Liabilities to credit institutions	17 263 461	29 539 626
20	Other liabilities	14 367 734	16 046 578
21	Accrued expenses and deferred income	7 924 921	7 992 750
	Total liabilities	**39 556 116**	**53 578 953**
	Total liabilities	**39 556 116**	**53 578 953**
	Equity		
	Equity contributed		
8,9	Share capital	87 034 580	87 034 580
8,9	Own shares	-814 580	-814 580
9	Share premium account	74 614 565	74 614 565
	Total equity contributed	**160 834 565**	**160 834 565**
	Retained earnings	-19 471 008	-15 375 779
	Total retained earnings	**-19 471 008**	**-15 375 779**
9	**Total equity**	**141 363 557**	**145 458 786**
	TOTAL EQUITY AND LIABILITIES	**180 919 673**	**199 037 739**

Oslo, 22 March 2013
The Board of Folkia AS

Finn Terje Schøyen
Chairman of the Board

Raivo Aavisto

Leif Bjørnstad

Stig Herbern

Mikko Marttinen

Eilif Bjerke

Hördur Bender
CEO

Folkia AS
Cash flow statement

	2012	2011
CASH FLOW FROM OPERATIONS:		
Profit/(loss) before taxation	4 681 374	-1 576 012
Depreciation and amortization	11 535 119	12 744 534
Write down of intangible assets	2 028 596	0
Taxes paid for the period	-4 556 145	-2 289 070
Net change in value and gain/loss on shares, currencies and financial derivatives	481 882	-212 883
Change in trade receivables	19 568 049	-7 162 828
Changes in other current assets	-15 565 898	-9 811 706
Change in trade payables and other short term liabilities	-4 362 047	-7 170 848
Adjustment for other entries affecting cash flow	-704 845	-277 977
Net cash flow from operations	**13 106 087**	**-15 756 788**
CASH FLOW FROM INVESTMENT ACTIVITIES:		
Outflows due to purchases of fixed assets	-470 543	-256 841
Outflows due to purchases of intangibles	-1 757 532	-2 299 554
Net cash flow from investment activities	**-2 228 075**	**-2 556 395**
CASH FLOW FROM FINANCING ACTIVITIES:		
Group contribution	0	2 676 488
Change in credit facility	-12 276 165	29 539 626
Net cash flow from financing activities	**-12 276 165**	**32 216 114**
Effects of currency rate changes on bank deposits, cash and equivalents	**-571 800**	**-37 456**
Net change in bank deposits, cash and equivalents	-1 969 954	13 865 475
Bank deposits, cash and equivalents 01.01	**24 466 269**	**10 600 794**
Bank deposits, cash and equivalents 31.12	**22 496 315**	**24 466 269**

Folkia AS

Notes to the accounts, year ended 31 December 2012

Note 1 Accounting policies

Folkia AS was founded at 2 January 2007.
The annual financial statements have been prepared in accordance with the Norwegian Accounting Act of 17 July 1998, the regulations concerning annual financial statements, etc, for banks and finance companies of 16 December 1998 and generally accepted accounting practices in Norway.
Folkia's consolidated financial statements have been prepared in accordance with IFRS and are published in a separate document.

Establishment of branches
Folkia went through this process in 2010 and since then operations are managed through branches of Folkia instead of subsidiaries. The transaction was accounted for applying carrying values of the assets and liabilities transferred. Group carrying amounts has been adjusted to reflect the results and financial position of the branches in accordance with the Norwegian Accounting Act and not IFRS (that is used in reporting of consolidated financial statements) in these financial statements. Amortization of intangible assets was therefore also adjusted as if NGAAP had been applied since the date of acquisition of the businesses.

Main rule for assessing and classifying assets and liabilities
The balance sheet complies with the regulations concerning annual financial statements for banks and finance companies. Assets that are determined to be for permanent ownership or use are classified as fixed assets. Other assets are classified as current assets. Receivables that are to be repaid within one year are classified as current assets. When classifying current and long-term liabilities, corresponding criteria have been used.
Current assets are valued at their original cost or their fair value, whichever is lower.

Fixed assets are valued at their original cost, but are written down to their recoverable amount if this is less than their book value and the impairment in value is not expected to be temporary. Fixed assets with a limited economic life are depreciated systematically.
Other long-term liabilities and current liabilities are valued at their nominal amount.

Assets and liabilities in foreign currencies
Monetary items in foreign currencies are converted in the balance sheet at the rate applicable on the balance sheet date.
Forward exchange contracts are recognized in the balance sheet at their fair value on the balance sheet date.

Intangible assets
The costs of in-house production of intangible assets, including the costs of own research and development work, are recognized in the balance sheet when it is probable that the future economic benefits linked to the assets will accrue to the company and the original cost can be measured reliably.

Intangible assets that are bought individually are recognized in the balance sheet at their original cost. Intangible assets acquired when a company is bought are recognized in the balance sheet at their original cost when the criteria for balance sheet recognition are met.

Intangible assets with a limited economic life are amortized systematically. Intangible assets are written down to their recoverable amount if the estimated economic benefits do not cover the balance sheet value and any remaining production costs.

Leasing agreements
Fixed assets leased on conditions which mainly transfer economic risk and control to the company (financial leasing) are considered as fixed assets in the balance sheet. The accompanying leasing obligation is included under interest-bearing long-term liabilities and valued at present value of the leasing payments. The fixed asset is depreciated on a systematic basis, and the liability is reduced with the paid leasing amount less the calculated interest costs.

Leases where a significant part of the risk and return linked to ownership continues to lie with the lessor are classified as operating leases. Rent paid on operating leases (minus any financial incentives provided by the lessor) is charged to expenses in a straight line over the lease period.
Leases linked to tangible fixed assets where the Group on the whole has all the risk and return linked to the ownership are classified as financial leases. The Group has no such leases. Liabilities linked to operating leases are shown in the note on nominal value.

Shares in subsidiaries
Investments in subsidiaries are valued according to the cost method. The investments are written down to their fair value if the impairment is not temporary and this must be regarded as being necessary according to generally accepted accounting practices.

Income and expense recognition
Interest and commissions are recognized in the income statement as these are accrued as incomes or incurred as expenses.
Charges which are a direct payment for services carried out are recognized as income when they accrue.

Accounts receivable - microloans
Short-term lending is measured at fair value for initial balance sheet recognition purposes. In later measurements, microloans are valued at their amortized cost determined using the effective interest rate method (simplified) minus provisions for incurred losses. The provisions for losses are recognised in the financial statements based on separate, individual assessments.

Other receivables
Other receivables are entered at their nominal value after deducting provisions for estimated losses.
Provisions for losses are determined on the basis of an individual assessment of each receivable.

Bank deposits, cash, etc
Bank deposits, cash, etc, include cash, bank deposits and other means of payment with a due date which is less than three months from the date of procurement.

Tax

The tax cost is placed together with the accounting result before tax. Tax linked to equity transactions is recognized in equity.
Tax consists of tax payable (tax on the year's direct taxable income) and changes in net deferred tax. Deferred tax and deferred tax assets are presented net in the balance sheet.

Note 2 Prior year comparison numbers

Some of 2011 figures and notes have been amended to fully comply with regulations concerning annual financial statements, etc, for banks and finance companies of 16 December 1998.

Note 3 Interest and similar income per area of operation

Per area of operation 2012:	% of total	From loans to and receivables due from credit institutions	Loans to and receivables due from customers	Other	Total
Norway	5%	88 813	5 567 693	-	5 656 505
Sweden	73%	8 623	82 815 159	-	82 823 782
Finland	17%	9 863	18 972 033	-	18 981 897
Estonia	6%	3 092	6 662 136	-	6 665 229
Total	**100%**	**110 392**	**114 017 021**	**-**	**114 127 413**

Per area of operation 2011:	% of total	From loans to and receivables due from credit institutions	Loans to and receivables due from customers	Other	Total
Norway	0%	18 166	296 372	-	314 538
Sweden	76%	16 029	77 992 854	-	78 008 883
Finland	19%	5 418	19 610 755	-	19 616 173
Estonia	5%	2 669	4 885 753	-	4 888 423
Total	**100%**	**42 283**	**102 785 734**	**-**	**102 828 017**

Note 4 Payroll costs, number of employees, allowances, loans to employees, etc

Payroll costs	2012	2011
Wages and salaries	15 184 699	21 207 327
Social security tax	5 021 449	6 166 186
Pension costs	1 108 808	1 232 672
Recruitment and other social benefits	-	-
Total	**21 314 956**	**28 606 185**

The amounts include salaries to senior employees.

Number of man-years employed during the financial year	23	28
Number of employees	32	26

The company is required to have an occupational pension plan in accordance with Norwegian legislation on occupational pensions. The company's pension plan meets the requirements of this legislation. In Norway and Finland, the minimum defined contribution pensions (compulsory company pensions) are paid as they become due. In Sweden the costs for agreed pension contribution plans are determined upon individual agreements between the Group and the individual employee. Estonia has no pension cost or pension benefits.

Directors' remuneration (kNOK)	Salaries, fees	Pensions
Hördur Bender, CEO 1)	1 772	179
- bonus	690	-
Other Management 2)	2 621	368
Credit Commitee	50	-
Control Committee	200	-
Board members	700	-
Total	**6 033**	**547**

1) CEO since March 2011
2) Present management. CFO and General Counsel.

As at 31.12.2012 there are no loans, or guarantees given to the board members, CEO, CFO or other leading officers, except from 2 loans to shareholder.

Loans and guarantees to Chief Executive, Directors, Shareholders etc.

	Loan/Guarantees	Amount	Interest rate	Scheduled payment(s)
Shareholder and former employee Marcus Lindström	Loan	27 348	Government loan + 1%	27 348
Shareholder and former employee Nickolaus Karlsson	Loan	248 961	Government loan + 1%	43 780

These loans are to be paid in the same ratio that disposals of shares shareholders have in their possession. Interests on these loans accumulates on each loan.

Transactions with related parties
Folkia AS has been involved in transactions with the following related parties.

Interactive á Íslandi
Owned by the former chairman of the board, present CEO and shareholder Hördur Bender.

Auto Rex Oy
Owned by board member and shareholder Mikko Marttinen.

Formentor Oy
Board member and shareholder Mikko Marttinen is a member of the board.

Nexia DA
Owned by, among others, the current Chairman of the board and shareholder Finn Terje Schøyen.

Marinium Oy
Owned by former employee and shareholder Kalle Pykälä.

Purchase of goods and services from related parties	**2012**	**2011**
Interactive á Íslandi	-	1 012 500
Auto Rex Oy	-	96 325
Formentor Oy	304 094	-
Nexia DA	2 544 938	1 807 372
Marinium Oy	-	288 125
Total	**2 849 031**	**3 204 322**

The above amounts are inclusive of value added tax where relevant.

Auditor
Remuneration to Deloitte AS and their associates is as follows:
Numbers are included VAT.

	2012	**2011**
Statutory audit	1 200 411	1 592 892
Other assurance services	0	-
Tax services	321 376	147 028
Other non-assurance services	162 994	951 411
Total	**1 684 780**	**2 691 331**

Note 5 Tangible fixed assets

2012 financial year	**Machinery, fixtures, fittings and vehicles**
Carrying amount 01.01.12	**1 070 106**
Additions	470 543
Effect of foreign currency exchange differences	-14 931
Disposals	-20 910
Depreciation during the year	-780 976
Carrying amount 31.12.2012	**723 832**
As at 31 December 2012	
Original cost	4 328 412
Accumulated depreciation	-3 604 581
Carrying amount 31.12.2012	**723 832**

Depreciation is charged on a straight-line basis. Estimated useful life is between 3 and 5 years.

Note 6 Intangible assets

	Goodwill	**Software (including scoringmodell and licenses)**	**Customer relationships**	**Trademarks**	**Total**
Useful life (years)	**10**	**5**	**5**	**20**	
Original cost 01.01.2011	**45 889 905**	**17 620 994**	**13 332 762**	**10 418 683**	**87 262 344**
Additions	**0**	**2 299 554**	**0**	**0**	**2 299 554**
Swedish branch	-	2 299 554	-	-	-
Danish branch	-	-	-	-	-
Finnish and Estonian branch	-	-	-	-	-
Translation differences	-	-47 500	-	-196	-47 696
Original cost 31.12.2011	**45 889 905**	**19 873 049**	**13 332 762**	**10 418 487**	**89 514 202**

Accumulated depreciation 01.01.2011	**-11 405 490**	**-9 654 704**	**-5 611 570**	**-1 713 964**	**-28 385 728**
Depreciation during the year	**-4 588 979**	**-4 109 758**	**-2 666 556**	**-520 925**	**-11 886 218**
Swedish branch	-2 111 796	-2 256 565	-263 808	-422 001	-5 054 170
Danish branch	-895 955	-	-344 844	-29 624	-1 270 423
Finnish and Estonian branch	-1 581 228	-1 280 012	-2 057 904	-69 300	-4 988 444
Norway	-	-573 181	-	-	-573 181
Translation differences	-	16 031	-	191	16 222
Accumulated depreciation and impairment losses 31.12.2011	-15 994 469	-13 748 431	-8 278 126	-2 234 698	-40 255 725
					-
Carrying amount 31.12.2011	**29 895 436**	**6 124 618**	**5 054 636**	**8 183 788**	**49 258 478**
Original cost 01.01.2012	**45 889 905**	**19 873 049**	**13 332 762**	**10 418 487**	**89 514 202**
Additions	**0**	**1 757 532**	**0**	**0**	**1 757 532**
Swedish branch	**-**	**-**	**-**	**-**	-
Danish branch	**-**	**-**	**-**	**-**	-
Finnish and Estonian branch	**-**	**1 757 532**	**-**	**-**	1 757 532
Norway	**-**	**-**	**-**	**-**	-
Translation differences	-	-	-	-	-
Original cost 31.12.2012	**45 889 905**	**21 630 580**	**13 332 762**	**10 418 487**	**91 271 734**
Accumulated depreciation 01.01.2012	-15 994 469	-13 748 431	-8 278 126	-2 234 698	**-40 255 725**
Depreciation during the year	**-4 588 980**	**-2 985 612**	**-2 651 905**	**-506 736**	**-10 733 233**
Swedish branch	-2 111 796	-1 869 630	-249 157	-407 808	-4 638 391
Danish branch	-895 956	-	-344 844	-29 628	-1 270 428
Finnish and Estonian branch	-1 581 228	-533 440	-2 057 904	-69 300	-4 241 872
Norway	-	-582 542	-	-	-582 542
Translation differences	-	-103 205	-	-11	-103 216
Accumulated depreciation and impairment losses 31.12.2012	-20 583 449	-16 837 248	-10 930 031	-2 741 445	-51 092 174
Carrying amount 31.12.2012	**25 306 456**	**4 793 332**	**2 402 731**	**7 677 042**	**40 179 560**

The Board and the management strongly believe that Folkia's goodwill is a vital asset of the company in the long run. Folkia is a well-recognized company in all operating markets and has built a strong position in different markets during several years. Folkia has a long perspective strategy and the board and the management have concluded that Folkia's position motivates a longer useful life period than 5 years.

Note 7 Subsidiary

Company	Date of acquisition	Consolidated (yes/no)	Registered office	Voting share	Ownership share
Folkia AB	Dec 2007	yes	Stockholm	100%	100%

Company	Equity (carrying amount) as at 31.12.2012	Last annual result as at 31.12.2012
Folkia AB	158 618	-23 229

On December 28th 2012, Folkia AB finalized a partial distribution to its owner Folkia AS. Folkia AB is scheduled to be liquidated as soon as the legal process with Folksam is completed.

Related party transactions, profit and loss

Transaction/transaction type	Belongs to P&L line	Counterpart	Relationship to the counterpart	2012	2011
Shareholder contribution	*Group contribution*	*Folkia AB*	Subsidiary	-	2 676 488

Related party balance items

		Accounts receivables		Other receivables	
Counterpart	**Relationship to the counterpart**	**2012**	**2011**	**2012**	**2011**
Folkia AB	Subsidiary	-	-	782 157	6 886 758

		Accounts payable		Other current liabilities	
Counterpart	**Relationship to the counterpart**	**2012**	**2011**	**2012**	**2011**
Folkia AB	Subsidiary	-	-	-	7 864 400

Note 8 Share capital and shareholder information

The share capital in the company at 31 December 2012 consists of the following classes:

	Number	Nominal value	Book value
Shares	17 406 916	5	87 034 580
Total	**17 406 916**		**87 034 580**

All the shares have equal voting rights.

Ownership structure
Largest shareholders as of 31 December 2012:

	Share	Ownership share	Voting share
BRENNEN CONSULTING LIMITED	1 740 800	10%	10%
CNHL LTD	1 740 690	10%	10%
CLEARSTREAM BANKING S.A.	1 372 662	8%	8%
INTERACTIVE A ISLANDI EHF	1 361 811	8%	8%
LANDSYN EHF	1 301 974	7%	7%
DANSKE BANK A/S	1 214 100	7%	7%
SHB STOCKHOLM CLIENTS ACCOUNT	904 672	5%	5%
RINNE	500 000	3%	3%
NEBRASKA INVEST OY	496 356	3%	3%
UBS AG ZURICH	433 320	2%	2%
SKANDINAVISKA ENSKILDA BANKEN	429 232	2%	2%
PAATERO	381 637	2%	2%
NORDNET BANK AB	343 331	2%	2%
FÖRETAGSBYGGARNA BUSINESS BUILDERS	288 943	2%	2%
FIVADO AS	282 787	2%	2%
ARION BANK HF	275 993	2%	2%
HIETALA	248 064	1%	1%
BERASCO LIMITED	242 869	1%	1%
OÜ VIADELLA INVESTMENTS	242 826	1%	1%
Total shareholders with minimum 1% ownership	**13 802 067**	**79%**	**79%**
Own shares, FOLKIA AS	110 174	1%	1%
Own shares, FOLKIA AS NORGE FILIAL SVERIGE	52 742	0%	0%
Total remaining shareholders	3 441 933	20%	20%
Total number of shares	**17 406 916**	**100%**	**100%**

Shares and options held by Members of the Board and CEO:

Name	Title	Shares
Hördur Bender (1)	CEO	1 361 811
Terje Finn Schøyen (2)	Chairman of the Board	184 432
Leif Bernhard Bjørnstad (3)	Director	192 097
Stig Magnus Herbern (4)	Director	25 000
Eilif Bjerke	Director	49 000
Mikko Marttinen (5)	Director	672 735
Raivo Aavisto (6)	Director	1 305 600

(1) Hördur Bender owns shares indirectly through INTERACTIVE A ISLANDI EHF.
(2) Terje Finn Schøyen owns shares indirectly through AGDER TECHNOLOGY AS.
(3) Leif Bernhard Bjørnstad owns shares indirectly through SMÅFINANS AS.
(4) Stig Magnus Herbern owns shares indirectly through SMH MANAGEMENT A/S.
(5) Mikko Marttinen owns shares privately and indirectly through CNHL LTD. Marttinen controls 30% of CNHL LTD.
(6) Raivo Aavisto owns shares indirectly through BRENNEN CONSULTING LIMITED. Aavisto controls 75% of BRENNEN CONSULTING LIMITED via BRANDBERG OÜ.

Note 9 Equity

Paid in equity	Share capital	Share premium	Other equity	Total equity contributed
Equity at 1 January 2012	**86 220 000**	**74 614 565**	**-15 375 779**	**145 458 786**
This year's change in equity:				
Profit/(loss) of the year			-2 490 146	-2 490 146
Translation differences			-1 605 082	-1 605 082
Equity at 31 December 2012	**86 220 000**	**74 614 565**	**-19 471 008**	**141 363 557**

Registered share capital	87 034 580
- own shares	814 580

Note 10 Financial market risk

The company's activities entail various types of financial risks. In relation to the company's balance sheet at 31 December 2012, these are:
- a currency risk and interest rate risk linked to a fixed rate borrowing in SEK (Sweden), DKK (Denmark) and EUR (Finland)
- a credit risk linked to the investment of excess liquidity (banks) and to microloan receivables
- an interest rate and credit risk linked to other lending and receivables
- a liquidity risk linked to servicing commitments that have been entered into

The company complies with the Group's principal risk management plan.

The Group's risk management is handled by a central finance department in accordance with guidelines set forth by the Board of Directors. The Group's finance department identifies, evaluates and hedges the financial risks in close cooperation with the different operating units.

Market risk

(i) Currency risk
A currency risk arises on trading transactions, balance sheet assets and liabilities and net investments in foreign companies.
(ii) Risk linked to floating interest rates and fixed rates
Folkia AS deposits its excess liquidity in the bank at a floating interest rate that is regularly adjusted. The company has short-term lending linked to microloans with fixed charges. The cash flow from loans to customers is on the whole independent of changes in the market interest rate. Cash flows from other receivables have mainly been entered into at a floating interest rate and the company's incomes will depend on the market interest rate.

Credit risk

A credit risk arises in transactions involving bank deposits, lending and microloans to customers.
The company has maximum loan limits for microloans and standard credit rating requirements, and has developed its own scoring model for the credit rating of private customers. Loans are not given to existing customers until previous loans has been repaid.

Liquidity risk

The management of the liquidity risk entails maintaining a sufficient stock of liquid assets.
The management monitors the Group's liquidity reserve, which consists of a loan facility and cash equivalents, through revolving forecasts based on the estimated cash flow. This is normally carried out at Group level.

Note 11 Residual term to maturity as at 31 December

Assets	Up to 1 month	From 3-12 months	From 1 to 5 years	Without an agreed residual term to maturity	Total
Loans to and receivable from credit institutions					
in NOK				5 165 723	5 165 723
in foreign currency				17 330 592	17 330 592
Loans to and receivables from customers					
in NOK	4 601 108				4 601 108
in foreign currency	56 380 209				56 380 209
Ownership in other Group companies					
in NOK					-
in foreign currency				135 422	135 422
Intangible assets					
in NOK			2 911 191	32 983 498	35 894 689
in foreign currency			4 284 872		4 284 872
Other assets					
in NOK		570 399	28 954	23 401 554	24 000 906
in foreign currency	10 283 872	5 850 253	985 355	16 006 674	33 126 154
Total Assets	**71 265 188**	**6 420 652**	**8 210 372**	**95 023 461**	**180 919 673**
in NOK	4 601 108	570 399	2 940 145	61 550 774	69 662 426
in foreign currency	66 664 080	5 850 253	5 270 227	33 472 687	111 257 247
Equity and liabilities					
Other Liabilities					
in NOK	1 239 810	1 956 109			3 195 919
in foreign currency	8 681 318	27 678 881			36 360 199
Equity					
in NOK				109 462 528	109 462 528
in foreign currency				31 901 026	31 901 026
Total equity and liabilities	**9 921 128**	**29 634 990**	**-**	**141 363 554**	**180 919 673**
in NOK	1 239 810	1 956 109	-	109 462 528	112 658 448
in foreign currency	8 681 318	27 678 881	-	31 901 026	68 261 225
Net liquidity exposure balance sheet items					
in NOK	3 361 298	-1 385 710	2 940 145	-47 911 754	-42 996 022
in foreign currency	57 982 762	-21 828 628	5 270 227	1 571 661	42 996 022

Note 12 Period prior to the change in interest rate at 31 December

Assets	Up to 1 month	From 1 to 3 months	From 1 to 5 years	Items without interest rate exposure	Total
Loans to and receivable from credit institutions					
in NOK	5 165 723				5 165 723
in foreign currency	17 330 592				17 330 592
Loans to and receivables from customers					
in NOK				4 601 108	4 601 108
in foreign currency				56 380 209	56 380 209
Ownership in other Group companies					
in NOK					-
in foreign currency				135 422	135 422
Intangible assets					
in NOK				35 894 689	35 894 689
in foreign currency				4 284 872	4 284 872
Other Assets					
in NOK				24 000 906	24 000 906
in foreign currency				33 126 154	33 126 154
Total Assets	**22 496 315**	**-**	**-**	**158 423 358**	**180 919 673**
in NOK	5 165 723	-	-	64 496 703	69 662 426
in foreign currency	17 330 592	-	-	93 926 656	111 257 247
Equity and liabilities					
Other Liabilities					
in NOK				3 195 919	3 195 919
in foreign currency			17 263 461	19 096 738	36 360 199
Equity					
in NOK				109 462 528	109 462 528
in foreign currency				31 901 026	31 901 026
Total equity and liabilities			17 263 461	163 656 212	**180 919 673**
in NOK	-	-	-	112 658 448	112 658 448
in foreign currency	-	-	17 263 461	50 997 764	68 261 225
Net liquidity exposure balance sheet items					
in NOK	5 165 723	-	-	-48 161 745	-42 996 022
in foreign currency	17 330 592	-	-17 263 461	42 928 891	42 996 022

Note 13 Currency positions at 31 December

Currency	Assets	Equity and liabilities	Net position
NOK	69 662 426	112 658 448	-42 996 022
SEK	67 326 629	56 518 225	10 808 404
DKK	3 324 141	-18 818	3 342 958
EUR	40 606 478	11 761 818	28 844 660
Total	**180 919 673**	**180 919 673**	**-**

Note 14 Capital adequacy at 31 December

Equity and subordinated loan capital

	2012	2011
Share Capital	86 220 000	86 220 000
Other Equity	55 143 557	59 238 786
Total Equity	**141 363 557**	**145 458 786**
Deductions		
Intangible assets	-40 179 560	-49 258 478
Deferred tax assets	-22 427 442	-22 335 536
Core Capital	**78 756 554**	**73 864 772**
Net equity and subordinated loan capital	**78 756 554**	**73 864 772**

Minimum requirement equity and subordinated loan capital

Credit risk		
Of which:		
Institutions	359 941	391 460
Mass market commitments	4 265 723	3 578 220
Commitments that have fallen due	612 757	2 509 484
Other commitments	2 728 883	1 794 247
Total minimum requirement market risk	**7 967 304**	**8 273 412**
Settlement risk	-	-
Currency risk	6 060 228	5 198 720
Total minimum requirement market risk	**6 060 228**	**5 198 720**
Operational risk	10 354 251	10 056 735
Minimum requirement equity and subordinated loan capital	**24 381 783**	**23 528 866**

Capital adequacy		
Capital adequacy ratio	26%	25%
Core capital adequacy ratio	26%	25%

Note 15 Secure debt and guarantees, etc.

Folkia AS had no assets provided for book liabilities either in 2012 or 2011.

Note 16 Account receivables (microloans)

	2012	2011
Microloans	75 685 458	100 656 779
Impairment for probable losses on microloans	-14 704 141	-20 107 413
Net microloans	**60 981 317**	**80 549 366**

These loans are to private customers. For a more detailed description of the credit risk, refer to the note of financial risk.

The fair value of loans are considered to be equal to book value, as all loans have short term to maturity and probable losses have been written down.
The fallen-due dates of the microloans were as follows at 31 December 2012:

	2012	2011
Not fallen due	54 031 930	59 637 712
Fallen due 1-30 days ago	9 093 215	7 932 576
Fallen due 31-60 days ago	1 285 956	3 305 475
Fallen due 61-90 days ago	1 167 139	2 915 149
Fallen due more than 90 days ago	10 107 218	26 865 867
Total	**75 685 458**	**100 656 779**

At 31 December 2012, the provisions were NOK 14 704 141.

The movements in the provisions for the impairment of accounts receivable are as follows:

	2012	2011
Unspecified loan loss provisions at 1 January	**20 107 413**	**12 957 938**
Additions du to branchification	-	-
Ascertained loss during the year for which provisions have previously been made	-32 658 452	-6 698 304
Increased unspecified loan loss provisions during the year	28 546 763	13 897 722
Write-back of specified loan loss provisions during the period	-788 077	-20 099
Currency translations	-503 505	-29 844
Unspecified loan loss provisions at 31 December	**14 704 141**	**20 107 413**

	2012	2011
Unspecified loan loss provisions at 1 January		
Unspecified loan loss provisions during the period	31 044 013	17 833 885
Unspecified loan loss provisions at 31 December	**31 044 013**	**17 833 885**

The amount recognized in the provisions account is written off when there is no expectation of recovering additional cash.
The maximum credit risk exposure on the reporting date is the fair value of the accounts receivable stated above.
The company has no charge granted as security.

Note 17 Other assets

	2012	2011
Intercompany accounts with Group companies	784 079	6 932 058
Other receivables	15 493 407	2 164 178
Total other receivables	**16 277 485**	**9 096 235**

Other receivables do not contain impaired assets.
The total intercompany account with Group companies included disbursements Folkia AS had for other Group companies, and other receivables due to the process into branch structure.

Note 18 Tax

The tax payable for the year is calculated as follows:	**2012**	**2011**
Tax payable on foreign revenue	-7 263 425	-4 556 146
Change in deferred tax asset	91 906	1 697 163
Reversal deferred tax asset 2010 due to foregn tax payable considered to be a final tax expense - no deduction can be claimed in the future	-	-2 289 070
Tax on the result on ordinary operations	**-7 171 520**	**-5 148 053**

Reconciliation from the nominal to the actual tax rate	**2012**	**2011**
Result for the year	4 681 373	-1 576 012
Estimated income tax according to the nominal tax rate	1 310 784	-441 283
The tax effect of the following items:		
Non-deductable expenses	-1 402 690	-1 255 879
Tax payable on foreign income	7 263 425	4 556 146
Reversal deferred tax asset 2010 due to foreign tax payable considered to be a final tax expense - no deduction can be claimed in the future	-	2 289 070
Tax	**7 171 520**	**5 148 053**
Effective tax rate	**153%**	**-327%**

Specification of the tax effect of temporary differences and carry-forward loss:	**2012**	**2011**
Tangible and intangible assets	4 345 402	5 514 049
Accrual bonus	113 714	-
Carry-forward loss	17 968 325	16 821 486
Adjustments for tax paid in branches	-	-
Total	**22 427 442**	**22 335 536**
Net deferred tax assets in the balance	**22 427 442**	**22 335 536**

The deferred tax assets are stated on the basis of future revenues.

Note 19 Other operating expenses

Specification of other operating expenses	**2012**	**2011**
Leasing of premesis	2 213 727	2 398 212
External provided services	9 076 405	10 533 484
Other costs	3 787 729	4 156 989
Total	**15 077 861**	**17 088 685**

The fees relate to financial and legal assistance in connection with acquisitions, audits, accounting etc.
The leasing of premises relates to the leasing of the office and parking facilities. Folkia AS has entered into a lease in Sweden. This lease expires on 30 September 2014. The annual rent is NOK 1 578 376.

Note 20 Liabilities

Specification of liabilities	2012	2011
Liabilities to credit institutions	17 263 461	29 539 626
Loans from Group companies	-	7 864 400
Approved, invoiced but not paid out loans	3 616 716	988 947
Accounts payable	10 751 020	7 193 231
Total	**31 631 197**	**45 586 204**

The credit facility is linked to an agreement with Svea Ekonomi both in Sweden and Finland. The loan has a fixed interest rate of 6.75 % (7.75% in 2011). The loan has no maturity date, security is provided in that an amount equal to 5% (10% in 2011) of the borrowed amount is in an escrow account and there is a charge on microloans for the remaining amount.

Note 21 Accrued expenses

Specification of accrued expenses	2012	2011
Govt. charges and special taxes	407 528	703 812
Salaries owed	2 698 328	2 877 987
Other accrued expenses	4 819 065	4 410 951
Total	**7 924 921**	**7 992 750**

Note 22 Events after balance sheet day

The Finnish Parliament has approved changes to the regulatory environment, directly addressing small unsecured credits on short term, which are expected to come into force during 2013, including certain annual percentage rate and fee limitations and enhanced requirements for consumer lenders.

Note 23 Contingent liabilities

On 30 August 2011 Folksam ömsesidig sakförsäkring and Folksam ömsesidig livföräkring (jointly "Folksam") filed a lawsuit against Folkia at the Stockholm District Court for trademark and company name infringement, claiming among other things that Folkia's use of FOLKIA, FOLKLÅN, FOLKGIRO and FOLKONOMI infringes on FOLKSAM's trademarks and company names. Folkia contested Folksam's lawsuit in its entirety in Folkia's Statement of Defence. On 26 October 2011 Folkia filed a counterclaim against Folksam. Folkia is of the view that Folkia had not infringed on any of Folksam's trademarks or company names and, consequently, that the legal basis for Folksam's claim was scarce.

Main hearing in the case in Stockholm District Court took place on 4-5 October 2012, and the Court judgement was rendered on 7 December 2012. The Stockholm District Court shared Folkia's view that the use of Folkia as trademark and company name had not infringed on Folksam's trademarks or company names. Furthermore, the Court declared two of Folksam's trade mark registrations for FOLKSAM as void for the services banking, credit institution, debit card services and credit card services. The judgement has been appealed by both parties to the Svea Court of Appeal.

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Translation from the original Norwegian version

To the Annual Shareholders' Meeting of Folkia AS

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Folkia AS, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company comprise the balance sheet as at 31 December 2012, and the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements of the group comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian accounting act and accounting standards and practices generally accepted in Norway for the company accounts and in accordance with International Financial Reporting Standards as adopted by EU for the group accounts, and for such internal control as The Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Opinion on the financial statements for the parent company

In our opinion, the financial statements of the parent company are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Folkia AS as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian accounting act and accounting standards and practices generally accepted in Norway.

Opinion on the financial statements for the group

In our opinion, the financial statements of the group are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the group Folkia AS as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 22 March 2013
Deloitte AS

Eivind Skaug
State Authorised Public Accountant (Norway)

[Translation has been made for information purposes only]