2018

Folkefinans

Annual Report 2018

Index:

Annual Report 2018

Page:

REPORT OF THE BOARD OF DIRECTORS FOR 2018

GENERAL

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

ABOUT 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 2018, 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 2018

- During 2018 Folkefinans sold more than 82 000 loans to 34 000 unique customers reaching a total gross lending of NOK 480 million which is an increase of 7% compared to 2017.
- The company achieved the highest sales levels so far in Sweden and Norway outperforming the 2017 record levels and delivered a strong, positive operational result for 2018, driven by marketing and further improved operations.
- Excluding non-operational items and net effects of foreign exchange the profit for 2018 was approximately NOK 5 million stronger than 2017.
- A new Revolving Credit product, Monetti Flexilån, was launched in the Swedish market in June on the new flexible and scalable loan platform Mambu.
- The reception of Monetti Flexilån by Folkefinans' customers has been far better than expected and contributed more than 20% of Folkefinans lending in Sweden for 2018.
- Folkefinans entered into a strategic partnership with Arvato Bertelsmann securing a credit line of 100 MSEK financing the new Monetti Flexilån portfolio in Sweden.

- Folkefinans made a revision of all product offerings ensuring compliance with the new legislations including interest cap that was implemented in Sweden 1 September 2018.

REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Total result for 2018 was NOK 8.5 million compared with NOK 11.8 million in 2017. The result in 2017 was positively influenced by high one-time profit from sales of bad debt portfolios. Excluding non-operational items and net effects of foreign exchange the profit for 2018 was approximately NOK 5 million better than 2017. The return on equity was 4.2%. The improvement of the operational result came from customer and loan growth and cost reductions.

The Swedish branch had a positive result for 2018 amounting to SEK 3.4 million in 2018 compared to SEK 11.8 million in 2017. The decline in profit was mainly due to high net loss on foreign exchange. Excluding foreign exchange loss, the profit of the Swedish branch was SEK 6.7 million compared to 7.8 million in 2017.

Income

Total income amounted to NOK 121 million in 2018, compared to NOK 115 million in 2017. The increase in income is due to the high growth in lending from Monetti Flexilån in Sweden in 2018 compensating for the drop in income from the loan products as a consequence of the introduction of interest cap in Sweden 1 September 2018. The income in Norway showed a decline compared to 2017 due to the stop in sales of Frogtail loans in Q1 2017. The Folkia brand showed a stable development in 2018.

Operating expenses

Total operating expenses exclusive losses on loans and impairments were NOK 55.3 million in 2018 compared to NOK 67.5 million in 2017. As part of the changes to Folkefinans’ operations and organization in Q1 2017 the operating expenses was reduced substantially giving a full year positive impact in 2018.

Loan loss provisions

The company’s provision for loan losses were NOK 22 million in 2018 compared to 3.5 MNOK in 2017. Provisions for loan losses in 2017 included gains from sale of loan portfolios in all markets totaling NOK 16.6 million. All products are sold under Forward Flow agreements during 2018 to three different partners in Norway and Sweden at competitive prices. The overdue portfolios are sold monthly at defined days past due which differs for the different products. During 2018 Folkefinans has focused on improving the pre-collection processes and scoring models in cooperation with external partners.

Goodwill impairment

The carrying amount of goodwill in the financial statements is assessed annually for any impairment in value. The goodwill of NOK 21.1 million in the balance sheet is related to the historical acquisition of Folkia AB. Folkefinans' business plan requires strengthening of the company's debt financing during 2019 in order to support the planned future growth and further improve profitability in the Norwegian and Swedish markets. The business plan under the assumptions of obtaining new funding, shows that there is no indication of impairment.

BALANCE SHEET, FINANCING AND LIQUIDITY

Folkefinans' balance sheet total as of 31 December 2018 was NOK 291 million, compared to NOK 248 million in 2017. As a result of the strong growth in lending with corresponding increase in loans to and receivables from customers in 2018 the equity ratio was 59% in 2018 compared to 68% in 2017 (total equity/total balance).

The company is financed by (i) equity, (ii) a credit line of SEK 100 million with Arvato Bertelsmann and (iii) one subordinated loan of SEK 33 million entered into in 2015. Part of the subordinated loan is included as Tier 2 capital in the 2018 Annual Report. In May 2018 Folkefinans entered into a credit line of SEK 30 million with Arvato Bertelsmann financing the Monetti Flexilån portfolio. Due to the high growth in lending the credit line was extended to SEK 100 million in September. The two loans of SEK 26 million entered into in 2014 and 2015 were fully repaid by the end of 2018 in their original schedule. In order to facilitate further growth, the Board and Management continued the process of obtaining new funding during 2018. The process is expected to be finalized during first half of 2019.

Folkefinans' liquidity situation is on an adequate level for the business conducted in 2018 and anticipated for 2019. As at 31 December 2018, the company had cash holdings incl. investments in highly liquid assets funds of NOK 10.6 million. The company's cash position was satisfactory throughout 2018.

Folkefinans' Visa Europe Principal Membership, Folkefinans' shares (919 Series C Preferred Stock) in Visa Inc. were re-evaluated monthly during 2018 based on the quoted share price at NYSE and represents a value of NOK 12.4 million following the Visa Inc. acquisition of Visa Europe Limited with closing in June 2016. A deferred cash payment of €1.12 billion, including interest, to all eligible Visa Europe Principal Members will be paid pro rata shortly after the third anniversary of the closing of the transaction.

MARKET AND PRODUCTS

During 2018, 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 NOK 40.000 with maturity up to 3 years through the brands Monetti, Frogtail and Kredit365 in Sweden and Folkia in Norway.

New Swedish regulations, introducing interest rate and cost roofs for consumer loans, came in force 1 September 2018. As a high cost credit provider, major part of Folkefinans products were affected by these regulations. Folkefinans started to prepare for the challenges already in 2017 and launching of the new revolving credit product (Monetti Flexilån) in partnership with Arvato Bertelsmann in early June 2018 was a major milestone for the company. Not only was it a shift from short-term loans to a long-term minimum to pay revolving credit product, but it also was the first product using the new Mambu technical platform. Monetti Flexilån was designed to comply with the future Swedish regulations and was well received by the customers from the start. Frogtail consumer loans were only partly affected by the new regulations as the brand´s focus is on slightly larger and longer loans with lower interest rate. Most affected products were the short-term loans as smaller interest margins forced Folkefinans to tighten the customer credit assessment.

In order to further improve both income and profitability, Folkefinans plans to continue grow the revolving credit and consumer loan portfolios as well as to launch additional longer-term loan products during 2019. In the new credit environment, it is now more apparent that future income growth and profitability is generated by higher life-time income per customer, by products such as revolving credit and consumer loans. In order to rapidly and cost effectively roll out and launch new products in multiple markets, the existing technical platform is currently ongoing transformation to a “cloud-first” lending/banking platform. The SaaS vendor Mambu is the core of the new platform currently under implementation.

As a proof of strong demand, the different Folkefinans web-sites experienced record strong traffic during 2018, with no signs of slowing down after the new regulations 1 September. Affiliate marketing and loan agents were used to enable rapid growth of new sales volumes and these channels had an important role for launching new products quickly and cost efficiently for the broad market. Folkefinans marketing focus is 100% digital medium, with the use of AI-powered marketing platform in order to take advantage of the ever-increasing amount of data and to optimize media spend to engage, upsell and retarget consumers across addressable channels including display, video, mobile and social.

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 ability to manage risks and conduct a good capital planning is fundamental for having a profitable and stable company.

In relation to the company’s balance sheet as at 31 December 2018 the major risks are: foreign exchange risks and credit risks 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. Folkefinans does not meet the requirements in kapitalkravforskriften § 38-4 regarding maximum allowed exposure to foreign currency. At the end of 2018 the company’s net exposure to SEK was higher than 15% and overall foreign currency exposure was higher than 30% of the total capital base. In order to meet this requirement and reduce overall market risk Folkefinans plan to begin to fully hedge its currency exposure during 2019.

Folkefinans’ capital adequacy ratio continued to improve and was 26.0 % as at 31 December 2018, compared to 25.8 % in 2017.

CORPORATE GOVERNANCE

The Board held 11 physical meetings in 2018. The key issues discussed were follow-up on profit and loss development, business development and financing to 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 2018, the Board continued 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.

ORGANIZATION, EMPLOYEES, CULTURE, INTERNAL & 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 close to 50 % 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 surveys conducted in 2018 showed that the working environment in Folkefinans is considered to be very good and well above the financial services industry average.

The total sickness absence, that was 136 days, has decreased compared to 2017 and equals 1,9 % 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 2018. 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 a non-profit organisation to which financial contribution was provided. In 2018 financial support was provided to the non-profit organization 'Hjärtebarnsfonden', that is researching within area of newborns' heart diseases.

MAIN TRENDS

During 2018, the company maintained its focus on the Norwegian and Swedish markets. The economic trends in the Nordic markets where Folkefinans operates are positive. The Norwegian economy shows increasing growth and is predicted to be the fastest-growing Scandinavian economy in 2019, whereas the Swedish economy is showing slightly lower economic growth.

Financial sector continues with several regulatory initiatives and Folkefinans works continuously to ensure compliance. There are various ongoing national initiatives, in particular in the consumer credit area, including review of a proposal for an interest cap in Norway and new legislation regarding responsible lending in May 2019. EU continues with prevention of the use of the financial system for the purpose of money laundering or terrorist financing and 2018 July European Commission brought into force the Fifth Anti-Money Laundering Directive (DIRECTIVE 2018/843), which has to be implemented by the member states by January 2020. Folkefinans has adequate procedures to keep track of incoming legislation, both from the EU and nationally.

We believe that 2019 will be a year with favorable macro trends and commencement of significant new partnerships. Folkefinans will continue to embrace changes in the markets and seek to expand with them. Focus is on continually improving our business through new key partnerships, seizing opportunities in the markets, whilst steadily improving our core business and systems to be prepared for the future.

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 2018.

The consumer lending and banking industry will continue to face changes in the years to come with increased regulatory focus, based on strengthened authority control in the market space. As a licensed and compliant company already under supervision, Folkefinans is well positioned to comply with future new regulatory requirements.

After a year with satisfactory growth and improved operational profitability, the main focus during 2019 will be to further improve profitability through growth in lending, continue development of Folkefinans' product offerings and strengthen the company's debt financing.

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Oslo, 21st of March, 2019
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	2018	2017
Interest income		120 934 518	115 394 301
Interest expenses		-5 588 412	-6 332 961
Net interest income	9	**115 346 106**	**109 061 340**
Fee and comission expenses		-29 050 220	-23 433 233
Net change in value on securities and currency	7a	4 162 579	2 850 632
Gross margin		**90 458 465**	**88 478 739**
Personnel expenses	15,16	-23 354 718	-31 450 879
General administrative expenses		-21 789 636	-21 986 278
Depreciation and amortisation	5,6	-1 922 731	-4 647 686
Other operating expenses	17	-8 219 088	-9 411 900
Net operating income		**35 172 292**	**20 981 995**
Losses on loans	8	-22 022 561	-3 489 581
Impairment losses	5,6	-144 213	-6 581 047
Profit before tax		**13 005 518**	**10 911 367**
Tax	18	-2 796 044	-4 502 135
Profit after tax		**10 209 474**	**6 409 233**

Items to be recycled to profit and loss			
Exchange differences on translating foreign operations		-1 737 452	724 223
Investment securities	7a	0	4 672 819
Sum other comprehensive income		**-1 737 452**	**5 397 042**
Total comprehensive income		**8 472 022**	**11 806 275**

Statement of financial position

	Note	2018-12-31	2017-12-31
ASSETS			
Loans and deposits with credit institutions	7a, 7b, 11	9 305 098	24 259 939
Loans to customers	7a, 7b, 8	184 117 455	138 872 546
Investment securities	7a	18 163 439	13 229 811
Goodwill	6	21 117 972	21 117 972
Deferred tax assets	18	28 253 457	30 140 583
Other intangible assets	6	4 338 305	5 387 521
Tangible assets	5	204 345	471 443
Other assets	10	12 710 630	2 944 179
Prepaid and deposits	7a	12 973 882	11 209 657
Total assets		**291 184 585**	**247 633 651**
LIABILITIES			
Debt to credit institutions	7a, 14	69 031 555	25 647 407
Derivatives	7a, 14	1 838 991	2 485 482
Other liabilities	7a, 13, 19	10 815 456	11 333 148
Accrued expenses	13, 15	5 505 171	7 498 513
Subordinated loan	7a, 14	31 095 257	31 510 225
Total liabilities		**118 286 430**	**78 474 776**
EQUITY			
Share capital	12, 22	95 890 500	95 890 500
Share premium	12	84 413 569	84 413 569
Retained earnings		-7 405 913	-11 145 194
Total equity		**172 898 155**	**169 158 875**
Total liabilities and equity		**291 184 585**	**247 633 651**

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 2017		**95 890 500**	**79 262 471**	**-25 659 458**	**0**	**5 151 098**	**154 644 611**
Currency translation difference				2 707 989			2 707 989
Exchange differences on translating foreign operations				724 223			724 223
Result for the year				6 409 233			6 409 233
Available for sale investments				4 672 819			4 672 819
Equity at 31 December 2017	12	**95 890 500**	**79 262 471**	**-11 145 194**	**0**	**5 151 098**	**169 158 875**
Registered share capital		96 705 080					
-own shares		814 580					
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					

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	2018	2017
Cash flow from operations			
Result before tax		13 005 518	10 911 367
Depreciation and impairment of tangible assets	5	336 788	398 549
Amortization of intangible assets	6	1 730 156	4 321 345
Impairment of intangible assets	6	0	6 581 047
Adjustment for other entries affecting cash flow		-2 902 669	943 734
Net financial expenses/ income		-2 716 457	4 095 817
Income tax paid		-1 806 280	-4 353 988
Changes in loans to customers		-45 244 909	-5 674 718
Changes in other receivables		-11 530 676	-5 131 882
Change in other payables		451 268	-6 529 316
Net cash flow from operations		**-48 677 261**	**5 561 956**
Cash flow from investing activities			
Investments in financial assets	7a	-1 135 232	-1 150 000
Disposal of financial assets	7a	0	2 966 664
Investments in tangible fixed assets	5	-94 017	-205 176
Investments in intangible assets	6	-789 070	-487 844
Net cash flow used for investing activities		**-2 018 319**	**1 123 644**
Cash flow from financing activities			
Interests paid		-6 024 443	-5 483 285
Amortized long term loans		-27 106 732	-27 331 667
Change in credit facility	14	69 031 555	-29 673 896
Net cash flow used for financing activities		**35 900 380**	**-62 488 848**
Effects of exchange rate changes on the balance of cash held in foreign currencies		**-159 641**	**2 653 368**
Change in cash, cash equivalents		**-14 954 841**	**-53 149 880**
Cash, cash equivalents as of 1 January	11	24 259 939	77 409 819
Cash, cash equivalents as of 31 December	**11**	**9 305 098**	**24 259 939**

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 3 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 2018, 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 branch office in Stockholm.

The financial statements were approved by the company's board on March 21st, 2019.

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 available-for-sale financial assets (prior to 1. January 2018), financial assets measured at fair value through profit and loss (FVPL) (effective 1. January 2018) 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 9 Financial Instruments

The company has adopted IFRS 9 Financial instruments as issued by IASB in July 2014 with a date of transition of 1 January 2018.
As permitted by the transitional provisions of IFRS 9, the company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the transition were recognised in the opening retained earnings of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 Financial Instruments: Disclosures have also been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures.

As set out in the table below the transition to IFRS 9 had no effect of the measurements of financial assets or liabilities.

	IAS 39		**IFRS 9**	
	Measurement category	**Carrying amount**	**Measurement category**	**Carrying amount**
Financial assets				
Loans and deposits with credit institutions	Amortised cost (Loans and receivable)	124 259 939	Amortised cost	124 259 939
Loans to customers	Amortised cost (Loans and receivable)	138 872 546	Amortised cost	138 872
Investment securities	FVOCI (Available for sale)	13 229 811	FVOCI	13 229 811
Prepaid and deposits	Amortised cost (Loans and receivable)	11 209 657	Amortised cost	11 209 657
Financial liabilities				
Debt to credit institutions	Amortised cost	25 647 407	Amortised cost	25 647 407
Derivatives	FVPL	2 485 485	FVPL	2 485 485
Accounts payable and other liabilities	Amortised cost	5 253 731	Amortised cost	5 253 731
Convertible subordinated loan	Amortised cost	31 510 225	Amortised cost	31 510 225

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.

IFRS 15 Revenue from contracts with customers

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

New standards, amendments and interpretations not yet adopted

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

IFRS 16 Leases

The company is required to adopt IFRS 16 Leases from 1 January 2019. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting treatment for lessors will not be material changed. The company has analysed all leases in order to ensure that they meet the criteria as leases under IFRS 16 and it is only a lease agreement on office buildings that falls under the new standard. The company plan to apply IFRS 16 initially on 1January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance at 1 January 2019, with no restatement of comparative information.

The discount rate used to determine the present value of assets and liabilities is the best estimate of the company's marginal interest rate. The estimated effect of IFRS 16 on the opening balance as of January 1, 2019 will be an increase of NOK 3 657 299 in assets and liabilities.

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); or
• Fair value through other comprehensive income

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'ss 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.

Classification of financial assets – Policy applicable before 1 January 2018

The company classified financial assets in the following categories:

- Available for sale – applied to investment securities
- Loans and receivables – applied to loans and deposits with credit institutions, loans to customers, deposits, and account receivables.

The classification depends on the purpose of acquiring the asset. The management classifies financial assets when they are acquired

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

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

Financial liabilities - classification and subsequent measurement

After both IAS 39 and IFRS 9, 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 was 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 are 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. Credit losses are made for groups of loans depending on status of the receivables, i.e.; whether they have been sold, have fallen due, are being monitored, have been sent for debt-collection etcetera.

Loans to customers can be split into three categories: Short term loans with less than one-year duration, long-term loans with up to 3-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 up to 105 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

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.

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

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

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

- 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 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 and EUR 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 and NOK to EUR exposure due to discrepancy between the denomination of its assets and liabilities and own equity. Consequently, there is no other substantial exposure to other currencies other than SEK and EUR.

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

By 31 December 2018, Folkefinans has a non-hedged foreign exchange exposure of 105.4 MNOK.

Sensitivity analysis

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

	Change	Result 2018	Result 2017
NOK/SEK	+/- 5%	+/-4,310	+/-6,129
NOK/EUR	+/- 5%	+/-0,961	+/-0,174

(II) Interest rate risk

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

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

3.1.2 Credit risk

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

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

These receivables are generated by on-going daily lending transactions to the general public. The loan term for these loans is on average 4-6 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 developed its own scoring models and use external to determine the credit rating of private customers. Folkefinans continuously monitors the Credit Risk by weekly payback rates on the type of customer, product and market.

For the FY 2018 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 placed 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 2018:

Counterpart	**Exposure 2018**	**Exposure 2017**
General Public		
Covered bonds		
Cash Deposit	19,350	24,259
Other commitments	228,164	161,35
Total	**247,514**	**185,609**

Region	Exposure 2018	Exposure 2017
Sweden	206,184	131,570
Norway	36,772	53,526
Finland	0,061	0,086
Estonia	4,497	0,427
Denmark	0	0
Total	**247,514**	**185,609**

3.1.3 Operational risk

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

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

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

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

(iii) External and internal fraud

(iv) Legal and Compliance risk

(v) Management risk

Successful management of Operational Risks on daily basis requires strong internal control and quality assurance, which is best achieved by means of having a proficient management and staff. Folkefinans manages Operational Risks by continuously improving its internal routines and day-to-day control procedures.

3.2 Pillar II risks

3.2.1 Liquidity and cash flow risks

Liquidity Risk is the risk of not having sufficient liquidity to meet obligations when these falls 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 loans and equity. In addition, Folkefinans has products with short tenors that that secure a high share of payback on loans in short time.

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

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 a credit line. The credit line is directly linked to the loan volume for the Revolving Credit Product. To secure financing of Folkefinans' business plan for the coming years it is planned for strengthening the company's debt financing in order to support future growth and improve profitability in the Norwegian and Swedish markets. Finding and optimizing the funding alternatives is an ongoing process for the Board and Management.

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 2018	Between 3 months and 1 year	More than 3 years
Subordinated loan	1 632 501	31 510 225
Loans	3 833 025	69 031 555

3.2.2 Business & Strategic risk

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

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

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

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

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

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

3.2.3 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. New Interest Cap in Sweden will be put in effect in 2018 and the Company is preparing for that. Folkefinans follows the development regarding recent proposals for interest cap that might come in the Norwegian market during 2018.

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 behavior within the consumer credit market, Folkefinans together with other companies within the sector in Sweden have established an association called “Swedish Consumer Credit Association”. Folkefinans 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. 67% 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 2018 includes 172.9 MNOK of Tier 1 Capital and 15,6 MNOK Tier 2 Capital. The capital adequacy ratio is 26%.

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
2017 financial year	
Carrying amount 01.01.17	**638 124**
Additions	205 176
Translation differences	26 692
Disposals	-149 041
Impairment during the year	0
Depreciation during the year	-326 341
Disposals depreciation and impairment	76 833
Carrying amount 31.12.17	**471 443**
As at 31 December 2017	
Original cost	5 900 187
Accumulated impairment	-
Accumulated depreciation	-5 428 744
Carrying amount 31.12.17	**471 443**

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**

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

6 Intangible assets

	Goodwill	Software (incl. scoring model and licenses)	Customer relationships	Trademarks	Total
2017 financial year					
Carrying amount 01.01.17	21 117 972	14 007 130	0	1 386 000	36 511 102
Additions	0	487 844	0	0	487 844
Disposals	0	-16 122 453	0	0	-16 122 453
Translation differences	0	1 085 865	0	0	1 085 865
Impairment during the year	0	-6 581 047	0	0	-6 581 047
Amortization during the year	0	-4 321 345	0	0	-4 321 345
Disposals depreciation		15 445 527			15 445 527
Carrying amount 31.12.17	**21 117 972**	**4 001 521**	**0**	**1 386 000**	**26 505 493**
As of 31 December 2017					
Original cost	45 889 905	24 774 242	13 332 762	10 134 617	94 131 526
Accumulated impairment	-24 771 933	-2 454 006	0	-8 748 617	-35 974 556
Accumulated amortization	0	-18 318 716	-13 332 762	0	-31 651 478
Carrying amount 31.12.17	**21 117 972**	**4 001 521**	**0**	**1 386 000**	**26 505 493**
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	0	1 875 000	0	0	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**
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 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 11 % for Folkefinans Swedish Branch and 11.5% Folkefinans AS Norway have been used.

The goodwill of 21 MNOK is related to the historical acquisition of Folkia AB. It is planned to strengthen the company's debt financing further during 2019 in order to support future growth and improve profitability in the Norwegian and Swedish markets. Folkefinans' business plan under the assumptions of obtaining new funding, shows that there is no indication of impairment.

7a Financial instruments by category

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 and other receivables, excl. advance payments and deposits (short-term)	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			
Loans (credit facility)		69 031 555	69 031 555
Derivatives	1 838 991		1 838 991
Accounts payable and other liabilities, excl. mandatory liabilities		7 475 277	7 475 277
Self-amortizing loans		0	0
Convertible subordinated loan		31 095 257	31 095 257
Total	**1 838 991**	**107 602 089**	**109 441 080**

Folkefinans' Visa Europe Principal Membership, Folkefinans' shares in Visa Inc. are revaluated monthly based on the quoted share price at NYSE and represents a value of 12 435 TNOK. Following the Visa Inc. acquisition of Visa Europe Limited with closing in June 2016 a deferred cash payment of €1.12 billion, including interest, to all eligible Visa Europe Principal Members will be paid pro rata shortly after the third anniversary of the closing of the transaction. Further Folkefinans holds a 12% ownership in the Estonian company Wallester. The value of the shares was written up at the end of 2018 based on the pricing in the recent capital increase and represents a value of 4 396 TNOK.

To be compliant with FSA short term liquidity standards (LCR) Folkefinans invests in funds comprised of highly liquid assets. As per 31.12.18 Folkefinans owned shares valued at 1 302 TNOK in "Carnegie Obligasjonsfond" and shares valued at 30 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, 2017	Lending and receivables	Available for sale	Total
Assets			
Loans to and receivables from credit institutions	24 259 939		24 259 939
Loans and other receivables, excl. advance payments and deposits (short-term)	138 872 546		138 872 546
Investment securities		13 229 811	13 229 811
Prepaid and deposits	11 209 657		11 209 657
Total	**174 342 142**	**13 229 811**	**187 571 954**

As of 31 December, 2017	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Total
Liabilities			
Loans (credit facility)		0	0
Derivatives	2 485 482		2 485 482
Accounts payable and other liabilities, excl. mandatory liabilities		5 253 731	5 253 731
Self-amortizing loans		25 647 407	25 647 407
Convertible subordinated loan		31 510 225	31 510 225
Total	**2 485 482**	**62 411 363**	**64 896 846**

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.

	2018	2017
Accounts receivable		
Loans and other receivable	184 117 455	138 872 546
Total accounts receivable	**184 117 455**	**138 872 546**
The company has maximum lending limits for loans and standard credit rating requirements and has developed its own scoring model to determine the credit rating of private customers.		
Bank deposits		
AA-	391 710	594 053
A+	8 887 882	21 018 329
A -	0	0
A	8 991	20 387
Undefined/no rating available	16 515	2 627 170
Total bank deposits	**9 305 098**	**24 259 939**

8 Loans and other receivables

	2018	2017
Loans	202 546 129	157 120 920
Impairment due to probable losses on loans	-18 428 674	-18 248 374
Net loans	**184 117 455**	**138 872 546**

Current assets

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

Defaults and losses	2018	2017
Gross defaulted loans to customers*	12 094 002	7 671 184
Individual impairment of loans to customers (class 3)	8 966 339	7 671 184
Net defaulted loans to customers	**3 127 663**	**0**
Group impairments of loans to customers (class 1 and 2)	9 462 335	10 577 189

	2018	2017
Not fallen due	159 410 286	118 111 305
1 – 30 days after the due date	18 501 805	22 226 980
31 - 60 days after the due date	9 608 628	5 945 110
61 - 90 days after the due date	6 886 050	3 166 342
> 91 days after the due date	8 139 360	7 671 182
Total loans	**202 546 129**	**157 120 919**

Recognised value of the Company's loans before impairment allowance, per geographical market in NOK as of 31 December 2018:

	Sweden	Norway	Denmark	Estonia	Finland	Total
Not fallen due	148 148 243	11 262 044	0	0	0	159 410 286
1 – 30 days after the due date	14 345 558	4 156 246	0	0	0	18 501 805
31 - 60 days after the due date	8 349 228	1 259 400	0	0	0	9 608 628
61 - 90 days after the due date	6 461 397	424 653	0	0	0	6 886 050
> 91 days after the due date	5 613 051	2 526 309	0	0	0	8 139 360
Total loans	**182 917 477**	**19 628 652**	**0**	**0**	**0**	**202 546 129**

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

	2018	2017
SEK	182 917 477	132 951 822
NOK	19 628 652	24 169 098
EUR	0	0
DKK	0	0
Net loans	**202 546 129**	**157 120 920**

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

	2018	2017
As at 1 January	**18 248 374**	**47 830 754**
Provision during the year	20 151 213	16 576 982
Net receivables that have been written off as losses during the year	1 401 663	4 322 508
Reversed provision due to portfolio sales	-19 627 746	-47 386 273
Reversal of unused amounts	-522 004	-831 421
Currency translations	-1 222 825	-2 264 175
As at 31 December	**18 428 675**	**18 248 374**

	2018	2017
Unspecified loan loss provisions during the period	21 030 872	20 068 069
Profit sale of portfolios	991 689	-16 578 488
Unspecified loan loss provisions	**22 022 561**	**3 489 581**

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

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

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

Provisions for loan losses in 2018 and 2017 include gains from sale of loan portfolios in all markets. During the second half of 2017 forward flow agreements for sales of portfolios > 90 days overdue was implemented in both Sweden and Norway.
The net receivables written off as losses in 2018 of 1 402 TNOK are to be claimed and monitored going forward.

Reconciliation of gross loans to customers	**Class 1**	**Class 2**	**Class 3**	**Total**
Gross carrying amount as at 01.01.2018	**118 111 307**	**31 338 431**	**7 671 182**	**157 120 920**
Transfers in 2018*				
Transfer from Class 1 to Class 2				
Transfer from Class 1 to Class 3	-1 051 615		1 051 615	0
Transfer from Class 2 to Class 3				
Transfer from Class 3 to Class 2				
Transfer from Class 2 to Class 1				
Transfer from Class 3 to Class 1				
New Assets	59 946 758	14 474 036	4 266 829	78 687 623
Assets derecognized	-25 104 294	-7 262 496	-895 625	-33 262 414
Gross carrying amount as at 31.12.2018	**151 902 155**	**38 549 972**	**12 094 002**	**202 546 129**

* Average tenor is 4-6 months; therefore, loans are not recognized moving from Class 1 to 2 during 12 months, but direct to Class3 for defaulted loans

Reconciliation of impairments of loans to customers	Class 1	Class 2	Class 3	Total
Impairment as at 01.01.2018	**6 441 348**	**4 135 841**	**7 671 184**	**18 248 374**
Transfers in 2018				
Transfer from Class 1 to Class 2				
Transfer from Class 1 to Class 3	-50 698		1 051 615	1 000 918
Transfer from Class 2 to Class 3				
Transfer from Class 3 to Class 2				
Transfer from Class 2 to Class 1				
Transfer from Class 3 to Class 1				
New financial assets originated or change in provisions	921 558	3 276 078	1 296 177	5 493 813
Assets derecognized or change in provisions	-3 264 941	-1 996 852	-1 052 637	-6 314 430
Impairment as at 31.12.2018	**4 047 268**	**5 415 067**	**8 966 339**	**18 428 674**

9 Net Interest Income

	2018	2017
Interest and similar income from loans to and receivables due from credit institutions	1 087 431	893 074
Interest and similar income on loans to and receivables due from customers	2 433 944	2 850 027
Interest and other expenses on debt to credit instituriions	521 987	-711 438
Net interest and credit comission income	**4 043 362**	**3 031 663**

10 Other Assets

	2018	2017
Settlement instant payments provider - Revolving credit	3 025 801	0
Accrued interest income - Revolving credit	2 838 756	0
Escrow account related to revolving credit funding	6 373 422	0
Receivable related to Forward flow sale - 2017	0	2 717 174
Other	472 651	227 005
Total	**12 710 630**	**2 944 179**

11 Loans to and receivables from credit institutions

	2018	2017
Cash and bank deposits	9 305 098	24 259 939
Total	**9 305 098**	**24 259 939**

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

	2018	2017
Cash and cash equivalents	9 305 098	24 259 939
Total	**9 305 098**	**24 259 939**

12 Share capital and share premium

	No. of shares	Nominal share capital	Share premium	Total
Carrying amount 31.12.17	**19 178 100**	**95 890 500**	**79 262 471**	**175 152 971**
Carrying amount 31.12.18	**19 178 100**	**95 890 500**	**79 262 471**	**175 152 971**

The company has used own shares (treasury shares) in connection with the purchase of the subsidiary in Denmark, DFK Holding – closing January 09. As of 31 December 2018, the number of shares was 19 341 016 of which 162 916 are the company's own shares.

13 Other liabilities and accrued expenses and deferred income

	2018	2017
Accounts payable	5 344 472	4 136 249
Approved, invoiced but not paid out loans	2 036 953	1 067 732
Salaries owed	0	0
Other liabilities	499 758	49 750
Govt. charges and special taxes	2 934 273	6 079 417
Total Other liabilities	**10 815 456**	**11 333 148**
Accrued Govt. charges and special taxes	526 593	968 115
Accrued expenses	3 200 550	4 556 678
Holiday pay due	1 761 168	1 971 518
Other accrued expenses	16 860	2 202
Total accrues expenses and deferred income	**5 505 171**	**7 498 513**

14 Liabilities

	2018	2017
Liabilities		
Liabilities to credit institutions (credit facility)	69 031 555	25 647 407
Derivatives	1 838 991	2 485 482
Convertible subordinated loan	31 095 527	31 095 257
Total loans	**101 965 804**	**59 643 115**

Liabilities to credit institutions
In May 2018 Folkefinans entered into a credit line of 30 MSEK with Arvato Bertelsmann financing the revolving credit product launched in June 2018 in Sweden. In September the credit line was extended to 100 MSEK. The credit line has an interest of 7.5%.

In October 2014 Folkefinans entered into two convertible debt tranches of 19 341 TNOK (after deductions of issue costs 16 437 TNOK) and 27 630 TNOK of which the first tranche was converted for a 9.9% stake in Folkefinans in March 2015. Folkefinans entered into a further convertible loan, tranche three, in March 2015 in the amount of 27 630 TNOK. The loans have an interest of 7% pro anno from the drawdown date. As the two remaining loans were not converted at the call option end date in December 2015, the loans were repaid over a two-year term, starting 18th December 2016. In June 2016 it was agreed to amend the currency of the two loans from NOK to SEK. The final instalments for both tranches were paid in December 2018.

In June 2015 Folkefinans also 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 2018 the loan amounts to 32 934 TSEK.

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

	2018	2017
6 months or less	0	0
6-12 months	0	25 647 407
1-5 years	32 934 428	33 995 708
More than 5 years	0	0
No agreed maturity date	69 031 555	0
Total loans	**101 965 804**	**59 643 115**

Carrying amount and fair value of loans:	**2018**	**2017**
Carrying amount		
Loans from credit institutions (credit facility)	69 031 555	25 647 407
Derivatives	1 838 991	2 485 482
Convertible subordinated loan	31 095 257	31 510 225
Total carrying amount	**101 965 804**	**59 643 115**
Fair value		
Loans from credit institutions (credit facility)	69 031 555	25 647 407
Derivatives	1 838 991	2 485 482
Convertible subordinated loan	31 095 257	31 510 225
Total fair value	**101 965 804**	**59 643 115**

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

	2018	2017
NOK	0	0
EUR	0	0
SEK	101 965 804	59 643 115

Liquidity risk

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
Convertible subordinated loan		544 167	1 632 501	36 536 927		38 713 595
Total Liabilities		**7 163 674**	**5 515 526**	**107 407 474**	**0**	**120 086 673**

As of 31 December, 2017	Undefined	0-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to credit institutions		9 609 857	28 049 400			37 659 257
Accounts payable		4 114 754				4 114 754
Derivatives				2 485 482		2 485 482
Convertible subordinated loan		715 817	2 147 450	39 781 659		42 644 926
Total Liabilities		**14 440 427**	**30 196 850**	**42 267 141**	**0**	**86 904 418**

			Cash Flows		Non-cash changes			
	2017-12-31	Amortisa-tion	Principal increase	Interest Payments	Interest cost	Accrued interest	FX adjustem-ent	2018-12-31
Liabilities to credit institutions	25 647 407	-27 106 732	69 031 555	-3 829 168	2 540 468	1 288 699	1 459 325	69 031 555
Convertible subordinated loan	31 510 225			-2 282 286	2 697 260	-501 987	-414 968	31 095 257
Total	**57 157 632**	**-27 106 732**	**69 031 555**	**-6 244 443**	**5 237 728**	**786 715**	**1 044 357**	**100 126 812**

15 Pensions and similar liabilities

	2018	2017
Costs charged to the statement of comprehensive income		
– Pension costs	1 521 837	2 142 124

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

	2018	2017
Salaries	16 806 627	22 960 508
Employers' national insurance contributions	4 853 661	6 184 147
Pension costs – the year's provisions for defined contribution-based pension schemes	1 521 837	2 142 124
Other benefits	172 593	164 100
Total wages and salaries	**23 354 718**	**31 450 879**

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

17 Other operating expenses

	2018	2017
External advisors/fees services	1 087 431	893 074
Rental expenses	2 433 944	2 850 027
Production expenses	4 175 726	5 084 681
Collection expenses	0	1 295 555
Administrative and other expenses	521 987	-711 438
Total other operating expenses	**8 219 088**	**9 411 899**

Fees to auditors and other related costs	**2018**	**2017**
Statutory audit		
- PwC	1 045 681	1 118 240
- other	0	0
Tax services		
- PwC	47 500	47 500
Other non-assurance services		
- PwC	38 929	105 783
Total PwC	1 132 110	1 271 523
Total	**1 132 110**	**1 271 523**

Fees include VAT.

18 Taxes

Tax expense:	2018	2017
Taxes payable on foreign income	908 921	3 222 398
Adjustments in respect of prior years	-2	-69 409
Change in deferred tax	1 887 125	1 349 145
Change in deferred tax due to change in tax rate	0	0
Tax expense	**2 796 044**	**4 502 135**
Total tax including OCI	**2 796 044**	**4 502 135**
Tax payable	908 921	3 222 398
Advance tax payments	-1 737 387	-1 689 804
Total tax payable	**-828 467**	**1 532 594**

Reconciliation of the tax expense:	2018	2017
Profit before taxes	**10 034 687**	**10 911 367**
Calculated tax 25 % (27 %)	2 508 672	2 727 842
Permanent differences	-621 547	-578 434
Effects from changed tax rates	0	-800 262
Adjustments in respect of prior years	-2	-69 409
Tax payable on foreign income	908 921	3 222 398
Tax	2 796 044	4 502 135
Tax in the statement of comprehensive income	**2 796 044**	**4 502 135**
Tax expense in the income statement	2 796 044	4 502 135
Tax expense	**2 796 044**	**4 502 135**

Deferred tax and deferred tax assets:

Deferred tax assets	2018	2017
Tax losses carried forward - Norway	28 773 165	30 025 681
Intangible assets	0	114 902
Deferred tax assets	**28 773 165**	**30 140 583**
Deferred tax assets are capitalized based on future income.		
Deferred tax liability		
Tangible and intangible assets	519 707	0
Deferred tax liability	**519 707**	**0**
Net deferred tax	**28 253 457**	**30 140 583**
Ordinary tax expense	2 796 044	4 502 135
Total tax expense	**2 796 044**	**4 502 135**
Taxes payable	908 919	3 152 989
Change in deferred tax	1 887 125	1 349 145
Total tax expense	**2 796 044**	**4 502 135**

19 Commitments

a) Guarantees and charges:

Folkefinans has no guarantees or charges in 2018.

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:

	2018	2017
Due date within 1 year	1 784 374	2 152 929
Due date between 1 and 5 years into the future	1 872 926	3 641 953
Due date more than 5 years into the future	0	0
Total future minimum lease payments	**3 657 299**	**5 794 881**

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

The Company's operating leases are in Sweden and Norway consisting of premises- and support agreements. The most material future payments consist of office rental and can be renewed for 3 years at a time with a 9-month period of notice. As at 31.12.2018 the total of deposits for office rental is 948 299 NOK. The total minimum payments are gross figures (no deduction for deposits).

c) Off balance sheet exposure
Folkefinans launched a revolving credit product in Sweden in June 2018. At the end of 2018 total unused credit limit amounted to 10 045 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):

	2018	2017
Mariniuim OY	225	289
Synvestment OÜ	679	363
Total	**904**	**651**

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:

	2018	2017
Salaries and other short-term employee benefits	7 525	10 501
Severance pay	0	1 100
Pension benefits	871	1 305
Other long-term benefits	-	-
Share-based remuneration	-	-
Total	**8 395**	**12 905**

Specification of remuneration to senior employees:

Name	2018 Salary and other short-term benefits	2018 Pension benefits	2017 Salary and other short-term benefits	2017 Pension benefits
Harald Dahl-Pedersen, CEO 1)	0	0	1 796	208
- Severance pay	0		1 100	
Jens Schau-Hansen, CFO/CEO 2)	2 035	327	1 824	269
Other Management	**4 630**	**544**	**6 002**	**828**
Magnus Sjögren, General Counsel 5)	0	0	1 840	271
Jan Nilsson, CTO partly in 2017	0	0	525	67
Martin Holmin, CTO 3)	754	67	323	32
Mariko Ragnarsdottir, Head of Technologu 3)	327	33	0	0
Janne Kiiha CCO 4)	1 515	170	754	110
Annika Dolve, CCO 5)	0	0	1 200	174
Kemal Kalkan, Head of Customer Service 4)	808	68	528	52
Christer Nilsson, CRO 4)	1 226	205	832	122
Credit Committee	**50**	**0**	**50**	**0**
Leif Bjørnstad 7)	0		50	
Veijo Aulis Ojala 6)	0		0	
Harald Nordstrand 8)	50		0	
Control Committee / Audit and Risk Committee	**160**	**0**	**40**	**0**
Einar Irgens	40		40	
Kalle Pykälä	80		0	
Veijo Aulis Ojala 6)	0		0	
Harald Nordstrand 8)	40		0	
Board members	**650**	**0**	**787**	**0**
Jan Nilsson	100		36	
Stig Herbern 7)	0		216	
Raivo Aavisto	100		100	
Leif Bjørnstad 7)	0		100	
Mikko Marttinen	100		100	
Kalle Pykälä	250		236	

Veijo Aulis Ojala 6)	0		0	
Harald Nordstrand 8)	100		0	
Total	**7 525**	**871**	**11 601**	**1 305**

1) CEO since 2016-06-01, Mr Dahl Pedersen left the company in February 2017.

2) Acting CEO since March 2017 and CEO since December 2017

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

4) Mr Kiiha, Mr Kalkan and Mr Nilsson were apointed to their position in the management team in March 2017

5) Mrs Dove and Mr Sjögren left the company in March and June 2017 respectively

6) Apointed to his position in 2018

7) Left their position in 2017

8) Left his position in 2018

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

There is no contingent liabilities or events to be reported after the end of the reporting period.

22 Share capital and shareholder information

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.

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**	**100,0%**

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

Name	**Position**	**Shares**
Jens Schau-Hansen (1)	CEO	19 990
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
Harald Nordstrand (6)	Director	193 166
Janne Kiiha (7)	COO	9 000
Veijo Aulis Kalevi Ojala (8)	Director	377 724
Total		**3 497 130**

(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) Harald Nordstrand owns shares indirectly through Dynamo AS

(7) Janne Kiiha owns shares on nominee account in Nordnet Bank AB

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

The share capital in the company as of 31 December 2017 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 2017	Shares	Ownership share
CLEARSTREAM BANKING *	2 224 678	11,5%
WONGA GROUP LIMITED	1 934 100	10,0%
BRENNEN CONSULTING L	1 740 800	9,0%
CNHL LTD	1 573 850	8,1%
SVENSKA HANDELSBANKEN C/O HANDELSBANKEN AS*	1 573 716	8,1%
Landsyn Ehf	1 301 974	6,7%
DANSKE BANK A/S 3887 OPERATIONS SEC.*	1 214 100	6,3%
INTERACTIVE A ISLAND	891 811	4,6%
NORDNET BANK AB*	793 331	4,1%
PAATERO ILKKA ARTO TAPANI	684 373	3,5%
SKANDINAVISKE ENSKILDA BANKEN A/C CLIENTS ACCOUNT*	538 175	2,8%
NEBRASKA INVEST OY C/O GATEWAY FINLALND	496 356	2,6%
FIVADO AS	282 787	1,5%
HIETALA MATTI JUHANI	248 064	1,3%
BERASCO LIMITED	242 869	1,3%
OÜ VIADELLA INVESTMENTS	242 826	1,3%
DYVI JAN ERIK	200 500	1,0%
DYNAMO AS	193 166	1,0%
BJØRNSTAD LEIF BERNHARD	192 097	1,0%
WAHLSTRØM ERIK Bull & Co	185 000	1,0%
Shareholders with at least 1 % ownership	**16 754 573**	**86,6%**
*) Share deposit		
Own shares, FOLKEFINANS AS	110 174	0,6%
Own shares, FOLKEFINANS AS NORGE, FILIAL SVERIGE	52 742	0,3%
Remaining ownerships	**2 423 527**	**12,5%**
Number of shareholders:	62	
Number of shares:	**19 341 016**	**100,0%**

23 Capital adequacy

Capital adequacy 31 December (Group)

	2018	2017
Share capital	95 890 500	95 890 500
Other equity	77 007 655	68 117 277
Deferred tax	-28 253 457	-30 140 583
Goodwill and other intangible assets	-25 456 277	-26 505 493
Common Equity (CET 1)	**119 188 420**	**107 361 701**
Additional Tier 1 capital		
Tier 1 Capital	**119 188 420**	**107 361 701**
Tier 2 capital	15 581 687	6 150 000
Total Capital	**134 770 107**	**113 511 701**

Institutions	1 861 020	4 851 800
Other commitments	230 173 216	161 352 550
Sum Credit Risk	232 034 236	166 204 350
Market Risk	105 419 789	75 550 342
Operational Risk	181 093 750	198 580 350
Total Risk Weighted Assets	**518 547 774**	**440 335 042**

Common Equity (CET 1) %	**23,0%**	**24,4%**
Tier 1 Capital %	**23,0%**	**24,4%**
Total Capital %	**26,0%**	**25,8%**

The format of the 2017 risk exposure figures has been changed versus the annual statement for 2017. In 2017 they were displayed as minimum required capital while they in 2018 are stated as total risk wieghted assets.

Folkefinans does not meet the requirements in kapitalkravforskriften § 38-4 regarding maximum allowed exposure to foreign currency. At the end of 2018 the company's net exposure to SEK was higher than 15% and overall foreign currency exposure was higher than 30% of the total capital base. In order to meet this requirement and reduce overall market risk Folkefinans plan to begin to fully hedge its currency exposure during 2019.

To the General Meeting of Folkefinans AS

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Folkefinans AS, which comprise statement of comprehensive income, statement of financial position, statement of changes in equity and statement of cash flow for the year ended 31.12.2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2018, 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 Opinion

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 opinion.

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.

pwc

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.

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Oslo, 21 March 2019
PricewaterhouseCoopers AS

Geir Julsvoll
State Authorised Public Accountant

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