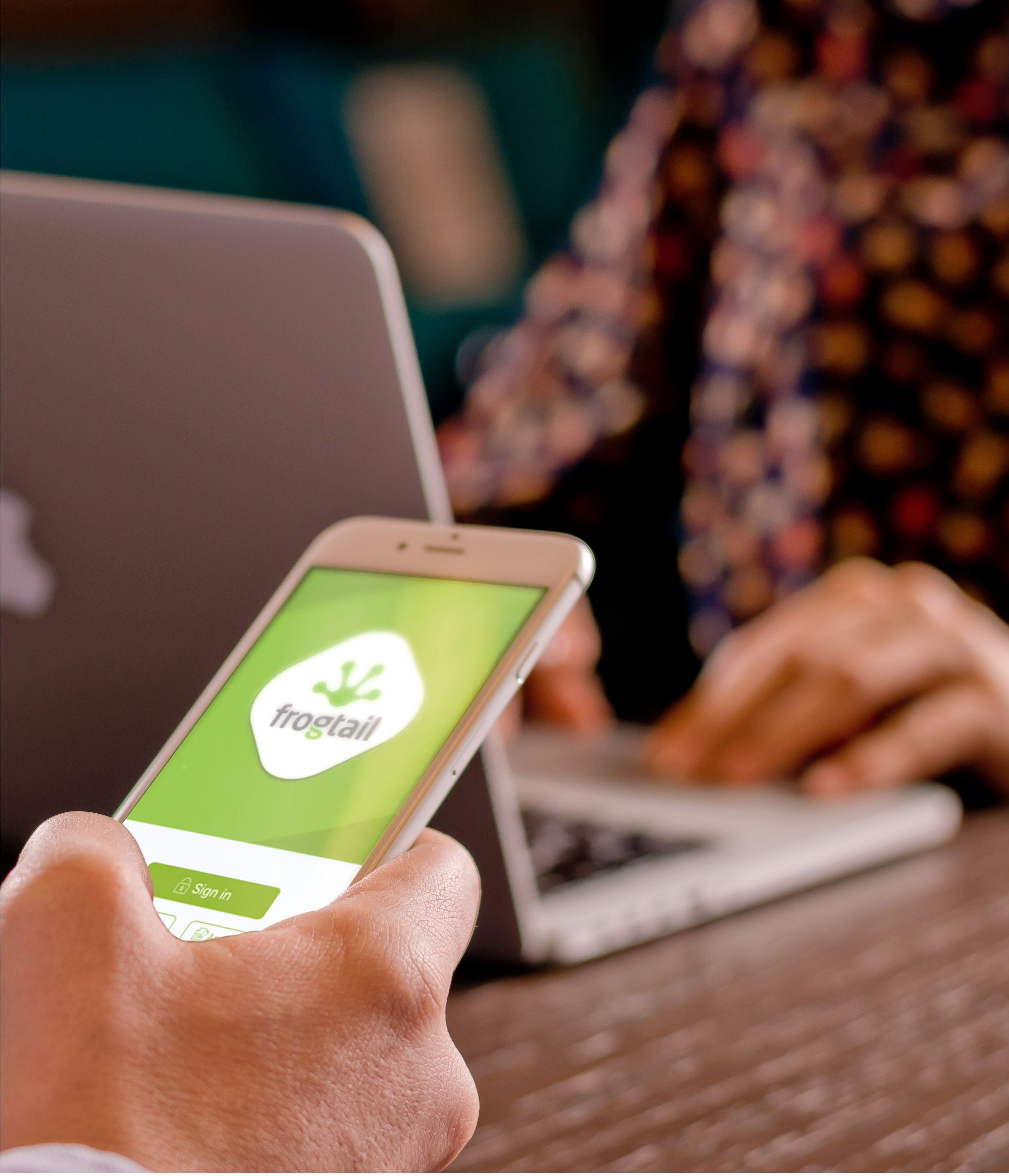

Folkefinans

Annual Report 2016

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REPORT OF THE BOARD OF DIRECTORS FOR 2016

GENERAL

Folkefinans AS prepares its financial statements in accordance with IFRS; see section 3-9 of the Norwegian Accounting Act. The company has consistently applied the accounting policies used in preparation of its opening IFRS statement of financial position at January 1, 2014 throughout the periods presented, as if these policies had always been in effect. The directors' report also covers the company's operations; see section 3-3a of the Accounting Act.

ABOUT THE COMPANY

Folkefinans is a licensed Norwegian 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 Companies Act Section 1-3 b) and c). Folkefinans AS's home state Supervisor is Finanstilsynet, Norway.

During 2016, Folkefinans has provided everyday financial services in the Nordic and Baltic regions. As at 31 December 2016, the company's group structure consisted of the parent company, Folkefinans AS, and its branches in Sweden, Finland and Estonia. Denmark has been operated via the Swedish branch.

Folkefinans' head office is in Kronprinsens Gate 1, NO-0251 Oslo.

REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Operating revenues

The company's operating revenues remained at a stable level amounting to 124 MNOK in 2016, compared to 126 MNOK in 2015.

Operating expenses

The company's operating expenses exclusive losses on loans came to 114 MNOK in 2016 including impairment of goodwill, compared to 111 MNOK in 2015. During 2016 Folkefinans has made organizational changes, invested in its business model and credit scoring system to scale and position the company for growth in the new brand FROGTAIL and to improve its offering to good customers in the existing micro loan market. Furthermore, several cost reduction activities have been implemented in late 2016 and early 2017, and the overall outlook for the company during 2017 with strong focus on a cost-efficient offering of micro loan and consumer finance in Norway and Sweden is good.

Research and Development activities

Folkefinans has continued the development of its in house IT-system 'FOSS'. Particular focus has been put on (i) upgraded scoring models, and (ii) updated technical platform for dynamic individual pricing and interest calculation functionality with the new brand FROGTAIL. Development work is recognized in the balance sheet when it is probable that the future economic benefits linked to the assets will accrue. Folkefinans has not conducted any research activities that would have any impact on the financial statement.

Goodwill impairment

The carrying amount of goodwill in the financial statements is assessed annually for any impairment in value. With due regard taken to the temporary discontinuation of the loan offering under the brand FOLKIA in Denmark, the company has decided to impair the goodwill values for Denmark in an amount of 9 MNOK. The remaining goodwill of 21 MNOK in the balance sheet is related to the historical acquisition of Folkia AB. In Folkefinans' business plan for 2017-2019 it is planned for strengthening of both the company's equity and debt financing in the beginning of 2018 in order to support future growth and improve profitability in the Norwegian and Swedish markets. This process will be carried out during 2017. Further impairment of goodwill is therefore not conducted in the year end 2016 accounts.

Credit losses

The company's losses on loans were positive with 0.4 MNOK in 2016 compared to 32 MNOK in 2015. During December bad debt portfolios of 76 MNOK in Sweden and Norway were sold giving cash proceeds of 53 MNOK and a positive P&L impact of 30 MNOK. The loan loss levels were further reduced in 2016 compared to 2015, mainly due to improved scoring coupled with new widened product range through the Frogtail brand attracting better quality customer segments.

BALANCE SHEET, FINANCING AND LIQUIDITY

Folkefinans' balance sheet total as at 31 December 2016 was 295 MNOK, compared to 301 MNOK in 2015.

The company is financed by (i) equity, (ii) a new credit facility of 40 MSEK with Pareto Bank, (iii) one loan of 28 MSEK entered into in 2014, (iv) one loan of 28 MSEK entered into in 2015; and (v) one sub ordinated convertible loan of 3.5 MEUR entered into in 2015. The sub ordinated convertible loan is partly included as Tier 2 capital in the 2016 Annual Report. The equity ratio was 52% in 2016 compared to 54% in 2015 (total equity/total balance).

Folkefinans' liquidity situation is on an adequate level for the business conducted 2016 and anticipated during 2017. As at 31 December 2016, the company had cash holdings of 77 MNOK. The company's cash flow was satisfactory throughout 2016. The board and management are monitoring both liquidity coverage ratio and net stable funding ration on a close and ongoing basis.

Further to Folkefinans' Visa Europe Principal Membership, Folkefinans' shares (919 Series C Preferred Stock) in Visa Inc. represents a value of 6.7 MNOK following the Visa Inc. acquisition of Visa Europe Limited during 2015 and 2016. A deferred cash payment of €1.12 billion, including interest, to all eligible Visa Europe Principal Members will be paid shortly after the third anniversary of the closing of the transaction in June 2016.

MARKET AND PRODUCTS

During 2016, the company's services primarily consisted of the provision of (i) unsecured loans, up to NOK 50.000 with maturity up to 36 months through the brands Frogtail, Monetti, Folkia and Kredit365; and (ii) Visa credit cards in Estonia, which has been temporarily discontinued together with discontinued sales in Denmark and Finland.

Sweden is still Folkefinans' biggest market. The main event in the Swedish market during 2016 was the further development and marketing of the new brand FROGTAIL, with increased loan amounts and longer tenors. Our customers have shown positive response to the marketing of the brand FROGTAIL and its dynamic product offering.

Folkefinans filed an application for a bank license with Finanstilsynet July 8th 2016. On January 31th 2017 Folkefinans received a negative reply on the application. Among other things, Finanstilsynet was of the opinion that it would be hard for Folkefinans to realize its business plan in the competitive Norwegian consumer loan market. However, the existing Credit- and Finance license is maintained. As a consequence of this decision Folkefinans will continue with the existing lending strategy both in Norway and Sweden. For 2017, Norway and Sweden will continue to be the two focus markets with maintained and increased market shares in the small loan sector and in the longer term to develop and maintain FROGTAIL as a sustainable, growing and profitable brand in the Nordic market.

INVESTMENTS AND FINANCE

During 2016 Folkefinans established a new credit line of 40 MSEK with Pareto Bank in addition to the already established loans of 28 + 28 MSEK. In June 2016 it was agreed to amend the currency of the two loans from NOK to SEK. Each of the loans that previously amounted to 27,630 TNOK now amount to 27,942 TSEK and shall be repaid over a two-year term, starting 18th December 2016. Further Folkefinans has one subordinated loan of 3.5 MEUR to be repaid in 2021. During 2017, the Board and Management will work to improve the operating liquidity status and funding of the company in order to facilitate further growth.

RISKS AND CAPITAL ADEQUACY

The company is exposed to various types of financial risks. In relation to the company's balance sheet as at 31 December 2016 these are: foreign exchange risks and credit risks linked to loans in local currencies in the company'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 company has implemented routines and policies to handle the various risks and these are described in further detail in the notes to the financial statements.

Folkefinans' capital adequacy ratio was 20.5 % as at 31 December 2016, compared to 18.8 % in 2015.

CORPORATE GOVERNANCE

The Board held 14 meetings in 2016. The key issues discussed were corporate governance and new financing and equity to support the growth strategy in Norway and Sweden.

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.

The Control Committee was discontinued during 2016 and an Audit & Risk committee was formed primarily to reviews the company's various risks and key sustainability indicators.

ORGANIZATION, EMPLOYEES, CULTURE, INTERNAL & EXTERNAL ENVIRONMENT

Folkefinans new CEO, Harald Dahl-Pedersen, took up his position 1 June 2016. Due to changes to Folkefinans' operations and strategy during Q1 2017 Harald Dahl-Pedersen has chosen to step down from his position as CEO February 28th 2017. The current CFO Mr. Jens Schau-Hansen has been appointed as interim CEO until a new CEO is recruited.

Folkefinans has always placed emphasis on giving women and men the same opportunities for professional and personal development, salary and promotion. Some 50 % of the personnel in Folkefinans are female, while one out of seven board members is female.

Folkefinans has clear policies, staff rules, code of conduct and whistle blowing hotlines to the HR and Compliance-departments, including (i) human rights issues, (ii) internal and external corruption, (iii) fraud and (iv) internal and external working environment. The Company has furthermore provided financial support to the organizations 'Unicef' and 'Save the Children' ("Rädda Barnen"), the world's leading independent organizations for children.

It stands to reason that Folkefinans' business is of a relatively small size and is also geographically limited. Thus, the company as employer and provider of – relatively speaking – small sized credits has no significant impact on human rights issues in a wider perspective. Nonetheless, human rights and employment rights are central for Folkefinans' management. On an ongoing basis, the HR Department and Heads of Department are doing benchmark analysis of statutory and market employment rights and benefits, to make sure that no less beneficial terms and conditions for the Folkefinans staff are included in the Code of Conduct, the Staff Rules and in all employment contracts throughout the company. Folkefinans is also putting strong focus on the physical and cultural well-being of its staff through various activities.

The total sickness absence was 447 days, which equals 3.6 % of the total hours worked. Of the total sickness absence 0 days are related to long term absence. No work-related injuries or accidents took place. Each Head of Department and the HR-Department are working closely with regular employee satisfaction surveys and ad hoc interviews regarding social climate and employee well-being.

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

MAIN TRENDS

During 2016, the board and management decided to maintain its focus on the Norwegian and Swedish markets.

The increased regulatory and political focus on small unsecured loans has continued to materialize during 2016 in the Nordic and Baltic consumer credit markets. Folkefinans has participated actively in the regulatory development and continued its preparation and adaptation to the new regulatory landscape.

Folkefinans General Counsel as Chairman of the Swedish Consumer Credit Association was appointed expert in the consumer credit governmental review (2015:04). The review was presented to the Swedish Government in October 2016 with, inter alia, a proposal for interest cap of 40% nominal interest and cost cap of 100% on so called ‘high cost credits’ with an annual percentage rate of 30+%. It remains to be seen what new regulations, if any, will be proposed by the Government based on the said report. Any entry into force of new regulations is not to be anticipated before summer 2018.

The main trend as we see it is that more regulations may come also in Norway based on recent proposals brought forward by various stakeholders in the Norwegian market. In that regard, Folkefinans is well prepared, already being a licensed company under supervision. Folkefinans has and will at all times work to apply the highest legal, regulatory and industry standards.

FUTURE PROSPECT & CONTINUANCE

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 2016.

The consumer lending and banking industry will continue to face radical changes in the years to come with increased regulatory focus, based on strengthened Authority control in the market space. Folkefinans is well positioned as licensed and compliant company already under supervision to take advantage of these trends.

After a year with maintained revenue level and clear focus on cost reduction with the aim of improving Folkefinans profitability, the main focus during 2017 will be to increase the sales through continued development of Folkefinans’ existing product offerings and strengthen the company’s equity and debt financing. We look forward to 2017 and following years with confidence.

*****

Oslo, 23rd of March, 2017
The Board of Folkefinans AS

Kalle Pykälä
Chairman of the Board

Mikko Marttinen
Director

Stig Herbern
Director

Raivo Aavisto
Director

Leif B. Bjørnstad
Director

Jan Nilsson
Director

Jens Schau-Hansen
Interim CEO

In NOK (all Financial Statements)

Statement of comprehensive income

	Note	2016	2015
Interest and similar income from loans to and receivables due from credit institutions		148 698	463 203
Interest and similar income on loans to and receivables due from customers		123 786 754	125 251 147
Other interest income and similar incomes		0	188 684
Total interest income and similar income		**123 935 452**	**125 903 034**
Interest expenses and similar expenses			
Interest and other expenses on debt to credit institutions	16	-8 900 268	-7 740 834
Total interest expenses and similar expenses		**-8 900 268**	**-7 740 834**
Net interest and credit commission income		**115 035 184**	**118 162 200**
Commission and similar expenses from banking services			
Commission and similar expenses from loans to and receivables from credit institutions	16	-2 005 782	-824 233
Total interest expenses and similar expenses		**-2 005 782**	**-824 233**
Net change in value and gain/loss on currencies and securities held as current assets			
Net gain/loss on foreign exchange and securities held as current assets	16	-2 996 730	500 173
Total net change in value and gain/loss on currencies and securities held as current assets		**-2 996 730**	**500 173**
Salaries and general administrative expenses			
Salaries	13, 14	-33 509 144	-36 138 926
Administrative expenses		-39 526 969	-38 164 538
Total salaries and general administrative expenses		**-73 036 113**	**-74 303 464**
Depreciation etc. of tangible fixed assets and intangible assets			
Ordinary depreciation	5,6	-4 958 099	-4 790 763
Total depreciation etc. of tangible fixed assets and intangible assets		**-4 958 099**	**-4 790 763**
Impairment on tangible and intangible assets			
Impairment on tangible and intangible assets	5,6	-9 818 094	-4 166 160
Total impairment on tangible and intangible assets		**-9 818 094**	**-4 166 160**
Other operating expenses			
Other operating expenses	15	-26 556 989	-27 582 010
Total other operating expenses excl losses on loans		**-26 556 989**	**-27 582 010**
Result before losses on loans		**-4 336 622**	**6 995 743**
Losses on loans, guarantees, etc.			
Losses on loans	8	391 625	-32 331 701
Total losses on loans, guarantees, etc.		**391 625**	**-32 331 701**
Result on ordinary operations before tax		**-3 944 997**	**-25 335 958**
Tax on result on ordinary operations	17	-714 408	2 118 070
RESULT FOR THE YEAR		**-4 659 406**	**-23 217 888**
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating foreign operations		-6 523 670	2 706 558
Available for sale investments	7a	1 660 596	29 905 415
TOTAL RESULT FOR THE YEAR		**-9 522 480**	**9 394 086**
TRANSFERS AND ALLOCATIONS			
Transferred to (from) other equity		-9 522 480	9 394 086
Total transfers and allocations		**-9 522 480**	**9 394 086**

Statement of financial position

	Note	2016-12-31	2015-12-31
ASSETS			
Loans to and receivables from credit institutions			
Loans to and receivables from credit institutions without an agreed term or cancellation period	7a, 7b, 9	77 409 819	4 359 853
Total net loans to and receivables from credit institutions		**77 409 819**	**4 359 853**
Total net loans to and receivables from customers	7a, 7b, 8	**133 197 829**	**151 765 158**
Financial assets			
Available for sale investments	7a	9 659 362	55 848 629
Total Financial Items		**9 659 362**	**55 848 629**
Intangible assets			
Goodwill	6	21 117 972	30 077 584
Deferred tax assets	17	31 364 511	28 927 542
Other intangible assets	6	15 393 130	19 183 440
Total intangible assets		**67 875 613**	**78 188 566**
Tangible assets			
Tangible assets	5	638 124	1 458 761
Total Tangible assets		**638 124**	**1 458 761**
Other assets			
Other assets		403 321	3 379 598
Prepaid and deposits	7a	6 077 775	6 303 221
Total other assets		**6 481 096**	**9 682 819**
TOTAL ASSETS		**295 261 842**	**301 303 786**

	Note	2016-12-31	2015-12-31
EQUITY AND LIABILITIES			
LIABILITIES			
Liabilities to credit institutions	7a, 12	29 673 896	31 615 584
Derivatives	7a, 12	3 068 146	2 910 084
Other liabilities	7a, 11, 18	12 683 188	9 340 835
Accrued expenses and deferred income	7a, 11, 13	14 027 829	9 628 775
Self-amortizing loans	7a, 12	51 795 718	54 115 841
Convertible subordinated loan	7a, 12	29 368 454	29 525 676
Total liabilities		**140 617 231**	**137 136 795**
EQUITY			
Equity contributed			
Share capital	10, 22	95 890 500	95 890 500
Share premium account	10	79 262 471	79 262 471
Other paid in equity		5 151 098	5 151 098
Total equity contributed		**180 304 069**	**180 304 069**
Retained earnings			
Retained earnings		-25 659 458	-16 136 978
Total retained earnings		**-25 659 458**	**-16 136 978**
Total equity		**154 644 611**	**164 167 091**
TOTAL EQUITY AND LIABILITIES		**295 261 842**	**301 303 886**

Oslo, 23rd of March 2017
Board of Folkefinans AS

Kalle Pykälä
(Chairman of the Board)

Mikko Marttinen

Raivo Aavisto

Leif Bjørnstad

Stig Herbern

Jan Nilsson

Jens Schau-Hansen
(Interim CEO)

Statement of changes in equity

	Note	Share capital	Share premium	Retained earnings	Mandatory convertible loan	Equity part of Convertible loan	Total equity
Equity at 1 January 2015		**86 220 000**	**73 999 898**	**-25 347 918**	**16 437 228**	**2 575 549**	**153 884 755**
Currency translation difference				1 019 258			1 019 258
Mandatory convertible loan		9 670 500	5 262 573	1 504 155	-16 437 228		0
Convertible loan issued 13 March	12					2 575 549	2 575 549
Result for the year				-23 217 888			-23 217 888
Available for sale investments				29 905 415			29 905 415
Equity at 31 December 2015	10	**95 890 500**	**79 262 471**	**-16 136 978**	**0**	**5 151 098**	**164 167 091**
Registered share capital		96 705 080					
-own shares		814 580					
Equity at 1 January 2016		**95 890 500**	**79 262 471**	**-16 136 978**	**0**	**5 151 098**	**164 167 091**
Currency translation difference				-6 523 670			-6 523 670
Result for the year				-4 659 406			-4 659 406
Available for sale investments				1 660 596			1 660 596
Equity at 31 December 2016	10	**95 890 500**	**79 262 471**	**-25 659 456**	**0**	**5 151 098**	**154 644 611**
Registered share capital		96 705 080					
-own shares		814 580					

In June 2015 Folkefinans entered into one sub ordinated convertible loan of 3.5 MEUR. The sub ordinated convertible loan is partly included as Tier 2 capital.

Statement of cash flows

	Note	2016	2015
Cash flow from operations			
Result before tax		-3 310 448	-25 335 958
Depreciation and impairment of tangible assets	5	1 091 902	595 132
Amortization of intangible assets	6	4 261 064	4 243 805
Impairment of intangible assets	6	9 245 255	4 117 986
Adjustment for other entries affecting cash flow		2 034 512	-182 079
Net financial expenses/ income	16	10 522 139	8 404 868
Income tax paid		-2 083 297	-2 149 755
Changes in loans to customers		18 567 329	-37 234 502
Changes in other receivables		2 976 277	11 254 798
Change in other payables		5 327 403	4 348 063
Net cash flow from operations		**48 632 137**	**-31 937 642**
Cash flow from investing activities			
Investments in financial assets	7a	0	-25 943 214
Disposal of financial assets	7a	35 453 805	0
Investments in tangible fixed assets	5	-343 546	-1 342 094
Investments in intangible assets	6	-2 020 438	-3 730 436
Net cash flow used for investing activities		**33 089 821**	**-31 015 744**
Cash flow from financing activities			
Interests paid		-6 501 867	-4 143 820
New long term loans	Equity, 12	0	60 065 750
Change in credit facility	12	-1 941 688	4 427 806
Net cash flow used for financing activities		**-8 443 555**	**60 349 736**
Effects of exchange rate changes on the balance of cash held in foreign currencies		**-228 438**	**429 078**
Change in cash, cash equivalents		**73 049 966**	**-2 854 594**
Cash, cash equivalents as of 1 January	9	4 359 853	7 214 447
Cash, cash equivalents as of 31 December	**9**	**77 409 819**	**4 359 853**

Notes to the financial statements

1 General information

Folkia AS changed the company's name to Folkefinans AS in May 2015. Folkefinans AS and its branches offer simple, everyday financial services at fixed prices and on conditions which are clear to customers. The company's services primarily consist of the provision of loans – small unsecured loans with a short term to maturity for temporary needs including more flexible larger loans (up to NOK 50.000) with longer maturity (up to 36 months). Visa card was offered in the Estonian market during Q1 2016.

Folkefinans 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. Folkefinans AS's home state Supervisor is Finanstilsynet, Norway.

Folkefinans acquired Folkia AB in December 2007, in January 2009 Folkefinans acquired Monetti Oy and DFK Holding ApS with former subsidiaries Monetti AS and Dansk Finansieringskompagni ApS, all of which had 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 2015, the company consisted of the parent company, Folkefinans AS, and its branches in Sweden, Finland and Estonia. Denmark is operating via the Swedish branch.

The company's head office is at Kronprinsensgate 1, 0251 Oslo. Folkefinans has branch offices in Stockholm and in Tallinn.

The financial statements were approved by the company's board on March 23rd, 2017.

2 Summary of significant accounting policies

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

2.1 Basis for preparation

Folkefinans AS's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as approved by the EU. The financial statements have been prepared under the historical cost convention, as modified available-for-sale financial assets.

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 judgements 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.

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

New standards, amendments and interpretations not yet adopted

There are no new or amended standards or interpretations of significant importance adopted in 2016.

A number of new standards, amendments to standards and interpretations are mandatory for future financial statements. Among those the group has chosen not to early adopt, the most significant ones disclosed below.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The standard is effective for financial year 2018, but early adoption is permitted. The company plans to apply the standard when it comes into force.

IFRS 9 establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. Category is decided at initial recognition of the asset. Financial assets are classified into debt instruments and equity instruments. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

Financial assets that are debt instruments

Debt instruments with contractual cash flows that are only payments of interest and principal on specified dates and held in a business model with the purpose to receive contractual cash flows will initially be measured at amortized cost. Instruments with contractual cash flows that are only payments of interest and principal on specified dates and held in a business model aiming both to receive contractual cash flows and sales, will initially be measured at fair value with changes in other comprehensive income, with interest income, currency translation effects and any impairments presented through profit and loss.

Instruments that initially are measured at amortized cost or at fair value with changes in other comprehensive income may measure at fair value through profit or loss if this eliminates or significantly reduces an accounting mismatch.

Derivatives and investments in equity instruments

All derivatives are measured at fair value with changes through profit and loss, but derivatives that are designated as hedging instruments should be accounted for in accordance with the principles of hedge accounting. Investments in equity instruments are required to be measured at fair value through profit or loss. Changes in value should normally be presented through profit and loss, but an equity instrument which is not available for sale may be measured at fair value through other comprehensive income. When equity instruments are measured at fair value with changes recognized in comprehensive income, ordinary dividends should be through profit and loss, while changes in value is not going to effect the profit and loss, neither continuously nor on disposal.

Financial liabilities

For financial liabilities the standard is essentially the same as in IAS 39. As a main rule, financial liabilities are still measured at amortized cost except for derivative financial instruments which are measured at fair value, financial instruments as part of a trading portfolio and financial liabilities recognized at fair value with changes in value through profit or loss. A change from IAS 39 is that financial liabilities recognized at fair value through profit or loss, changes in value resulting from the company's own credit risk is recognized in other comprehensive income unless this creates or strengthens an accounting mismatch, and not through profit or loss as today.

The company's current assessment is that the new standard does not significantly affect the company’s measurement of financial assets and liabilities.

Loan losses loans and guarantees

According to current regulations, credit loss only take place when there is objective evidence that a loss event has occurred after the initial recognition. According to IFRS 9 loss provisions are recognized based on expected credit losses (ECL). The general model for impairment of financial assets in IFRS 9 will apply to financial assets measured at amortized cost or at fair value with changes in other comprehensive income and did not have occurred losses at initial recognition. In addition, also loan commitments, financial guarantee contracts that are not measured at fair value through profit and lease receivables included.The measurement of the provision for expected loss in the general model depends on whether credit risk has increased significantly since initial recognition. Upon initial recognition, and when the credit risk has not increased significantly after initial recognition, a provision shall be made for the 12-month expected loss. 12-month expected loss is the loss that is expected to occur over the lifetime of the instrument, but can be linked to events occurring during the first 12 months. If the credit risk has increased significantly after the initial recognition, a provision shall be made for expected losses over the entire lifetime.The company is yet to assess if such loans to customers will represent a significant increase in credit risk or the quantitative effect of the transition to the new standard.The company has not yet decided on which transitional rules to use, but the comparative figures for 2017 will not be restated.

IFRS 15 Revenue from contracts with customers

This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 ‘Revenue’ and IAS 11 ‘Construction contracts’ and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The standard will not affect the company's financial statements significantly.

IFRS 16 Leases

IFRS 16 will primarily affect the tenant's accounting and will cause almost all leases to be capitalized. The standard removes the current distinction between operating and finance lease and requires the recognition of a right of use asset (the right to use the leased asset) and a financial liability as the present value of the lease payments for the right of use asset. Exceptions to this solution exists for short-term leases and leases with low value.

The income statement will be affected also because the total cost is usually higher in the first years of a lease and lower in later years. In addition, operating costs will be replaced with interest and depreciation.

Lessor accounting will not change significantly. Some differences may occur as a result of new guidance on the definition of a lease. Under IFRS 16 is, or contains a contract, a lease if the arrangement conveys a right to control the use of an identified asset for a period in exchange for consideration.

The standard is effective for fiscal years beginning 1 January 2019.

The company's preliminary assessment is that the new standard will affect the accounting of the company's tenancy agreements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company.

2.2 Segment reporting

The Company is not subject to any requirement of separate segment reporting as there is only one segment present, i.e. financial services to the consumer market

2.3 Translation of foreign currencies

(a) *Functional currency and presentation currency*

The financial statements of the branches in the company are prepared using the currency which is mainly used in the economic environment in which the entity operates (functional currency). The financial statements are presented in Norwegian kroner (NOK), which is both the functional currency and presentation currency of the 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) *Branches*

The statement of comprehensive income and statement of financial position for the branches (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.

2.4 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: 3-5years

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.

2.5 Intangible assets

(a) *Goodwill*

Goodwill is the difference between the original cost of the purchase of a company and the fair value of the Company'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) *Software and licenses*

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 Company 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).

2.6 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.

2.7 Financial assets

2.7.1 Classification

The company classifies financial assets in the following categories:
• Available for sale
• Loans and receivables – applies to loans, deposits, cash and cash equivalents, loans to and receivables from credit institutions and loans to and receivables from customers.
The classification depends on the purpose of acquiring the asset. The management classifies financial assets when they are acquired.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or defined payments that are not traded in an active market. Loans and receivables are classified as loans, "loans to and receivables from credit institutions" and "loans to and receivables from customers" in the statement of financial position.

2.7.2 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 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 interest income and similar income.
On each statement of financial position date, the company 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 loans to and receivables from customers is described in a separate note.

2.8 Loans to and receivables from customers and credit institutions

Upon initial recognition in the statement of financial position, short-term loans are measured at their fair value. When measured subsequently, loans 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. Folkefinans 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.

2.9 Loans to and receivables from credit institutions

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 to and receivables from credit institutions.

2.10 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.

2.11 Other liabilities

Other liabilities are measured at their fair value when initially recognised in the statement of financial position. When subsequently measured, other liabilities are valued at amortised cost.

2.12 Liabilities

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

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.

Convertible loans issued with an obligation for the lender to convert the loan into new shares are recognised as "Mandatory convertible loans" in shareholders' equity.

Convertible loans issued in another currency than the functional currency has not a fixed amount that can be converted into a fixed number of shares. The fair value of the debt 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 as a derivative.

2.13 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 Company's subsidiaries or associates operate and generate taxable income applies to the calculation of the taxable income. Management evaluates the Company'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 Company controls the reversal of the temporary differences and it is probable that they will not be reversed in the foreseeable future.

2.14 Pension commitments, bonus schemes and other employee compensation schemes

(a) *Pension commitments*

The Company has no pension schemes in the form of defined benefit plans. There are formal contribution plans in Norway and Sweden, as part of a limited number 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 Company has no commitment linked to former employees.

(c) *Share-based remuneration*

The Company has not formalised any scheme involving share-based remuneration.

(d) *Severance pay*

None of the Company branches has separate severance pay schemes.

(e) *Profit sharing and bonus plans*

The Company has no pre-agreed profit-sharing schemes. Management has limited bonus plans approved and monitored by the Board of Directors according to Company remuneration policy.

2.15 Provisions and credit losses

The Company makes regular provisions for estimated losses on loans. Folkefinans mainly use historical data and the knowledge we possess 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.

2.16 Revenue recognition

(a) *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.

(b) *Fee revenue*

Fee revenues are 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.

2.17 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 Company on the whole has all the risk and return linked to the ownership are classified as finance leases. The Company has no such leases.

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

2.18 Cash and cash equivalents

Cash and cash equivalents in cash-flow statement consists of loans to and receivables from credit institutions.

3 Financial risk management

Risk Management ensures compliance with internal and external Risk Management regulations, such as Basel II and Basel III, and strong emphasis is placed on reporting risk to the relevant stakeholders in clear and meaningful manner. The Folkefinans AS' (Folkefinans) Risk Management function is responsible for managing risks in accordance to policies and instructions governed by the Board of Directors (Board) in line with the stipulated regulations by the Governmental Authorities. The Board is responsible for evaluating its work and its expertise related to risk management and internal control at least once per year. The General Manager should give the Board relevant and timely information that is of importance to Folkefinans risk management and internal control, including information on new risks.

Risk shall be estimated and compared to expected revenues to the extent it is economically justifiable. After the Company's 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 shall be individually assessed. The risk assessment must be documented and always result in a quantitative 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 consequence should be simulated and documented. The results of the simulations should be reviewed against Folkefinans capital base. The unforeseen events may be based on historical experiences 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

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

• Credit Risk – Counterparty risk related to loan receivables and investments of excess liquidity. The method that is embraced in order to calculate the capital requirement with regards to the Credit Risk is according to the Standardized Approach. The Standardized Approach must be used unless Norwegian Financial Supervisory Authority (NFSA) has granted permission to use alternative approach e.g. Advanced Approach. Such method is used when calculating risk-weighted exposures for credit risk in non-trading activities.

• Operational Risk – Legal and Compliance Risks, Systemic Risks and human errors are included in this risk. The method used to calculate the Operational Risk is according to the Basic Indicator Approach.

• Market Risk – Interest rate risk, equity risk and foreign exchange risks not included in the trading book is included in the Market Risk. In order to calculate the Market Risk a Standard Method for Non-Trading Activities is used.

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

- Market risk
- Interest Rate Risk
- Credit Risk
- Reputational Risk
- Strategic Risk
- Political and Regulatory Risk
- Liquidity Risk
- Remuneration Model Risk (Governance Risk)
- Financing Risk
- Asset Liability Management (ALM) Risk

3.1 Pillar I risks

3.1.1 Market risk

(I) Foreign exchange rate

Market Risk represents in general the risk to earnings and capital rising from adverse movements in the prices of risky assets held for trading, such as bonds, securities, commodities, and similar financial instruments. Since the Company does not actively trade in risky assets, this concept does not apply for its operations. In addition to this, Market Risk also arises in conjunction with adverse movement in Foreign Exchange Rate, i.e. FX Risk. Folkefinans is exposed to FX Risk to the extent that (i) assets and liabilities of the Company are obtained in different currencies, (ii) the base currency utilized 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 expense arise in different currencies.

The Company's loan facilities are currently denominated in SEK, EUR, and DKK and the Company's accounts are denominated in NOK, resulting in net long NOK to SEK, NOK to EUR, and NOK to DKK 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, EUR, and DKK.

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

By 31st of December 2016, Folkefinans has a non-hedged foreign exchange exposure of NOK 81.5 m.

Sensitivity analysis

Assessment of the impact of currency fluctuations NOK 1000 as per 31 December 2016

	Change	Result 2016	Result 2015
NOK/SEK	+/- 5%	+/-0,923	+/-2,906
NOK/EUR	+/- 5%	+/-0,899	+/-1,083

(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.

Folkefinans has fixed interest rate on all external loans, so no risk of fluctuation in interest rates.

3.1.2 Credit risk

Credit Risk is the risk of earning 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 Folkefinans statement of financial position relates mostly to Folkefinans lending to general public. In addition, Folkefinans is exposed to Credit Risk in the form of counterparty risk relating to Folkefinans cash deposits with banks and other parties related to outstanding deposits.

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

These receivables are generated by on-going daily lending transactions to the general public. The loan term for these loans is on average 90-180 days. Since these loans are to be repaid relatively rapidly the actual amount outstanding loans are thus limited.

Folkefinans has maximum lending limits for its loan facilities. Folkefinans has developed its own sophisticated scoring model to determine the credit rating of private customers. Folkefinans continuously monitors the Credit Risk by weekly payback rates on the type of customer, product and market.

For the FY 2016 the retail exposure is risk weighted by 100%.

(II) Counterparty Risk from Deposits at Banks

The excess liquidity generated from the business is placed in accounts within banks with high ratings. The risk consists of the banks not having the repayment capacity with regards to the funds that has been place within the designated accounts. The account has been assigned within banks that are rated by external international rating agencies such as S&P and Moody's.

Credit risk exposure

Folkefinans Credit risk exposure NOK 1000 as per 31 December 2016:

Counterpart	**Exposure 2016**	**Exposure 2015**
General Public	133,198	151,765
Covered bonds	2,967	25,943
Cash Deposit	77,278	4,908
Other commitments	13,409	38,698
Total	**226,852**	**221,314**

Region	**Exposure 2016**	**Exposure 2015**
Sweden	160,943	123,186
Norway	61,352	80,873
Finland	0,08	1,867
Estonia	4,477	14,077
Denmark	0	1,311
Total	**226,852**	**221,314**

3.1.3 Operational risk

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

Operational Risk can be found within all Folkefinans operating units. The main Operational Risks are as per following:

(i) One or several premises of the Company are burned down caused by fire

(ii) The IT systems administrating and managing the lending process is impaired by a technical break down or power outage and temporary is out of function

(iii) External and internal fraud

(iv) Legal and Compliance risk

(v) 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. Folkefinans manages Operational Risks by continuously improving its internal routines and day-to-day control procedures.

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 Company is connected primarily to the Company's funding from the external financing providers and the risk that the Provider(s) eliminates further financing with short notice. Folkefinans has several liquidity sources, loans, equity and a credit facility. In addition Folkefinans has short term loans that secure a share of payback on loans on short time.

In order to monitor its liquidity position and mitigate liquidity risk the Company 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 Company deposits its excess liquidity in the bank at a floating interest rate with periodic adjustments. The Company has short term lending connected to its loan facility portfolio 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 Folkefinans.

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

Folkefinans 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.

In order to proactively promote sustainability and ethical business behavior within the consumer credit market, Folkefinans together with other companies within the sector in Sweden have established an association called “Swedish Consumer Credit Association”. Folkefinans General Counsel serves as the Chairman in the association. In addition, through this association Folkefinans will actively work to strengthen its relationship with the Governmental Authorities in the country.

3.2.3 Strategic risk

Strategic Risk refers to Board and Management’s ability to plan, organize, and in general control the Company 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 Folkefinans, Strategic Risk arises in the following cases:

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

• New Market or Product – The Company 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, Folkefinans is exposed to the possibility of failing to enter the specified market and/or unsuccessfully launching a product. In both instances, Folkefinans would have incurred the expenses related to such actions without generating the additional revenue the Company 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, Folkefinans 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), Folkefinans extensively assesses the probability of success prior to launch in order to minimize the risk of failure. Consequently, the Company is prepared to minimize a potential failure.

3.2.4 Political and Regulatory Risk

Political and Regulatory Risk refers to regulation changes and modifications, which will negatively affect the Company.

The Company is clearly exposed to regulatory and legislation changes and the way it might affect the construction of the Company’s operations and its products. The risk has increased considerably during the recent year as regulation regarding the industry has been discussed and introduced in several markets.

Folkefinans manages this risk by continuously being updated on upcoming legislation, changes in regulations, and political discussions. Additionally, the Company's geographical multi country presence also mitigates this risk. Folkefinans follows the development regarding recent proposals for interest cap that might come to the Swedish market during 2018.

3.2.5 Remunerations Model Risk (Governance Risk)

Folkefinans is subject to the rules stipulated in the regulation of 1 December 2010 no. 1507 concerning remuneration in financial institutions, investment firms and management companies of investment funds (the "Regulation"). This means that every bonus scheme, as well as the stipulation and implementation of such, must be in compliance with the rules in the Regulation and NFSA circular 15/2014. According to the applicable rules, a credit institution shall have a remuneration policy which (i) is consistent with and promotes efficient handling of risks and (ii) does not encourage any excessive risk taking.

The remuneration policy has a maximum level of variable remuneration, which is 15 percent of the total remuneration. This means that the variable remuneration is capped and highest possible total variable remunerations are foreseeable.

3.2.6 Financing Risk

The Financing Risk relates to deficiency or inability to raise additional financing in order to carry the daily operations. Currently Folkefinans is financed through two self-amortizing loans, one subordinated loan and a credit facility from Pareto bank. To secure financing of Folkefinans' business plan for the coming years it is planned for strengthening of both the company's equity and debt financing in order to support future growth and improve profitability in the Norwegian and Swedish markets. This process will be carried out during 2017.

However, if the processes do not finalize Folkefinans will carry out with the running business and will reduce the growth that has been forecasted. Folkefinans is confident that current available financing is sufficient to run the current business. Moreover, Folkefinans is continuously establishing new relationships and is assertive that there are other financing providers that are interesting in providing financing facilities.

3.2.7 Asset Liability Management Risk (ALM Risk)

The goal of asset/liability management (ALM) is to properly manage the risk related to changes in interest rates, the mix of balance sheet assets and liabilities and the holding of foreign currencies. The risks are managed in a manner that contributes adequacy to earnings and limits risk to the financial margin and member equity.

The management of asset/liability risk is facilitated through board approved policies, which sets limits on assets and liability mix, as well as the level of interest rate risk and foreign currency risk to which Folkefinans is willing to expose itself. Policy also set out guidelines for the pricing, term and maturity of loans.

Folkefinans is mitigating the interest rate risk by ensuring that management is properly measuring risk on regular basis. Moreover, Folkefinans is working on implementing hedging strategies in order to mitigate the risk related to interest rate fluctuations and fluctuations in foreign exchange rates.

3.3 Capital adequacy

To meet the requirements from the Norwegian Financial Supervisory Authority, Folkefinans capitalization is risk-based, founded on an assessment of all risks inherent in the operations and forward looking, 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 requirement is calculated by adding the capital requirement for Pillar I and the capital requirements resulting from Pillar II risks, where Pillar II risks are calculated based on expected potential loss levels from these risks. Folkefinans considers its current business to be relatively uncomplicated. This is due to the fact that Folkefinans main business is the management of relatively small loan facilities; Folkefinans does not engage in any proprietary trading and Folkefinans does not raise deposits from the public.

The current capital base as per 31 December 2016 includes NOK 149.5 million of Tier 1 Capital and NOK 8,1 Tier 2 Capital. The capital adequacy ratio is 20,5%.

4 Critical accounting estimates and judgments

In the application of the company's accounting policies management is required to make judgments, 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 company 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 company. 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 loans

The company makes regular provisions for estimated losses on loans. Folkefinans mainly use historical data and the knowledge we possess 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 etc.

Deferred tax assets

The company 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
2015 financial year	
Carrying amount 01.01.15	**713 746**
Additions	1 342 094
Translation differences	-1 947
Impairment during the year	-48 173
Depreciation during the year	-546 959
Carrying amount 31.12.15	**1 458 761**
As at 31 December 2015	
Original cost	7 333 907
Accumulated impairment	-51 830
Accumulated depreciation	-5 823 318
Carrying amount 31.12.15	**1 458 761**

2016 financial year	
Carrying amount 01.01.16	**1 458 761**
Additions	343 546
Translation differences	-72 279
Disposals	-817 216
Impairment during the year	-571 968
Depreciation during the year	-526 408
Disposals depreciation and impairment	823 690
Carrying amount 31.12.16	**638 124**
As at 31 December 2016	
Original cost	5 575 315
Accumulated impairment	-
Accumulated depreciation	-4 937 191
Carrying amount 31.12.16	**638 124**

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

6 Intangible assets

	Goodwill	Software (incl. scoring model and licenses)	Customer relationships	Trademarks	Total
2015 financial year					
Carrying amount 01.01.15	30 077 584	17 425 212	0	5 464 067	52 966 862
Additions		3 730 436			3 730 436
Translation differences		925 517			925 517
Impairment during the year		-39 920		-4 078 067	-4 117 986
Amortization during the year		-4 243 805			-4 243 805
Carrying amount 31.12.15	**30 077 584**	**17 797 440**	**0**	**1 386 000**	**49 261 024**
As of 31 December 2015					
Original cost	45 889 905	46 340 975	13 332 762	10 134 617	115 698 259
Accumulated impairment	-15 812 321	-595 940		-8 748 617	-25 156 878
Accumulated amortization		-27 947 594	-13 332 762		-41 280 356
Carrying amount 31.12.15	**30 077 584**	**17 797 440**	**0**	**1 386 000**	**49 261 024**
2016 financial year					
Carrying amount 01.01.16	30 077 584	17 797 440	0	1 386 000	49 261 024
Additions		1 681 750			1 681 750
Disposals		-6 506 796			-6 506 796
Translation differences		-1 264 041			-1 264 041
Impairment during the year	-8 959 612	-285 644			-9 245 256
Amortization during the year		-4 431 691			-4 431 691
Disposals depreciation		7 016 110			7 016 110
Carrying amount 31.12.16	**21 117 972**	**14 007 130**	**0**	**1 386 000**	**36 511 102**
As of 31 December 2016					
Original cost	45 889 905	38 311 774	13 332 762	10 134 617	107 669 058
Accumulated impairment	-24 771 933	-276 596		-8 748 617	-33 797 145
Accumulated amortization		-24 028 048	-13 332 762		-37 360 810
Carrying amount 31.12.16	**21 117 972**	**14 007 130**	**0**	**1 386 000**	**36 511 102**
Amortisation rate	**0%**	**20%**	**20%**	**0%**	

Impairment tests for goodwill

Goodwill is allocated to the company's cash-flow generating units that are identified as the operations of the Folkefinans Swedish Branch, Swedish Branch Danish Cash Generating Unit, Folkefinans AS Norway Finnish Branch, Folkefinans AS Norway Estonian Branch and Folkefinans AS Norway. As sales are temporary discontinued in Finland, Estonia and Denmark the impairment test has been conducted for the Swedish and Norwegian entities. The 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 budget and forecasts approved by management for a five-year period. Discount rates after tax of 10,0 % for Folkefinans Swedish Branch and 9,8% Folkefinans AS Norway have been used.

Cash flows in excess of the five-year period are extrapolated using a conservative growth rate of 2 %. Due to the temporary discontinuation of the loan offering in Denmark, the company has decided to impair the goodwill values for Denmark in an amount of 9 MNOK. The remaining goodwill of 21 MNOK is related to the acquisition of Folkia AB. It is planned to strengthen both the company's equity and debt financing in order to support future growth and improve profitability in the Norwegian and Swedish markets. The valuation shows that the business plan requires new funding in order to defend the remaining goodwill values. Under the assumptions of obtaining new funding, the valuation shows that there is no indication of further impairment for the group as a whole.

7a Financial instruments by category

As of 31 December 2016	Lending and receivables	Available for sale	Total
Assets			
Loans and other receivables, excl. advance payments and deposits (short-term)	133 197 829		133 197 829
Financial assets available for sale		9 659 362	9 659 362
Prepaid and deposits	6 077 775		6 077 775
Loans to and receivables from credit institutions	77 409 819		77 409 819
Total	**216 685 423**	**9 659 362**	**226 344 785**

As of 31 December 2016	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Total
Liabilities			
Loans (credit facility)		29 673 896	29 673 896
Derivatives	3 068 146		3 068 146
Self-amortizing loans		51 795 718	51 795 718
Convertible subordinated loan		29 368 454	29 368 454
Accounts payable and other liabilities, excl. mandatory liabilities		26 711 017	26 711 017
Total	**3 068 146**	**137 549 085**	**140 617 231**

During 2016 the board and management decided to discontinue the sale of new loans and credit cards in Estonia and new loans in Denmark, mainly due to a seemingly over-indebted small loan population and low profit generation.
In November 2015, Visa Inc. announced the agreement to acquire all shares in Visa Europe Ltd. Folkefinans has ownership interests in Visa Europe through its membership in Visa Norway. As a result of the agreement, the estimated value of the investment increased by 29 905 TNOK which was recognized in other comprehensive income. The closing of the acquisition took place at the end of Q2 and gave an additional extraordinary income of 1 639 TNOK in Q2. Shares in Visa Europe are classified as available for sale investments.

Folkefinans has invested 2 967 TNOK in a covered bond fund, DnB Global Treasury, which is traded in an active market and fair value is based on quoted market prices at the end of the reporting period. The investment in DnB Global Treasury is classified as available for sale investments.

The fair value of derivatives is equal to its carrying value. The fair value is within level 3 of the fair value hierarchy. The value of the underlying call option is calculated by using the Black-Scholes model where the variables current underlying price, option strike price, time until expiration, implied volatility and risk-free interest rate are taken into consideration.

As of 31 December 2015	Lending and receivables	Available for sale	Total
Assets			
Loans and other receivables, excl. advance payments and deposits (short-term)	151 765 158		151 765 158
Financial assets available for sale		55 848 629	55 848 629
Prepaid and deposits	6 303 221		6 303 221
Loans to and receivables from credit institutions	4 359 853		4 359 853
Total	**162 428 232**	**55 848 629**	**218 276 860**

As of 31 December 2015	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Total
Liabilities			
Loans (credit facility)		31 615 584	31 615 584
Derivatives	2 910 084		2 910 084
Self-amortizing loans		54 115 841	54 115 841
Convertible subordinated loan		29 525 676	29 525 676
Accounts payable and other liabilities, excl. mandatory liabilities		18 969 610	18 969 610
Total	**2 910 084**	**134 226 711**	**137 136 795**

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.

	2016	2015
Accounts receivable		
Loans and other receivable	133 197 829	151 765 158
Total accounts receivable	**133 197 829**	**151 765 158**

The company has maximum lending limits for loans and standard credit rating requirements and has developed its own scoring model to determine the credit rating of private customers.

Bank deposits		
AA-	3 648 097	501 049
A+	73 698 149	2 550 994
A -	0	1 307 810
A	41 862	0
Undefined/no rating available	21 711	0
Total bank deposits	**77 409 819**	**4 359 853**

8 Loans and other receivables

	2016	2015
Loans	181 028 582	237 319 703
Impairment due to probable losses on loans	-47 830 753	-85 554 545
Net loans	**133 197 829**	**151 765 158**

Current assets

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

	2016	2015
Not fallen due	110 640 837	114 549 753
1 – 30 days after the due date	15 456 572	17 051 218
31 - 60 days after the due date	8 540 230	9 360 036
61 - 90 days after the due date	5 757 147	6 490 617
> 91 days after the due date	40 633 796	89 868 079
Total loans	**181 028 582**	**237 319 703**

Recognised value of the Company's loans before impairment allowance, per geographical market in NOK as of 31 December 2016:

	Sweden	Norway	Denmark	Estonia	Finland	Total
Not fallen due	96 352 053	14 126 724	0	162 060	0	110 640 837
1 – 30 days after the due date	10 982 245	4 407 881	0	66 446	0	15 456 572
31 - 60 days after the due date	6 461 728	1 998 252	0	80 250	0	8 540 230
61 - 90 days after the due date	4 439 859	1 234 684	0	82 603	0	5 757 147
> 91 days after the due date	25 072 656	4 312 841	6 196 998	5 051 301	0	40 633 796
Total loans	**143 308 541**	**26 080 382**	**6 196 998**	**5 442 661**	**0**	**181 028 582**

Recognised value of the Company's loans net of impairment allowance, per currency in NOK:

	2016	2015
SEK	143 308 541	107 622 285
NOK	26 080 382	26 528 198
EUR	5 442 661	44 628 353
DKK	6 196 998	8 602 991
Net loans	**181 028 582**	**187 381 827**

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

	2016	2015
As at 1 January	**85 554 544**	**72 851 171**
Provision during the year	30 233 977	25 701 335
Net receivables that have been written off as losses during the year	2 754 759	-17 736 330
Reversed provision due to portfolio sales	-62 824 429	0
Reversal of unused amounts	-2 465 994	0
Currency translations	-5 422 105	4 738 368
As at 31 December	**47 830 753**	**85 554 544**

	2016	2015
Unspecified loan loss provisions during the period	30 811 099	32 331 701
Profit sale of portfolios	-31 202 724	0
Unspecified loan loss provisions	**-391 625**	**32 331 701**

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 Company has no charge as security.

9 Loans to and receivables from credit institutions

	2016	2015
Cash and bank deposits	77 409 819	4 359 853
Total	**77 409 819**	**4 359 853**

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

	2016	2015
Cash and cash equivalents	77 409 819	4 359 853
Total	**77 409 819**	**4 359 853**

10 Share capital and share premium

	No. of shares	Nominal share capital	Share premium	Total
Carrying amount 31.12.15	**19 178 100**	**95 890 500**	**79 262 471**	**175 152 971**
Carrying amount 31.12.16	**19 178 100**	**95 890 500**	**79 262 471**	**175 152 971**

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 2016, the number of shares was 19 341 016 of which 162 916 are the company's own shares.

11 Other liabilities and accrued expenses and deferred income

	2016	2015
Accounts payable	4 454 650	4 365 865
Govt. charges and special taxes	5 302 509	4 462 038
Salaries owed	95 001	142 267
Accrued expenses	11 658 283	5 108 816
Holiday pay due	2 067 428	2 805 549
Other liabilities	2 343 347	1 666 150
Approved, invoiced but not paid out loans	789 799	418 926
Total	**26 711 017**	**18 969 610**

12 Liabilities

	2016	2015
Liabilities		
Liabilities to credit institutions (credit facility)	29 673 896	31 615 584
Derivatives	3 068 146	2 910 084
Self-amortizing loan	51 795 718	54 115 841
Convertible subordinated loan	29 368 454	29 525 676
Total loans	**113 906 214**	**118 167 185**

Liabilities to credit institutions

In December 2016 Folkefinans replaced the credit facility from DNB Bank ASA with a credit facility of 40 MSEK from Pareto Bank. The new facility has an interest of 5.5% and a maturity of one year.

In October 2014 Folkefinans entered into two convertible debt tranches of 19,341 TNOK (after deductions of issue costs 16,437 TNOK) and 27,630 TNOK of which the first tranche was converted for a 9.9% stake in Folkefinans in March 2015. Folkefinans entered into a further convertible loan, tranche three, in March 2015 in the amount of 27,630 TNOK. The loans has an interest of 7% pro anno from the drawdown date. As the two remaining loans were not converted at the call option end date in December 2015, the loans will be repaid over a two-year term, starting 18th December 2016. In June 2016 it was agreed to amend the currency of the two loans from NOK to SEK. Each of the tranches thus amount to 27,942 TSEK.

In March 2015 Folkefinans also entered into a subordinated convertible loan in the amount of 3,500 TEUR. The loan accrue an interest of 7% pro anno from the drawdown date. Maturity date is six years after drawdown date. The value of the underlying call option is calculated by using the Black-Scholes model where the variables current underlying price, option strike price, time until expiration, implied volatility and risk-free interest rate are taken into consideration.

The Company is exposed to interest rate changes on these loans based on the following reprising structure:

	2016	2015
6 months or less	0	0
6-12 months	29 673 896	31 615 584
1-5 years	51 795 718	54 115 841
More than 5 years	32 436 600	32 435 760
No agreed maturity date	0	0
Total loans	**113 906 214**	**118 167 185**

Carrying amount and fair value of loans:	**2016**	**2015**
Carrying amount		
Loans from credit institutions (credit facility)	29 673 896	31 615 584
Derivatives	3 068 146	2 910 084
Self-amortizing loan	51 795 718	54 115 841
Convertible subordinated loan	29 368 454	29 525 676
Total carrying amount	**113 906 214**	**118 167 185**
Fair value		
Loans from credit institutions (credit facility)	29 673 896	31 615 584
Derivatives	3 068 146	2 910 084
Self-amortizing loan	51 795 718	54 115 841
Convertible subordinated loan	29 368 454	29 525 676
Total fair value	**113 906 214**	**118 167 185**

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

	2016	2015
NOK	0	34 076 833
EUR	32 436 600	3 914 992
SEK	81 469 614	56 076 584

13 Pensions and similar liabilities

	2016	2015
Costs charged to the statement of comprehensive income		
– Pension costs	2 322 346	2 234 046

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

14 Wages and salaries

	2016	2015
Salaries	24 011 419	25 590 256
Employers' national insurance contributions	6 895 721	6 950 489
Pension costs – the year's provisions for defined contribution based pension schemes	2 322 346	2 234 046
Other benefits	279 658	1 364 134
Total wages and salaries	**33 509 144**	**36 138 926**
No. of employees	**37**	**40**

15 Other operating expenses

	2016	2015
External advisors/fees services	1 542 150	1 413 358
Rental expenses	3 445 153	3 376 512
Production expenses	11 921 515	12 407 418
Collection expenses	7 775 914	7 568 783
Administrative and other expenses	1 872 257	2 815 939
Total other operating expenses	**26 556 989**	**27 582 010**

16 Financial income and expenses

	2016	2015
Other financial costs	-2 005 782	-824 233
Gain/loss on current asset	383 910	-339 974
Interest expenses	-8 900 268	-7 740 834
Currency gain	19 276 954	16 405 096
Currency loss	-22 657 594	-15 564 949
Net financial items	**-13 902 780**	**-8 064 894**

17 Taxes

Tax expense:	2016	2015
Taxes payable on foreign income	3 163 380	2 149 755
Adjustments in respect of prior years	113 213	0
Change in deferred tax	-2 562 185	-6 582 029
Change in deferred tax due to change in tax rate	0	2 314 203
Tax expense	**714 408**	**-2 118 070**
Total tax including OCI	**714 408**	**-2 118 070**
Tax payable	3 163 380	2 083 297
Advance tax payments	-890 406	0
Total tax payable	**2 272 974**	**2 083 297**

Reconciliation of the tax expense:	2016	2015
Profit before taxes	**-3 944 997**	**-25 335 958**
Calculated tax 25 % (27 %)	-986 249	-6 840 709
Permanent differences	-1 575 935	258 680
Effects from changed tax rates	0	2 314 203
Adjustments in respect of prior years	113 213	0
Tax payable on foreign income	3 163 380	2 149 755
Tax	714 408	-2 118 070
Tax in the statement of comprehensive income	**714 408**	**-2 118 070**
Tax expense in the income statement	714 408	-2 118 070
Tax expense	**714 408**	**-2 118 070**

Deferred tax and deferred tax assets:

Deferred tax assets	2016	2015
Tax losses carried forward - Norway	30 579 296	29 417 014
Intangible assets	910 431	0
Deferred tax assets	**31 489 728**	**29 417 014**

Deferred tax assets are capitalized based on future income.

Deferred tax liability		
Intangible assets	0	-489 471
Deferred tax liability	**0**	**-489 471**
Net deferred tax	**31 489 728**	**28 927 543**
Ordinary tax expense	714 408	-2 118 070
Total tax expense	**714 408**	**-2 118 070**
Taxes payable	3 276 593	2 149 755
Change in deferred tax	-2 562 185	-4 267 825
Total tax expense	**714 408**	**-2 118 070**

18 Commitments

a) Guarantees and charges:

Folkefinans has no guarantees or charges in 2016.

b) Operating leases – liabilities where one of the company branches is the lessee

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

	2016	2015
Due date within 1 year	2 313 720	2 430 317
Due date between 1 and 5 years into the future	0	1 679 328
Due date more than 5 years into the future	0	0
Total future minimum lease payments	**2 313 720**	**4 109 645**

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

The Company's operating leases are in Sweden 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 31.12.2016 the total of deposits for office rental is NOK 737 180. The total minimum payments are gross figures (no deduction for deposits).

19 Related parties

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

SMH Management AS

Owned by the previous Chairman of the board and shareholder Stig Herbern.

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):

	2016	2015
SMH Management AS	308	517
Total	**308**	**517**

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

The agreement for purchasing of services from SMH management AS relates to consultancy services from the previous Chairman of the board. These consultancy services relates to M&A activities, managing new and existing markets but also relates to operational tasks within the Company. There are no guarantees given or received between Folkefinans and SMH Management AS and there are no outstanding accounts as at 31.12.2016 in the statements of the financial position.

c) Remuneration to senior employees

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

	2016	2015
Salaries and other short-term employee benefits	8 932	9 407
Severance pay	-	-
Pension benefits	992	940
Other long-term benefits	-	-
Share-based remuneration	-	-
Total	**9 924**	**10 348**

Specification of remuneration to senior employees:

Name	2016 Salary and other short-term benefits	2016 Pension benefits	2015 Salary and other short-term benefits	2015 Pension benefits
Hördur Bender, former CEO 1)	549	27	1 682	151
-Bonus			310	0
Harald Dahl-Pedersen, CEO 2)	1 391	152	0	0
Other Management	**6 092**	**813**	**6 515**	**790**
Magnus Sjögren, General Counsel	2 063	262	2 102	267
Jens Schau-Hansen, CFO	1 451	258	1 356	188
Anders Linder, former Group Head of Collection and Customer Service 3)	1 019	123	1 279	163
Jan Nilsson, CTO	1 559	169	1 780	172
Credit Committee	**50**	**0**	**50**	**0**
Leif Bjørnstad	50		50	
Control Committee	**200**	**0**	**200**	**0**
Anders Utne	40		40	
Eigil Ulvin Olsen	40		40	
Einar Irgens	80		80	
Morten Egil Haugen	40		40	
Board members	**650**	**0**	**650**	**0**
Stig Herbern	250		250	
Raivo Aavisto	100		100	
Leif Bjørnstad	100		100	
Mikko Marttinen	100		100	
Kalle Pykälä	100		100	
Total	**8 932**	**992**	**9 407**	**940**

1) Bonus related to work performed in 2014 was paid out in 2015.Mr. Bender left the company in February 2016.

2) CEO since 2016-06-01

3) Mr. Linder left the company in October 2016.

d) Fees to auditors and other related costs	**2016**	**2015**
Statutory audit		
- *PwC*	1 347 395	1 247 059
- *other*	0	0
Tax services		
- *PwC*	47 500	53 125
Other non-assurance services		
- *PwC*	30 234	25 000
Total PwC	1 425 129	1 325 184
Total	**1 425 129**	**1 325 184**

Fees include VAT.

20 Contingent liability and events after the end of the reporting period

Folkefinans new CEO, Harald Dahl-Pedersen, took up his position 1 June 2016. Due to changes to Folkefinans' operations and strategy during Q1 2017 Harald Dahl-Pedersen has chosen to step down from his position as CEO February 28th 2017. The current CFO Mr. Jens Schau-Hansen has been appointed as interim CEO until a new CEO is recruited.

Folkefinans filed an application for a bank license with Finanstilsynet July 8th 2016. On January 31th 2017 Folkefinans received a negative reply on the application. However the existing Credit- and Finance license is maintained. As a consequence of this decision Folkefinans will continue with the existing lending strategy both in Norway and Sweden.

21 Share capital and shareholder information

The share capital in the company as of 31 December 2016 consists of:

	No. of shares	Nominal value	Book value
Shares	19 341 016	5	96 705 080
Total	**19 341 016**	**5**	**96 705 080**

All the shares have equal voting rights.

Ownership structure

The largest shareholders in the company as of 31 December 2016	**Shares**	**Ownership share**
CLEARSTREAM BANKING S.A. *	2 080 237	10,8%
WONGA GROUP LIMITED	1 934 100	10,0%
BRENNEN CONSULTING LIMITED	1 740 800	9,0%
CNHL LTD	1 613 850	8,3%
LANDSYN EHF	1 301 974	6,7%
DANSKE BANK A/S *	1 214 100	6,3%
SVENSKA HANDELSBANKEN AB *	1 054 896	5,5%
INTERACTIVE A ISLANDI EHF	911 811	4,7%
NORDNET BANK AB *	793 331	4,1%
BNP PARIBAS SEC. SERVICES S.C.A *	707 575	3,7%
PAATERO	684 373	3,5%
SKANDINAVISKA ENSKILDA BANKEN AB *	628 175	3,2%
NEBRASKA INVEST OY	496 356	2,6%
UBS AG *	433 320	2,2%
FIVADO AS	282 787	1,5%
ARION BANK HF *	275 993	1,4%
HIETALA	248 064	1,3%
BERASCO LIMITED	242 869	1,3%
OÜ VIADELLA INVESTMENTS	242 826	1,3%
DYVI	200 500	1,0%
DYNAMO AS	193 166	1,0%
LEIF BERNHARD BJØRNSTAD	192 097	1,0%
Shareholders with at least 1 % ownership	**17 473 200**	**90,3%**

*) Share deposit

Own shares, FOLKEFINANS AS	110 174	0,6%
Own shares, FOLKEFINANS AS NORGE, FILIAL SVERIGE	52 742	0,3%
Remaining ownerships	**1 704 900**	**8,8%**
Number of shareholders:	62	
Number of shares:	**19 341 016**	**100,0%**

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

Name	Position	Shares
Harald Dahl-Pedersen (1)	CEO	10
Leif Bernhard Bjørnstad	Director	192 097
Stig Magnus Herbern (2)	Director	25 000
Mikko Marttinen (3)	Director	490 198
Raivo Aavisto (4)	Director	1 305 600
Kalle Pykälä (5)	Chairman of the Board	152 655
Jan Nilsson (6)	Director	242 869
Magnus Sjögren (7)	General Counsel	40 000
Jens Schau-Hansen (8)	CFO	20 000
Total		**2 468 429**

(1) Harald Dahl-Pedersen owns shares directly.

(2) Stig Magnus Herbern owns shares indirectly through SMH MANAGEMENT A/S.

(3) Mikko Marttinen owns shares indirectly through CNHL LTD. Marttinen controls 30% of CNHL LTD.

(4) Raivo Aavisto owns shares indirectly through BRENNEN CONSULTING LIMITED via BRANDBERG OÜ
Aavisto controls 75% of BRENNEN CONSULTING LIMITED via BRANDBERG OÜ.

(5) Kalle Pykälä owns shares indirectly through Marinium OY

(6) Jan Nilsson owns shares indirectly through Berasco Limited.

(7) Magnus Sjögren owns shares on nominee account in Svenska Handelsbanken.

(8) Jens Schau-Hansen owns shares directly.

The share capital in the company as of 31 December 2015 consists of:

	No. of shares	Nominal value	Book value
Shares	19 341 016	5	96 705 080
Total	**19 341 016**		**96 705 080**

All the shares have equal voting rights.

In March 2015 Wonga converted one of the convertible loans entered into in October 2014, to 1,934,100 new ordinary shares in the Company. This transaction was approved by Finanstilsynet in March 2015.

Ownership structure

The largest shareholders in the company as of 31 December 2015	Shares	Ownership share
WONGA	1 934 100	10,0%
BRENNEN CONSULTING LIMITED	1 740 800	9,0%
CNHL LTD	1 613 850	8,3%
CLEARSTREAM BANKING S.A. *	1 372 662	7,1%
LANDSYN EHF	1 301 974	6,7%
DANSKE BANK A/S *	1 214 100	6,3%
SVENSKA HANDELSBANKEN AB *	1 054 896	5,5%

INTERACTIVE A ISLANDI EHF	911 811	4,7%
NORDNET BANK AB *	793 331	4,1%
BNP PARIBAS SEC. SERVICES S.C.A *	707 575	3,7%
PAATERO	684 373	3,5%
SKANDINAVISKA ENSKILDA BANKEN AB *	628 175	3,2%
NEBRASKA INVEST OY	496 356	2,6%
UBS AG *	433 320	2,2%
FIVADO AS	282 787	1,5%
ARION BANK HF *	275 993	1,4%
HIETALA	248 064	1,3%
BERASCO LIMITED	242 869	1,3%
OÜ VIADELLA INVESTMENTS	242 826	1,3%
DYVI	200 500	1,0%
DYNAMO AS	193 166	1,0%
LEIF BERNHARD BJØRNSTAD	192 097	1,0%
WAHLSTRØM	185 000	1,0%
AGDER TECHNOLOGY AS	184 432	1,0%
Shareholders with at least 1 % ownership	**17 135 057**	**88,6%**
*) Share deposit		
Own shares, FOLKEFINANS AS	110 174	0,6%
Own shares, FOLKEFINANS AS NORGE, FILIAL SVERIGE	52 742	0,3%
Remaining ownerships	**2 043 043**	**10,6%**
Number of shareholders:	62	
Number of shares:	**19 341 016**	**100,0%**

22 Capital adequacy

Capital adequacy 31 December

Equity and subordinated loan capital

	2016	2015
Share capital	95 890 500	95 890 500
Other equity	53 603 013	63 125 493
Equity	**149 493 513**	**159 015 993**
Subordinated loan	8 150 000	9 600 000
Equity and subordinated loan capital	**157 643 513**	**168 615 993**
Deductions:		
Intangible assets	-36 511 102	-49 261 024
Deferred tax assets	-29 091 537	-28 927 542
Core capital	**92 040 874**	**90 427 427**
Net equity and subordinated loan capital	**92 040 874**	**90 427 427**

Minimum requirement equity and subordinated loan capital

Credit risk		
Of which:		
Covered bonds	23 736	207 544
Institutions	1 236 448	78 544
Mass market commitments	9 734 882	10 437 206
Commitments that have fallen due	920 944	1 703 986
Other commitments	1 072 720	3 095 840
Total minimum requirement credit risk	**12 988 730**	**15 523 120**
Settlement risk		
Foreign exchange risk	6 524 972	7 060 856
Total minimum requirement market risk	**6 524 972**	**7 060 856**
Operational risk	**16 385 913**	**15 975 112**
Minimum requirement equity and subordinated loan capital	**35 899 615**	**38 559 088**
Capital adequacy		
Capital adequacy ratio	20,5%	18,8%
Core capital adequacy ratio	18,7%	16,8%

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

To the General Meeting of Folkefinans AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of Folkefinans AS which comprise the balance sheet as at 31 December 2016, income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Qualified Opinion

The company's goodwill impairment testing shows that net income is insufficient to support the current carrying value of goodwill unless new capital is injected. Furthermore, there does not currently exist concrete plans concerning how the company will obtain that capital. In our opinion, the fair value of goodwill is substantially lower than the book value recorded in the presented financial statements. We are of the opinion that the current book value of goodwill, NOK 21 117 972, should be written down to zero. If a depreciation had been made, book value of goodwill would have been reduced by NOK 21 117 972 and the equity would have been reduced by NOK 21 117 972.

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information

Management is responsible for the other information. The other information comprises the Board of Directors' report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to

events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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, the going concern assumption, and the proposal for the coverage of the loss 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, 23 March 2017
PricewaterhouseCoopers AS

Geir Julsvoll
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

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