2019

Folkefinans

Annual Report 2019

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REPORT OF THE BOARD OF DIRECTORS FOR 2019

GENERAL

Folkefinans AS prepares its financial statements in accordance with IFRS; see section 3-9 of the Norwegian Accounting Act. The directors' report also covers the company's operations; see section 3-3a of the Accounting Act.

ABOUT FOLKEFINANS

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. As at 31 December 2019, the company consisted of the parent company, Folkefinans AS, and its branches in Sweden, Finland and Estonia.

Folkefinans offers everyday financial services and has since 2016 focused the operation on offering unsecured lending to private individuals in Norway and Sweden. Folkefinans is delivering high customer value through digitalized operations and proprietary risk models to enable easy access to products and services, as well as quick response rates.

Folkefinans' head office is located at Kronprinsens gate 1, NO-0251 Oslo, Norway.

HIGHLIGHTS 2019

- During 2019 Folkefinans sold loans to 26 000 unique customers in Sweden, reaching a gross lending of SEK 427 million, compared to SEK 441 million in 2018. In Norway Folkefinans sold loans to 6 700 unique customers with a gross lending of NOK 70 million, compared to NOK 66 million during 2018.
- Folkefinans focus, since the new regulations including interest cap was implemented in Sweden 1 September 2018, has been on the Monetti Revolving Credit product (Flexilån) with financing from Arvato Bertelsmann. Monetti Flexilån gross lending increased to SEK 165 million during 2019 compared to SEK 97 million in 2018. Other Swedish products have been decreasing compared to previous year due to the decision to cut down sales during the 2nd half of 2019. This decision was necessary to preserve Folkefinans' cash position.
- Frogtail was changed to a non-high cost credit brand during mid-June 2019. The change was well received in the Swedish market and the sales in July 2019 were one of the highest ever for the brand, without compromising on the customer quality. High sales could not continue however, without an external partner on financing the product.
- Folkefinans strengthened the strategic partnership with Arvato Bertelsmann in 2019 by increasing the credit line to SEK 200 million financing Monetti Flexilån portfolio in Sweden.

- A credit facility with a first tranche of SEK 25 million was secured with a Swedish credit institution with the aim of increasing the lending for the Frogtail consumer loans. Project to implement the new financing partner for Frogtail was started during 2nd half of 2019.
- Folkefinans experienced during 2019 downward pressure on income and margins on the Swedish loan portfolios because of the new legislation including interest cap that came into force as of September 2018.

REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Total result for 2019 was NOK -2.2 million compared with NOK 8.5 million in 2018. The income and result in 2019 were negatively influenced by the price changes to the product offerings in Sweden implemented in September 2018 in order to comply with the required interest cap of 40%. The return on equity was -1%. The result for the year after tax is proposed transferred to other equity.

Income

Total income amounted to NOK 106 million in 2019, compared to NOK 121 million in 2018. Because of the reduced pricing for the loan products in September 2018 the Swedish branch experienced a drop in total income from SEK 112 million in 2018 to SEK 95 million in 2019. The reduction in total income were not compensated by the high growth in lending from Monetti Flexilån in Sweden during 2019 where income increased from SEK 13 million in 2018 to SEK 40 million in 2019. The income in Norway showed an improvement compared to 2018 due to the growth in lending for the Folkia brand.

Operating expenses

Total operating expenses exclusive losses on loans and impairments were NOK 51.8 million in 2019 compared to NOK 55.3 million in 2018. As the level of income has had a negative trend in 2019, there has been focus on cost control and consequent actions to reduce administrative- and other operating expenses.

Loan loss provisions

The company's provision for loan losses were NOK 29.2 million in 2019 compared to 22 MNOK in 2018. All products were sold under Forward Flow agreements during 2019 to three different partners in Norway and Sweden at competitive prices. The increase in loss levels compared to 2018 relate mainly to higher actual losses for Monetti Flexilån when sold under the existing Forward Flow arrangement. During Q3 negotiations with the Forward Flow partners were conducted securing the existing competitive price levels until the end of 1. half of 2020. Folkefinans has during 2019 continued to focus on improving the pre-collection processes and scoring models in cooperation with external partners.

BALANCE SHEET, FINANCING AND LIQUIDITY

Folkefinans' balance sheet total as of 31 December 2019 was NOK 319 million, compared to NOK 291 million in 2018. As a result of the growth in lending for Monetti Flexilån the net loans and receivables increased with NOK 18 million to NOK 202 million in 2019. The equity improved only slightly thus the equity ratio was 54% in 2019 compared to 59% in 2018 (total equity/total balance).

The company is financed by (i) equity, (ii) a credit line of SEK 200 million with Arvato Bertelsmann and (iii) one subordinated loan of SEK 33.6 million. Part of the subordinated loan is included as Tier 2 capital in the 2019 Annual Report. In addition a credit facility with a first tranche of 25 MSEK was secured with a Swedish credit institution in July 2019. Due to the high growth in lending for Monetti Flexilån the credit line with Arvato Bertelsmann was extended from SEK 100 million to SEK 200 million in November.

The subordinated loan was obtained from Wonga who owns 9,9% of Folkefinans, in 2015. As the loan is approved by Finanstilsynet to be included as Tier 2 capital, any changes to the conditions of the loan needs approval by Finanstilsynet. Wonga was put under liquidation in August 2018, and an Administrator for the liquidation process was appointed. The loan agreement includes a negative pledge clause which gives the Administrator the right not to waive any drawdown of additional secured debt. The board and the Administrator has outlined a process with defined actions were the loan will be repaid before maturity to the Administrator, in order for the Administrator to approve further drawdown of secured debt.

Folkefinans' liquidity situation is on an adequate level for the business conducted in 2019 and anticipated for 2020. As at 31 December 2019, the company had cash holdings incl. investments in highly liquid assets fund of NOK 12 million. The company's cash position was satisfactory throughout 2019, but cut down of sales of non-externally financed loans was necessary to preserve Folkefinans cash position. Net cash flow from operations was NOK -21 million mainly due to changes in loans to customers. Cash flow from financing activities amounted to NOK 26 million as borrowings from credit institutions increased in 2019.

Folkefinans' Visa Europe Principal Membership, Folkefinans' shares (919 Series C Preferred Stock) in Visa Inc. were re-evaluated monthly during 2019 based on the quoted share price at NYSE and represents a value of NOK 17.9 million following the Visa Inc. acquisition of Visa Europe Limited with closing in June 2016. A deferred cash payment of EUR 208 thousand from the transaction were received in June 2019.

MARKET AND PRODUCTS

During 2019, Folkefinans' services primarily consist of provision of revolving credits (Monetti Flexilån) up to 20.000 and small unsecured loans with short term to maturity including more flexible larger loans presently up to SEK 40.000 with maturity up to 5 years through the brands Monetti, Frogtail and Kredit365 in Sweden and Folkia in Norway.

Monetti Flexilån has become the number one product in sales during 2019. Being the only product where external funding was available during the year, most of the marketing activities have been geared towards this product. To support future growth and to improve product profitability, a limit increase project was launched during 2nd half of 2019. Until the launch during January 2020, it was not possible for customers to apply for a limit increase, no matter how good payment behavior they had shown. As Monetti Flexi customer base is large, so is the potential impact for Folkefinans in increasing income and profitability in 2020.

Frogtail consumer loans were transformed to non-high cost credit during June 2019, meaning that the efficient yearly interest rate shall not exceed 30%. Short-term loans were removed from the brand and loans between SEK 5.000 and 40.000 in 1-5 years are offered to customers.

2019 continued the strong traffic trend from previous year towards the different Folkefinans web-sites and therefore it can be concluded that the demand for loans has not been decreasing. The goal for 2020 is therefore to increase the funding available for the company, in order to be able to serve more applicants than during 2019.

RISKS AND CAPITAL ADEQUACY

The company is exposed to various types of financial risks, including credit risk, market risk, operational risk, funding risk, strategic and regulatory risks. The company focus on having risk awareness in all parts of the organization.

The ability to manage risks and conduct a good capital planning is fundamental for having a profitable and stable company. The company has implemented polices and guidelines to ensure that the business is run after accepted risk levels and regulatory requirements.

The Board of Directors is responsible for ensuring that the Capital Adequacy is in line with the adopted risk profile, regulatory requirements and that Folkefinans has a strong capital management.

The Board of Directors has set up an Audit and Risk committee consisting of three board members and the CEO, Chief Risk Officer and Legal Counsel participating from the Management team. The committee act as a preparatory body for the Board, and supports the Board in carrying out its responsibility for the financial reporting, auditing, internal control and overall risk management.

The CEO has executive responsibility for the Boards decisions and the effectiveness of internal controls. He is responsible for ensuring compliance with policies and guidelines.

The credit risk is the largest risk for the company. The company's main products are small credits that have high interest rates and thereby accept higher risk. The Board has adopted a Credit Policy with guidelines for the credit organization, credit approval process, credit risk exposure and credit governance.

The Chief Risk Officer is responsible for Folkefinans' Credit Management and that the Credit Management is following the Credit Policy within Folkefinans.

The market risk contains mainly of the currency risk because the company's assets/debt are denominated in SEK/USD/EUR and reporting currency is NOK. The company also has some Financial Assets connected to the business operation, but all other free liquidity is placed on secured deposit accounts at larger banks. The financial department is responsible for monitoring the market risk and max levels and policy around financial assets are set by the Board.

The company seeks to optimize use of liquidity to maximize profit. The Board has adopted a Liquidity Policy. The Finance Department is responsible for monitoring and reporting the liquidity risk.

In relation to the company's balance sheet as at 31 December 2019 the foreign exchange risks and credit risks are linked to loans in local currencies in Folkefinans' markets. The Board has established policies to secure a balance of risk taking and control of risks. Pilar I and II risks are described in further detail in the notes to the financial statements. In order to reduce overall market risk Folkefinans partially hedged its currency exposure during 2019 and will continue to further hedge its currency exposure throughout 2020. Folkefinans' capital adequacy ratio was 26.2% as at 31 December 2019, compared to 26.0 % in 2018.

CORPORATE GOVERNANCE

The Board held 13 board meetings in 2019, both by physical meetings and video conference. The key issues discussed were follow-up on profit and loss development, compliance update, business development and securing financing to further support the growth strategy in Norway and Sweden in the coming years. In line with what was discussed in the Annual General Meeting of Folkefinans in April 2019, the Board continued during the year to seek and evaluate opportunities for shareholder value realization.

The Audit & Risk committee, which is a subcommittee of the Board, meets quarterly and reviews the company's various risks and key sustainability indicators.

DECLARATION CONCERNING CORPORATE SOCIAL RESPONSIBILITY

Human rights

Risk management and internal control form an integral part of Folkefinans' strategy and business processes. Operational risk includes events which have a negative impact on Folkefinans, including unethical actions or omissions in breach of human rights. Folkefinans risk management and internal control thus integrate human rights by ensuring that the strategy and business processes are aimed at minimizing operational risk and ensure the implementation of measures in the event of exposure to such risk.

Workers' rights, equality, non-discrimination, social concerns and external environment

Folkefinans believes in being an inclusive and diverse organization where anyone can reach their full potential. Folkefinans has always placed emphasis on giving women and men the same opportunities for professional and personal development, salary and promotion. Folkefinans is well gender distributed as 53 % of Folkefinans' personnel are 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.

Working environment is 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. 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. The employee survey conducted in 2019 showed that the working environment in Folkefinans is very good and well above the financial services industry average.

The total sickness absence, that was 186 days, has increased slightly compared to 2018 and equals 2.4% of the total hours worked. No days of the total sickness absence are related to long term absence. There have been no personal injuries in the workplace in 2019. There are no circumstances relating to the operations, including input factors and products that may result in a significant effect on the external environment.

Furthermore, for Folkefinans it is important to contribute in social and economic benefits in its community. The Company continued with the previous years practice and chose non-profit organizations to which financial contribution was provided. For 2019 financial support was provided to the non-profit organization 'Hjärtebarnsfonden', that is researching within area of newborns' heart diseases and to UNICEF.

Combatting Corruption

Folkefinans has adopted guidelines which stipulate that the operations must be carried out with high standards of ethics and integrity. Folkefinans' ethical guidelines impose requirements on employees, elected representatives and Folkefinans' conduct, including a ban on receiving, requesting or acceptance of offers of undue benefits and a ban on Folkefinans offering financial benefits or gifts to the its business connections or others which could be perceived as an undue benefit. Requirements are also imposed on employees and elected representatives regarding competence, due diligence and whistleblowing. The guidelines and procedures also include a description of measures and business processes which are intended to prevent acts such as fraud, identity theft and corruption.

MAIN TRENDS

Regulatory pressure on consumer financials has pushed traditional small loan lenders, such as Folkefinans, to increase credit size and loan durations. This shift accelerates the need for funding and the market niche where Folkefinans is active is more and more divided to those who have the funding to grow and to those who do not have access to funding. Folkefinans already increased its outstanding loan portfolio during 2019 and stands in a good position to achieve further growth at the start of 2020. Arvato Bertelsmann has proven to be a partner that wants to grow together with Folkefinans and the signing of the additional Swedish funding partner, will further enhance Folkefinans ability to grow, as soon as the partnership will be launched with Frogtail during Q2 2020.

The pace of change is accelerating. The phrase "change is a constant" has never been more true.

Some key drivers for change within financial services include:

- Persistent margin pressures
- Intensifying competition
- Customers not as loyal
- Customer experience as the new loyalty
- The technology leap: Emergence of cloud-native solutions
- Regulatory environment
- Rise of new entrants

Folkefinans' solution to cope with the rapidly changing future is to move from the monolithic technical architecture to the Mambu technical platform and microservices. Mambu supports rapid and flexible assembly of independent, best-for-purpose systems. The monolith is disassembled into a set of independent services that are developed, deployed and maintained separately leading to resilient and agile applications that can be copied, scaled-up and replaced without the need of developing all other applications.

Folkefinans has started the crucial process of changing the technological architecture, with the ongoing Mambu integration and the new applications that will be built for the Frogtail project. Migration to Mambu and to new applications, together with strengthening of the organization, opens a new world of opportunities. Changes in technical architecture will empower the organization to focus on building first class financial services.

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 2019.

The spread of the Covid-19 virus has severely affected the economic activities in the markets were Folkefinans is operating. Presently it is difficult to determine how this will influence Folkefinans operation and financial position. In comparison the financial crisis in 2008 had limited effect on Folkefinans' losses in the Swedish market at the time. The board and management will monitor the development closely going forward with special focus on how the downturn in the economy will impact Folkefinans' capital adequacy, risk exposure and liquidity and take the necessary actions in order to preserve the company's financial position and ensure that the company are operational at all times. These external factors are creating increased uncertainty in the markets and will also affect Folkefinans' operations. The period since the spread of the Covid-19 virus started is however short and it is therefore too early to determine the extent of the consequences for the company. The governments in Sweden and Norway have also chosen different approached to stop the spread of the virus which might impact the level of economic consequence in each market. The board therefore believes that in a worst case scenario these events and circumstances can create doubts about the company's ability to continue operations.

The consumer lending and banking industry are facing accelerating changes with continued regulatory focus in the markets. As a licensed and compliant company already under supervision, Folkefinans is well positioned to comply with future new regulatory requirements.

After a transition year with major changes to the product offerings in the Swedish market experiencing pressure on margins and operational profitability, the main focus during 2020 will be to secure growth through Monetti Flexilån and Frogtail consumer loans in Sweden and expand the product offering in Norway in order to improve Folkefinans' profitability and strengthen the company's debt financing.

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Oslo, 25th of March, 2020

The Board of Folkefinans AS

Kalle Pykälä
Chairman of the Board

Mikko Marttinen
Director

Veijo Ojala
Director

Raivo Aavisto
Director

Jan Nilsson
Director

Jens Schau-Hansen
CEO

In NOK (all Financial Statements)

Statement of comprehensive income

	Note	2019	2018
Interest income		106 047 769	120 934 518
Interest expenses		-9 167 313	-5 588 412
Net interest income	**9**	**96 880 456**	**115 346 106**
Fee and commission expenses		-20 826 528	-29 050 220
Net change in value on securities and currency	7a	5 288 016	4 162 579
Gross margin		**81 341 944**	**90 458 465**
Personnel expenses	15,16	-23 170 578	-23 354 718
General administrative expenses		-18 944 857	-21 789 636
Depreciation and amortisation	5,6	-3 097 891	-1 922 731
Other operating expenses	17	-6 577 422	-8 219 088
Net operating income		**29 551 196**	**35 172 292**
Losses on loans	8	-29 176 134	-22 022 561
Impairment losses	5,6	-138 070	-144 213
Profit before tax		**236 992**	**13 005 518**
Tax	18	-988 862	-2 796 044
Profit after tax		**-751 870**	**10 209 474**

Items to be recycled to profit and loss		
Exchange differences on translating foreign operations	-1 405 132	-1 737 452
Sum other comprehensive income	**-1 405 132**	**-1 737 452**
Total comprehensive income	**-2 157 003**	**8 472 022**

Statement of financial position

	Note	2019-12-31	2018-12-31
ASSETS			
Loans and deposits with credit institutions	7a, 7b, 11	11 671 134	9 305 098
Loans to customers	7a, 7b, 8	201 720 371	184 117 455
Investment securities	7a	21 630 043	18 163 439
Derivatives	7a	898 850	0
Goodwill	6	21 117 972	21 117 972
Deferred tax assets	18	27 264 595	28 253 457
Other intangible assets	6	3 004 713	4 338 305
Tangible assets	5	2 372 865	204 345
Other assets	10	10 233 785	12 710 630
Prepaid and deposits	7a	19 405 548	12 973 882
Total assets		**319 319 876**	**291 184 585**
LIABILITIES			
Debt to credit institutions	7a, 14	98 983 763	69 031 555
Derivatives	7a, 14	1 102 683	1 838 991
Other liabilities	7a, 13, 19	12 597 249	10 815 456
Accrued expenses	13, 15	4 567 754	5 505 171
Subordinated loan	7a, 14	30 813 416	31 095 257
Total liabilities		**148 064 864**	**118 286 430**
EQUITY			
Share capital	12, 22	96 239 595	95 890 500
Share premium	12	79 262 471	79 262 471
Other paid in equity		5 151 098	5 151 098
Retained earnings		-9 398 151	-7 405 913
Total equity		**171 255 013**	**172 898 155**
Total liabilities and equity		**319 319 876**	**291 184 585**

Oslo, 21st of March 2019
Board of Folkefinans AS

Kalle Pykälä
(Chairman of the Board)

Mikko Marttinen

Raivo Aavisto

Veijo Aulis Ojala

Jan Nilsson

Jens Schau-Hansen
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 2018		**95 890 500**	**79 262 471**	**-11 145 194**	**0**	**5 151 098**	**169 158 875**
Currency translation difference				-4 732 742			-4 732 742
Exchange differences on translating foreign operations				-1 737 452			-1 737 452
Result for the year				10 209 474			10 209 474
Equity at 31 December 2018	12	**95 890 500**	**79 262 471**	**-7 405 913**	**0**	**5 151 098**	**172 898 156**
Registered share capital		96 705 080					
-own shares		814 580					
Equity at 1 January 2019		**95 890 500**	**79 262 471**	**-7 405 913**	**0**	**5 151 098**	**172 898 156**
Sale of own shares		349 095					349 095
Currency translation difference				164 765			164 765
Exchange differences on translating foreign operations				-1 405 132			-1 405 132
Result for the year				-751 870			-751 870
Equity at 31 December 2019	12	**96 239 595**	**79 262 471**	**-9 398 151**	**0**	**5 151 098**	**171 255 013**
Registered share capital		96 705 080					
-own shares		465 485					

In June 2015 Folkefinans entered into one sub ordinated loan of 3.5 MEUR. The sub ordinated loan which was converted to SEK in October 2017, is partly included as Tier 2 capital.

Statement of cash flow

	Note	2019	2018
Cash flow from operations			
Result before tax		236 992	13 005 518
Depreciation and impairment of tangible assets	5	1 738 753	336 788
Amortization of intangible assets	6	1 359 138	1 730 156
Impairment of intangible assets	6	138 070	0
Adjustment for other entries affecting cash flow		-1 848 401	-2 902 669
Net financial expenses/ income		1 101 312	-2 716 457
Income tax paid		-2 944 798	-1 806 280
Changes in loans to customers		-17 602 916	-45 244 909
Changes in other receivables		-3 954 821	-11 530 676
Change in other payables		844 376	451 268
Net cash flow from operations		**-20 932 295**	**-48 677 261**
Cash flow from investing activities			
Investments in financial assets	7a	-3 299 159	-1 135 232
Disposal of financial assets	7a	1 174 448	0
Investments in tangible fixed assets	5	-117 271	-94 017
Investments in intangible assets	6	-232 601	-789 070
Net cash flow used for investing activities		**-2 474 583**	**-2 018 319**
Cash flow from financing activities			
Payments related to lease liabilities		-1 779 564	0
Interests paid		-2 182 036	-6 024 443
Amortized debt to credit institutions		0	-27 106 732
Borrowing from credit institutions	14	29 952 208	69 031 555
Net cash flow used for financing activities		**25 990 608**	**35 900 380**
Effects of exchange rate changes on the balance of cash held in foreign currencies		**-217 695**	**-159 641**
Change in cash, cash equivalents		**2 366 035**	**-14 954 840**
Cash, cash equivalents as of 1 January	11	9 305 098	24 259 939
Cash, cash equivalents as of 31 December	**11**	**11 671 133**	**9 305 098**

Notes to the financial statements

1 General information

Folkefinans AS and its branches offer simple, everyday financial services at fixed prices and on conditions which are clear to customers. Folkefinans' services primarily consist of provision of revolving credits (Monetti Flexilån) up to 20.000 NOK and small unsecured loans with short term to maturity for temporary needs including more flexible larger loans presently up to 40.000 NOK with maturity up to 5 years.

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 2019, the company consisted of the parent company, Folkefinans AS, and its branches in Sweden, Finland and Estonia.

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

The financial statements were approved by the company's board on March 25th, 2020.

Country	**Norway**	**Sweden**	**Estonia**	**Finland**
Company name	Folkefinans AS	Folkefinans AS Norge, Filial Sverige	Folkefinans AS Eesti filial	Folkefinans AS, Suomen sivuliike
Business area	Bank and finance institution	Bank and finance institution	Bank and finance institution	Bank and finance institution
Gross margin (TNOK)	14 701	49 968	730	-1 588
FTE's	4	21	0,19	0
Profit before tax (TNOK)	15 012	-10 200	-2 402	-2 190
Tax	988 862	0	0	0
Public subsidies	0	0	0	0

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, if not otherwise commented.

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, except for the measurement of financial assets measured at fair value through profit and loss (FVPL) and derivatives.

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 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 adopted by the company

The company has applied the following standards and amendments with impact for the company for the first time for the annual reporting period commencing 1 January 2018.

IFRS 16 Leases

IFRS 16 Leases entered into force on January 1, 2019 and replaced IAS 17 Leases. Under this standard, the right to use a leased object is an asset and the obligation to pay rent is a debt to be capitalized. The exceptions are short-term leases and low value leases. The company has analyzed all leases to ensure that they meet the criteria as leases in accordance with IFRS 16 and only leases on office buildings fall under the new standard. Furthermore, the company has chosen a modified retrospective approach and takes the full effect of the transition to the opening balance on January 1, 2019. The discount rate used to determine the present value of assets and liabilities is the best estimate of the company's marginal borrowing rate.

The table below shows a reconciliation between operating lease commitments as at 31.12.18 and capitalized lease liability on 1.1.2019.

Operating lease commitments as at 31.12.2018	3 657 299
Effect of discounting using the marginal borrowing rate (9%)	382 117
Lease liability recognised upon implementation of IFRS 16 (1.1.2019)	3 275 182

The effect is presented as an increase in fixed assets and other liabilities.

New standards, amendments and interpretations not yet adopted

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 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 instruments

2.7.1 Initial recognition and derecognition

Financial assets and liabilities are recognised in the balance sheet when the company becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date the company commits or sell the asset. At initial recognition, the company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or liability not at fair value through profit and loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or liability, such as fees and commissions. Transaction costs of financial assets and liabilities carried at fair value through profit and loss are expensed in profit and loss.

The company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred.

The company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expired.

2.7.2 Classification and subsequent measurement

Classification of financial assets – Policy applicable from 1 January 2018

The company classifies its financial assets in the following measurements categories:
• Amortised cost
• Fair value through profit or loss (FVPL)

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:
• the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
• the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI").

Business model assessment
The company assess the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:
• the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
• how the performance of the portfolio is evaluated and reported to the Bank's management;
• the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
• how managers are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
• the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the company's original expectations, the company does not change the classification of the remaining financial assets held in that business model. It rather incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Assessment whether contractual cash flows are solely payments of principal and interest ("SPPI")

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition adjusted for accrued effective interest and principle repayments. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the company considers:
• contingent events that would change the amount and timing of cash flows;
• leverage features;
• prepayment and extension terms;
• terms that limit the company's claim to cash flows from specified assets (e.g. nonrecourse asset arrangements); and
• features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Financial assets measured at amortised cost consist of loans and deposits from credit institutions and loans to customers and accounts receivable.

Financial assets measured at fair value through profit or loss (FVPL) consist of investment securities and derivatives.

Financial liabilities - classification and subsequent measurement

Financial liabilities are classified and subsequently measured at amortised cost, except for financial derivatives measured at fair value through profit and loss. Financial liabilities measured at amortised cost comprise of debt to credit institutions, accounts payable and other liabilities and convertible subordinated loan.

Impairment

Under IAS 39, credit loss were recognised based on an incurred loss model i.e. when there was objective evidence that a loss event had occurred after the initial recognition. According to IFRS 9 loss provisions are recognized based on a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the company to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts.

The measurement of the impairment provisions for expected loss depends on whether credit risk has increased significantly since initial recognition. Upon initial recognition, and when credit risk has not increased significantly after initial recognition, the impairment provisions is based on 12-month expected credit loss ("Stage 1"). If credit risk has increased significantly since initial recognition but no objective evidence of impairment, the impairment provisions are based on lifetime expected credit loss ("Stage 2"). The accumulated expected credit loss in "Stage 1" and "Stage 2" replaces current collective impairments. If there is objective evidence for impairment the impairment provision is based on lifetime expected credit loss ("Stage 3 "). The individual loss provisions under IAS 39 will not change significantly upon the transition to IFRS 9 ("Stage 3").

The company has applied the presumption in the standard that a significant increase in credit risk has occurred since initial recognition when contractual payments are more than 30 days past due.

If the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, the company reverts to recognise a loss allowance based on 12-months ECL.

Folkefinans sell all loan assets after 3 months so the initial loss forecast is based on the percent of assets forecasted not to be paid in 3 months. This is adjusted with the agreed price of assets, based on the mix of loan assets. If the loss expectation increases or decreases during the 3 months the loss forecast is adjusted. The adjustment is based on the experienced historical payments from due date to asset is sold.

Folkefinans has used the expected credit loss principle since the company was established, so the new IFRS 9 standard does not affect the company's measurement of the quantitative effect of credit risk compared to earlier practice. For loans to and deposits with credit institutions the company has applied an loss ratio model and has not made any provision on this balance sheet item. Cedit 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.

Loans to customers can be split into three categories: Short term loans with less than one-year duration, long-term loans with up to 5-year duration and a revolving credit line. The revolving credit product was launched in 2018.

Impairments of loans are recognized based on the company's loan loss models. The models are based on historical information and when no performance data is available, as for new products, the loss expectation is put on same level as for equivalent products.

The model is based on the exposure of defaulted loans at each balance date. The model calculates the probability of default and loss given default for each due day category (1-30, 30-60 and 60-90). After up to 105 days after due date the loans are sold, and loans that are not sold are impaired to zero.

The revolving credit follow same principles, but uses category's 1st reminder, 2nd reminder and cancellation as triggers for loss given default.

The loans in Class 1 are defined as loans that are performing and is subject to impairment in accordance with IFRS 9 and recognized for 12 months expected loss. The loans are put direct in the Class 2 when the loans have late payments and in Class 3 when loans are more than 90 days past due date.

Loans are terminated if two invoiced are not paid. This triggers a probability of default of 90-95% for the loan.

2.7.3 Measurement methods and presentation

Financial assets and liabilities measured at amortised cost

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal payments, plus or minus the cumulative amortization using the effective interest method of any differences between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.
The gross carrying amount of financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.
The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.
When the company revises the estimates of future cash flows, the carrying amount of the respective financial assets or liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Under IFRS 9 Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the financial asset is not credit-impaired) or to the amortised cost of the financial liability. When and financial asset become credit impaired the interest income is calculated by applying the effective interest rate to the net amortised cost of the financial asset. Under IAS 39 once a financial asset or a group of similar assets has been written down as a result of an impairment loss, interest is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expense calculated using the effective interest method is presented within 'Interest income' and 'interest expense' in the statement of comprehensive income.
'Interest income' consist of interest income on loan and deposits with credit institutions and interest on loans to customers. 'Interest expense' consist of interest expense on debt to credit institutions and interest expense from convertible subordinated loan.

Financial assets and liabilities measured at Fair value

Fair value is the price that would be received to sell and asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, expected discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2.8 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.

2.9 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.

2.10 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.

2.11 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.

2.12 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.

2.13 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.

2.14 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.

2.15 Leases

Accounting principle from
1.1.2019
The right of use that arises as a result of leases is accounted for as an asset which is depreciated over the term of the lease. The obligation to pay rent is recognized as a liability using the effective interest method.

Accounting principle prior to
1.1.2019
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.

2.16 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, and strong emphasis is placed on reporting risk to the relevant stakeholders in clear and meaningful manner. 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. 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 income 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 include 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 reduced 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.

• 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.

• 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.

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

- Additional Market risk
- Additional Credit Risk
- Additional Operational Rate Risk
- Liquidity and Funding Risk
- Strategic & Business Risk
- Systemic and Recession Risk
- Reputational Risk

- Political and Regulatory Risk
- Risk posed by Excessive Debt Accumulation

3.1 Pillar I risks

3.1.1 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 average expected lifetime is 5.5 months. Since these loans are to be repaid relatively rapidly the actual amount outstanding loans are thus limited. A loan that is not paid is sold after 90 days past due date, and the customer will not be able to take a new loan.

Folkefinans has a detailed Credit Framework for each product. The company has rules, scoring and affordability tests to offer loan size and interest for the customers. Folkefinans has both internally developed and external scoring models that is used to determine the credit rating of private customers. Folkefinans continuously monitors the Credit Risk by following defaults per 15/30/60/90 and terminated loan.

For the FY 2019 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 2019:

Counterpart	**Exposure 2019**	**Exposure 2018**
General Public		
Covered bonds		
Cash Deposit	12,882	19,350
Other commitments	256,724	228,164
Total	**269,606**	**247,514**

Region	**Exposure 2019**	**Exposure 2018**
Sweden	215,715	206,184
Norway	50,132	36,772
Finland	0,0243	0,061
Estonia	3,735	4,497
Denmark	0	0
Total	**269,606**	**247,514**

3.1.2 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 assets are denominated in NOK, SEK, EUR and USD and the loan facilities are currently denominated in SEK. The Company's accounts are denominated in NOK, resulting in net short and long NOK to SEK, NOK to EUR and NOK to USD exposure due to discrepancy between the denomination of its assets and liabilities and own equity. The net exposure in USD and Euro is fully hedged, while the SEK exposure hedge is limited.

FX Risk may also rise due to potential divergence between the denomination of income 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 income. Consequently, we find this risk to be negligible.

By 31 December 2019, Folkefinans has a non-hedged foreign exchange exposure of 67.7 MNOK.

Sensitivity analysis

Assessment of the impact of Market risk with currency fluctuations +/- 5%

	Change	Result 2019	Result 2018
NOK/SEK	+/- 5%	+/-3,419	+/-4,310
NOK/EUR	+/- 5%	+/-0,093	+/-0,961
NOK/USD	+/- 5%	+/-0,060	+/-0,000

(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.

3.1.3 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 funding risks

Liquidity Risk is the risk of not having sufficient liquidity to meet obligations when these fall due, or to meet liquidity commitments only at increased cost. The Funding Risk relates to Folkefinans' inability to raise additional funds to cover its forecasted growth and planned new product launches.

Funding 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: both credit facilities and equity. In addition, Folkefinans has products with short tenors that secure a high share of payback on loans in short time.

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

In order to minimize the funding risk, the Company is using different sources of funding. Currently Folkefinans' debt financing is through a subordinated loan and credit lines. The credit line with Arvato Bertelsmann is directly linked to the loan volume for the Revolving Credit Product. A credit line with a first trance of 25MSEK is secured with a Swedish credit institution. To secure the growth and profitability in Folkefinans' business plan for the coming years it will be a continued process for the Board and Management to strengthening the company's debt financing.

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.

At 31 December 2019	Between 3 months and 1 year	Between 1 and 5 years
Subordinated loan	1 617 704	34 048 825
Loans	5 567 837	98 983 763

3.2.2 Business & Strategic risk

Strategic Risk refers to Board and Management's ability to plan, organize, and in general control the Company's 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 income 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 income 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.

3.2.3 Systemic & Recession Risk

Folkefinans is to some extent exposed to speculative cycles and is affected negatively by recessions. Recession Risk thus tries to capture how Folkefinans will be affected by changes to these cycles.

Folkefinans/Folkia has followed its loss ratios from 2008 and has not been able see a connection between recessions and loss ratios in the Company. Through marketing and credit scoring, the company can govern its recession risk.

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 reduces this risk.

3.2.5 Reputational risk

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

To reduce the risk of losses caused of reputation in the market, Folkefinans as a licensed company, follow up all Guidelines from Authorities, in all the markets the company operates. The company follow the principles of Responsible lending.

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 behaviour 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 will actively work to strengthen its relationship with the Governmental Authorities in all countries.

3.2.6 Risk posed by Excessive Debt Accumulation

This is the risk of having too much debt vs equity. Leverage ratio is indicator of risk.

Folkefinans seeks to have a good balance between equity and debt. 59% of the balance sheet is financed with Equity.

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 2019 includes 120 MNOK of Tier 1 Capital and 9 MNOK Tier 2 Capital. The capital adequacy ratio is 26,2%.

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
2018 financial year	
Carrying amount 01.01.18	**471 443**
Additions	94 017
Translation differences	-24 327
Disposals	-2 638 550
Impairment during the year	-144 213
Depreciation during the year	-192 574
Disposals depreciation and impairment	2 638 550
Carrying amount 31.12.18	**204 345**
As at 31 December 2018	
Original cost	2 940 513
Accumulated impairment	-
Accumulated depreciation	-2 736 168
Carrying amount 31.12.18	**204 345**

	Right-of-use asset	Machinery, fixtures, fittings and vehicles	Total
2019 financial year			
Carrying amount 01.01.19		**204 345**	**204 345**
Recognised upon implementation of IFRS 16	3 206 228		
Adjusted carrying amount 01.01.2019	**3 206 228**	**204 345**	**3 410 573**
Additions	605 393	117 271	722 665
Translation differences	-15 905	-5 716	-21 621
Disposals	0	-1 029 509	-1 029 509
Impairment during the year	0	0	0
Depreciation during the year	-1 597 883	-140 870	-1 738 753
Disposals depreciation and impairment	0	1 029 509	1 029 509
Carrying amount 31.12.19	**2 197 834**	**175 031**	**2 372 865**
As at 31 December 2019			
Original cost	3 811 621	1 946 151	5 757 773
Accumulated impairment	0	0	0
Accumulated depreciation	-1 613 788	-1 771 120	-3 384 908
Carrying amount 31.12.19	**2 197 834**	**175 031**	**2 372 865**

Depreciation is charged on a straight-line basis. Estimated useful life is between 3 and 5 years. Depreciation period for right-of-use assets is 1.5 years.

6 Intangible assets

	Goodwill	Software (incl. scoring model and licenses)	Customer relationships	Trademarks	Total
2018 financial year					
Carrying amount 01.01.18	21 117 972	4 001 521	0	1 386 000	26 505 493
Additions	0	789 070	0	0	789 070
Disposals	0	-1 875 000	0	0	-1 875 000
Translation differences	0	-108 129	0	0	-108 129
Impairment during the year	0	0	0	0	0
Amortization during the year	0	-1 730 156	0	0	-1 730 156
Disposals depreciation		1 875 000			1 875 000
Carrying amount 31.12.18	**21 117 972**	**2 952 305**	**0**	**1 386 000**	**25 456 277**
As of 31 December 2018					
Original cost	45 889 905	23 252 044	13 332 762	10 134 617	92 609 327
Accumulated impairment	-24 771 933	0	0	-8 748 617	-33 520 550
Accumulated amortization	0	-20 299 738	-13 332 762	0	-33 632 500
Carrying amount 31.12.18	**21 117 972**	**2 952 305**	**0**	**1 386 000**	**25 456 277**
2019 financial year					
Carrying amount 01.01.19	21 117 972	2 952 305	0	1 386 000	25 456 277
Additions	0	232 601	0	0	232 601
Disposals	0	-1 078 195	0	0	-1 078 195
Translation differences	0	-53 908	0	0	-53 908
Impairment during the year	0	-138 070	0	0	-138 070
Amortization during the year	0	-1 359 138	0	0	-1 359 138
Disposals depreciation	0	1 063 118	0	0	1 063 118
Carrying amount 31.12.19	**21 117 972**	**1 618 713**	**0**	**1 386 000**	**24 122 685**
As of 31 December 2019					
Original cost	45 889 905	21 789 471	13 332 762	10 134 617	91 146 755
Accumulated impairment	-24 771 933	-120 952	0	-8 748 617	-33 641 502
Accumulated amortization	0	-20 049 805	-13 332 762	0	-33 382 567
Carrying amount 31.12.19	**21 117 972**	**1 618 713**	**0**	**1 386 000**	**24 122 685**
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, Folkefinans AS Norway Finnish Branch, Folkefinans AS Norway Estonian Branch and Folkefinans AS Norway. 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 and the board for a three-year period. Folkefinans' main operation in the coming years is on offering unsecured lending in Norway and Sweden. Discount rates after tax of 12.1 % for Folkefinans Swedish Branch and 13.3% Folkefinans AS Norway have been used.

The goodwill of 21 MNOK is related to the historical acquisition of Folkia AB. Folkefinans has during 2019 established credit lines with financial partners securing funding for growth of the main products for the Norwegian and Swedish markets. The business plan under the assumptions of achieving the growth in lending in both Sweden and Norway financed by Folkefinans' financial partners under the present uncertain market conditions, shows that the value of the goodwill can be defended.

7a Financial instruments by category

As of 31 December 2019	Amortised cost	Financial assets at fair value through P&L	Total
Assets			
Loans to and receivables from credit institutions	11 671 134		11 671 134
Loans to customers	201 720 371		201 720 371
Investment securities		21 630 043	21 630 043
Derivatives	898 850		898 850
Prepaid and deposits	19 405 548		19 405 548
Total	**233 695 903**	**21 630 043**	**255 325 946**

As of 31 December 2019	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Total
Liabilities			
Liabilities to credit institutions		98 983 763	98 983 763
Derivatives	1 102 683		1 102 683
Other financial obligations		11 335 544	11 335 544
Convertible subordinated loan		30 813 416	30 813 416
Total	**1 102 683**	**141 132 723**	**142 235 406**

Folkefinans' Visa Europe Principal Membership, Folkefinans' shares in Visa Inc. are re-evaluated monthly based on the quoted share price at NYSE and represents a value of 17 896 TNOK. A deferred cash payment of EUR 208 thousand from the transaction were received in June 2019. Further Folkefinans holds a 8% ownership in the Estonian company Wallester. The value of the shares were written down at the end of 2019 based on the pricing in the recent capital increase and represents a value of 3 445 TNOK.

To be compliant with FSA short term liquidity standards (LCR) Folkefinans invests in funds comprised of highly liquid assets. As per 31.12.19 Folkefinans owned shares valued at 254 TNOK in "Carnegie Obligasjonsfond" and shares valued at 31 TNOK in "KLP Statsobligasjon". The funds are traded in an active market and fair value is based on quoted market prices at the end of the reporting period. The fund investments are classified as investment securities.

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 2018	Amortised cost	Financial assets at fair value through P&L	Total
Assets			
Loans to and receivables from credit institutions	9 305 098		9 305 098
Loans to customers	184 117 455		184 117 455
Investment securities		18 163 439	18 163 439
Prepaid and deposits	12 973 882		12 973 882
Total	**206 396 435**	**18 163 439**	**224 559 875**

As of 31 December 2018	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Total
Liabilities			
Liabilities to credit institutions		69 031 555	69 031 555
Derivatives	1 838 991		1 838 991
Other financial obligations		7 475 277	7 475 277
Convertible subordinated loan		31 095 257	31 095 257
Total	**1 838 991**	**107 602 089**	**109 441 080**

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.

	2019	2018
Accounts receivable		
Loans to customers	201 720 371	184 117 455
Total accounts receivable	**201 720 371**	**184 117 455**

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.

	2019	2018
Bank deposits		
AA-	574 371	391 710
A+	11 084 591	8 887 882
A -	0	0
A	-849	8 991
Undefined/no rating available	13 020	16 515
Total bank deposits	**11 671 134**	**9 305 098**

8 Loans and other receivables

	2019	2018
Gross lending to the customers	217 506 611	202 546 129
Impairment due to probable losses on loans	-16 293 344	-18 428 674
Accrued income - Revolving credit	507 104	0
Lending to the customers	**201 720 371**	**184 117 455**

The carrying value of loans to the customers is equal to their fair values.

Ageing of loans to customers	2019	2018
Not fallen due	169 789 921	159 410 286
1 – 30 days after the due date	22 313 095	18 501 805
31 - 60 days after the due date	12 010 611	9 608 628
61 - 90 days after the due date	8 500 134	6 886 050
> 91 days after the due date	5 399 954	8 139 360
Gross lending to the customers	**218 013 715**	**202 546 129**

Recognised value of the Company's gross lending to the customers, per geographical market in NOK as of 31 December 2019:

	Sweden	Norway	Estonia	Finland	Total
Not fallen due	157 433 079	12 356 842	0	0	169 789 921
1 – 30 days after the due date	16 590 630	5 722 465	0	0	22 313 095
31 - 60 days after the due date	8 293 779	3 716 832	0	0	12 010 611
61 - 90 days after the due date	7 537 449	962 685	0	0	8 500 134
> 91 days after the due date	4 961 436	438 518	0	0	5 399 954
Gross lending to the customers	**194 816 374**	**23 197 341**	**0**	**0**	**218 013 715**

Recognised value of the Company's gross lending to the customers, per currency in NOK:

	2019	2018
SEK	194 816 374	182 917 477
NOK	23 197 341	19 628 652
Gross lending to the customers	**218 013 715**	**202 546 129**

The change in the allowance for the impairment of the lending to the customers is as follows:

	2019	2018
As at 1 January	**18 428 674**	**18 248 374**
Provision during the year	-5 385 578	20 151 213
Gross lending that have been written off as losses during the year	3 125 854	1 401 663
Reversed provision due to portfolio sales	590 365	-19 627 746
Reversal of unused amounts	-94 067	-522 004
Currency translations	-371 903	-1 222 825
As at 31 December	**16 293 346**	**18 428 674**

	2019	2018
Unspecified loan loss provisions during the period	685 304	21 030 872
Profit sale of portfolios	28 490 830	991 689
Unspecified loan loss provisions	**29 176 134**	**22 022 561**

Reconciliation of gross lending to customers	Class 1	Class 2	Class 3	Total
Gross carrying amount as at 01.01.2019	**170 403 961**	**20 048 165**	**12 094 002**	**202 546 129**
Transfers in 2019*				
Transfer from Class 1 to Class 2	-3 321 070	3 551 275	0	230 205
Transfer from Class 1 to Class 3	-1 840 614	0	3 491 866	1 651 252
Transfer from Class 2 to Class 3	0	-945 773	1 086 943	141 170
Transfer from Class 3 to Class 2	0	141 170	-188 945	-47 775
Transfer from Class 2 to Class 1	145 097	0	-296 191	-151 094
Transfer from Class 3 to Class 1	1 047 041	-2 068 298	0	-1 021 257
New Assets	434 388 045	202 087	40 334	434 630 466
Assets derecognized	-413 453 896	873 492	-2 744 902	-415 325 306
Gross carrying amount as at 31.12.2019	**183 441 310**	**21 324 467**	**13 247 938**	**218 013 715**

Reconciliation of impairments of loans to customers	Class 1	Class 2	Class 3	Total
Impairment as at 01.01.2019	**5 023 584**	**4 438 751**	**8 966 339**	**18 428 674**
Transfers in 2019				
Transfer from Class 1 to Class 2	-43 652	828 142	0	784 490
Transfer from Class 1 to Class 3	-17 730	0	546 558	528 828
Transfer from Class 2 to Class 3	0	-50 297	68 953	18 656
Transfer from Class 3 to Class 2	0	3 800	-63 722	-59 923
Transfer from Class 2 to Class 1	3 905	0	-99 891	-95 986
Transfer from Class 3 to Class 1	28 181	-505 843	0	-477 662
New financial assets originated or change in provisions	15 504 658	-181 662	-2 110 077	13 212 918
Assets derecognized or change in provisions	-15 370 130	-61 784	-235 836	-15 667 751
Impairment as at 31.12.2019	**5 026 517**	**4 363 708**	**6 903 119**	**16 293 034**

9 Net Interest Income

	2019	2018
Interest and similar income from loans to and receivables due from credit institutions	10 930	24 468
Interest and similar income on loans to and receivables due from customers	106 036 839	120 910 050
Interest income calculated using the effective interest method	106 047 769	120 934 518
Interest and other expenses on debt to credit institutions	-8 933 129	-5 588 412
Interest expenses on lease liabilities	-234 184	0
Interest expenses	-9 167 313	-5 588 412
Net interest and credit commission income	**96 880 456**	**115 346 106**

10 Other Assets

	2019	2018
Settlement instant payments provider - Revolving credit	0	3 025 801
Cash collateral - Hedging	1 969 120	0
Accrued interest income - revolving credit		2 838 756
Escrow account related to revolving credit funding	7 903 570	6 373 422
Other	361 095	472 651
Total	**10 233 785**	**12 710 630**

11 Loans to and receivables from credit institutions

	2019	2018
Cash and bank deposits	11 671 134	9 305 098
Total	**11 671 134**	**9 305 098**

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

	2019	2018
Cash and cash equivalents	11 671 134	9 305 098
Total	**11 671 134**	**9 305 098**

12 Share capital and share premium

	No. of shares	Nominal share capital	Share premium	Total
Carrying amount 31.12.18	**19 178 100**	**95 890 500**	**79 262 471**	**175 152 971**
Carrying amount 31.12.19	**19 247 919**	**96 239 595**	**79 262 471**	**175 502 066**

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 2019, the number of shares was 19 341 016 of which 93 097 are the company's own shares.

13 Other liabilities and accrued expenses and deferred income

	2019	2018
Accounts payable	7 932 314	5 344 472
Approved, invoiced but not paid out loans	1 729 093	2 036 953
Salaries owed	0	0
Liabilities to partners and employees	294 676	499 758
Lease liabilities	2 276 673	0
Govt. charges and special taxes	364 492	2 934 273
Total Other liabilities	**12 597 249**	**10 815 456**
Accrued Govt. charges and special taxes	556 621	526 593
Accrued expenses	1 920 880	3 200 550
Holiday pay due	2 090 040	1 761 168
Other accrued expenses	213	16 860
Total accrued expenses and deferred income	**4 567 754**	**5 505 171**

14 Liabilities

	2019	2018
Liabilities		
Liabilities to credit institutions	98 983 763	69 031 555
Derivatives	1 102 683	1 838 991
Subordinated loan	30 813 416	31 095 257
Total loans	**130 899 862**	**101 965 804**

Liabilities to credit institutions
Arvato Bertelsmann is financing the revolving credit product in Sweden. In November 2019 the credit line was extended from 100 MSEK to 200 MSEK. The credit line has an interest of 7.5%

In June 2015 Folkefinans entered into a subordinated loan in the amount of 3 500 TEUR. The loan accrues 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. In October 2017 it was agreed to amend the currency of the loan from EUR to SEK. At 31.12 2019 the loan amounts to 33 610 TSEK.

A credit line with a first tranche of 25 MSEK was entered into with a Swedish credit institution in July 2019. The credit line will finance Frogtail consumer loans and has an interest of 6.5%. The credit line has not been drawn upon in 2019.

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

	2019	**2018**
6 months or less	0	0
6-12 months	0	0
1-5 years	31 916 099	32 934 248
More than 5 years	0	0
No agreed maturity date	98 983 763	69 031 555
Total loans	**130 899 862**	**101 965 804**

Carrying amount and fair value of loans:	**2019**	**2018**
Carrying amount		
Liabilities to credit institutions	98 983 763	69 031 555
Derivatives	1 102 683	1 838 991
Convertible subordinated loan	30 813 416	31 095 257
Total carrying amount	**130 899 862**	**101 965 804**
Fair value		
Liabilities to credit institutions	98 983 763	69 031 555
Derivatives	1 102 683	1 838 991
Convertible subordinated loan	30 813 416	31 095 257
Total fair value	**130 899 862**	**101 965 804**

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

	2019	**2018**
NOK	0	0
EUR	0	0
SEK	130 899 862	101 965 804

Liquidity risk

As of 31 December 2019	Undefined	0-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to credit institutions		1 855 946	5 567 837	98 983 763		106 407 545
Accounts Payable		1 827 101	2 740 652			4 567 754
Derivatives				1 102 683		1 102 683
Convertible subordinated loan		539 235	1 617 704	34 048 825		36 205 764
Total Liabilities	**0**	**4 222 282**	**9 926 193**	**134 135 270**	**0**	**148 283 745**

As of 31 December 2018	Undefined	0-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to credit institutions		1 294 342	3 883 025	69 031 555		74 208 922
Accounts Payable		5 325 165				5 325 165
Derivatives				1 838 991		1 838 991
Subordinated loan		544 167	1 632 501	36 536 927		38 713 595
Total Liabilities	**0**	**7 163 674**	**5 515 526**	**107 407 474**	**0**	**120 086 673**

		Cash Flows		Non-cash charges				
	2018-12-31	**Amorti-sation**	**Principal increase**	**Interest Payments**	**Interest cost**	**Accrued interest**	**FX Adjust-ment**	**2019-12-31**
Liabilities to credit institutions	69 031 555	0	29 952 208	-6 187 302	6 187 302	0	0	98 983 763
Convertible subordinated loan	31 095 257			-2 726 468	2 726 468	0	-281 841	30 813 416
Total	**100 126 812**	**0**	**29 952 208**	**-8 913 770**	**8 913 770**	**0**	**-281 841**	**127 797 179**

15 Pensions and similar liabilities

	2019	2018
Costs charged to the statement of comprehensive income		
– Pension costs	1 879 336	1 521 837

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.

16 Wages and salaries

	2019	2018
Salaries	16 541 268	16 806 627
Employers' national insurance contributions	4 505 362	4 853 661
Pension costs – the year's provisions for defined contribution-based pension schemes	1 879 336	1 521 837
Other benefits	244 612	172 593
Total wages and salaries	**23 170 578**	**23 354 718**

No. of employees	**25**	**23**

17 Other operating expenses

	2019	2018
External advisors/fees services	1 137 710	1 087 431
Rental expenses	372 550	2 433 944
Production expenses	4 654 003	4 175 726
Collection expenses	0	0
Administrative and other expenses	413 159	521 987
Total other operating expenses	**6 577 422**	**8 219 088**

Fees to auditors and other related costs	**2019**	**2018**
Statutory audit		
- PwC	1 098 503	1 045 681
- other	0	0
Tax services		
- PwC	47 500	47 500
- other	18 610	0
Other non-assurance services		
- PwC	79 625	38 929
Total PwC	1 225 628	1 132 110
Total	**1 244 238**	**1 132 110**

Fees include VAT.

18 Taxes

Tax expense:	**2019**	**2018**
Taxes payable on foreign income	0	908 921
Adjustments in respect of prior years	-823 522	-2
Change in deferred tax	1 812 384	1 887 125
Change in deferred tax due to change in tax rate		0
Tax expense	**988 862**	**2 796 044**

Total tax including OCI	**988 862**	**2 796 044**

Tax payable	0	908 921
Advance tax payments	-1 985 955	-1 737 387
Total tax payable	**-1 985 955**	**-828 467**

Reconciliation of the tax expense:	**2019**	**2018**
Profit before taxes	**1 168 140**	**10 034 687**
Calculated tax 25 %	292 035	2 508 672
Permanent differences	1 520 349	-621 547
Effects from changed tax rates		0
Adjustments in respect of prior years	-823 522	-2
Tax payable on foreign income		908 921
Tax	988 862	2 796 044
Tax in the statement of comprehensive income	**988 862**	**2 796 044**
Tax expense in the income statement	988 862	2 796 044
Tax expense	**988 862**	**2 796 044**

Deferred tax and deferred tax assets:

Deferred tax assets	**2019**	**2018**
Deficit carried forward - Norway	122 819 128	115 092 660
Other temporary differences	-13 760 747	-2 078 830
Total temporary differences (deferred tax basis)	**109 058 381**	**113 013 830**

Deferred tax assets are capitalized based on future income.

Deferred tax liability		
Tangible and intangible assets	0	0
Deferred tax liability	**0**	**0**

Net deferred tax	**27 264 595**	**28 253 457**
Ordinary tax expense	988 862	2 796 044
Total tax expense	**988 862**	**2 796 044**
Taxes payable	0	908 919
Change in deferred tax	988 862	1 887 125
Total tax expense	**988 862**	**2 796 044**

19 Commitments

a) Guarantees and charges:

Folkefinans has no guarantees or charges in 2019.

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:

	2019	2018
Due date within 1 year	1 814 390	1 784 374
Due date between 1 and 5 years into the future	635 037	1 872 926
Due date more than 5 years into the future	0	0
Total future minimum lease payments	**2 449 427**	**3 657 299**

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 for Sweden and 6 months for Norway. As at 31.12.2019 the total of deposits for office rental is 930 494 NOK. The total minimum payments are gross figures (no deduction for deposits).

c) Off balance sheet exposure

Folkefinans launched a revolving credit product (Monetti Flexilån) in Sweden in June 2018. At the end of 2019 total unused credit limit amounted to 26 694 TNOK

20 Related parties

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

Marinium OY - Owned by the Chairman of the board and shareholder Kalle Pykälä

Synvestment OÜ - Owned by the board member and shareholder Jan Nilsson

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):

	2019	2018
Mariniuim OY	213	225
Synvestment OÜ	252	679
Total	**466**	**904**

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

The agreements for purchasing of services from Marinium OY and Synvestment OÜ relates to consultancy services from the Chairman of the board and board member Mr Nilsson. These consultancy services relate 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 the above mentioned companies.

c) Remuneration to senior employees

The senior employees comprise the management and directors. The remuneration to senior employees is shown below: (NOK 1000)

	2019	2018
Salaries and other short-term employee benefits	8 201	7 525
Pension benefits	819	871
Other long-term benefits	-	-
Share-based remuneration	-	-

Total	**9 020**	**8 395**

Specification of remuneration to senior employees:

	2019		2018	
Name	**Salary and other short-term benefits**	**Pension benefits**	**Salary and other short-term benefits**	**Pension benefits**
Jens Schau-Hansen, CEO	2 143	266	2 035	327
Other Management	**5 248**	**553**	**4 630**	**544**
Martin Holmin, CTO 1)	0	0	754	67
Mariko Ragnarsdottir, Head of Technology 1)	968	83	327	33
Janne Kiiha CCO	1 277	163	1 515	170
Kemal Kalkan, Head of Customer Service	815	71	808	68
Triin Öun, Head of Legal & Compliance 4)	892	77	0	0
Christer Nilsson, CRO	1 296	159	1 226	205
Credit Committee	**0**	**0**	**50**	**0**
Harald Nordstrand 3)	0		50	
Audit and Risk Committee	**160**	**0**	**160**	**0**
Jan Nilsson 4)	**0**		**0**	
Einar Irgens	40		40	
Kalle Pykälä	80		80	
Veijo Aulis Ojala 2)	40		0	
Harald Nordstrand 3)	0		40	
Board members	**650**	**0**	**650**	**0**
Jan Nilsson	100		100	
Raivo Aavisto	100		100	
Mikko Marttinen	100		100	
Kalle Pykälä	250		250	
Veijo Aulis Ojala 2)	100		0	
Harald Nordstrand 3)	0		100	
Total	**8 201**	**819**	**7 525**	**871**

1) Mr Holmin left the position as CTO in September 2018 and was replaced by Mrs Ragnarsdottir as Head of Technology

2) Appointed to his position in 2018

3) Left their position in 2018

4) Appointed to the position in 2019

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

Folkefinans obtained in 2015 a subordinated loan of 33.6 MSEK from Wonga who owns 9,9% of Folkefinans. The loan is approved by Finanstilsynet to be included as Tier II capital. Any changes to the conditions of the loan needs approval by Finanstilsynet. Wonga was put under liquidation in August 2018, and an Administrator for the liquidation process was appointed. The loan agreement includes a negative pledge clause which gives the Administrator the right not to waive any drawdown of additional secured debt. Folkefinans' board and the Administrator has outlined a process with defined actions were the loan will be repaid before maturity to the Administrator, in order for the Administrator to approve further drawdown of secured debt.

The spread of the Covid-19 virus has severely affected the economic activities in the markets were Folkefinans is operating. Presently it is difficult to determine how this will influence Folkefinans operation and financial position. In comparison the financial crisis in 2008 had limited effect on Folkefinans' losses in the Swedish market at the time. The board and management will monitor the development closely going forward with special focus on how the downturn in the economy will impact Folkefinans' capital adequacy, risk exposure and liquidity and take the necessary actions in order to preserve the company's financial position and ensure that the company are operational at all times. These external factors are creating increased uncertainty in the markets and will also affect Folkefinans' operations. The period since the spread of the Covid-19 virus started is however short and it is therefore too early to determine the extent of the consequences for the company. The governments in Sweden and Norway have also chosen different approached to stop the spread of the virus which might impact the level of economic consequence in each market. The board therefore believes that in a worst-case scenario these events and circumstances can create doubts about the company's ability to continue operations.

22 Share capital and shareholder information

The share capital in the company as of 31 December 2019 consists of:

	No. of shares	Nominal value	Book value
Shares excluding Folkefinans own shares	19 247 919	5	96 239 595
Total	**19 247 919**	**5**	**96 239 595**

All the shares have equal voting rights.

Ownership structure

The largest shareholders in the company as of 31 December 2019	**Shares**	**Ownership share**
WONGA GROUP LIMITED	1 934 100	10,0%
BRENNEN CONSULTING LIMITED	1 740 800	9,0%
CNHL LTD	1 573 850	8,1%
ÍSLANDSBANKI HF.	1 372 662	7,1%
LANDSYN EHF	1 301 974	6,7%
DANSKE BANK A/S*	1 214 100	6,3%
INTERACTIVE A ISLANDI EHF	891 811	4,6%
CLEARSTREAM BANKING S.A.*	852 016	4,4%
SVENSKA HANDELSBANKEN AB*	833 000	4,3%
NORDNET BANK AB*	793 331	4,1%
SVENSKA HANDELSBANKEN AB*	719 784	3,7%
PAATERO	684 373	3,5%
SKANDINAVISKA ENSKILDA BANKEN AB*	537 662	2,8%
NEBRASKA INVEST OY	496 356	2,6%
FIVADO AS	282 787	1,5%
HIETALA	248 064	1,3%
BERASCO LIMITED	242 869	1,3%
ILVES	242 826	1,3%
DYVI	200 500	1,0%
DYNAMO AS	193 166	1,0%
BJØRNSTAD	192 097	1,0%
Shareholders with at least 1 % ownership	**16 548 128**	**85,6%**

*) Nominee account

Own shares, FOLKEFINANS AS	93 097	0,5%
Own shares, FOLKEFINANS AS NORGE, FILIAL SVERIGE	0	0,0%

Remaining ownerships	**2 699 791**	**14,0%**
Number of shareholders:	67	
Number of shares:	**19 341 016**	**100,0%**

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

Name	**Position**	**Shares**
Jens Schau-Hansen (1)	CEO	43 263
Mikko Marttinen (2)	Director	1 196 126
Raivo Aavisto (3)	Director	1 305 600
Kalle Pykälä (4)	Chairman of the Board	152 655
Jan Nilsson (5)	Director	242 869
Veijo Aulis Kalevi Ojala (6)	Director	377 724
Total		**3 318 237**

(1) Jens Schau-Hansen owns shares directly.

(2) Mikko Marttinen owns shares indirectly through CNHL LTD. Marttinen controls 76 % of CNHL LTD.

(3) Raivo Aavisto owns shares indirectly through BRENNEN CONSULTING LIMITED via BRANDBERG OÜ

Aavisto controls 75% of BRENNEN CONSULTING LIMITED via BRANDBERG OÜ.

(4) Kalle Pykälä owns shares indirectly through Marinium OY

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

(6) Veijo Aulis Kalevi Ojala owns shares indirectly through CNHL LTD. Ojala controls 24 % of CNHL LTD.

The share capital in the company as of 31 December 2018 consists of:

	No. of shares	Nominal value	Book value
Shares excluding Folkefinans own shares	19 178 100	5	95 890 500
Total	**19 178 100**	**5**	**95 890 500**

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 2018	**Shares**	**Ownership share**
WONGA GROUP LIMITED	1 934 100	10,0%
BRENNEN CONSULTING LIMITED	1 740 800	9,0%
CNHL LTD	1 573 850	8,1%
SVENSKA HANDELSBANKEN AB*	1 572 896	8,1%
ÍSLANDSBANKI HF.	1 372 662	7,1%
LANDSYN EHF	1 301 974	6,7%
DANSKE BANK A/S*	1 214 100	6,3%
INTERACTIVE A ISLANDI EHF	891 811	4,6%
CLEARSTREAM BANKING S.A.*	852 016	4,4%
NORDNET BANK AB*	793 331	4,1%
PAATERO	684 373	3,5%
SKANDINAVISKA ENSKILDA BANKEN AB*	537 662	2,8%
NEBRASKA INVEST OY	496 356	2,6%
FIVADO AS	282 787	1,5%
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%
BJØRNSTAD	192 097	1,0%
Shareholders with at least 1 % ownership	**16 568 240**	**85,7%**
*) Share deposit		
Own shares, FOLKEFINANS AS	110 174	0,6%
Own shares, FOLKEFINANS AS NORGE, FILIAL SVERIGE	52 742	0,3%
Remaining ownerships	**2 609 860**	**13,5%**
Number of shareholders:	66	
Number of shares:	**19 341 016**	**100%**

23 Capital adequacy

Capital adequacy 31 December (Group)

	2019	2018
Share capital	96 239 595	95 890 500
Other equity	75 015 418	77 007 655
Deferred tax	-27 264 595	-28 253 457
Goodwill and other intangible assets	-24 122 685	-25 456 277
Common Equity (CET 1)	**119 867 732**	**119 188 420**
Additional Tier 1 capital	0	
Tier 1 Capital	**119 867 732**	**119 188 420**
Tier 2 capital	9 281 149	15 581 687
Total Capital	**129 148 881**	**134 770 107**
Institutions	2 576 404	1 861 020
Other commitments	255 368 267	230 173 216
Sum Credit Risk	257 944 671	232 034 236
Market Risk	71 481 711	105 419 789
Operational Risk	162 674 467	181 093 750
Total Risk Weighted Assets	**492 100 849**	**518 547 774**
Common Equity (CET 1) %	**24,4%**	**23,0%**
Tier 1 Capital %	**24,4%**	**23,0%**
Total Capital %	**26,2%**	**26,0%**

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 statement of financial position as at 31 December 2019, statement of comprehensive income, statement of changes in equity and statement of cash flow 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 give a true and fair view of the financial position of the Company as at 31 December 2019, 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

In the financial statements, the carrying amount of goodwill and deferred tax assets, respectively, is NOK 21 117 972 and NOK 27 264 595. Management has provided documentation and reasoning that conclude that the book values can be justified. In our opinion, this documentation, which includes future expectations, does not support the book values. This leads us to the conclusion that the values should have been written down. If such write-down had been made, the equity would have been reduced by NOK 48 382 567.

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 21 in the financial statements and Board of Directors' report, which describes events after the balance sheet date and uncertainty due to changes in the external environment. As set forth, these events indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises information in the annual report, except 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.

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.

Responsibilities of 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 in accordance with law and regulations, including 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.

For further description of Auditor's Responsibilities for the Audit of the Financial Statements reference is made to https://revisorforeningen.no/revisjonsberetninger

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 and in the statements on Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result 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, 25 March 2020
PricewaterhouseCoopers AS

Thomas Steffensen
State Authorised Public Accountant

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