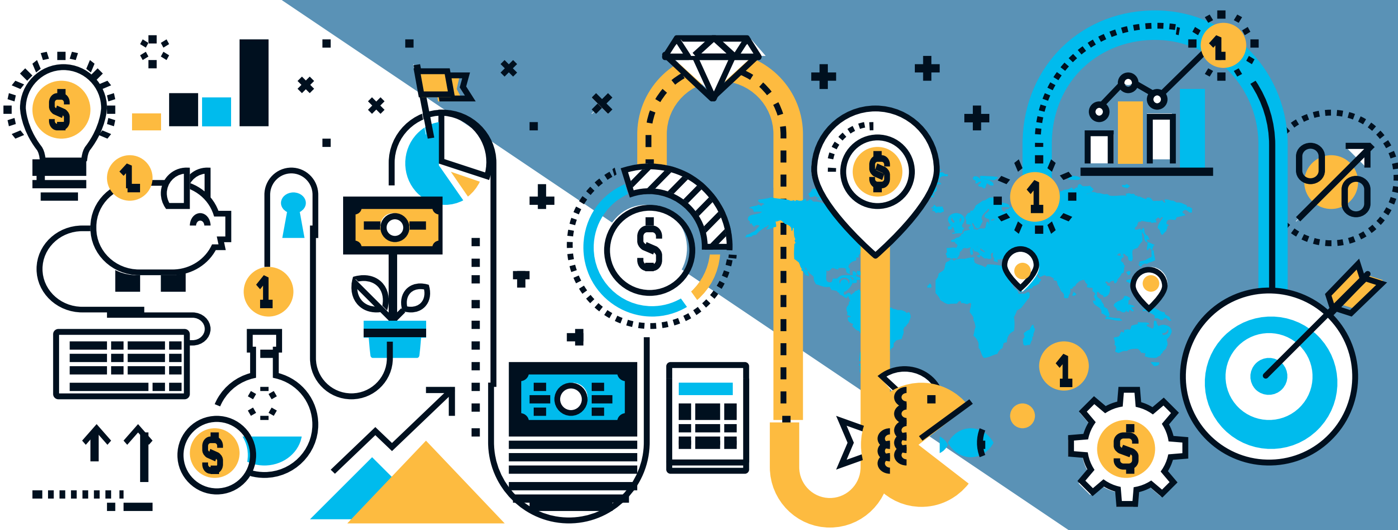
2017



Folkefinans

Annual Report 2017

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REPORT OF THE BOARD OF DIRECTORS FOR 2017

GENERAL

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

ABOUT 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 2017, the company consisted of the parent company, Folkefinans AS, and its branches in Sweden, Finland and Estonia.

Folkefinans offers everyday financial services in the Nordic and Baltic regions. Since 2016 Folkefinans has 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 Kronprinsensgate 1, NO-0251 Oslo, Norway.

HIGHLIGHTS 2017

- During 2017 Folkefinans sold more than 80 000 loans to 34 000 unique customers reaching a total gross lending of NOK 448 million.
- The company achieved the highest sales levels so far in Sweden and Norway and delivered a strong, positive result for 2017, driven by marketing and operating activities, which went through extensive changes in the beginning of the year.
- The processes of selling bad debt portfolios in all markets were finalized during Q3, generating high profits. During the second half of 2017 the company entered into "Forward Flow" agreements in Sweden and Norway whereby loans 90 days or more past due are sold to external partners.
- To enable Folkefinans to scale and launch new products quickly and to cope with future regulatory changes, it was decided to invest in the cloud-first banking platform Mambu. The platform allows Folkefinans to introduce new products as well as migrate existing products to Mambu.

REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Total result for 2017 was NOK 11.8 million, an increase of NOK 21.3 million compared with 2016. The return on equity was 7.1%. The profit increase resulted from customer and loan growth, cost reductions, and gains from sale of loan portfolios.

The Swedish branch had a positive result for 2017 amounting to SEK 11.8 million in 2017 compared to SEK 11.1 million in 2016.

Income

Total income amounted to NOK 115 million in 2017, compared to NOK 124 million in 2016. The decline is explained by the decision to outsource collection in Sweden in 2017. Excluding discontinued markets and revenues from in-house collection in Sweden, the income from the consumer loan business in 2017 was NOK 8 million higher than 2016 due to strong loan growth in both Sweden and Norway.

Operating expenses

Total operating expenses exclusive losses on loans and impairments were NOK 67.5 million in 2017 compared to NOK 88.3 million in 2016. As part of the changes to Folkefinans' operations and organization in 2017 a restructuring process including cost cuts and change of management, was conducted during Q1 thus lowering the operating expenses substantially. The accounting of agent commissions was reclassified in 2017 in accordance with Regulations on the annual accounts of banks, credit- and finance institutions (FOR-1998-12-16-240). Comparable figures have been revised. These changes are further explained in the notes.

Loan loss provisions

The company's provision for loan losses were NOK -3.5 million in 2017 compared to 0.4 MNOK in 2016. Provisions for loan losses in 2016 and 2017 include gains from sale of loan portfolios in all markets. Folkefinans finalized sales of non-performing loan portfolios during 3rd quarter in Sweden and Norway with gains totaling NOK 16.6 million. The loan loss levels were further reduced in 2017 mainly due to implementation of Forward Flow agreements in Sweden and Norway at competitive prices coupled with improved scoring in co-operation 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 2018 in order to support future growth and 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.

IFRS 9 “Financial Instruments” – Expected impact

IFRS 9 “Financial instruments” covers recognition and derecognition, classification and measurement, impairment and hedging and replaces the current requirements covering these areas in IAS 39. The standard is endorsed by the EU and is effective as from annual periods beginning on or after 1 January 2018. Folkefinans’ assessment is that the standard will not have any material impact on either classification, measurement or on the total impairment provisions and, consequently, on equity and capital adequacy. For further information, see note 2.1.

BALANCE SHEET, FINANCING AND LIQUIDITY

Folkefinans’ balance sheet total as of 31 December 2017 was NOK 248 million, compared to NOK 295 million in 2016. As a result of the strong improvement in profitability in 2017 the equity ratio was 68% in 2017 compared to 52% in 2016 (total equity/total balance).

The company is financed by (i) equity, (ii) a credit facility of SEK 10 million with Pareto Bank, (iii) two loans of SEK 26 million entered into in 2014 and 2015, and (v) one sub ordinated convertible loan of SEK 33 million entered into in 2015. Part of the sub ordinated convertible loan is included as Tier 2 capital in the 2017 Annual Report. The credit facility with Pareto Bank is now extended to March 31st 2019. In October 2017 it was agreed to amend the currency of the subordinated convertible loan from EUR to SEK. The subordinated loan is to be repaid in 2021. The two loans of SEK 26 million will be repaid by the end of 2018. In order to facilitate further growth, the Board and Management started the process of obtaining new funding during Q4 in 2017. The process is expected to be finalized during first half of 2018.

Folkefinans’ liquidity situation is on an adequate level for the business conducted in 2017 and anticipated for 2018. As at 31 December 2017, the company had cash holdings incl. a covered bond fund of NOK 25.4 million. The company’s cash position was satisfactory throughout 2017.

Folkefinans’ Visa Europe Principal Membership, Folkefinans’ shares (919 Series C Preferred Stock) in Visa Inc. were written up at the end of 2017 and represents a value of NOK 10.2 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 2017, the company’s services primarily consisted of the provision of unsecured loans, up to NOK 40.000 with maturity up to 36 months, through the brands Frogtail, Monetti, and Kredit365 in Sweden and Folkia in Norway.

After receiving a negative reply on the application for a bank license at the end of January 2017, a restructuring plan was initiated. The plan with enhanced focus on top-line growth and profitability showed very positive results during 2017. Loan volumes have been increasing due to investments in marketing, proving that there is considerable demand for the Folkefinans product offering. During 2017 Folkefinans marketing focus was 100% digital medium. New AI-powered marketing platform was introduced 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. Affiliate marketing and loan agents were used to enable rapid growth of new sales volumes and these channels will have an important role for launching new products quickly and cost efficiently also in the future.

In order to further improve both revenue and profitability and comply with regulatory changes for the coming years, Folkefinans will launch new longer term loan products during 2018. Future revenue growth and profitability is expected to be generated by higher life-time revenue per customer. 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.

RISKS AND CAPITAL ADEQUACY

The company is exposed to various types of financial risks, including credit risks, market risks, 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 2017 major risks are: foreign exchange risks and credit risks linked to loans in local currencies in the company’s 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’ capital adequacy ratio has improved significantly and was 25.8 % as at 31 December 2017, compared to 20.5 % in 2016.

CORPORATE GOVERNANCE

The Board held 18 meetings in 2017. The key issues discussed were the restructuring of the company conducted during Q1, follow-up on profit and loss development and, business development, and financing to support the growth strategy in Norway and Sweden in the coming years.

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

As a consequence of the changes to Folkefinans’ operations and strategy implemented during Q1 2017 Folkefinans CEO, Harald Dahl-Pedersen, chose to step down from his position as CEO February

28th 2017. Mr. Jens Schau-Hansen, Folkefinans' previous CFO, was consequently appointed as acting CEO until December 1st when he took on the position permanently.

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 slightly over 50 % of the Folkefinans AS 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. The Company has furthermore provided financial support to the organizations 'Unicef' and 'Save the Children' ("Rädda Barnen"), 'Red Cross' ("RödaKorset"), the world's leading independent organizations for children humanitarian help.

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 2017 showed that the working environment in Folkefinans is considered to be very good.

The total sickness absence was 199 days, which equals 2,2 % of the total hours worked. 0 days, of the total sickness absence, are related to long term absence. There have been no personal injuries in the workplace in 2017. There are no circumstances relating to the operations, including input factors and products that may result in a significant effect on the external environment.

MAIN TRENDS

During 2017, 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 falling unemployment rate, and the Swedish economy is showing high economic growth.

There are several regulatory initiatives in the financial sector, and Folkefinans works continuously to ensure compliance. The digital revolution is expected to potentially change the traditional financial business and customer behavior, for example the EU's revised Payment Services Directive, PSD2, opens up for technology companies and other players to directly get access to banks' payment infrastructure and the opportunity to aggregate account information and debit accounts on behalf of customers. In the personal data area, the general data protection regulation (GDPR) will apply as of 25 May 2018 in the EU countries and Norway. The regulation will affect Folkefinans both in terms of customer data and employee data, and Folkefinans is taking extensive measures to ensure compliance with the upcoming regulations. Moreover, there are various ongoing national initiatives, in particular in the consumer credit area, including release of a proposal for an interest cap in Norway. Folkefinans has adequate procedures to keep track of incoming legislation, both from the EU and nationally.

We believe that 2018 will be a year with favorable macro trends, with new regulations coming into effect 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 2017.

The consumer lending and banking industry will continue to face radical changes in the years to come with increased regulatory focus, based on strengthened authority control in the market space. As a licensed and compliant company already under supervision, Folkefinans will be well positioned to comply with the new regulatory requirements expected to come into force in Sweden during the second half of 2018.

After a year with strong growth and improved profitability through cost reductions and portfolio sales, the main focus during 2018 will be to further improve profitability and continue development of Folkefinans' product offerings, and strengthen the company's debt financing.

*****

Oslo, 20th of March, 2018
The Board of Folkefinans AS

Kalle Pykälä
Chairman of the Board

Mikko Marttinen
Director

Harald Nordstrand
Director

Raivo Aavisto
Director

Jan Nilsson
Director

Jens Schau-Hansen
CEO

In NOK (all Financial Statements)

Statement of comprehensive income

	Note	2017	2016
Interest and similar income from loans to and receivables due from credit institutions		30 923	148 698
Interest and similar income on loans to and receivables due from customers		115 363 378	123 786 754
Other interest income and similar incomes		0	0
Total interest income and similar income		**115 394 301**	**123 935 452**
Interest expenses and similar expenses			
Interest and other expenses on debt to credit institutions		-6 332 961	-8 900 268
Total interest expenses and similar expenses		**-6 332 961**	**-8 900 268**
Net interest and credit commission income		**109 061 340**	**115 035 184**
Commission and similar expenses			
Commission and fee expenses		-22 850 058	-16 265 015
Commission and similar expenses from loans to and receivables from credit institutions		-583 175	-2 005 782
Total commission expenses and similar expenses		**-23 433 233**	**-18 270 797**
Net change in value and gain/loss on currencies and securities held as current assets			
Net gain/loss on foreign exchange and securities held as current assets		2 850 632	-2 996 730
Total net change in value and gain/loss on currencies and securities held as current assets		**2 850 632**	**-2 996 730**
Salaries and general administrative expenses			
Salaries	13, 14	-31 450 879	-33 509 144
Administrative expenses		-21 986 278	-23 261 954
Total salaries and general administrative expenses		**-53 437 157**	**-56 771 098**
Depreciation etc. of tangible fixed assets and intangible assets			
Ordinary depreciation	5,6	-4 647 686	-4 958 099
Total depreciation etc. of tangible fixed assets and intangible assets		**-4 647 686**	**-4 958 099**
Impairment on tangible and intangible assets			
Impairment on tangible and intangible assets	5,6	-6 581 047	-9 818 094
Total impairment on tangible and intangible assets		**-6 581 047**	**-9 818 094**
Other operating expenses			
Other operating expenses	15	-9 411 900	-26 556 989
Total other operating expenses excl losses on loans		**-9 411 900**	**-26 556 989**
Result before losses on loans		**14 400 948**	**-4 336 622**
Losses on loans, guarantees, etc.			
Losses on loans	8	-3 489 581	391 625
Total losses on loans, guarantees, etc.		**-3 489 581**	**391 625**
Result on ordinary operations before tax		**10 911 367**	**-3 944 997**
Tax on result on ordinary operations	16	-4 502 135	-714 408
RESULT FOR THE YEAR		**6 409 233**	**-4 659 406**
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating foreign operations		724 223	-6 523 670
Available for sale investments	7a	4 672 819	1 660 596
TOTAL RESULT FOR THE YEAR		**11 806 275**	**-9 522 480**
TRANSFERS AND ALLOCATIONS			
Transferred to (from) other equity		11 806 275	-9 522 480
Total transfers and allocations		**11 806 275**	**-9 522 480**

Statement of financial position

	Note	2017-12-31	2016-12-31
ASSETS			
Loans to and receivables from credit institutions			
Loans to and receivables from credit institutions without an agreed term or cancellation period	7a, 7b, 9	24 259 939	77 409 819
Loans to and receivables from credit institutions		**24 259 939**	**77 409 819**
Loans to and receivables from customers	7a, 7b, 8	**138 872 546**	**133 197 829**
Financial assets			
Available for sale investments	7a	13 229 811	9 659 362
Total Financial Items		**13 229 811**	**9 659 362**
Intangible assets			
Goodwill	6	21 117 972	21 117 972
Deferred tax assets	16	30 140 583	31 364 511
Other intangible assets	6	5 387 521	15 393 130
Total intangible assets		**56 646 075**	**67 875 613**
Tangible assets			
Tangible assets	5	471 443	638 124
Total Tangible assets		**471 443**	**638 124**
Other assets			
Other assets		2 944 179	403 321
Prepaid and deposits	7a	11 209 657	6 077 775
Total other assets		**14 153 836**	**6 481 096**
TOTAL ASSETS		**247 633 651**	**295 261 842**

	Note	2017-12-31	2016-12-31
EQUITY AND LIABILITIES			
LIABILITIES			
Liabilities to credit institutions	7a, 12	0	29 673 896
Derivatives	7a, 12	2 485 482	3 068 146
Other liabilities	7a, 11, 17	11 333 148	12 683 188
Accrued expenses and deferred income	11, 13	7 498 513	14 027 829
Self-amortizing loans	7a, 12	25 647 407	51 795 718
Convertible subordinated loan	7a, 12	31 510 225	29 368 454
Total liabilities		**78 474 776**	**140 617 231**
EQUITY			
Equity contributed			
Share capital	10, 20	95 890 500	95 890 500
Share premium account	10	79 262 471	79 262 471
Other paid in equity		5 151 098	5 151 098
Total equity contributed		**180 304 069**	**180 304 069**
Retained earnings			
Retained earnings		-11 145 194	-25 659 458
Total retained earnings		**-11 145 194**	**-25 659 458**
Total equity		**169 158 875**	**154 644 611**
TOTAL EQUITY AND LIABILITIES		**247 633 651**	**295 261 842**

Oslo, 20th of March 2018
Board of Folkefinans AS

Kalle Pykälä
(Chairman of the Board)

Mikko Marttinen

Raivo Aavisto

Harald Nordstrand

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 2016		**95 890 500**	**79 262 471**	**-16 136 978**	**0**	**5 151 098**	**164 167 091**
Currency translation difference				-6 523 670			-6 523 670
Result for the year				-4 659 406			-4 659 406
Available for sale investments				1 660 596			1 660 596
Equity at 31 December 2016	10	**95 890 500**	**79 262 471**	**-25 659 458**	**0**	**5 151 098**	**154 644 611**
Registered share capital		96 705 080					
-own shares		814 580					
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	10	**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					

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

Statement of cash flow

	Note	2017	2016
Cash flow from operations			
Result before tax		10 911 367	-3 310 448
Depreciation and impairment of tangible assets	5	398 549	1 091 902
Amortization of intangible assets	6	4 321 345	3 922 377
Impairment of intangible assets	6	6 581 047	9 245 255
Adjustment for other entries affecting cash flow		943 734	2 034 512
Net financial expenses/ income		4 095 817	10 522 139
Income tax paid		-4 353 988	-2 083 297
Changes in loans to customers		-5 674 718	18 567 329
Changes in other receivables		-5 131 882	2 976 277
Change in other payables		-6 529 316	5 327 403
Net cash flow from operations		**5 561 956**	**48 293 449**
Cash flow from investing activities			
Investments in financial assets	7a	-1 150 000	0
Disposal of financial assets	7a	2 966 664	35 453 805
Investments in tangible fixed assets	5	-205 176	-343 546
Investments in intangible assets	6	-487 844	-1 681 750
Net cash flow used for investing activities		**1 123 644**	**33 428 509**
Cash flow from financing activities			
Interests paid		-5 483 285	-6 501 867
Amortized long term loans		-27 331 667	0
Change in credit facility	12	-29 673 896	-1 941 688
Net cash flow used for financing activities		**-62 488 848**	**-8 443 555**
Effects of exchange rate changes on the balance of cash held in foreign currencies		**2 653 368**	**-228 438**
Change in cash, cash equivalents		**-53 149 880**	**73 049 966**
Cash, cash equivalents as of 1 January	9	77 409 819	4 359 853
Cash, cash equivalents as of 31 December	**9**	**24 259 939**	**77 409 819**

Notes to the financial statements

1 General information

Folkia AS changed the company's name to Folkefinans AS in May 2015. Folkefinans AS and its branches offer simple, everyday financial services at fixed prices and on conditions which are clear to customers. The company's services primarily consist of the provision of loans – small unsecured loans with a short term to maturity for temporary needs including more flexible larger loans (up to NOK 40.000) with longer maturity (up to 36 months). The offering of Visa card was temporarily discontinued in the Estonian market in Q1 2016.

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

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

As at 31 December 2017, the company consisted of the parent company, Folkefinans AS, and its branches in Sweden, Finland and Estonia. Denmark is operating via the Swedish branch.

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

The financial statements were approved by the company's board on March 20th, 2018.

2 Summary of significant accounting policies

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

2.1 Basis for preparation

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

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

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

New standards, amendments and interpretations 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 2017.

• Disclosure initiative - amendments to IAS 7.

The amendments require disclosure of changes in liabilities arising from financing activities, see note 12.

New standards, amendments and interpretations not yet adopted

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

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

Financial assets that are debt instruments

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

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

Derivatives and investments in equity instruments

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

Financial liabilities

For financial liabilities the standard is essentially the same as in IAS 39. As a main rule, financial liabilities are still measured at amortized cost except for derivative financial instruments which are measured at fair value, financial instruments as part of a trading portfolio and financial liabilities recognized at fair value with changes in value through profit or loss. A change from IAS 39 is that financial liabilities recognized at fair value through profit or loss, changes in value resulting from the company's own credit risk is recognized in other comprehensive income unless this creates or strengthens an accounting mismatch, and not through profit or loss as today. In addition the option of using fair value for a group of financial liabilities or financial assets when these are managed, and their earnings are recognized at fair value, in accordance with a documented risk handling- and investment strategy, and information given internally to the company's key employees in management are based on these premises.The company's has finalized the assessment and has concluded that the new standard will not affect the company's measurement of financial assets and liabilities. Investments that under IAS 39 was classified as financial assets available for sale is under IFRS recognized as financial assets at fair value through profit or loss.

Loan losses loans and guarantees

According to current regulations, credit loss only take place when there is objective evidence that a loss event has occurred after the initial recognition. According to IFRS 9 loss provisions are recognized based on expected credit losses (ECL). The general model for impairment of financial assets in IFRS 9 will apply to financial assets measured at amortized cost or at fair value with changes in other comprehensive income and did not have occurred losses at initial recognition. In addition, also loan commitments, financial guarantee contracts that are not measured at fair value through profit and lease receivables included.

The measurement of the provision for expected loss in the general model depends on whether credit risk has increased significantly since initial recognition. Upon initial recognition, and when the credit risk has not increased significantly after initial recognition, a provision shall be made for the 12-month expected loss. 12-month expected loss is the loss that is expected to occur over the lifetime of the instrument but can be linked to events occurring during the first 12 months. If the credit risk has increased significantly after the initial recognition, a provision shall be made for expected losses over the entire lifetime.

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

IFRS 16 Leases

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

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

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

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

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

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

2.2 Segment reporting

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

2.3 Translation of foreign currencies

(a) *Functional currency and presentation currency*

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

(b) *Transactions and balances*

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

(c) *Branches*

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

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

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

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

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

2.4 Tangible fixed assets

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

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

Fixtures, fittings and equipment: 3-5years

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

When a fixed asset's carrying amount is higher than the estimated recoverable amount, the value is written down to the recoverable amount.

2.5 Intangible assets

(a) *Goodwill*

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

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

(b) *Trademarks (brands)*

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

(c) *Software and licenses*

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

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

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

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

2.6 Impairment of non-financial assets

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

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

2.7 Financial assets

2.7.1 Classification

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

Loans and receivables

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

2.7.2 Recognition and measurement

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

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

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

On each statement of financial position date, the company assesses whether there are objective indicators that indicate a fall in the value of individual assets or groups of financial assets. A fall in the value of shares and equivalent instruments recognised in the statement of comprehensive income is not reversed through the statement of comprehensive income. The impairment test for loans to and receivables from customers is described in note 2.15.

2.8 Loans to and receivables from customers and credit institutions

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

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

2.9 Loans to and receivables from credit institutions

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

2.10 Share capital and share premium

Ordinary shares are classified as equity.

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

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

2.11 Other liabilities

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

2.12 Liabilities

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

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

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

Convertible loans issued in another currency than the functional currency has not a fixed amount that can be converted into a fixed number of shares. The fair value of the debt is calculated by using the market interest rate for a corresponding non-convertible loan. This amount is classified as debt and recognised at its amortised cost until it expires due to conversion or falls due on the loan's maturity date. The remainder of the payment is allocated as a derivative.

2.13 Tax payable and deferred tax

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

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

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

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

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

2.14 Pension commitments, bonus schemes and other employee compensation schemes

(a) *Pension commitments*

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

(b) *Other commitments linked to former employees*

The Company has no commitment linked to former employees.

(c) *Share-based remuneration*

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

(d) *Severance pay*

None of the Company branches has separate severance pay schemes.

(e) *Profit sharing and bonus plans*

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

2.15 Provisions and credit losses

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

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

2.16 Revenue recognition

(a) *Interest income*

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

(b) *Fee revenue*

Fee revenues are recognized in the statement of comprehensive income over time in accordance with the effective interest rate method and in accordance with the duration of the loan.

2.17 Leases

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

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

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

2.18 Cash and cash equivalents

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

3 Financial risk management

Risk Management ensures compliance with internal and external Risk Management regulations, 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 revenues to the extent it is economically justifiable. After the Company's risk profile has been defined, it is assessed and appraised. The assessment and appraisal 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 mitigated and controlled. Assessment of the effects of precautionary actions by executives may also be simulated in connection with the assessment, where executives may revise for instance the effects of stress test events in light of realistic possible actions.

Risk factors

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

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

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

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

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

- 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 31st of December 2017, Folkefinans has a non-hedged foreign exchange exposure of NOK 75.5 m.

Sensitivity analysis

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

	Change	Result 2017	Result 2016
NOK/SEK	+/- 5%	+/-6,129	+/-0,923
NOK/EUR	+/- 5%	+/-0,174	+/-0,899

(II) Interest rate risk

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

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

3.1.2 Credit risk

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

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

These receivables are generated by on-going daily lending transactions to the general public. The loan term for these loans is on average 90-180 days. Since these loans are to be repaid relatively rapidly the actual amount outstanding loans are thus limited. 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 maximum lending limits for its loan facilities. Folkefinans has developed its own sophisticated scoring model to determine the credit rating of private customers. Folkefinans continuously monitors the Credit Risk by weekly payback rates on the type of customer, product and market.

For the FY 2017 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 2017:

Counterpart	**Exposure 2017**	**Exposure 2016**
General Public	138,873	133,198
Covered bonds	0	2,967
Cash Deposit	24,259	77,278
Other commitments	22,48	13,409
Total	**185,612**	**226,852**

Region	**Exposure 2017**	**Exposure 2016**
Sweden	131,570	160,943
Norway	53,526	61,352
Finland	0,086	0,08
Estonia	0,43	4,477
Denmark	0	0
Total	**185,612**	**226,852**

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 is planning to launch new products.

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

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

In order to minimize the funding risk, the Company is using different sources of funding. Currently Folkefinans is financed through two self-amortizing loans, one subordinated loan and a credit facility from Pareto bank. To secure financing of Folkefinans' business plan for the coming years it is planned for strengthening 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 2017	Between 3 months and 1 year	More than 3 years
Subordinated loan		31 510 225
Loans	25 647 407	

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 2017 includes NOK 162.0 million of Tier 1 Capital and NOK 6,1 Tier 2 Capital. The capital adequacy ratio is 25,8%.

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

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**

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
2016 financial year					
Carrying amount 01.01.16	30 077 584	17 797 440	0	1 386 000	49 261 024
Additions	0	1 681 750	0	0	1 681 750
Disposals	0	-6 506 796	0	0	-6 506 796
Translation differences	0	-1 264 040	0	0	-1 264 040
Impairment during the year	-8959611,81	-285 643	0	0	-9 245 255
Amortization during the year	0	-4 431 691	0	0	-4 431 691
Disposals depreciation		7 016 110			7 016 110
Carrying amount 31.12.16	**21 117 972**	**14 007 130**	**0**	**1 386 000**	**36 511 102**
As of 31 December 2016					
Original cost	45 889 905	38 311 774	13 332 762	10 134 617	107 669 057
Accumulated impairment	-24 771 933	-276 596	0	-8 748 617	-33 797 145
Accumulated amortization	0	-24 028 048	-13 332 762	0	-37 360 810
Carrying amount 31.12.16	**21 117 972**	**14 007 130**	**0**	**1 386 000**	**36 511 102**
2017 financial year					
Carrying amount 01.01.17	21 117 972	14 007 130	0	1 386 000	36 511 102
Additions		487 844			487 844
Disposals		-16 122 453			-16 122 453
Translation differences		1 085 865			1 085 865
Impairment during the year		-6 581 047			-6 581 047
Amortization during the year		-4 321 345			-4 321 345
Disposals depreciation		15 445 527			15 445 527
Carrying amount 31.12.17	**21 117 972**	**4 001 523**	**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**
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 five-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% for Folkefinans AS Norway have been used.

Cash flows in excess of the five-year period are extrapolated using a conservative growth rate of 2 %. The goodwill of 21 MNOK is related to the historical acquisition of Folkia AB. It is planned to strengthen the company's debt financing during 2018 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 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
Financial assets available for sale		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)			
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**

Folkefinans' Visa Europe Principal Membership, Folkefinans' shares in Visa Inc. were written up at the end of 2017 and represents a value of 10 215 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 2017 and represents a value of 1 852 TNOK.

To be compliant with FSA short term liquidity standards (LCR) Fokefinans invests in funds comprised of highly liquid assets. As per 31.12.17 Folkefinans owned shares valued at 1 134 KNOK in "Carnegie Obligasjonsfond" and shares valued at 30 KNOK 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 available for sale investments.

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

As of 31 December 2016	Lending and receivables	Available for sale	Total
Assets			
Loans to and receivables from credit institutions	77 409 819		77 409 819
Loans and other receivables, excl. advance payments and deposits (short-term)	133 197 829		133 197 829
Financial assets available for sale		9 659 362	9 659 362
Prepaid and deposits	6 077 775		6 077 775
Total	**216 685 423**	**9 659 362**	**226 344 784**

As of 31 December 2016	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Total
Liabilities			
Loans (credit facility)		29 673 896	29 673 896
Derivatives	3 068 146		3 068 146
Accounts payable and other liabilities, excl. mandatory liabilities		6 471 686	6 471 686
Self-amortizing loans		51 795 718	51 795 718
Convertible subordinated loan		29 368 454	29 368 454
Total	**3 068 146**	**117 309 754**	**120 377 900**

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.

	2017	2016
Accounts receivable		
Loans and other receivable	138 872 546	133 197 829
Total accounts receivable	**138 872 546**	**133 197 829**

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.

	2017	2016
Bank deposits		
AA-	594 053	3 648 097
A+	21 018 329	73 698 149
A -	0	0
A	20 387	41 862
Undefined/no rating available	2 627 170	21 711
Total bank deposits	**24 259 939**	**77 409 819**

8 Loans and other receivables

	2017	2016
Loans	157 120 920	181 028 582
Impairment due to probable losses on loans	-18 248 373	-47 830 753
Net loans	**138 872 546**	**133 197 829**

Current assets

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

	2017	2016
Not fallen due	118 111 305	110 640 837
1 – 30 days after the due date	22 226 980	15 456 572
31 - 60 days after the due date	5 945 110	8 540 230
61 - 90 days after the due date	3 166 342	5 757 147
> 91 days after the due date	7 671 182	40 633 796
Total loans	**157 120 919**	**181 028 582**

Recognized value of the Company's loans before impairment allowance, per geographical market in NOK as of 31 December 2017:

	Sweden	Norway	Denmark	Estonia	Finland	Total
Not fallen due	104 491 135	13 620 170	0	0	0	118 111 305
1 – 30 days after the due date	17 041 809	5 185 171	0	0	0	22 226 980
31 - 60 days after the due date	4 289 947	1 655 162	0	0	0	5 945 110
61 - 90 days after the due date	2 440 131	726 211	0	0	0	3 166 342
> 91 days after the due date	4 688 798	2 982 384	0	0	0	7 671 182
Total loans	**132 951 821**	**24 169 098**	**0**	**0**	**0**	**157 120 919**

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

	2017	2016
SEK	132 951 822	143 308 541
NOK	24 169 098	26 080 382
EUR	0	5 442 661
DKK	0	6 196 998
Net loans	**157 120 920**	**181 028 582**

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

	2017	2016
As at 1 January	**47 830 754**	**85 554 545**
Provision during the year	16 576 982	30 233 976
Net receivables that have been written off as losses during the year	4 322 508	2 754 759
Reversed provision due to portfolio sales	-47 386 273	-62 824 429
Reversal of unused amounts	-831 421	-2 465 994
Currency translations	-2 264 175	-5 422 105
As at 31 December	**18 248 375**	**47 830 753**

	2017	2016
Unspecified loan loss provisions during the period	20 068 069	30 811 508
Profit sale of portfolios	-16 578 488	-31 203 133
Unspecified loan loss provisions	**3 489 581**	**-391 625**

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 2017 and 2016 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.

9 Loans to and receivables from credit institutions

	2017	2016
Cash and bank deposits	24 259 939	77 409 819
Total	**24 259 939**	**77 409 819**

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

	2017	2016
Cash and cash equivalents	24 259 939	77 409 819
Total	**24 259 939**	**77 409 819**

10 Share capital and share premium

	No. of shares	Nominal share capital	Share premium	Total
Carrying amount 31.12.16	**19 178 100**	**95 890 500**	**79 262 471**	**175 152 971**
Carrying amount 31.12.17	**19 178 100**	**95 890 500**	**79 262 471**	**175 152 971**

The company has used own shares (treasury shares) in connection with the purchase of the subsidiary in Denmark, DFK Holding – closing January 2009. As of 31 December 2017, the number of shares was 19 341 016 of which 162 916 are the company’s own shares.

11 Other liabilities and accrued expenses and deferred income

	2017	2016
Accounts payable	4 136 249	4 954 650
Approved, invoiced but not paid out loans	1 067 732	2 152 992
Salaries owed	0	81 367
Other liabilities	49 750	62 575
Govt. charges and special taxes	6 079 417	5 431 603
Total Other liabilities	**11 333 148**	**12 683 187**

	2017	2016
Accrued Govt. charges and special taxes	968 115	589 162
Accrued expenses	4 556 678	9 040 467
Holiday pay due	1 971 518	2 067 428
Other accrued expenses	2 202	2 330 772
Total accrues expenses and deferred income	**7 498 513**	**14 027 829**

12 Liabilities

	2017	2016
Liabilities		
Liabilities to credit institutions (credit facility)	0	29 673 896
Derivatives	2 485 482	3 068 146
Self-amortizing loan	25 647 407	51 795 718
Convertible subordinated loan	31 510 225	29 368 454
Total loans	**59 643 115**	**113 906 214**

Liabilities to credit institutions

In October 2017 Folkefinans extended the maturity of the credit facility of 10 MSEK from Pareto Bank to March 31st, 2018 with an interest rate of 5.5%. In February 2018 the maturity of the facility was extended to March 31st, 2019 with an interest of 6%.

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 are repaid over a two-year term, starting 18th December 2016. In June 2016 it was agreed to amend the currency of the two loans from NOK to SEK. Each of the tranches thus amount to 13 971 TSEK as of 31st December 2017.

In March 2015 Folkefinans also entered into a subordinated convertible 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. The loan amount thus to 33 610 TSEK.

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

	2017	2016
6 months or less	0	29 673 896
6-12 months	25 647 407	51 795 718
1-5 years	33 995 708	32 436 600
More than 5 years	0	0
No agreed maturity date	0	0
Total loans	**59 643 115**	**113 906 214**

Carrying amount and fair value of loans:	2017	2016
Carrying amount		
Loans from credit institutions (credit facility)	0	29 673 896
Derivatives	2 485 482	3 068 146
Self-amortizing loan	25 647 407	51 795 718
Convertible subordinated loan	31 510 225	29 368 454
Total carrying amount	**59 643 115**	**113 906 214**
Fair value		
Loans from credit institutions (credit facility)	0	29 673 896
Derivatives	2 485 482	3 068 146
Self-amortizing loan	25 647 407	51 795 718
Convertible subordinated loan	31 510 225	29 368 454
Total fair value	**59 643 115**	**113 906 214**

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

	2017	2016
NOK	0	0
EUR	0	32 436 600
SEK	59 643 115	81 469 614

Liquidity risk

As of 31 December 2016	Undefined	0-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to credit institutions		489 619	30 667 972			31 157 591
Accounts Payable		4 400 910				4 400 910
Derivatives				3 068 146		3 068 146
Self-amortizing loans		7 694 733	22 463 034	39 578 244		69 736 011
Convertible subordinated loan		581 250	1 743 750	37 715 329		40 040 329
Total Liabilities		**13 166 512**	**54 874 756**	**80 361 719**	**0**	**148 402 987**

As of 31 December 2017	Undefined	0-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to credit institutions						0
Accounts payable		4 114 754				4 114 754
Derivatives				2 485 482		2 485 482
Self-amortizing loans		9 609 857	28 049 400			37 659 257
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		
	2016-12-31	Amortisation	Interest Payments	Interest cost	Accrued interest	FX adjustement	2017-12-31
Liabilities to credit institutions	29 673 896	-29 674 016	-17 333	17 333	120		0
Self-amortizing loans	51 795 718	-27 331 667	-3 124 167	3 542 702	-418 535	1 183 356	25 647 407
Convertible subordinated loan	29 368 454		-2 341 785	2 770 067	-428 282	2 141 771	31 510 225
Total	**110 838 068**	**-57 005 683**	**-5 483 285**	**6 330 102**	**-846 697**	**3 325 247**	**57 157 632**

13 Pensions and similar liabilities

	2017	2016
Costs charged to the statement of comprehensive income		
– Pension costs	2 142 124	2 322 346

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

14 Wages and salaries

	2017	2016
Salaries	22 960 508	24 011 419
Employers' national insurance contributions	6 184 147	6 895 721
Pension costs – the year's provisions for defined contribution-based pension schemes	2 142 124	2 322 346
Other benefits	164 100	279 658
Total wages and salaries	**31 450 879**	**33 509 144**
No. of employees	**23**	**37**

15 Other operating expenses

	2017	2016
External advisors/fees services	893 074	1 542 150
Rental expenses	2 850 027	3 445 153
Production expenses	5 084 681	11 921 515
Collection expenses	1 295 555	7 775 914
Administrative and other expenses	-711 438	1 872 257
Total other operating expenses	**9 411 899**	**26 556 989**

16 Taxes

Tax expense:	2017	2016
Taxes payable on foreign income	3 222 398	3 163 380
Adjustments in respect of prior years	-69 409	113 213
Change in deferred tax	1 349 145	-2 562 185
Change in deferred tax due to change in tax rate	0	0
Tax expense	**4 502 135**	**714 408**
Total tax including OCI	**4 502 135**	**714 408**
Tax payable	3 222 398	3 163 380
Advance tax payments	-1 689 804	-890 406
Total tax payable	**1 532 594**	**2 272 974**

Reconciliation of the tax expense:	2017	2016
Profit before taxes	**10 911 367**	**-3 944 997**
Calculated tax 25 % (27 %)	2 727 842	-986 249
Permanent differences	-578 434	-1 575 935
Effects from changed tax rates	-800 262	0
Adjustments in respect of prior years	-69 409	113 213
Tax payable on foreign income	3 222 398	3 163 380
Tax	4 502 135	714 408
Tax in the statement of comprehensive income	**4 502 135**	**714 408**
Tax expense in the income statement	4 502 135	714 408
Tax expense	**4 502 135**	**714 408**

Deferred tax and deferred tax assets:

Deferred tax assets	2017	2016
Tax losses carried forward - Norway	30 025 681	30 579 296
Intangible assets	114 902	910 431
Deferred tax assets	**30 140 583**	**31 489 728**

Deferred tax assets are capitalized based on future income.

Deferred tax liability		
Intangible assets	0	0
Deferred tax liability	**0**	**0**
Net deferred tax	**30 140 583**	**31 489 728**
Ordinary tax expense	4 502 135	714 408
Total tax expense	**4 502 135**	**714 408**
Taxes payable	3 152 989	3 276 593
Change in deferred tax	1 349 145	-2 562 185
Total tax expense	**4 502 135**	**714 408**

17 Commitments

a) Guarantees and charges:

Folkefinans has no guarantees or charges in 2017.

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:

	2017	2016
Due date within 1 year	2 152 929	2 313 720
Due date between 1 and 5 years into the future	3 641 953	0
Due date more than 5 years into the future	0	0
Total future minimum lease payments	**5 794 881**	**2 313 720**

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 31.12.2017 the total of deposits for office rental is NOK 774 690. The total minimum payments are gross figures (no deduction for deposits).

18 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
SMH Management AS - owned by the previous Chairman of the board and shareholder Stig Herben

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):

	2017	2016
Mariniuim OY	289	
Synvestment OÜ	363	
SMH Management AS	0	308
Total	**0**	**308**

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:

	2017	2016
Salaries and other short-term employee benefits	10 501	9 061
Severance pay	1 100	-
Pension benefits	1 305	1 007
Other long-term benefits	-	-
Share-based remuneration	-	-
Total	**12 905**	**10 068**

Specification of remuneration to senior employees:

	2017		2016	
Name	**Salary and other short-term benefits**	**Pension benefits**	**Salary and other short-term benefits**	**Pension benefits**
Hördur Bender, former CEO	0	0	549	27
Harald Dahl-Pedersen, CEO 1)	1 796	208	1 391	152
- Severance pay	1 100			
Jens Schau-Hansen, CFO/CEO 2)	1 824	269	1 451	258
Other Management	**6 002**	**828**	**4 770**	**570**
Magnus Sjögren, General Counsel 5)	1 840	271	2 120	269
Anders Linder, former Group Head of Collection and Customer Service	0	0	1 048	127
Jan Nilsson, CTO 3)	525	67	1 602	174
Martin Holmin, CTO 3)	323	32		
Janne Kiiha CCO 4)	754	110		
Annika Dolve, CCO 5)	1 200	174		
Kemal Kalkan, Head of customer service 4)	528	52		
Christer Nilsson, CRO 4)	832	122		
Credit Committee	**50**	**0**	**50**	**0**
Leif Bjørnstad 7)	50		50	
Harald Nordstrand 6)				
Control Committee / Audit and Risk Committee	**40**	**0**	**200**	**0**
Anders Utne	0		40	
Eigil Ulvin Olsen	0		40	
Einar Irgens	40		80	
Morten Egil Haugen	0		40	
Harald Nordstrand 6)				
Board members	**787**	**0**	**650**	**0**
Jan Nilsson 6)	36			
Stig Herbern 7)	216		250	
Raivo Aavisto	100		100	
Leif Bjørnstad 7)	100		100	
Mikko Marttinen	100		100	
Kalle Pykälä	236		100	
Harald Nordstrand 6)				
Total	**11 601**	**1 305**	**9 061**	**1 007**

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. Nilsson left the position of CTO in September 2017 and was replaced by Mr. Holmin

4) Mr. Kiiha, Mr. Kalkan and Mr. Nilsson were appointed 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) Appointed to their position in 2017

7) Left their position in 2017

d) Fees to auditors and other related costs	**2017**	**2016**
Statutory audit		
- PwC	1 118 240	1 247 059
- other	0	0
Tax services		
- PwC	47 500	53 125
Other non-assurance services		
- PwC	105 783	25 000
Total PwC	1 271 523	1 325 184
Total	**1 271 523**	**1 325 184**

Fees include VAT.

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

In February 2018 Folkefinans extended the maturity of the credit facility of 10 MSEK from Pareto Bank to March 31st, 2019 with an interest of 6%.

20 Share capital and shareholder information

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.

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%**

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	1 202 169
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
Total		**3 125 449**

(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

The share capital in the company as of 31 December 2016 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**		**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 2016	Shares	Ownership share
CLEARSTREAM BANKING S.A. *	2 080 237	10,8%
WONGA GROUP LIMITED	1 934 100	10,0%
BRENNEN CONSULTING LIMITED	1 740 800	9,0%
CNHL LTD	1 613 850	8,3%
LANDSYN EHF	1 301 974	6,7%
DANSKE BANK A/S *	1 214 100	6,3%
SVENSKA HANDELSBANKEN AB *	1 054 896	5,5%
INTERACTIVE A ISLANDI EHF	911 811	4,7%
NORDNET BANK AB *	793 331	4,1%
BNP PARIBAS SEC. SERVICES S.C.A *	707 575	3,7%

PAATERO	684 373	3,5%
SKANDINAVISKA ENSKILDA BANKEN AB *	628 175	3,2%
NEBRASKA INVEST OY	496 356	2,6%
UBS AG *	433 320	2,2%
FIVADO AS	282 787	1,5%
ARION BANK HF *	275 993	1,4%
HIETALA	248 064	1,3%
BERASCO LIMITED	242 869	1,3%
OÜ VIADELLA INVESTMENTS	242 826	1,3%
DYVI	200 500	1,0%
DYNAMO AS	193 166	1,0%
LEIF BERNHARD BJØRNSTAD	192 097	1,0%
Shareholders with at least 1 % ownership	**17 473 200**	**90,3%**
*) Share deposit		
Own shares, FOLKEFINANS AS	110 174	0,6%
Own shares, FOLKEFINANS AS NORGE, FILIAL SVERIGE	52 742	0,3%
Remaining ownerships	**1 704 900**	**8,8%**
Number of shareholders:	62	
Number of shares:	**19 341 016**	**100,0%**

21 Capital adequacy

Capital adequacy 31 December

Equity and subordinated loan capital

	2017	2016
Share capital	95 890 500	95 890 500
Other equity	68 117 277	53 603 013
Equity	**164 007 777**	**149 493 513**
Subordinated loan	6 150 000	8 150 000
Equity and subordinated loan capital	**170 157 777**	**157 643 513**
Deductions:		
Intangible assets	-26 505 493	-36 511 102
Deferred tax assets	-30 140 583	-29 091 537
Core capital	**113 511 701**	**92 040 874**
Net equity and subordinated loan capital	**113 511 701**	**92 040 874**

Minimum requirement equity and subordinated loan capital

Credit risk		
Of which:		
Covered bonds	0	23 736
Institutions	388 144	1 236 448
Mass market commitments		
Commitments that have fallen due		
Other commitments	12 908 204	11 728 546
Total minimum requirement credit risk	**13 296 348**	**12 988 730**
Settlement risk		
Foreign exchange risk	6 044 027	6 524 972
Total minimum requirement market risk	**6 044 027**	**6 524 972**
Operational risk	**15 886 428**	**16 385 913**
Minimum requirement equity and subordinated loan capital	**35 226 803**	**35 899 615**

Capital adequacy		
Capital adequacy ratio	25,8%	20,5%
Core capital adequacy ratio	24,4%	18,7%

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

To the General Meeting of Folkefinans AS

Independent Auditor’s Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Folkefinans AS which comprise the balance sheet as at 31 December 2017, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2017, 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 the Board of Directors’ report, but does not include the financial statements and our auditor's report thereon.

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

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.

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Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

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 concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit 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, 20 March 2018
PricewaterhouseCoopers AS

Geir Julsvoll
State Authorised Public Accountant

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

(3)