Annual Report 2016

Norwegian Finans Holding ASA

Annual Report 2016 Norwegian Finans Holding ASA

OPERATIONS, GOALS AND STRATEGY

Norwegian Finans Holding ASA (NFH) owns 100% of the shares in Bank Norwegian AS. The company does not engage in any other operations. The ownership of NFH is divided between institutional and private investors in Norway and abroad, of which Norwegian Air Shuttle ASA is the largest owner with a stake of 20%. Norwegian Finans Holding ASA is listed on the Oslo Stock Exchange with the ticker code NOFI.

Bank Norwegian started its operations in November 2007 and offers consumer loans, credit cards and deposit accounts to retail customers distributed through the Internet in the Nordic market. Bank Norwegian offers, in cooperation with the airline Norwegian, a combined credit card and reward card. The Bank started operations in Sweden in May 2013. In December 2015 the bank launched operations in Denmark and Finland, where it initially offered consumer loans and deposit accounts. Credit cards were launched in June 2016.

The strategy is based on leading e-commerce solutions, synergies with the airline Norwegian, attractive terms for our customers, cost-effective operations and effective risk selection.

At the end of 2016 the bank had a customer base of 940,900 customers, which can be broken down into 673,400 credit card customers, 147,100 loan customers and 120,400 deposit customers.

Norwegian Finans Holding ASA was listed on the Oslo Stock Exchange on June 17, 2016. In connection with the listing, the Bank adopted IFRS from January 1, 2016.

ECONOMIC DEVELOPMENT

Profit and loss account for 4th quarter 2016

The NFH Group's comprehensive income was NOK 290.0 million, an improvement of NOK 43.0 million compared with the 3rd quarter. The annual return on equity for the 4th quarter was 40.5%, while the annual return on assets was 4.0%. The annual return on equity for the 4th quarter adjusted for the gains from Visa was 39.3%, while the annual return on assets was 3.8%.

Net interest income totalled NOK 768.4 million, an increase of NOK 101.1 million in the 4th quarter. The net interest margin was 10.5%, compared with 10.1% in the 3rd quarter.

Net other operating income totalled NOK 17.4 million, compared with NOK 44.1 million in the 3rd quarter. Net commission and bank services income decreased NOK 16.2 million to NOK 21.9 million in the quarter. The decrease is mainly explained by lower interchange and accruals in the 3rd quarter. Net change in value on securities and currency was NOK -4.6 million, compared with NOK 5.8 million in the 3rd quarter. Net loss on value of securities was NOK 8.0 million and net gain on currency was NOK 3.4 million.

Total operating expenses were NOK 276.1 million in the 4th quarter, an increase of NOK 11.7 million. Personnel expenses decreased by NOK 3.3 million and general administrative expenses increased NOK 15.2 million. The increase in general administrative expenses is mainly explained by increased marketing and IT related expenses, in addition to expenses related to the production of new credit cards in connection with converting to Visa payment system for credit cards in Sweden. Depreciation increased NOK 0.2 million and other operating expenses decreased NOK 0.4 million.

The NFH Group's write-downs on loans totalled NOK 144.7 million, an increase of NOK 25.6 million from the 3rd quarter. The change is explained by increased write-downs on groups of loans in Norway. Write-downs as a percentage of average gross loans equalled 2.5% in the 4th quarter, compared with 2.3% in the 3rd quarter.

The tax charge totalled NOK 75.1 million in the 4th quarter, a decrease of NOK 6.8 million. The decrease is mainly explained by annual tax calculations in December.

Profit and loss account for 2016

The NFH Group's comprehensive income for 2016 was NOK 924.0 million, an increase of NOK 320.3 million or 53% compared with 2015. The return on equity was 40.5% and the return on assets was 4.0%. The improvement in profit is mainly explained by customer and loan growth both in new and existing markets. The NFH Group's recruited approximately 330,000 new customers in 2016 and had a loan growth of NOK 10,594 million. Comprehensive income is also impacted by a gain from the sale of Visa Europe with a net effect of NOK 57.2 million. Annual return on equity and return on assets adjusted for the gains from Visa amounted to 38.5% and 3.7% respectively.

Net interest income

Net interest income was NOK 2,500.6 million, an increase of NOK 1,076.0 million in 2016. The net interest margin was 10.3%, compared with 9.6% in 2015. The increase in net interest margin is due to lower interest expense.

Net other operating income

Net other operating income was NOK 201.4 million, an increase of NOK 105.8 million from 2015. Net commission and bank services income increased by NOK 13.1 million, totalling NOK 127.2 million in 2016. The net change in value on securities and currency increased by NOK 92.7 million, totalling NOK 74.1 million. The change in value is mainly explained by received gains from the sale of Visa Europe of NOK 57.2 million. Value-adjusted return on the securities portfolio was 1.5%, compared with 0.8% in the previous year.

Operating expenses

Total operating expenses totalled NOK 976.0 million, an increase of NOK 404.0 million from 2015. Personnel expenses increased with NOK 7.8 million. General administrative expenses increased NOK 371.3 million. The increase in administrative expenses is mainly attributed to higher sales and marketing expenses. Depreciation increased NOK 0.2 million and other operating expenses increased NOK 24.7 million.

Write-downs on loans

The NFH Group's write-downs on loans were NOK 468.3 million, compared with NOK 207.9 million in 2015. Write-downs equalled 2.4% of average gross loans, compared with 1.8% in 2015. The increase can to a large extent be attributed to higher write-downs in the initial phase in new countries.

Delinquent loans were NOK 1,654.2 million, compared with NOK 819.2 million at the end of 2015. Relative to gross loans, gross delinquency were 6.6%, compared with 5.8% at the end of 2015. Non-performing loans totalled 4.2% of gross loans, compared with 4.0% at the end of 2015.

At year end, individual write-downs on loans totalled NOK 201.1 million, and write-downs on groups of loans totalled NOK 630.2 million.

The NFH Groups's credit quality shows a stable development. The NFH Groups's credit practice and credit models are undergoing continuous improvements.

Balance sheet, liquidity and capital

The NFH Group's total assets were NOK 30,402 million at the end of the year, an increase of NOK 12,784 million for the full year. Net loans to customers increased by NOK 10,594 million and totalled NOK 24,403 million at year end. Net loans to customers are distributed into NOK 14,177 million, NOK 5,190 million and NOK 5,036 million in Norway, Sweden and Denmark/Finland, respectively. Installment loans increased by NOK 8,595 million, while credit card loans increased by NOK 2,439 million. Customer deposits increased by NOK 11,057 million and totalled NOK 24,424 million at year end. Customer deposits are distributed into NOK 14,696 million, NOK 5,561 million and NOK 4,167 million in Norway, Sweden and Denmark/Finland, respectively. The deposit-to-loan ratio was 100% at the end of the year.

The holdings of certificates and bonds increased by NOK 1,496 million and totalled NOK 4,464 million at the end of 2016. Other liquid assets totalled NOK 1,163 million at the end of 2016. The liquidity reserves increased by NOK 2,122 million and totalled NOK 5,628 million, equivalent 18.5% of total assets. The liquidity position has been strong throughout the year. The securities portfolio is liquid with solid counterparties and a high percentage of government certificates.

Debt securities issued decreased NOK 56 million and totalled NOK 1,824 million at year end. The NFH Group has during the year issued NOK 500 million in senior debt securities with up to three years maturity.

The NFH Group has issued NOK 210 million in subordinated bonds and NOK 100 million in subordinated debt in the 3rd quarter. In the 2nd quarter the NFH Group completed a private placement totalling NOK 340 million due to strong loan growth.

Total equity was NOK 3,335 million for the NFH Group at year end. The total capital ratio at the end of 2016 was 16.6% for the NFH Group and 16.5% for the bank. The core capital ratio at the same point in time was 15.3% for the NFH Group and 15.2% for the bank. The common equity tier 1 ratio was 13.7% for the NFH Group and 13.7% for the bank.

FINANCIAL RISK FACTORS

Credit risk

The board of directors of Bank Norwegian has adopted credit policy guidelines to ensure good credit evaluation processes and contribute to ensuring that the return on equity target is met. The bank’s guidelines are reviewed at least annually by the board of directors.

The bank offers only credit to the retail customer market, and all credit decisions are made by means of automated decision support systems. Credit is granted based on a qualitative and quantitative analysis with a positive conclusion of the customer's willingness and ability to pay. The analysis of the willingness to pay identifies the characteristics of the customer that predict future payment conduct, while the analysis of the customer’s capacity to service loans is a quantitative evaluation of the customer’s ability to repay his obligations, given the customer’s current and anticipated future economic situation. The role of the case officer is subsequently to verify whether the conditions for the conditional grant is present. Customers are regularly risk assessed based on behavioural score, if sufficient track records exists. For new customers and customers in new(er) markets, application score is used in addition to any clear negative observations, such as default on loan agreement. Customer’s application score is used in the bank’s risk-based product pricing. The bank follows up credit quality through, for example, ongoing reporting and credit committee meetings. The board has set limits for the maximum exposure per customer based on the type of commitment.

Liquidity risk

The board of directors of Bank Norwegian has adopted guidelines for management of the bank’s liquidity position to ensure that the bank maintains a solid liquidity. The guidelines are reviewed at least annually by the board of directors. The guidelines set risk limits for liquidity management and define a reporting scheme. The bank manages its liquidity position by means of summaries illustrating cash flows in the short term and by means of liquidity due date summaries. Regular liquidity stress tests are performed.

The liquidity risk is evaluated as low at the time of this report. A large portion of the bank's assets consists of marketable securities, including substantial holdings of certificates issued by the Norwegian government.

The asset side is financed by core deposits from the retail market, senior debt securities and subordinated capital. To reduce the liquidity risk, a maximum deposit limit per customer of NOK 2 million has been set to achieve the best deposit terms.

Interest rate risk

The board of directors of Bank Norwegian has defined guidelines that set limits for the maximum interest rate risk. The guidelines are reviewed at least annually by the board of directors. The bank’s investment portfolio is invested with a short term to maturity. The bank offers exclusively products with administratively set interest rate terms. Fixed interest terms are not offered. The interest rate commitment term for the bank’s financial instruments coincides thus with the term for the products. Any exposure exceeding the interest rate limits shall be mitigated by using hedging instruments. A scheme has been established for ongoing monitoring and reporting of the interest rate risk to the board of directors.

Market risk

The board of directors of Bank Norwegian has defined guidelines for the bank’s investments in certificates and bonds in addition to guidelines for handling foreign currency risk in connection with the bank’s cross border operations. The guidelines are reviewed at least annually by the board of directors. Guidelines have been established for regular monitoring and reporting to the board of directors.

The interest rate risk limits for the investment portfolio are determined based on stress tests for negative fluctuations in the interest rate level and changes in credit spreads. The guidelines also set limits based on credit risk weights and maximum exposure for each counterpart in accordance with their credit rating and maturity.The bank’s investment portfolio is managed by Storebrand Kapitalforvaltning. The asset management is regulated by a mandate agreement.

Exposure to foreign currency risk is hedged.

Operational risk

The board of directors of Bank Norwegian has established operational risk guidelines, which are reviewed at least annually by the board of directors. The bank offers simple and standardized products to the retail market, which contribute to limit the operational risk.

In addition to an annual review of significant operational risks and control measures, management performs a continuous evaluation of the operational risk situation, and risk-reducing measures are implemented as necessary.

The bank's operating concept is based largely on purchasing services from external suppliers. The agreements contain quality standard provisions and they are followed up on an ongoing basis by the bank in accordance with the outsourcing guidelines.

To ensure efficient, high quality operations, the bank is continuously seeking to automate critical processes.

Contingency plans have been established and insurance agreements have been entered into, that safeguard the bank against major loss incidents.

Business and strategic risk

The bank bases its operations to a great extent on cooperation with and the trademark of the airline Norwegian. Norwegian's good reputation has contributed to strong customer growth, but, on the other hand, the bank may be vulnerable in the event of a decline in Norwegian's reputation.

There will be factors of uncertainty associated with lower customer acquisition and volumes, reduced interest rate margins, inadequate cost-effectiveness and inappropriate technological choices. A decline in the economy may result in weaker growth, higher losses and weaker earnings, and at the same time can make raising capital difficult. On the other hand a downturn in the economy will result in a lower level of interest rates which, in turn is positive for the bank's earnings. Expansion into new markets is business and cyclical risk mitigation, but can in the start up phase result in a bit more uncertainty. The board of directors and the management have good planning processes and are able to adapt to minimize losses due to business and strategic risks.

PERSONNEL AND THE ENVIRONMENT

The bank's employees have yet again delivered good results. At 31.12.16 the bank had 69 employees, corresponding to 62.0 man-labour years, compared with 64 employees and 59.5 man-labour years in 2015. There are no other employees in Norwegian Finans Holding ASA than the CEO.

The bank's board of directors and management aim to promote equal status between men and women. The bank has guidelines to ensure that there is no discrimination due to gender, ethnic background or religion in cases concerning salaries, promotions, recruitment, and others. Of the bank's 69 employees, there are 39 men and 30 women. Of the 11 managers with personnel responsibility, two are women.

The bank has a bonus scheme for all permanent employees in accordance with current guidelines. The bonuses earned are based on the return on equity achieved. The bank has established good pension and personnel insurance schemes, and offers a programme for employees to counteract ergonomic injuries.

Absence due to illness was 3.7%. The working environment is regarded as good. The bank has established a Workers Environment and Liaison Committee. There have not been any work related accidents or injuries during the year. In the opinion of the board of directors, the bank's operations do not pollute the external environment.

The NFH Group is located at Oksenøyveien 3, Lysaker. The NFH Group has established a customer call centre in Malaga, based on outsourcing, to service Nordic customers.

REPORT ON CORPORATE SOCIAL RESPONSIBILITY

Specific guidelines regarding corporate social responsibility have been established that govern the entire group. The guidelines are described later in the annual report.

CORPORATE GOVERNANCE

The board of directors supports the Norwegian Code of Practice for Corporate Governance. The principles of corporate governance is described later in the annual report.

EVENTS AFTER THE DATE OF THE BALANCE SHEET

The bank has experienced increased loan growth in the 1st quarter 2017. The bank recognizes that future pillar 2 requirements, which are expected communicated at the earliest in the 2nd quarter 2017, will entail higher capital ratio requirements going forward. Based on this, the board has undertaken an increase in equity through a private placement of about NOK 500 million.

The board of directors is not aware of other events after the date of the balance sheet that may be of material significance to the annual accounts.

OUTLOOK

The economic trends differ in the Nordic markets where the bank operates. The Norwegian economy shows weak growth, with continued after-effects of falling oil investments, but the unemployment rate has stabilized. The Swedish economy shows falling growth, but still continued improvement in the labor market. The unemployment is low based on historic levels. The Danish and Finnish economies show weak growth and stable unemployment. Increased unemployment may entail higher levels of loan losses.

The interest rate levels in countries where the NFH Group is represented are expected to remain low. The NFH Group is expected to gain advantage of the interest rate level through low funding costs.

The earnings growth is expected to continue through strong loan growth, stable margins, cost control and good credit quality.

The Nordic market for unsecured credit is impacted by increased competition. Increased competition may lead to higher customer acquisition cost, margin pressure and lower growth.

A high deposit to loans ratio and good access to the securities market are expected to maintain the bank's strong liquidity position.

The investment portfolio has provided a satisfactory return. The portfolio's low risk mandate will remain.

The credit quality of the loan portfolio in Norway and Sweden shows a stable development and the levels of write-downs are expected to remain stable going forward. For the Finnish loan portfolio the credit quality appears to have stabilized, while the Danish loan portfolio shows a positive trend. However, relatively high write-downs in Denmark are expected going forward.

In combination with the increase in equity as described above, the NFH Group will for a period of time adjust the loan growth to bring the total capital ratio to a target level. The current capital base and internal generation of capital are considered sufficient to ensure the bank's growth ambitions.

The board of directors has accordingly a positive view of the bank's ongoing operations and confirms that NFH ASA's annual accounts have been presented under the assumption of continued operations.

PROPOSED ALLOCATION OF THE NET PROFIT FOR THE YEAR

The board of directors proposes that NFH ASA's net gain of NOK -0.8 million is added to other reserves.

Bærum, 13 February 2017
Board of Directors of Norwegian Finans Holding ASA

Bjørn H. Kise Chairman of the Board	Anita Aarnæs Board Member	John Høsteland Board Member
Brede G. Huser Board Member	Pål Svenkerud CEO	

Profit and loss account

Amounts in NOK 1000	Note	Norwegian Finans Holding Group 2016	2015
Interest income		2,838,247	1,710,433
Interest expenses		337,640	285,817
Net interest income	17	**2,500,607**	**1,424,615**
Commission and bank services income	18	246,613	192,647
Commission and bank services expenses	18	119,415	78,564
Net change in value on securities and currency	22	74,064	-18,674
Other income		170	214
Net other operating income		**201,432**	**95,624**
Total income		**2,702,038**	**1,520,239**
Personnel expenses	19	66,004	58,172
General administrative expenses	9	848,967	477,694
Ordinary depreciation	27.28	14,092	13,860
Other operating expenses	10	46,911	22,236
Total operating expenses		**975,974**	**571,963**
Provision for loan losses	4	468,257	207,886
Profit on ordinary activities before tax		**1,257,808**	**740,391**
Tax charge	26	298,371	196,669
Profit on ordinary activities after tax		**959,437**	**543,722**
Earnings per share (kroner)		5.38	3.14
Diluted earning per share (kroner)		5.38	3.14

Comprehensive income

Amounts in NOK 1000	Norwegian Finans Holding Group 2016	2015
Profit on ordinary activities after tax	**959,437**	**543,722**
Change in fair value for assets held for sale	-35,700	60,446
Tax	268	-453
Other comprehensive income that may subsequently be reclassified to profit and loss	**-35,433**	**59,992**
Comprehensive income for the period	**924,005**	**603,714**

Balance sheet

Amounts in NOK 1000	Note	Norwegian Finans Holding Group 31.12.16	31.12.15	1.1.15
Assets				
Cash and deposits with the central bank	8,13,14,15,23	59,992	58,987	58,998
Loans and deposits with credit institutions	8,13,14,15,23	1,103,359	477,841	299,705
Loans to customers	5,6,7,13,14,15,23	24,402,625	13,808,175	9,418,807
Certificates and bonds	13,14,21	4,464,203	2,968,530	3,462,993
Shares and other securities	20,21	443	443	443
Assets held for sale	20,21,25	24,745	60,446	-
Intangible assets	27	65,024	56,842	46,846
Deferred tax asset	26	7,717	8,210	1,325
Fixed assets	28	65	526	1,124
Receivables	29	274,079	178,198	138,721
Total assets		**30,402,252**	**17,618,198**	**13,428,962**
Liabilities and equity				
Deposits from customers	13,14,15,20,23	24,423,773	13,366,590	10,155,698
Debt securities issued	13,14,20,23,24	1,823,973	1,879,571	1,605,882
Financial derivatives	13,15,20,21	6,780	7,679	-
Tax payable	26	297,468	205,482	131,074
Other liabilities	30	140,764	36,374	21,755
Accrued expenses	31	99,302	76,258	70,569
Subordinated loan	13,14,20,23,24	274,915	174,962	174,967
Total liabilities		**27,066,976**	**15,746,916**	**12,159,944**
Share capital		180,105	173,195	173,000
Share premium reserve		481,980	150,402	145,123
Tier 1 capital	33	335,000	125,000	125,000
Retained earnings and other reserves		2,338,191	1,422,685	825,896
Total equity	32	**3,335,276**	**1,871,282**	**1,269,019**
Total liabilities and equity		**30,402,252**	**17,618,198**	**13,428,962**

Bærum, 13 February 2017
Board of Directors of Norwegian Finans Holding ASA

Bjørn H. Kise
Chairman of the Board

Anita Aarnæs
Board Member

John Høsteland
Board Member

Brede G. Huser
Board Member

Pål Svenkerud
CEO

Cash flow statement

Amounts in NOK 1000	Norwegian Finans Holding Group 2016	2015
Profit / loss before tax	924,005	603,714
Unrealized gain or losses on currency	72,541	-14,581
Depreciations and amortizations	14,092	13,860
Net gain from sale of fixed assets	-170	-
Provision for loan losses	468,257	207,886
Change in loans	-11,062,706	-4,597,254
Change in deposits from customers	11,057,183	3,210,893
Change in securities	-1,495,673	494,464
Change in assets held for sale, before tax	-21,959	-60,446
Change in other accruals	-95,284	-46,362
Change in short-term liabilities	218,523	102,394
Net cash flow from operating activities	**78,808**	**-85,432**
Proceeds from settlement of asssets held for sale	57,659	-
Payment for acquisition of intangible assets	-22,094	-23,459
Disposals of fixed assets	450	201
Net cash flow from investment activities	**36,016**	**-23,258**
Paid-in equity	340,637	5,474
Change in debt securities issued	-55,597	273,689
Change in subordinated loan	99,953	-4
Issued Tier 1 capital	209,160	-
Payment to Tier 1 capital investors	-9,912	-6,925
Net cash flow from financing activities	**584,240**	**272,234**
Currency effect on cash and cash equivalents	-72,541	14,581
Net cash flow for the period	626,523	178,125
Cash and cash equivalents at the start of the period	536,828	358,703
Cash and cash equivalents at the end of the period	**1,163,351**	**536,828**

Changes in equity

Norwegian Finans Holding Group

Amounts in NOK 1000	Share capital	Share premium reserve	Tier 1 capital	Retained earnings and other reserves	Total equity
Balance 31.12.15	**173,195**	**150,402**	**-**	**1,361,444**	**1,685,041**
IFRS adjustments					
Connection fee FNH	-	-	-	10,942	10,942
Tax effect of different tax rates used for the group contribution				-123	-123
Classification Tier 1 capital, IAS 32	-	-	125,000	-454	124,546
Assets held for sale, IAS 39	-	-	-	59,992	59,992
Amortized loans, IAS 39	-	-	-	-9,116	-9,116
Balance 31.12.15	**173,195**	**150,402**	**125,000**	**1,422,685**	**1,871,282**
This period's profit	-	-	-	959,437	959,437
Items that may be reclassified to profit and loss, after tax	-	-	-	-35,433	-35,433
Comprehensive income for the period	**-**	**-**	**-**	**924,005**	**924,005**
Paid interest Tier 1 capital	-	-	-	-9,912	-9,912
Capital increase	6,909	340,178	-	-	347,087
Share issue expenses	-	-8,600	-	2,150	-6,450
Issued Tier 1 capital	-	-	210,000	-840	209,160
Other equity changes	-	-	-	105	105
Balance 31.12.16	**180,105**	**481,980**	**335,000**	**2,338,191**	**3,335,276**
Balance 31.12.14	**173,000**	**145,123**	**-**	**823,730**	**1,141,853**
IFRS adjustments					
Classification Tier 1 capital, IAS 32	-	-	125,000	-446	124,554
Connection fee FNH	-	-	-	9,469	9,469
Amortized loans, IAS 39	-	-	-	-6,857	-6,857
Balance 1.1.15	**173,000**	**145,123**	**125,000**	**825,896**	**1,269,019**
This period's profit	-	-	-	603,714	603,714
Comprehensive income for the period	**-**	**-**	**-**	**603,714**	**603,714**
Unpaid interest Tier 1 capital	-	-	-	-6,925	-6,925
Capital increase	195	5,279	-	-	5,474
Balance 31.12.15	**173,195**	**150,402**	**125,000**	**1,422,685**	**1,871,282**

Notes for Norwegian Finans Holding group

Note 1. General accounting principles

Information about the company

Norwegian Finans Holding ASA is a Norwegian public limited company listed on the Oslo Stock Exchange. The company is the parent company of the Norwegian Finans Holding Group.

The Group offers banking services in the form consumer loans, credit cards and deposits to retail customers in the Nordic market. The Group is headquartered at Oksenøyveien 3, Lysaker. The Group operates in Sweden, Denmark and Finland through cross-border activities.

Basis of preparation of financial statements

The financial statements for 2016 have been prepared in accordance with the International Financial Reporting Standards, as adopted by the European Union. The financial statements for the period ended 31 December 2015 have been prepared in accordance with the Financial Reporting Act, Regulations relating to Financial Reporting for Banks, Finance Companies and their Parent Companies, Regulations relating to the Treatment of Loans and Guarantees in the Accounts of Financial Institutions and the Generally Accepted Accounting Principles in Norway.

Comparative figures have been prepared as if the Group had adopted IFRS from 1 January 2015. A reconciliation of consolidated equity on transition to IFRS is shown in the statement of changes in equity. See also Note 2.

Accounting standards which have been adopted but not implemented in 2016

IFRS 9 - Financial Instruments

IASB has published the final version of IFRS 9 *Financial Instruments* , which will replace IAS 39 *Financial Instruments – Recognition and Measurement* . IFRS 9 introduces changes to the rules for the classification and measurement of financial instruments, impairment of financial assets and hedge accounting. The standard is effective for annual reporting periods beginning on 1 January 2018 or later. Earlier application is permitted. The standard must be applied retrospectively, except for hedge accounting. Restatement of comparative figures is not required. The standard was approved by the EU in the fourth quarter of 2016.

The rules for classification and measurement of financial assets in IFRS 9 are more principle-based than the rules in IAS 39. Under IFRS 9, financial assets are assessed based on the entity's business model and the asset's cash flows. The bank has made an initial assessment of the balance sheet with regard to classification and measurement of financial assets. The bank has identified two financial instruments where changes from the current classification will be required. The classification and measurement of the bank's financial liabilities are not affected by the transition to IFRS 9.

The bank's investments in certificates and bonds are held for the purpose of receiving cash flows from contracts and for sale. These should therefore be classified at fair value through other comprehensive income (with reclassification), while under IAS 39 they are classified at fair value through profit or loss. Furthermore, assets held for sale, which consist of the bank's ownership interest in Visa Norge FLI, are classified at fair value through other comprehensive income (with reclassification). This asset is held for sale, and should under IFRS 9 be classified at fair value through profit or loss.

The bank has so far not drawn any conclusions as to what will constitute a significant increase in credit risk for the bank's loans. The bank's credit exposure is significant, and it is therefore expected that changes will be made to the bank's impairment losses as a result of the transition to IFRS 9. Reliable quantitative estimates of such changes in impairment losses are not yet available.

A strict development and implementation plan has been prepared for the construction of impairment models for all markets that will need to meet IFRS 9 requirements. Work is well underway and includes an upgrade of the bank's existing set of models and the development of specific sub-models for IFRS 9. The sub-models will be implemented in parallel with the current models as they are completed, partly to ensure a good qualitative implementation. The whole set of models will run in parallel upon completion and will be finally implemented from 1 January 2018.

The set of models will include forward-looking PD models for probability of default, LGD models (loss given default) for pre- and post-default, EAD models (exposure at default) as well as triggers for the classification of exposures in class 1, 2 or 3 (classification according to IFRS 9 regulations; 1: Sound, 2: Significant change in credit quality, 3: Default). The final modelling technique for the individual models will be selected based on the maturity of each portfolio and access to relevant data in the market concerned. The models will be validated in accordance with best practice for each model type. This normally includes both "out-of-time" validation (validation for a different time period than that or those on which the model is based) and "out-of-sample" validation (validation of a part of the data/observations that were not included in the construction of the model). In addition to the initial construction of IFRS 9 models, the bank is in the process of establishing a robust set of models for daily operation, maintenance and development.

The preliminary definition defines default as a loan that is more than 90 days in arrears in relation to the agreed payment schedule and where the amount overdue amounts to at least €100 or the equivalent in local currency.

The bank has not decided which transitional rules will be used in the transition to IFRS 9. It is not expected that the comparative figures will be restated on transition.

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 is a new standard for revenue and will replace all existing standards and interpretations for revenue. The standard will apply to revenue from all customer contracts and contains a model for recognition and measurement of sales of individual non-financial assets. Contracts with customers that are accounted for in accordance with IFRS 9 Financial Instruments are not included in the scope of IFRS 15. The standard is not expected to have a significant impact on the bank. The standard is effective for annual reporting periods beginning on 1 January 2018 or later. Earlier application is permitted.

IFRS 16 - Leases

The IASB issued IFRS 16 *Leases* in January 2016, which will replace IAS 17 *Leases* . IFRS 16 requires that the lessee recognise the assets and liabilities related to most leases in the same way as finance leases under IAS 17. Assets should be amortised over the lease term while liabilities are measured at amortised cost. For the lessor the changes compared with IAS 17 are minor. The bank is assessing the effects of the standard and has not yet quantified the effects of implementation. The standard is effective for annual periods beginning on 1 January 2019 or later. Earlier application is permitted provided that IFRS 15 Revenue from Contracts with Customers is also implemented.

Consolidation

The consolidated financial statements comprise the parent company, Norwegian Finans Holding ASA, and its subsidiary, Bank Norwegian AS (100%-owned). The companies share premises at Oksenøyveien 3, Lysaker. The consolidated accounts have been prepared on the basis of uniform principles, since the subsidiary follows the same accounting policies as the parent company. Internal transactions, receivables and liabilities are eliminated.

Financial instruments

Financial assets and liabilities are recognised when the Group becomes a party to the contractual terms of the financial instrument. Regular purchases and sales of financial instruments are recognised at the settlement date. Financial assets are derecognised when the rights to receive cash flows from the asset expire or when these rights have been transferred and the Group has transferred substantially all risks and potential gains from the investment. Financial liabilities are derecognised when the rights under the terms of the contract have been fulfilled, cancelled or expired.

On initial recognition, financial assets are classified in one of the following categories, depending on the type of instrument and the purpose of the asset:

- At fair value through profit or loss
- Loans and receivables
- Assets held for sale

Financial liabilities are on initial recognition classified in one of the following categories:

- Financial liabilities at fair value through profit or loss
- Other financial liabilities at amortised cost

Financial assets and liabilities at fair value through profit or loss
Financial assets and liabilities at fair value through profit or loss may consist of assets which must be recognised or which it has been decided to recognise at fair value through profit or loss. Financial assets and liabilities at fair value through profit or loss are recognised at fair value on acquisition and transaction costs are expensed. The Group's portfolio of commercial paper and bonds as well as derivatives are included in this category.

The portfolio of commercial paper and bonds is classified in this category, as it is managed and evaluated on the basis of fair value in accordance with the Group's guidelines for investments in commercial paper and bonds.

Financial derivatives are recognised as assets if their value is positive and as liabilities if their value is negative.

Changes in value of financial instruments at fair value through profit or loss are recognised in the income statement in *Net gain in value on securities and currency.*

Interest on commercial paper and bonds is recognised at fair value through profit or loss and presented in the income statement in *Interest income* .

Loans and receivables
Loans and receivables are financial assets which are not derivatives and which have fixed or contractual payments that are not traded in an active market. This category includes *cash and deposits with central banks* , *loans and deposits with credit institutions* , and *loans to customers* .

Loans and receivables are recognised at fair value plus transaction costs. In subsequent periods loans and receivables are measured at amortised cost in accordance with IAS 39. Amortised cost is defined as cost less repayments of principal plus or minus any impairment or loss exposure. The effective interest rate is the rate which exactly discounts estimated future payments or receipts over the term of the financial instrument.

An impairment loss is recognised when there is objective evidence that a loan or group of loans has been impaired. The Group has prepared its own guidelines for write-downs on loans.

The criterion for calculating the losses on individual loans is the existence of objective evidence that the value of the loan has fallen. Objective evidence that the value of a loan has fallen includes observable data made known to the Group regarding the following loss incidents:

1. Debtor suffering significant financial difficulties.
2. Non-payment or other type of significant breach of contract.
3. Granted postponement or new credit for the payment of an instalment, agreed to changes in the interest rate or other contractual terms as a result of the debtor's financial problems.
4. It is considered probable that the debtor will enter into debt settlement proceedings or other financial restructuring, or that bankruptcy proceedings will be opened for the debtor's estate.

Write-downs on groups of loans are performed if there is objective evidence that there is a fall in the value of groups of loans with the same risk characteristics. When evaluating the write-down of groups of loans, the loans shall be divided into groups with approximately the same risk characteristics with regard to the debtor's ability to pay on the due date. A fall in value is calculated on the basis of the borrower's income, liquidity, financial strength and financial structure, as well as securities furnished for the commitments.

Write-downs for losses cover losses in the commitment portfolio that have occurred. The evaluations of what commitments are regarded as doubtful are based on the conditions that exist on the date of the balance sheet. The loan portfolio is followed up monthly and an evaluation of individual and group write-downs is made in this connection. A critical evaluation is made in connection with the recognition of any fall in the value of the loan portfolio. Write-downs due to a fall in value are based on a risk classification in accordance with the established guidelines stipulated in the Group's credit guidelines.

Write-downs represent the difference between the book value and the present value of the estimated future cash flow. The current effective interest rate is used when calculating the present value.

Assets held for sale
Assets held for sale are non-derivative financial assets which the Group has chosen to place in this category or which have not been classified in any other category.

Assets held for sale are initially recognised at fair value including transaction costs. In subsequent periods the assets are measured at fair value. Gains or losses are recognised in other comprehensive income, with the exception of impairment losses, which are recognised in the income statement.

When an asset held for sale is sold or impaired the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss and are presented in the income statement in *Ne change in value on securities and currency* . The same presentation applies to dividends from equity securities classified as available for sale.

At each balance sheet date the Group assesses whether there is objective evidence of impairment of individual assets or groups of financial assets. For equity securities classified as available for sale, a significant or prolonged decline in fair value below the cost of the asset is considered an indicator that the securities are impaired. If there is any such objective evidence of impairment of assets held for sale, the cumulative loss, measured as the difference between cost and fair value, less any recognised impairment loss, is deducted from other comprehensive income and recognised in the income statement.

Financial liabilities at amortised cost
Financial liabilities at amortised cost are initially recognised at fair value less transaction costs, plus accrued interest. In subsequent periods financial liabilities are measured at amortised cost using the effective interest rate. The difference between the loan amount (net of transaction costs but including accrued interest) and the redemption value is recognised over the term of the loan as interest expense and is included in the income statement in *Interest expense* .

Intangible assets
Intangible assets are recognised on the balance sheet at historical cost less accumulated depreciation and value impairment losses. Purchased software is recognised on the balance sheet at historical cost plus any expenses to make the software ready to use. When it is probable that economic benefits will cover the development expenses as at the date of the balance sheet, the identifiable expenses for propriety software that is controlled by the Group will be recognised on the balance sheet as intangible assets. Direct expenses include expenses to employees who are directly involved in development of the software, materials and a share of the relevant overhead expenses. Expenses associated with the maintenance of software and IT systems are recognised in the profit and loss account on an ongoing basis. Software expenses recognised in the balance sheet are depreciated over the expected economic life of the asset. The evaluation of write-down requirements follows the same principles as described under tangible fixed assets.

Ordinary depreciation based on cost price is calculated linearly over the expected economic life of the assets. The following depreciation rates are used:

IT/software:	20 %
Trademark:	20 %
Connection fee:	Not amortisable

The connection fee for Finans Norge has been capitalised at cost. It provides access to the common infrastructure for payment processing systems in Norway. The infrastructure ensures that banks are able to offer payment services which allow customers to settle transactions among themselves, independently of connections to banks.

Tangible fixed assets

Tangible fixed assets are valued at historical cost less accumulated ordinary depreciation and any write-downs. Enhancements or improvements are added to the cost price of the fixed asset and depreciated in step with the fixed asset.

Each time the accounts are published, a decision is made as to whether there are indications of a fall in the value of fixed assets. In case of impairment the asset's recoverable amount is measured. The recoverable amount is the higher of the net sales value and utility value. In the event that it is proven that the recoverable amount for the relevant fixed asset is lower than the book value, the fixed asset will be written down so that the fixed asset is valued at the recoverable amount. Such write-downs are reversed when there is no longer any basis for the write-down.

Ordinary depreciation based on cost price is calculated linearly over the operating asset's estimated economic life. The following depreciation rates are used:

Office machines:	25 %
Computer equipment:	33 %
Fixtures and fittings:	20 %
Motor vehicles:	20 %

Trade and other receivables

Trade and other receivables are recognised at amortised cost, which approximates cost less impairment losses.

Debt and other liabilities

Bonds, commercial paper and subordinated loans are stated at amortised cost. Trade and other payables are recognised at nominal value at the time of establishment and are not adjusted for changes in interest rates.

Accruals

Accrual of interest and fees

Interest income and interest expense related to assets and liabilities measured at amortised cost are recognised as incurred using the effective interest method.

For net profit on financial instruments measured at fair value, changes in fair value are classified as income.

Premiums and discounts on bonds, commercial paper and subordinated loans classified as debt are amortised as interest expense over the term of the instrument.

Distribution commissions

Costs related to commissions to agents are recognised as an expense over the expected average life, which is three years.

Pensions

The company is subject to the Norwegian Mandatory Occupational Pensions Act and has established an arrangement which meets the requirements of this Act. The bank has a defined contribution scheme. This scheme entails that the bank does not guarantee a future pension of a specific amount, the bank pays instead an annual contribution to the employees' collective pension savings plan. The bank does not have any further obligation related to work performed after the annual contribution has been paid. At 31 December 2016, 64 employees were covered by the pension scheme.

Taxes

The tax expense is accrued over the year based on the estimated tax expense for the year. The tax expense is estimated at 25 per cent of the bank's operating profit, and consists of current tax (payable tax) and changes in deferred tax.

Payable tax is tax calculated on the taxable profit for the year. Deferred tax is calculated and recognised in accordance with IAS 12. Deferred tax is calculated based on the applicable tax rate. A deferred tax asset or liability is calculated on temporary differences, defined as the difference between the carrying amounts and tax bases of assets and liabilities. A deferred tax asset on tax losses is calculated and recognised to the extent that it is probable that future taxable profits will make it possible to use the tax asset.

Statement of cash flows

The statement of cash flows is prepared using the indirect method, and is structured on the basis of the operations. The statement reflects the key elements of the bank's liquidity management with special emphasis on the cash flows for lending and deposit activities. Cash and cash equivalents consist of cash and deposits with central banks as well as loans and advances to credit institutions with no notice period. The bank has an unused overdraft facility of NOK 100 million.

Translation of foreign currency transactions

The bank has Norwegian kroner as its reporting currency. Balance sheet items in foreign currency are translated at the exchange rate at the balance sheet date. Income and expense items in SEK, DKK and EUR are translated to Norwegian kroner using the average exchange rate.

Estimates and judgements

Estimates and judgements are evaluated continually. Estimates and judgements are based on historical experience and other factors, including expectations of future events that are considered probable. The calculation of loan impairment losses involves judgements. The key assumptions for impairment of loans are described under Loans and receivables.

Note 2. Transition to IFRS

Norwegian Finans Holding ASA adopted IFRS from 1 January 2016. The financial statements are prepared in accordance with IFRS applicable per. 31.12.15 and approved by the EU.

The accounts have up to 31.12.2015 been prepared in accordance with the Financial Reporting Act, Regulations relating to Financial Reporting for Banks, Finance Companies and their Parent Companies, Regulations relating to the Treatment of Loans and Guarantees in the Accounts of Financial Institutions and the Generally Accepted Accounting Principles in Norway. The accounting principles are described in further detail in the annual report for 2015. Presented below are the effects of the transition to IFRS on the profit and loss and balance sheets, in addition to description of the change in company accounts.

Adoption of IFRS 1 First-time Adoption of International Financial Reporting Standards

IFRS 1 is applied in preparing the opening balance at 1.1.15. The accounting impact of changes in accounting principles are recorded directly against equity. For further specification of these effects see the Changes in equity statement. The Group has not applied any of the exemptions provided in IFRS 1 to restate the balance sheet and previous periods profit and loss.

The Group has in accordance with IFRS 1 not made retrospective restatement for:
- Financial assets and liabilities which according to previous accounting principles were not capitalized prior to 1.1.16.
- Estimates used under Norwegian generally accepted accounting principles per 1.1.15.

Effect of the IFRS transition on the Group's balance sheets

Presented below are balance sheets published according to previous accounting policies and restated balances in accordance with IFRS. Effects on the different items are described below.

	IFRS	NGAAP	IFRS	NGAAP
Amounts in NOK 1000	31.12.15	31.12.15	1.1.15	31.12.14
Assets				
Cash and deposits with the central bank	58,987	58,987	58,998	58,998
Loans and deposits with credit institutions	477,841	477,840	299,705	299,705
Loans to customers	13,808,175	13,759,350	9,418,807	9,401,001
Certificates and bonds	2,968,530	2,965,036	3,462,993	3,454,319
Shares and other securities	443	443	443	443
Assets held for sale	60,446	-	-	-
Intangible assets	56,842	42,253	46,846	33,874
Deferred tax asset	8,210	6,669	1,325	1,326
Fixed assets	526	526	1,124	1,124
Receivables	178,198	235,672	138,721	174,191
Total assets	**17,618,198**	**17,546,776**	**13,428,962**	**13,424,980**
Liabilities and equity				
Deposits from customers	13,366,590	13,366,601	10,155,698	10,155,698
Debt securities issued	1,879,571	1,874,977	1,605,882	1,601,856
Financial derivatives	7,679	-	-	-
Tax payable	205,482	203,324	131,074	129,591
Other liabilities	36,374	36,374	21,755	21,755
Accrued expenses	76,258	81,624	70,569	75,446
Subordinated loan	174,962	298,834	174,967	298,782
Total liabilities	**15,746,916**	**15,861,735**	**12,159,944**	**12,283,127**
Share capital	173,195	173,195	173,000	173,000
Share premium reserve	150,402	150,402	145,123	145,123
Tier 1 capital	125,000	-	125,000	-
Retained earnings and other reserves	1,422,685	1,361,444	825,896	823,730
Total equity	**1,871,282**	**1,685,041**	**1,269,019**	**1,141,853**
Total liabilities and equity	**17,618,198**	**17,546,776**	**13,428,962**	**13,424,980**

In all periods, the issued perpetual subordinated bond, are classified as a liability under the line *Subordinated loan according to previous accounting principles*. Associated accrued interest payments are presented under accounting item *Accrued expenses and deferred income*. The perpetual subordinated bond does not meet the requirements of financial liabilities in accordance with IAS 32 *Financial Instruments - Presentation*, and therefore presented as Tier 1 capital. See note 33 for further details.

The Bank is a member of Visa Norway FLI ("Visa Norway"), being a shareholder of Visa Europe Ltd. On 2. November 2015, an agreement between Visa Europe Ltd. and Visa Inc. was announced, where Visa Inc. acquires all shares in Visa Europe Ltd. The transaction could not be capitalized under NGAAP. Expected payments are recognized as an asset held for sale in Q4 2015 under IFRS. The change in value is recognized in other comprehensive income. See note 25 for further details.

Included in the balance sheet at 31.12.15 is a provision for group contribution to Norwegian Finans Holding ASA. The provision is recorded under the item *Other liabilities* with a tax effect of *Tax payable*. Group contributions are equated with dividends, which in accordance with IAS 10 *Events after the reporting period* shall not be recognized as a liability. The provision for group contribution and corresponding tax effect are therefore reclassified to *Retained earnings* in the IFRS balance sheet.

In the balance sheets according to NGAAP, financial derivatives are presented under *Receivables and accrued income* not received. In balance sheets according to IFRS, the financial derivatives are presented as separate line items, depending on the fair value of derivatives. See note 15 for further details.

In accordance with NGAAP connection fee Finans Norge is capitalised as an intangible asset and depreciated. This intangible asset is considered as a perpetual intangible asset in accordance with IFRS, and is not amortisable. The value is adjusted to its original acquisition cost.

See the statement for *Changes in equity* for quantitative changes in equity.

Effect of IFRS transition on group accounts

Presented below are the profit and loss published according to previous accounting principles and restated profit and loss according to IFRS. Effects on the different items are described below.

Amounts in NOK 1000	IFRS 2015	IFRS transition	NGAAP 2015
Interest income	1,710,433	-3,844	1,714,277
Interest expenses	285,817	-6,925	292,742
Net interest income	**1,424,615**	**3,081**	**1,421,534**
Commission and bank services income	192,647	-	192,647
Commission and bank services expenses	78,564	-	78,564
Net change in value on securities and currency	-18,674	-	-18,674
Other income	214	-	214
Net other operating income	**95,624**	**-**	**95,624**
Total income	**1,520,239**	**3,081**	**1,517,159**
Personnel expenses	58,172	-	58,172
General administrative expenses	477,694	-	477,694
Ordinary depreciation	13,860	-1,617	15,477
Other operating expenses	22,236	-	22,236
Total operating expenses	**571,963**	**-1,617**	**573,580**
Provision for loan losses	207,886	-	207,886
Profit on ordinary activities before tax	**740,391**	**4,698**	**735,693**
Tax charge	196,669	-1,310	197,979
Profit on ordinary activities after tax	**543,722**	**6,008**	**537,714**

The perpetual subordinated bond is according to previous accounting principles classified as a liability, but classified as Tier 1 capital according to IFRS. Interest expenses related to the bond were according to previous accounting principles presented as interest expense under the accounting line *Interest expense* , with a corresponding tax effect included in Tax charge. According to IFRS these items will involve changes to retained earnings, but no effect on earnings, see note 33 for further details.

Amortisations regarding connection fee Finans Norge is presented under the accounting line *Ordinary depreciation* . Connection fee is a perpetual intangible asset, and is not amortisable according to IFRS. Ordinary depreciation is corrected in the restated profit and loss accounts according to IFRS.

Note 3. Segments

Profit and loss and balance sheet presentation for segments are based on internal financial reporting as it is reported to group management. The figures are based on Bank Norwegians governance model and accounting principles. Norwegian Finans Holding ASA is defined as the other segment.

Profit and loss account 2016 *Amounts in NOK 1000*	Norway	Sweden	Denmark / Finland	Other	Total
Net interest income	1,620,928	559,729	319,935	15	2,500,607
Net other operating income	169,526	20,439	11,789	-323	201,432
Total income	**1,790,454**	**580,167**	**331,724**	**-308**	**2,702,038**
Total operating expenses	480,523	257,839	230,737	6,875	975,974
Provision for loan losses	198,553	139,747	129,957	-	468,257
Profit on ordinary activities before tax	**1,111,379**	**182,581**	**-28,969**	**-7,183**	**1,257,808**
Tax charge	261,764	45,645	-7,243	-1,796	298,371
Profit on ordinary activities after tax	**849,615**	**136,936**	**-21,727**	**-5,387**	**959,437**
Other comprehensive income that may be subsequently be reclassified to profit and loss	**-35,433**		**-**	**-**	**-35,433**
Comprehensive income for the period	**814,182**	**136,936**	**-21,727**	**-5,387**	**924,005**

Balance sheet 31.12.16 *Amounts in NOK 1000*	Norway	Sweden	Denmark / Finland	Other	Total
Loans to customers	14,177,337	5,190,333	5,034,955	-	24,402,625
Other assets	4,732,024	707,443	547,571	12,588	5,999,627
Total assets	**18,909,361**	**5,897,776**	**5,582,526**	**12,588**	**30,402,252**
Deposits from customers	14,696,396	5,560,880	4,166,497	-	24,423,773
Other liabilities and equity	4,212,965	336,896	1,416,029	12,588	5,978,479
Total liabilities and equity	**18,909,361**	**5,897,776**	**5,582,526**	**12,588**	**30,402,252**

Profit and loss account 2015 *Amounts in NOK 1000*	Norway	Sweden	Denmark / Finland	Other	Total
Net interest income	1,127,594	297,089	-92	24	1,424,615
Net other operating income	61,507	32,543	1,890	-315	95,624
Total income	**1,189,101**	**329,632**	**1,798**	**-291**	**1,520,239**
Total operating expenses	390,330	177,858	2,245	1,530	571,963
Provision for loan losses	125,148	80,553	2,185	-	207,886
Profit on ordinary activities before tax	**673,623**	**71,221**	**-2,632**	**-1,821**	**740,391**
Tax charge	177,918	19,694	-575	-368	196,669
Profit on ordinary activities after tax	**495,705**	**51,527**	**-2,057**	**-1,453**	**543,722**
Other comprehensive income that may be subsequently be reclassified to profit and loss	**59,992**	**-**	**-**	**-**	**59,992**
Comprehensive income for the period	**555,697**	**51,527**	**-2,057**	**-1,453**	**603,714**

Balance sheet 31.12.15 *Amounts in NOK 1000*	Norway	Sweden	Denmark / Finland	Other	Total
Loans to customers	10,082,216	3,633,441	92,517	-	13,808,175
Other assets	3,382,801	359,364	49,303	18,555	3,810,022
Total assets	**13,465,017**	**3,992,805**	**141,820**	**18,555**	**17,618,198**
Deposits from customers	10,188,370	3,128,000	50,220	-	13,366,590
Other liabilities and equity	3,276,646	864,805	91,600	18,555	4,251,606
Total liabilities and equity	**13,465,017**	**3,992,805**	**141,820**	**18,555**	**17,618,198**

Note 4. Loss on loans and guarantees

The Group has no guarantees as at 31.12.2016.

Amounts in NOK 1000	2016	2015
Realized losses in the period	7,176	-
Collected on previous realized losses	-	-4,698
Individual write-downs	143,635	66,443
Net individual write-downs on loans	**150,811**	**61,745**
The period's change in write-downs on groups of loans	317,446	146,141
Write-downs on loans	**468,257**	**207,886**

Note 5. Loans to customers

Amounts in NOK 1000	2016	2015
Overdraft facilities and lines of credit	2,147	15,918
Credit cards	6,286,175	3,847,048
Instalment loans	18,945,625	10,337,183
Gross loans	**25,233,948**	**14,200,148**
Individual write-downs on loans	-201,116	-63,607
Write-downs on groups of loans	-630,208	-328,367
Net loans to and receivables from customers	**24,402,625**	**13,808,175**

Loans by geographical regions

Amounts in NOK 1000	2016	2015
Akershus	1,893,950	1,386,304
Oslo	1,912,277	1,379,901
Hordaland	1,567,977	1,125,194
Rogaland	1,258,700	861,363
Østfold	920,525	665,042
Buskerud	805,500	582,217
Sør-Trøndelag	752,591	523,711
Nordland	738,244	520,025
Vestfold	712,049	503,496
Møre og Romsdal	630,168	445,413
Troms	539,420	375,528
Hedmark	518,163	352,082
Oppland	464,459	327,122
Telemark	452,143	304,575
Vest-Agder	358,946	244,232
Nord-Trøndelag	308,578	220,637
Finnmark	295,699	208,753
Aust-Agder	260,319	173,585
Sogn og Fjordane	195,831	140,263
Svalbard	2,726	1,345
No registered geographical region	40,871	47,478
Total Norway	**14,629,135**	**10,388,266**
Sweden	5,440,208	3,717,906
Denmark / Finland	5,164,606	93,976
Gross loans in the balance sheet	**25,233,948**	**14,200,148**

Note 6. Risk classes

Amounts in NOK 1000	Probability of default	Gross loans 2016	Gross loans 2015	Undrawn credit limits 2016	Undrawn credit limits 2015
A	0 - 0,9 %	3,697,800	2,295,002	19,692,083	13,187,165
B	1 - 2,9 %	9,419,239	5,257,335	1,153,334	519,571
C	3 - 4,9 %	3,262,829	1,727,698	237,141	156,689
D	5 - 8,9 %	2,729,169	1,433,251	194,285	176,935
E	9 - 14,9 %	1,608,348	929,614	83,485	45,699
F	15 - 19,9 %	552,473	343,250	19,886	12,688
G	20 - 29,9 %	682,154	392,763	11,518	13,277
H	30 - 39,9 %	322,641	166,216	14,870	9,031
I	40 - 54,9 %	310,436	175,299	3,096	2,215
J	55 - 100 %	259,842	152,971	1,120	1,225
S	23.0 %	370,000	241,598	-	-
T	27.0 %	111,771	35,212	-	-
U	74.0 %	204,539	93,693	-	-
V	100.0 %	1,276,949	695,120	-	-
W	100.0 %	389,025	122,829	-	-
Total classified		25,197,214	14,061,851	21,410,817	14,124,495
Not classified	2.5 %	36,734	138,297	54,753	73,208
Total		**25,233,948**	**14,200,148**	**21,465,571**	**14,197,703**

Risk is classified as follows: A = lowest risk, W = highest risk

Risk class S consists of engagements during treatment with debt collection companies, where the customer is less than 90 days past originally agreed payment plan. If the customer is on track on engagement, but has at least one other product where payment is more than 90 days past payment plan the engagement is classified in risk class T. Risk class U consists of engagements in warning, but less than 90 days past payment plan, while risk class V consists of engagements more than 90 days past payment plan.

Risk class W consists of written-down engagements, and is engagements individually written down. The other risk classes, including risk class A - J, is included in the calculation for write-downs on groups of engagements.

"Not classified" consists of Norwegian engagements relating to sales financing and bank accounts with and without credit facilities. In a potential chance of classification of these engagements there are no indications implying that the distribution of risk classes will significantly deviate from what is observed in the classified engagements. The risks associated with customers are classified based on their application and behavioral score. This risk classification is an integrated part of the Bank's credit approval process and is used in the Bank’s risk-based product pricing.

The bank only offers credit to the retail customer market, and all credit decisions are made by means of automated decision support systems. Credit is granted based on a qualitative and quantitative analysis of the customer's willingness and ability to pay. The analysis of the willingness to pay identifies the characteristics of the customer which predict future payment conduct, while the analysis of the customer’s capacity to service loans are a quantitative evaluation of the customer’s ability to repay his obligations, given the customer’s current and anticipated future economic situation.

Note 7. Default and loss on loans

Amounts in NOK 1000	2016	2015
Gross defaulted loans	1,654,201	819,174
Individual write-downs on loans	-201,116	-63,607
Write-downs on groups of loans	-630,208	-328,367
Net defaulted loans	**822,878**	**427,200**
Defaulted loans which are performing	403,086	187,061

Defaulted loans comprise of loans which are more than 90 days overdue according to payment schedule.

Aging of defaulted, but not written-down loans

The table shows the overdrawn amount on loans by the number of past due days not caused by payment service delays. The entire loan is included when part of the debt is past due.

Amounts in NOK 1000	2016 5 - 15 days	16 - 30 days	31 - 60 days	61 - 90 days	Over 90 days	Total
- Retail market	445,913	1,214,820	564,275	218,282	1,263,835	3,707,125
Total	445,913	1,214,820	564,275	218,282	1,263,835	3,707,125

Amounts in NOK 1000	2015 5 - 15 days	16 - 30 days	31 - 60 days	61 - 90 days	Over 90 days	Total
- Retail market	442,035	549,707	332,136	117,903	688,709	2,130,490
Total	442,035	549,707	332,136	117,903	688,709	2,130,490

Note 8. Loans and deposits with credit institutions and central banks

Amounts in NOK 1000	2016	2015
Loans and deposits with credit institutions and central banks without agreed maturity or notice period	1,163,351	536,828
Total loans and deposits with credit institutions and central banks	**1,163,351**	**536,828**

Specification of currencies

Amounts in NOK 1000	2016	2015
SEK	404,624	224,088
NOK	540,723	270,198
DKK	151,464	18,771
EUR	66,539	23,771
Total	**1,163,351**	**536,828**

Average interest rate Norwegian Finans Holding Group	0.20 %	0.53 %

Average interest rate calculated as interest amount in percentage of average volume for the current period.

Note 9. General administrative expenses

Amounts in NOK 1000	2016	2015
Sales and marketing	707,301	381,874
IT operations	73,257	59,020
External services fees and hired temporary staff for ordinary operations	24,703	15,742
Other administrative expenses	43,706	21,058
Total	**848,967**	**477,694**

Note 10. Other operating expenses

Amounts in NOK 1000	2016	2015
Credit information	29,045	10,790
Rental of premises	2,168	3,095
Auditor	1,735	883
Insurance	505	509
Machinery, fixtures and transport vehicles	410	738
Other operating expenses	13,047	6,221
Total	**46,911**	**22,236**

Note 11. Risk management

The Board of Directors has adopted a business strategy and guidelines for the management and control of key risks. The business strategy and guidelines for management and control of risks establish that the Bank will mainly secure earnings through unsecured loan exposures in the retail segment. Other financial risks should be limited within internally established risk limits. Risk limits are defined in relation to the Bank's current available buffer capital and risk-bearing capacity.

To ensure responsible management and risk control, the Bank relies on the following elements:

Responsibilities and organization
Guidelines and procedures for managing and controlling risk
Strategic and capital planning
Reporting and monitoring
Contingency plans

Note 12. Credit risk

Credit risk is the risk that the Bank will not be repaid what it is entitled to in terms of principal and interest because the borrower does not have the will and / or ability to pay.

The Bank's credit strategy is defined in the Bank's credit policy as determined by the Board of Directors. The Group's credit strategy limits are drawn up to appropriately and effectively measure and capture changes in current risk exposure through the expected loss and the need for buffer capital.

The Bank's credit policy is based on an automated set of rules where the applicant receives an automatic rejection or conditional approval at the time of application. Credit approvals are based on a qualitative and quantitative analysis with a positive conclusion about the client's future willingness and ability to pay. The analysis of the willingness to payment will identify characteristics of a customer that predict future payment behavior, while analysis of ability to pay is a quantitative assessment of the customer's ability to repay its obligations given the customer's current and future economic situation. The credit officer's role is subsequently to verify whether the conditions for the conditional grant are present.

Note 13. Liquidity risk

The liquidity risk is the risk that the Bank is not capable of covering all its financial obligations as they fall due. The liquidity risk is evaluated as low at the time of this report, since a large portion of the Bank's assets consists of easily transferable securities. The asset side is financed by core deposits from the retail market, debt securities and subordinated capital. The Bank manages its liquidity position by short-term cash flow forecasts and liquidity due date summaries. See the Annual Report for further comments.

The Liquidity Coverage Ratio (LCR) is defined as the Banks liquid assets relative to net liquidity output 30 days forward in time in any given stress situation. At 31.12.2016 the liquidity reserve (LCR) on total level for the Bank was 114%. The legal requirement for liquidity reserve (LCR) at total level is 80% at 31.12.2016. The Bank has significant positions in Norwegian, Swedish and Danish kroner in addition to Euro. At 31.12.2016 the LCR was 155% in Norwegian kroner, 31% in Swedish kroner, 0% Danish kroner and 0% in euro.

Restløpetid for hovedposter

	2016						
Amounts in NOK 1000	Without any term	Up to 1 month	From 1 month up to 3 months	From 3 month up to 1 years	From 1 year up to 5 years	Over 5 years	Total
Subordinated loan	-	-	-	-	-	307,053	307,053
Deposits from customers	24,423,773	-	-	-	-	-	24,423,773
Financial derivatives	-	-	-	525,876	1,348,475	-	1,874,352
Non interest-bearing liabilities	-	121,761	92,246	330,307	-	-	544,314
Total liabilities	**24,423,773**	**121,761**	**92,246**	**856,184**	**1,348,475**	**307,053**	**27,149,492**
Cash and deposits with the central bank	59,992	-	-	-	-	-	59,992
Loans and deposits with credit institutions	1,103,359	-	-	-	-	-	1,103,359
Loans to customers	6,151,437	15,585	5,663	97,450	2,448,662	15,683,828	24,402,625
Certificates and bonds	-	70,364	394,291	1,586,537	2,413,011	-	4,464,203
Assets without remaining term to maturity	372,073	-	-	-	-	-	372,073
Total assets	**7,686,862**	**85,948**	**399,954**	**1,683,988**	**4,861,672**	**15,683,828**	**30,402,252**

	2015						
Amounts in NOK 1000	Without any term	Up to 1 month	From 1 month up to 3 months	From 3 month up to 1 years	From 1 year up to 5 years	Over 5 years	Total
Subordinated loan	-	-	-	-	-	194,204	194,204
Deposits from customers	13,366,590	-	-	-	-	-	13,366,590
Financial derivatives	-	-	-	378,469	1,571,979	-	1,950,448
Non interest-bearing liabilities	-	29,984	71,741	224,067	-	-	325,793
Total liabilities	**13,366,590**	**29,984**	**71,741**	**602,536**	**1,571,979**	**194,204**	**15,837,035**
Cash and deposits with the central bank	58,987	-	-	-	-	-	58,987
Loans and deposits with credit institutions	477,841	-	-	-	-	-	477,841
Loans to customers	3,863,546	8,042	4,352	50,689	1,292,151	8,589,395	13,808,175
Certificates and bonds	-	36,669	294,651	1,043,453	1,593,756	-	2,968,530
Assets without remaining term to maturity	304,665	-	-	-	-	-	304,665
Total assets	**4,705,039**	**44,711**	**299,003**	**1,094,143**	**2,885,907**	**8,589,395**	**17,618,197**

Subordinated loan and debt securities issued includes interest forward in time.

Note 14. Interest rate risk

The Board of Directors of Norwegian Finans Holding ASA has defined guidelines for the maximum interest rate risk limits. The Bank's investment portfolio is invested with a short duration. The Bank offers exclusively products with administratively set interest rate terms. Fixed interest terms are not offered. The interest rate commitment term for the Bank's financial instruments coincides thus with the term for the products. Any exposure exceeding the interest rate limits shall be secured by hedging instruments. A scheme has been established for the ongoing monitoring and reporting of the interest rate risk to the Board of Directors.

Time until an agreed/probable change in interest terms

	2016						
Amounts in NOK 1000	Up to 1 month	From 1 month up to 3 months	From 3 month up to 1 years	From 1 year up to 5 years	Over 5 years	Without any term	Total
Cash and deposits with the central bank	59,992	-	-	-	-	-	59,992
Loans and deposits with credit institutions	1,103,359	-	-	-	-	-	1,103,359
Loans to customers	-	24,402,625	-	-	-	-	24,402,625
Certificates and bonds	675,596	2,294,529	1,494,078	-	-	-	4,464,203
Non interest-bearing assets	-	-	-	-	-	372,073	372,073
Total assets	**1,838,947**	**26,697,154**	**1,494,078**	**-**	**-**	**372,073**	**30,402,252**
Subordinated loan	-	274,915	-	-	-	-	274,915
Deposits from customers	-	24,423,773	-	-	-	-	24,423,773
Debt securities issued	-	1,823,973	-	-	-	-	1,823,973
Non interest-bearing liabilities	-	-	-	-	-	544,314	544,314
Total liabilities	**-**	**26,522,661**	**-**	**-**	**-**	**544,314**	**27,066,976**

	2015						
Amounts in NOK 1000	Up to 1 month	From 1 month up to 3 months	From 3 month up to 1 years	From 1 year up to 5 years	Over 5 years	Without any term	Total
Cash and deposits with the central bank	58,987	-	-	-	-	-	58,987
Loans and deposits with credit institutions	477,841	-	-	-	-	-	477,841
Loans to customers	-	13,808,175	-	-	-	-	13,808,175
Certificates and bonds	378,393	1,673,826	916,310	-	-	-	2,968,530
Non interest-bearing assets	-	-	-	-	-	304,665	304,665
Total assets	**915,221**	**15,482,001**	**916,310**	**-**	**-**	**304,665**	**17,618,198**
Subordinated loan	-	174,962	-	-	-	-	174,962
Deposits from customers	-	13,366,590	-	-	-	-	13,366,590
Debt securities issued	-	1,879,571	-	-	-	-	1,879,571
Non interest-bearing liabilities	-	-	-	-	-	325,793	325,793
Total liabilities	**-**	**15,421,123**	**-**	**-**	**-**	**325,793**	**15,746,916**

Market risk related to interest rate instruments

Interest rate risk arises as a result of interest-bearing assets and liabilities having different interest resetting dates. The Board of Directors of Bank Norwegian has defined guidelines that set limits for the maximum level of interest rate risk. The table below shows the impact on the instruments' fair value based on a 1%-point parallel shift in the yield curve.

	Interest rate risk, 1 % change	
Amounts in NOK 1000	2016	2015
Cash and deposits with the central bank	-149	-146
Loans and deposits with credit institutions	-2,743	-1,185
Loans to customers	-60,661	-34,236
Certificates and bonds	-12,539	-8,738
Total assets	**-76,092**	**-44,305**
Deposits from customers	60,713	33,141
Debt securities issued	4,534	4,660
Subordinated debt	683	434
Total liabilities	**65,931**	**38,235**
Tier 1 capital	833	310
Total equity	**833**	**310**
Total interest rate risk, before tax*	**-9,328**	**-5,760**

* A negative sign indicates a negative impact of an interest rate increase.

Note 15. Currency risk

The Bank's currency risk consists of net exposures in SEK, DKK and EUR, i.e. the difference between assets and liabilities in the individual local currency. Currency risk is hedged by the use of currency forwards. In addition there is a limited currency exposure to certain foreign suppliers.

The table presents positions in foreign currency shown in Norwegian kroner. Net positions in a single currency may amount up to 15% of total capital. The aggregated currency position must be within 30% of total capital.

	2016		
Amounts in NOK 1000	EUR	DKK	SEK
Cash and deposits with the central bank	67,128	151,939	408,038
Loans to customers	3,466,829	1,568,127	5,190,333
Other assets	-	282,083	173,130
Total assets	**3,533,956**	**2,002,149**	**5,771,502**
Deposits from customers	2,228,287	1,938,210	5,560,873
Other liabilities	1,953	77,577	3,705
Total liabilities	**2,230,240**	**2,015,787**	**5,564,578**
Net currency position	1,303,717	-13,638	206,924

	2015		
Amounts in NOK 1000	EUR	DKK	SEK
Cash and deposits with the central bank	23,771	18,771	224,088
Loans to customers	81,490	11,069	3,637,169
Other assets	-	-	36,670
Total assets	**105,260**	**29,840**	**3,897,927**
Deposits from customers	30,273	19,947	3,127,995
Other liabilities	277	90	362
Total liabilities	**30,549**	**20,037**	**3,128,357**
Net currency position	74,711	9,803	769,570

Market risk related to currency positions

Amounts in NOK 1000	2016	2015
Profit impact of 1% change	14,970	8,541

The bank enters into hedging transactions to manage the market risk on balance sheet items in foreign currency. The hedging transactions utilized are currency forwards. A currency forward is an agreement to purchase or sell currency at a specified date in the future at a fixed price set at the purchase date.

	2016		2015	
Amounts in NOK 1000	Nominal value	Dair value	Nominal value	Fair value
Currency forwards EUR	1,304,251	-918	62,268	-206
Currency forwards SEK	217,883	-5,862	756,798	-7,473
Total	**1,522,134**	**-6,780**	**819,066**	**-7,679**

The table presents the financial derivatives' nominal values in addition to positive and negative fair values. Positive fair value is recognized as an asset in the balance sheet, while negative fair value is recognized as debt. Nominal values are the basis for calculating potential cash flows and gains/losses on the agreements. The values are affected by exchange rates and interest rate differences between currencies. Hedge accounting is not used.

Note 16. Operational risk

The Bank shall have an appropriate, efficient and effective operation, with consistently high quality. The Bank shall monitor and manage operational risk in an active and prudent manner. The Bank offers a limited number of standard products to the retail market which contributes to limit the risk.

In addition to a comprehensive annual review of significant operational risks and control measures, management makes continuous assessments of operational risk incidents and undertake mitigating measures when necessary. There are regular reporting of operational loss incidents and deviations to management and the Board of Directors.

The Bank's operations are largely based on the purchase of services from external providers. The supplier agreements contain clauses on quality standards and are continuously monitored according to guidelines on outsourcing.

Note 17. Net interest income

Amounts in NOK 1000	2016	2015
Interest income from cash and deposits at central banks	321	596
Interest income from loans to and deposits with credit institutions	1,393	1,732
Interest income from consumer loans	2,131,986	1,225,876
Interest income from overdraft accounts	1,104	2,445
Interest income from credit cards	628,938	419,657
Interest income from sales financing	5,494	5,640
Interest and other income from certificates and bonds	63,885	51,604
Other interest and other interest related income	5,125	2,883
Total interest income	**2,838,247**	**1,710,433**
Interest expense from deposits from credit institutions	8	-
Interest expense from deposits from customers	283,006	231,368
Interest expense on debt securities issued	35,605	38,544
Interest expense on subordinated loan	7,790	7,092
Other interest and other interest related expenses	11,232	8,812
Total interest expense	**337,640**	**285,817**
Net interest income	**2,500,607**	**1,424,615**

Note 18. Net other operating income

Amounts in NOK 1000	2016	2015
Payment services	156,120	125,191
Insurance services	47,343	34,446
Other fees and commission and bank services income	43,149	33,010
Total commission and bank services income	**246,613**	**192,647**
Network costs	46,965	26,730
Payment services	42,427	31,436
Insurance services	16,002	11,766
Other fees and commission and bank services expense	14,020	8,632
Total commission and bank services expenses	**119,415**	**78,564**

Note 19. Salaries and other personnel expenses

Specification of personnel expense

Amounts in NOK 1000	2016	2015
Salaries	54,197	47,932
Social security tax	8,445	6,982
Pension premiums	2,006	1,773
Social benefits	1,356	1,486
Total	**66,004**	**58,172**

There are no obligations in connection with the termination or change of employment / appointments for the CEO or the Board. There are no loans to employees.

Number of employees as at 31.12.2016, wages and remuneration
At 31.12.2016 the bank had 69 employees, corresponting to 62 man-labour years.

Wages and remuneration to key employees

	2016				
Amounts in NOK 1000	Wages	Bonus	Pension premiums	Other remuneration	Total remuneration
Combined wages, pension liabilities and other remuneration					
Erik Jensen	3,903	1,517	69	210	5,699
Pål Svenkerud	1,957	794	69	183	3,003
Fredrik Mundal	823	131	69	14	1,037
Tore Andresen	1,836	720	69	148	2,774
Merete Gillund	1,623	644	69	130	2,466
Tore Widding	1,586	631	69	135	2,421
Total	**11,728**	**4,436**	**415**	**820**	**17,399**

	2015				
Amounts in NOK 1000	Wages	Bonus	Pension premiums	Other remuneration	Total remuneration
Combined wages, pension liabilities and other remuneration					
Erik Jensen	2,618	1,008	66	180	3,872
Pål Svenkerud	1,867	602	66	186	2,721
Michael Myran	1,463	552	66	125	2,205
Tore Andresen	1,649	644	66	145	2,504
Merete Gillund	1,446	551	66	129	2,191
Tore Widding	1,633	370	66	124	2,194
Total	**10,677**	**3,727**	**395**	**888**	**15,687**

Key personnel are defined as members of the management group

Bonus
Bank Norwegian has a bonus scheme that includes all permanent employees in accordance with detailed guidelines. The bonuses earned are based on profit after tax and the return on equity achieved. Bonus payments distributed to employees are limited to a maximum of 2.25 % of the profit after tax. The amount includes social security tax.

Bonus to key executives are earned according to circular 11/2011 from The Financial Supervisory Authority of Norway, “Godtgjørelsesordninger i finansinstitusjoner” (Compensation arrangements at banks) as such key executives receive the entire bonus in shares with a lock-in period of three years. Other employees receive the bonus in cash. The terms of the current bonus scheme applies for the period 2016 to 2018.

The bonus accrual for 2016, including social security tax, is the base for the bonus that will be paid to employees in 2017 amount to NOK 10.2 million.

Fees paid out to the Board of Directors

Amounts in NOK 1000	2016	2015
Bjørn H. Kise	500	330
Frode Foss	250	175
Kristin Farstad	250	175
Anita Marie Hjerkinn Aarnæs	250	175
John Høsteland	250	175
Ada Kjenseth	-	35
Lars Ola Kjos	250	175
Brede Huser	200	-
Daniel Andreas Skjeldam	50	175
Karin Bing Orgland	50	140
Maria Borch Helsengreen	200	-
Esma Candic	50	28
Henrik Grytbak Hermansen	-	11
Cathrine Laache Haksø	-	7
Total	**2,300**	**1,601**

Fees paid out to the Control Committee

Amounts in NOK 1000	2016	2015
Knut Gillesen	130	33
Sigmund Håland	100	100
Knut Gillesen	-	123
Jarl Borgvin Dørre	100	100
Cecilie Kvalheim	50	50
Total	**380**	**405**

Fees paid out to the Supervisory Board

Amounts in NOK 1000	2016	2015
Alf Nielsen	50	50
Sven Nicolai E. Eppeland	10	10
Christian F. Stray	10	10
Tord Strømme Meling	10	10
Asgeir Nyseth	-	10
Betty Tandberg	10	10
Gunnar Martinsen	10	10
Thomas Berntsen	10	10
Truls Persen	10	10
Dag Håvard H. Hanssen	10	10
Helge Bergh	-	10
Brede Huser	10	10
Bjørn Olaf Svindal	10	10
Kristin Møllerplass	10	10
Anders Gullestad	10	10
Sammy J.F. Mendez Caparros	10	10
Håkon Rådmannsøy Hovde	10	10
Esma Candic	-	10
Roger Stange Nilsen	10	-
Total	**200**	**220**

Auditor fees

The following expenses for external auditor fees have been regonised in the accounts, incl VAT.

Amounts in NOK 1000	2016	2015
Statutory auditing	975	941
Other certification services	44	-
Other services outside auditing	715	61
Total	**1,735**	**1,001**

Note 20. Classification of financial instruments

2016

Amounts in NOK 1000	Financial instruments at fair value: Available for sale in accordance with IAS 39	Financial instruments at fair value: Recognized at fair value	Financial instruments valued at amortized cost	Financial instruments held for sale	Financial instruments held to maturity	Total
Cash and deposits with the central bank	-	-	59,992	-	-	59,992
Loans and deposits with credit institutions	-	-	1,103,359	-	-	1,103,359
Loans to customers	-	-	24,402,625	-	-	24,402,625
Certificates and bonds	4,464,203	-	-	-	-	4,464,203
Shares and other securities	443	-	-	-	-	443
Assets held for sale	-	-	-	24,745	-	24,745
Total financial assets	**4,464,646**	**-**	**25,565,976**	**24,745**	**-**	**30,055,367**
Deposits from customers	-	-	24,423,773	-	-	24,423,773
Debt securities issued	-	-	1,823,973	-	-	1,823,973
Financial derivatives	6,780	-	-	-	-	6,780
Subordinated loan	-	-	274,915	-	-	274,915
Total financial liabilities	**6,780**	**-**	**26,522,661**	**-**	**-**	**26,529,441**

2015

Amounts in NOK 1000	Financial instruments at fair value: Available for sale in accordance with IAS 39	Financial instruments at fair value: Recognized at fair value	Financial instruments valued at amortized cost	Financial instruments held for sale	Financial instruments held to maturity	Total
Cash and deposits with the central bank	-	-	58,987	-	-	58,987
Loans and deposits with credit institutions	-	-	477,841	-	-	477,841
Loans to customers	-	-	13,808,175	-	-	13,808,175
Certificates and bonds	2,968,530	-	-	-	-	2,968,530
Shares and other securities	443	-	-	-	-	443
Assets held for sale	-	-	-	60,446	-	60,446
Total financial assets	**2,968,973**	**-**	**14,345,003**	**60,446**	**-**	**17,374,422**
Deposits from customers	-	-	13,366,590	-	-	13,366,590
Debt securities issued	-	-	1,879,571	-	-	1,879,571
Financial derivatives	7,679	-	-	-	-	7,679
Subordinated loan	-	-	174,962	-	-	174,962
Total financial liabilities	**7,679**	**-**	**15,421,123**	**-**	**-**	**15,428,803**

Note 21. Financial instruments at fair value

Financial instruments at fair value is measured at different levels.

Level 1 Valuation based on quoted prices in an active market
Financial instruments in level 1 are determined based on quoted prices in active markets for identical financial instruments available on the balance sheet date.

Level 2 Valuation based on observable market data
Financial instruments in level 2 are determined based on inputs other than quoted prices, but where prices are observable either directly or indirectly. These include quoted prices in markets that are not active.

Level 3 Valuation based on observable market data
When valuation can not be determined in level 1 or 2, valuation methods based on non-observable market data are used.

Financial instruments at fair value

	2016			
Amounts in NOK 1000	Level 1	Level 2	Level 3	Total
Certificates and bonds	-	4,464,203	-	4,464,203
Shares and other securities	-	-	443	443
Financial assets held for sale	-	-	24,745	24,745
Total financial assets at fair value	**-**	**4,464,203**	**25,188**	**4,489,391**
Financial derivatives	-	6,780	-	6,780
Total financial liabilities at fair value	**-**	**6,780**	**-**	**6,780**

	2015			
Amounts in NOK 1000	Level 1	Level 2	Level 3	Total
Certificates and bonds	-	2,968,530	-	2,968,530
Shares and other securities	-	-	443	443
Financial assets held for sale	-	-	60,446	60,446
Total financial assets at fair value	**-**	**2,968,530**	**60,889**	**3,029,418**
Financial derivatives	-	7,679	-	7,679
Total financial liabilities at fair value	**-**	**7,679**	**-**	**7,679**

Change in instruments classified at level 3

	2016		
Amounts in NOK 1000	Shares and other securities	Financial assets held for sale	Total
Value 31.12.15	443	60,446	60,889
Additions	-	-	-
Settlement	-	-57,659	-57,659
Net gain / loss on financial instruments	-	21,958	21,958
Value 31.12.16	**443**	**24,745**	**25,188**

Valuation method
Ownership in Visa Norge FLI
Ownership in Visa Norway FLI is considered to be a financial asset and is classified as financial assets held for sale. The fair value of the asset is estimated at NOK 24,7 million. The calculation is based on input from the association, and contains significant estimations. See note 25 for further description of the asset and the value calculation.

Shares in BankID Norge AS
Bank Norwegian AS was at 12.8.2014 issued 280 shares in BankID Norge AS based on the Bank's share of participation in the BankID association. Value of shares were estimated at the going rate at the time granted.

Note 22. Net gain on financial instruments at fair value

Amounts in NOK 1000	2016	2015
Net gain on certificates and bonds	112	-25,109
Net gain on FX-forwards	102,207	-70,269
Net currency effects	-85,915	76,704
Net gains on shares and other securities with variable yield	57,659	-
Total	**74,064**	**-18,674**

Note 23. Fair value of financial instruments at amortized cost

Financial instruments at amortized cost are valued at originally determined cash flows, adjusted for any impairment losses. Amortized cost will not always give values that match the market's assessment of the same instruments. This may be due to different perceptions of market conditions, risk and return requirements.

Loans and deposits with central banks and credit institutions and deposits from customers
Fair value is estimated to conform with amortized cost.

Loans to customers
Loans to customers are exposed to market competition. This means that the potential added value of the loan portfolio will not be maintained over time. Further, individual and group provisions for loan losses are provided for on an ongoing basis. The fair value of loans to customers is therefore considered to conform to the amortized cost.

Debt securities issued and subordinated loan
The fair value of debt securities issued and subordinated loan are based on observable market data where available.

Fair value of financial instruments at amortized cost

	2016		2015	
Amounts in NOK 1000	Book value	Fair value	Book value	Fair value
Cash and deposits with the central bank	59,992	59,992	58,987	58,987
Loans and deposits with credit institutions	1,103,359	1,103,359	477,841	477,841
Loans to customers	24,402,625	24,402,625	13,808,175	13,808,175
Total financial assets	**25,565,976**	**25,565,976**	**14,345,003**	**14,345,003**
Deposits from customers	24,423,773	24,423,773	13,366,590	13,366,590
Debt securities issued	1,823,973	1,823,250	1,879,571	1,862,522
Subordinated loan	274,915	275,735	174,962	179,165
Total financial liabilities	**26,522,661**	**26,522,758**	**15,421,123**	**15,408,277**

Note 24. Debt securities issued and subordinated loan

Debt securities issued

Amounts in NOK 1000	2016	2015
Certificates, nominal value	-	200,000
Bonds, nominal value	1,820,000	1,674,000
Value adjustments	259	977
Accrued interest	3,714	4,594
Total debt securities issued	**1,823,973**	**1,879,571**

Change in debt securities issued

Amounts in NOK 1000	Balance 31.12.16	Issued	Overdue / redeemed	Other changes	Balance 31.12.15
Certificates, nominal value	-	-	-200,000	-	200,000
Bonds, nominal value	1,820,000	500,000	-354,000	-	1,674,000
Value adjustments	259	-	-	-718	977
Accrued interest	3,714	-	-	-880	4,594
Total debt securities issued	**1,823,973**	**500,000**	**-554,000**	**-1,597**	**1,879,571**

Amounts in NOK 1000	Balance 31.12.15	Issued	Overdue / redeemed	Other changes	Balance 31.12.14
Certificates, nominal value	200,000	-	-	-	200,000
Bonds, nominal value	1,674,000	400,000	-126,000	-	1,400,000
Value adjustments	977	-	-	-1,041	2,018
Accrued interest	4,594	-	-	730	3,864
Total debt securities issued	**1,879,571**	**400,000**	**-126,000**	**-312**	**1,605,882**

Change in subordinated loan

Amounts in NOK 1000	Balance 31.12.16	Issued	Overdue / redeemed	Other changes	Balance 31.12.15
Subordinated loan, nominal value	275,000	100,000	-	-	175,000
Value adjustments	-581	-	-	-165	-416
Accrued interest	496	-	-	118	378
Total subordinated loan	**274,915**	**100,000**	**-**	**-47**	**174,962**

Amounts in NOK 1000	Balance 31.12.15	Issued	Overdue / redeemed	Other changes	Balance 31.12.14
Subordinated loan, nominal value	175,000	-	-	-	175,000
Value adjustments	-416	-	-	53	-468
Accrued interest	378	-	-	-57	435
Total subordinated loan	**174,962**	**-**	**-**	**-5**	**174,967**

Note 25. Financial assets held for sale

The Bank is a member of Visa Norway FLI ("Visa Norway"), being a shareholder of Visa Europe Ltd. On 2. November 2015, an agreement between Visa Europe Ltd. and Visa Inc. was announced where Visa Inc. acquires all shares in Visa Europe Ltd. This transaction consists of a cash consideration, convertible preference shares and a deferred cash consideration paid three years after completion of the transaction. The process was finalized in June 2016 and the Bank has in this connection received its share of the cash consideration based on the Bank's stake in Visa Norway. Cash received, MNOK 57.7, has been reclassified to the income statement. Further changes in the value to the preference shares and the deferred cash consideration will be recognized in other comprehensive income.

Note 26. Information on taxes

Amounts in NOK 1000

Deferred taxes / tax assets in the accounts	2016	2015
Net temporary differences	-15,097	-26,674
Loss and remuneration to be carried forward	-15,783	-6,164
Basis for deferred tax / tax assets in the balance sheet	-30,879	-32,838
Deferred tax assets / deferred tax	-7,717	-8,210
Deferred taxes / tax assets in the accounts	**-7,717**	**-8,210**
Basis for tax charge, changes in deferred tax and tax payable		
Profit before tax	1,257,808	740,391
Permanent differences	-74,890	14,099
Correction for temp. diff. on securities other than shares for the exemption method	10,565	-18,503
Basis for the tax charge for the year	1,193,483	735,987
Change in differences included in the basis for deferred tax / tax assets	-11,570	26,107
Change in losses and remuneration to be carried forward	9,619	1,821
Foundation / issue expenses recognized directly in equity	-8,600	-
Basis for tax payable in the profit and loss	1,182,931	763,915
Foundation / issue expenses recognized directly in equity	-18	-
Taxable income (basis for tax payable in the balance sheet)	**1,182,913**	**763,915**
Distribution of tax charge		
Tax payable	295,728	203,551
Too much or too little allocated in previous year	-	-2
Total tax payable	295,728	203,549
Change in deferred tax / tax assets	2,642	-7,413
Change in deferred tax / tax assets due to change in tax rate	-	533
Tax charge	**298,371**	**196,669**
Reconciliation of tax charge		
Profit on ordinary activities before tax	1,257,808	740,391
Estimated tax expense	314,452	199,906
Tax charge in profit and loss account	298,371	196,669
Difference	-16,081	-3,237
The difference consists of:		
25% on permanent differences	-16,081	-1,189
Change in deferred tax / tax assets due to change in tax rate	-	533
Other differences	-	-2,581
Explained difference	-16,081	-3,237
Tax payable in the balance sheet		
Tax payment in the tax charge	295,728	203,549
Tax effect of expenses recognized directly in equity	1,740	1,933
Tax payable	**297,468**	**205,482**

Note 27. Intangible assets

Amounts in NOK 1000	IT / Software	Trademark	Connection fee	Total
Accumulated historical cost at 31.12.15	105,667	12,500	17,337	135,504
Additions	22,094	-	-	22,094
Disposals	-44,923	-12,500	-	-57,423
Historical cost at 31.12.16	82,838	-	17,337	100,175
Accumulated depreciations at 31.12.16	35,151	-	-	35,151
Net accumulated and reversed amortizations at 31.12.16	-	-	-	-
Acc. depreciations, amortizations and rev. amortizations at 31.12.16	35,151	-	-	35,151
Book value at 31.12.16	**47,686**	**-**	**17,337**	**65,024**
Annual depreciations	13,911	-	-	13,911
Economic life	5 years	5 years	Not	
Depreciation rates	Linear	Linear	amortisable	

Amounts in NOK 1000	IT / Software	Trademark	Connection fee	Total
Accumulated historical cost at 1.1.15	82,240	12,500	17,337	112,077
Additions	23,427	-	-	23,427
Disposals	-	-	-	-
Historical cost at 31.12.15	105,667	12,500	17,337	135,504
Accumulated depreciations at 31.12.15	63,189	12,500	-	75,689
Net accumulated and reversed amortizations at 31.12.15	2,974	-	-	2,974
Acc. depreciations, amortizations and rev. amortizations at 31.12.15	66,163	12,500	-	78,663
Book value at 31.12.15	**39,504**	**-**	**17,337**	**56,842**
Annual depreciations	10,489	-	-	10,489
Annual amortizations	2,974	-	-	2,974
Economic life	5 years	5 years	Not	
Depreciation rates	Linear	Linear	amortisable	

Intangible assets are related to the connection fee (Finans Norge) that gives access to the common areas for payment services with a book value of NOK 17,3 million as at 31.12.2016, and rights of use of software and propriety software with a book value of NOK 47,7 million as at 31.12.2016.

Note 28. Tangible fixed assets

Amounts in NOK 1000	Office machines and motor vehicles	Fixtures and fittings	Upgrading of rented premises	Hardware	Total
Accumulated historical cost at 31.12.15	948	2,255	-	1,927	5,130
Additions	-	-	-	-	-
Disposals	-948	-396	-	-1,215	-2,559
Historical cost at 31.12.16	-	1,859	-	712	2,571
Accumulated depreciations at 31.12.16	-	1,794	-	712	2,506
Net accumulated and reversed amortizations at 31.12.16	-	-	-	-	-
Acc. depreciations, amortizations and rev. amortizations at 31.12.16	-	1,794	-	712	2,506
Book value at 31.12.16	**-**	**65**	**-**	**0**	**65**
Annual depreciations	89	41	-	50	181
Economic life	5 years	5 years	5 years	3 years	
Depreciation rates	Linear	Linear	Linear	Linear	

Amounts in NOK 1000	Office machines and motor vehicles	Fixtures and fittings	Upgrading of rented premises	Hardware	Total
Accumulated historical cost at 1.1.15	2,694	2,255	528	1,927	7,404
Additions	-	-	-	-	-
Disposals	-1,746	-	-528	-	-2,274
Historical cost at 31.12.15	948	2,255	-	1,927	5,130
Accumulated depreciations at 31.12.15	578	2,148	-	1,877	4,603
Net accumulated and reversed amortizations at 31.12.15	-	-	-	-	-
Acc. depreciations, amortizations and rev. amortizations at 31.12.15	578	2,148	-	1,877	4,603
Book value at 31.12.15	**370**	**106**	**-**	**50**	**526**
Annual depreciations	262	41	-	94	397
Economic life	5 years	5 years	5 years	3 years	
Depreciation rates	Linear	Linear	Linear	Linear	

Note 29. Receivables

Amounts in NOK 1000	2016	2015
Distribution commissions	256,533	158,431
Prepaid expenses	12,140	5,484
Other receivables	5,406	14,284
Total	**274,079**	**178,198**

Note 30. Other liabilities

Amounts in NOK 1000	2016	2015
Payables to suppliers	40,903	26,735
Value added tax	3,533	4,101
Tax withholdings	2,090	1,765
Social security tax	1,862	1,484
Other liabilities	92,375	2,289
Total	**140,764**	**36,374**

Note 31. Accrued expenses

Amounts in NOK 1000	2016	2015
Accrued not due expenses	81,799	58,266
Bonus	10,152	11,691
Holiday pay	4,328	3,779
Board remuneration	1,218	827
Accrued fees	1,805	1,694
Total	**99,302**	**76,258**

Note 32. Capital adequacy

Amounts in NOK 1000	2016	2015
Share capital	180,105	173,195
+ Share premium reserve	481,980	150,402
+ Other reserves	2,338,191	1,422,685
- Deferred tax assets and intangible assets	72,741	65,051
Common equity tier 1	**2,927,535**	**1,681,230**
+ Additional Tier 1 capital	335,000	125,000
Tier 1 capital	**3,262,535**	**1,806,230**
+ Tier 2 capital	274,915	174,962
Total capital	**3,537,450**	**1,981,193**
Calculation basis		
Credit risk		
Covered bonds	76,611	-
+ Institutions	668,408	419,428
+ Mass market commitments	17,212,261	9,791,899
+ Overdue and other exposures	1,752,276	991,924
+ Other assets	-	3,463
+ Operational risk	1,627,380	1,397,077
Total calculation basis	**21,336,936**	**12,603,790**
Common equity tier 1 %	**13.72 %**	**13.34 %**
Tier 1 capital %	**15.29 %**	**14.33 %**
Total capital %	**16.58 %**	**15.72 %**

Note 33. Tier 1 capital

In 2013 the Bank issued a Tier 1 capital instrument. The instrument has a nominal value of NOK 125.0 million. The instrument is perpetual and the Bank may redeem the capital the first time five years after issuance and thereafter at each interest payment date. Interest rates payable is 3 month NIBOR + 4.10%.

In 2016 the Bank issued an additional Tier 1 capital instrument. The instrument has a nominal value of NOK 210.0 million. The instrument is perpetual and the Bank may redeem the capital the first time five years after issuance and thereafter at each interest payment date. Interest rates payable is 3 month NIBOR + 5.25%.

The terms of Tier 1 capital meet the requirements of EU CRR regulations and is included in the Bank 's core capital for capital adequacy purposes. As a result, the Bank has a unilateral right to not repay interest or principal to investors. This means that the Tier 1 capital does not satisfy the conditions for financial liabilities in IAS 32 Financial instruments - presentation and is therefore presented in the Bank's equity as Tier 1 capital. This means further that interest rates linked to the Tier 1 capital is not presented on the line Total interest expense, but as a reduction in retained earnings. Similarly, is the advantage of interest tax-deductible presented as an increase in retained earnings and not as a reduction of tax expense in the profit and loss.

Note 34. Lease agreements

The Bank is sharing premises with Norwegian Air Shuttle. There is a lease agreement for Oksenøyveien 3 at Lysaker. The agreement expires 31.3.2018 (with extension option up to 31.3.2020), and the tenancy terminates without notice. The annual rent totals NOK 1.9 million.

Note 35. Related parties

Bank Norwegian and Norwegian Air Shuttle ASA have since October 2007 had an agreement regarding the Bank's use of the brand name Norwegian, IP-rights, and co-operation regarding the loyalty program and credit cards. The agreement is later expanded to sales financing. In connection with the Bank's establishment in Sweden, the original agreement was replaced by new agreements as of 1.1.2013, with a duration of three years. The agreement is renegotiated and extended until 31.12.2020, and applies to Norway, Sweden, Denmark and Finland. All accrued rights remain. In addition to the co-operation agreement regarding use of brand name and IP-rights, agent agreements have been entered into relating to distribution of financial services regarding credit cards and sales financing of airline tickets. Expensed amount is NOK 191.1 million in 2016 and NOK 123.8 million in 2015.

Norwegian Finans Holding ASA (org. number 991 281 924) owns 100% of Bank Norwegian AS (org. number 991 455 671).

Note 36. Subsequent events

The bank has experienced increased loan growth in the 1st quarter 2017, which has reduced the bank's total capital ratio. The bank recognizes that future pillar 2 requirements, which are expected communicated in the 2nd quarter 2017, will entail higher capital ratio requirements going forward. Based on this, the board has undertaken an increase in equity through a private placement of about NOK 500 million.

Quarterly figures

Profit and loss account

Amounts in NOK 1000	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
			Norwegian Finans Holding Group		
Interest income	862,060	753,622	663,334	559,231	482,037
Interest expenses	93,686	86,367	75,507	82,079	67,050
Net interest income	**768,374**	**667,254**	**587,826**	**477,152**	**414,987**
Commission and bank services income	62,767	67,989	60,255	55,602	61,919
Commission and bank services expenses	40,846	29,834	27,453	21,282	23,833
Net change in value on securities and currency	-4,562	5,752	65,958	6,916	6,233
Other income	-	170	-	-	214
Net other operating income	**17,359**	**44,077**	**98,759**	**41,237**	**44,534**
Total income	**785,733**	**711,331**	**686,586**	**518,388**	**459,521**
Personnel expenses	14,713	17,977	15,564	17,751	16,600
General administrative expenses	246,375	231,153	198,269	173,170	132,215
Ordinary depreciation	3,713	3,521	3,503	3,355	2,879
Other operating expenses	11,348	11,772	14,927	8,863	7,145
Total operating expenses	**276,149**	**264,423**	**232,262**	**203,140**	**158,839**
Provision for loan losses	144,663	119,073	109,494	95,027	68,564
Profit on ordinary activities before tax	**364,921**	**327,836**	**344,829**	**220,222**	**232,119**
Tax charge	75,149	81,959	86,207	55,056	62,137
Profit on ordinary activities after tax	**289,772**	**245,877**	**258,622**	**165,167**	**169,982**

Comprehensive income

Amounts in NOK 1000	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
			Norwegian Finans Holding Group		
Profit on ordinary activities after tax	**289,772**	**245,877**	**258,622**	**165,167**	**169,982**
Change in fair value for assets held for sale	250	1,147	-37,097	-	60,446
Tax	-2	-9	278	-	-453
Other comprehensive income that may subsequently be reclassified to profit and loss	**248**	**1,138**	**-36,819**	**-**	**59,992**
Comprehensive income for the period	**290,020**	**247,015**	**221,802**	**165,167**	**229,974**

Balance sheet

Amounts in NOK 1000	31.12.16	30.9.16	30.6.16	31.3.16	31.12.15
			Norwegian Finans Holding Group		
Assets					
Cash and deposits with the central bank	59,992	56,948	56,958	58,971	58,987
Loans and deposits with credit institutions	1,103,359	791,698	882,907	437,324	477,841
Loans to customers	24,402,625	21,082,444	18,482,456	16,201,657	13,808,175
Certificates and bonds	4,464,203	5,544,250	4,816,506	3,331,623	2,968,530
Finansielle derivater	-	14,364	6,775	6,683	-
Shares and other securities	443	443	443	443	443
Assets held for sale	24,745	24,495	23,348	60,446	60,446
Intangible assets	65,024	62,575	62,330	59,690	56,842
Deferred tax asset	7,717	9,872	9,665	8,404	8,210
Fixed assets	65	84	400	461	526
Receivables	274,079	255,373	275,645	196,242	178,198
Total assets	**30,402,252**	**27,842,546**	**24,617,434**	**20,361,943**	**17,618,198**
Liabilities and equity					
Deposits from customers	24,423,773	22,154,135	19,640,676	15,928,036	13,366,590
Debt securities issued	1,823,973	1,991,948	1,906,711	1,880,311	1,879,571
Financial derivatives	6,780	-	-	-	7,679
Tax payable	297,468	221,766	140,088	191,939	205,482
Other liabilities	140,764	51,995	90,599	58,931	36,374
Accrued expenses	99,302	94,048	65,668	88,975	76,258
Subordinated loan	274,915	274,859	174,929	174,971	174,962
Total liabilities	**27,066,976**	**24,788,750**	**22,018,672**	**18,323,163**	**15,746,916**
Share capital	180,104	180,104	180,104	173,195	173,195
Share premium reserve	481,980	482,827	482,852	150,402	150,402
Tier 1 capital	335,000	335,000	125,000	125,000	125,000
Retained earnings and other reserves	2,338,192	2,055,865	1,810,807	1,590,183	1,422,685
Total equity	**3,335,276**	**3,053,796**	**2,598,763**	**2,038,780**	**1,871,282**
Total liabilities and equity	**30,402,252**	**27,842,546**	**24,617,434**	**20,361,943**	**17,618,198**

Profit and loss account

Amounts in NOK 1000	Note	Norwegian Finans Holding ASA 2016	2015
Interest income		15	24
Interest expenses		-	-
Net interest income		**15**	**24**
Commission and bank services income		-	-
Commission and bank services expenses		323	315
Net change in value on securities and currency		6,164	-
Other income		-	-
Net other operating income		**5,841**	**-315**
Total income		**5,856**	**-291**
Personnel expenses	3	2,099	1,431
General administrative expenses		-	-
Ordinary depreciation		-	-
Other operating expenses		4,775	99
Total operating expenses		**6,875**	**1,530**
Provision for loan losses		-	-
Profit on ordinary activities before tax		**-1,019**	**-1,821**
Tax charge	4	-255	-368
Profit on ordinary activities after tax		**-764**	**-1,453**

Comprehensive income

Amounts in NOK 1000	Norwegian Finans Holding ASA 2016	2015
Profit on ordinary activities after tax	**-764**	**-1,453**
Comprehensive income for the period	**-764**	**-1,453**

Balance sheet

Amounts in NOK 1000		Norwegian Finans Holding ASA 31.12.16	31.12.15	1.1.15
Assets				
Loans and deposits with credit institutions		8,643	17,014	13,342
Ownership interests in group companies	5	650,000	310,000	310,000
Deferred tax asset	4	3,946	1,541	1,172
Receivables		6,164	-	-
Total assets		**668,752**	**328,555**	**324,515**
Liabilities and equity				
Other liabilities		32	-	-
Accrued expenses		1,627	1,335	1,315
Total liabilities		**1,659**	**1,335**	**1,315**
Share capital		180,105	173,195	173,000
Share premium reserve		481,980	150,402	145,123
Retained earnings and other reserves		5,008	3,623	5,076
Total equity		**667,093**	**327,220**	**323,200**
Total liabilities and equity		**668,752**	**328,555**	**324,515**

Bærum, 13 February 2017
Board of Directors of Norwegian Finans Holding ASA

Bjørn H. Kise
Chairman of the Board

Anita Aarnæs
Board Member

John Høsteland
Board Member

Brede G. Huser
Board Member

Pål Svenkerud
CEO

Cash flow statement

Amounts in NOK 1000	Norwegian Finans Holding ASA 2016	2015
Profit / loss before tax	-764	-1,453
Change in other accruals	-8,569	-368
Change in short-term liabilities	324	20
Net cash flow from operating activities	**-9,009**	**-1,801**
Net investment in group companies	-340,000	-
Net cash flows from investment activities	**-340,000**	**-**
Paid-in equity	340,637	5,473
Net cash flow from financing activities	**340,637**	**5,473**
Net cash flow for the period	-8,372	3,672
Cash and cash equivalents at the start of the period	17,014	13,342
Cash and cash equivalents at the end of the period	**8,643**	**17,014**

Changes in equity

Norwegian Finans Holding ASA

Amounts in NOK 1000	Share capital	Share premium reserve	Tier 1 capital	Retained earnings and other reserves	Total equity
Balance 31.12.15	**173,195**	**150,402**	**-**	**3,623**	**327,220**
This period's profit	-	-	-	-764	-764
Comprehensive income for the period	**-**	**-**	**-**	**-764**	**-764**
Capital increase	6,909	340,178	-	-	347,087
Share issue expenses	-	-8,600	-	2,150	-6,450
Balance 31.12.16	**180,105**	**481,980**	**-**	**5,008**	**667,093**
Balance 1.1.15	**173,000**	**145,123**	**-**	**5,076**	**323,200**
This period's profit	-	-	-	-1,453	-1,453
Comprehensive income for the period	**-**	**-**	**-**	**-1,453**	**-1,453**
Capital increase	195	5,279	-	-	5,473
Balance 31.12.15	**173,195**	**150,402**	**-**	**3,623**	**327,220**

Notes for Norwegian Finans Holding ASA

Note 1. General accounting principles

Norwegian Finans Holding ASA is a Norwegian public limited company listed on the Oslo Stock Exchange. The company is the parent company of the Norwegian Finans Holding Group.

The financial statements for 2016 have been prepared in accordance with the International Financial Reporting Standards, as adopted by the European Union. The financial statements for the period ended 31 December 2015 have been prepared in accordance with the Financial Reporting Act, Regulations relating to Financial Reporting for Banks, Finance Companies and their Parent Companies, Regulations relating to the Treatment of Loans and Guarantees in the Accounts of Financial Institutions and the Generally Accepted Accounting Principles in Norway.

Comparative figures have been prepared as if the Group had adopted IFRS from 1 January 2015. A reconciliation of consolidated equity on transition to IFRS is shown in the statement of changes in equity. See also Note 2.

Shares held by Norwegian Finans Holding ASA is 100 % of the shares in Bank Norwegian AS. The shares is recognised at cost, and eliminated in the Group accounts.

Transactions with Group companies is done on ordinary terms and principles.

The tax expense is accrued over the year based on the estimated tax expense for the year. The tax expense is estimated at 25 per cent of the bank's operating profit, and consists of current tax (payable tax) and changes in deferred tax.

Payable tax is tax calculated on the taxable profit for the year. Deferred tax is calculated and recognised in accordance with IAS 12. Deferred tax is calculated based on the applicable tax rate. A deferred tax asset or liability is calculated on temporary differences, defined as the difference between the carrying amounts and tax bases of assets and liabilities. A deferred tax asset on tax losses is calculated and recognised to the extent that it is probable that future taxable profits will make it possible to use the tax asset.

Note 2. Transition to IFRS

Norwegian Finans Holding ASA adopted IFRS from 1 January 2016. The financial statements are prepared in accordance with IFRS applicable per. 31.12.15 and approved by the EU.

The accounts have up to 31.12.2015 been prepared in accordance with the Financial Reporting Act, Regulations relating to Financial Reporting for Banks, Finance Companies and their Parent Companies, Regulations relating to the Treatment of Loans and Guarantees in the Accounts of Financial Institutions and the Generally Accepted Accounting Principles in Norway. The accounting principles are described in further detail in the annual report for 2015. Presented below are the effects of the transition to IFRS on the profit and loss and balance sheets, in addition to description of the change in company accounts.

Adoption of IFRS 1 First-time Adoption of International Financial Reporting Standards

IFRS 1 is applied in preparing the opening balance at 1.1.15. The accounting impact of changes in accounting principles are recorded directly against equity. For further specification of these effects see the Changes in equity statement. The parent company has not applied any of the exemptions provided in IFRS 1 to restate the balance sheet and previous periods profit and loss.

The parent company has in accordance with IFRS 1 not made retrospective restatement for:

- Financial assets and liabilities which according to previous accounting principles were not capitalized prior to 1.1.16.
- Estimates used under Norwegian generally accepted accounting principles per 1.1.15.

Effect of the IFRS transition on the parent company's balance sheets

Presented below are balance sheets published according to previous accounting policies and restated balances in accordance with IFRS. Effects on the different items are described below.

	IFRS	NGAAP	IFRS	NGAAP
Amounts in NOK 1000	31.12.15	31.12.15	1.1.15	31.12.14
Assets				
Loans and deposits with credit institutions	17,014	17,014	13,342	13,342
Ownership interests in group companies	310,000	310,000	310,000	310,000
Deferred tax asset	1,541	-	1,172	1,172
Receivables	-	6,164	-	-
Total assets	**328,555**	**333,178**	**324,515**	**324,515**
Liabilities and equity				
Accrued expenses	1,335	1,335	1,315	1,315
Total liabilities	**1,335**	**1,335**	**1,315**	**1,315**
Share capital	173,195	173,195	173,000	173,000
Share premium reserve	150,402	150,402	145,123	145,123
Retained earnings and other reserves	3,623	8,246	5,076	5,076
Total equity	**327,220**	**331,843**	**323,200**	**323,200**
Total liabilities and equity	**328,555**	**333,178**	**324,515**	**324,515**

Norwegian Finans Holding ASA recorded in 2015 a profit of NOK 6.2 million in group contributions from Bank Norwegian AS. Group contributions are equated with dividends, which in accordance with IAS 10 Events after the reporting period shall not be recognized as a liability at the giver. Equally, the Group contribution cannot be recorded as income in the receiving company before it is approved. This has been adjusted for in the results for 2015. The Group contribution is also adjusted for in the balance sheet in the comparative figures statement per 1.1.2016.

Effect of IFRS transition on the parent company accounts

Presented below are the profit and loss published according to previous accounting principles and restated profit and loss according to IFRS. Effects on the different items are described below.

	IFRS	IFRS	NGAAP
Amounts in NOK 1000	2015	transition	2015
Interest income	24	-	24
Interest expenses	-	-	-
Net interest income	**24**	**-**	**24**
Commission and bank services income	-	-	-
Commission and bank services expenses	315	-	315
Net change in value on securities and currency	-	-	-
Other income	-	-6,164	6,164
Net other operating income	**-315**	**-6,164**	**5,849**
Total income	**-291**	**-6,164**	**5,873**
Personnel expenses	1,431	-	1,431
General administrative expenses	-	-	-
Ordinary depreciation	-	-	-
Other operating expenses	99	-	99
Total operating expenses	**1,530**	**-**	**1,530**
Provision for loan losses	-	-	-
Profit on ordinary activities before tax	**-1,821**	**-6,164**	**4,343**
Tax charge	-368	1,541	1,172
Profit on ordinary activities after tax	**-1,453**	**-4,623**	**3,170**

Norwegian Finans Holding ASA recorded in 2015 a profit of NOK 6.2 million in group contributions from Bank Norwegian AS. Group contributions are equated with dividends, which in accordance with IAS 10 Events after the reporting period shall not be recognized as a liability at the giver. Equally, the Group contribution cannot be recorded as income in the receiving company before it is approved. This has been adjusted for in the results for 2015. The Group contribution is also adjusted for in the balance sheet in the comparative figures statement per 1.1.2016.

Note 3. Salaries and other personnel expenses

Norwegian Finans Holding ASA has no employees. Bonus to key executives are earned according to circular 11/2011 from The Financial Supervisory Authority of Norway, "Godtgjørelsesordninger i finansinstitusjoner" (Compensation arrangements at banks) as such key executives receive the entire bonus in shares with a lock-in period of three years. See note 19 in Bank Norwegian AS for further information.

Fees paid out to the Board of Directors

Amounts in NOK 1000	2016	2015
Bjørn H. Kise	250	165
Kristin Farstad	125	88
Anita Marie Hjerkinn Aarnæs	250	175
John Høsteland	125	88
Ada Kjenseth	-	35
Brede Huser	200	-
Daniel Andreas Skjeldam	50	175
Karin Bing Orgland	50	140
Maria Borch Helsengreen	200	-
Total	**1,250**	**865**

Fees paid out to the Control Committee

Amounts in NOK 1000	2016	2015
Knut Gillesen	65	16
Sigmund Håland	50	50
Knut Gillesen	-	61
Jarl Borgvin Dørre	50	50
Cecilie Kvalheim	25	25
Total	**190**	**203**

Fees paid out to the Supervisory Board

Amounts in NOK 1000	2016	2015
Alf Nielsen	25	25
Sven Nicolai E. Eppeland	5	5
Christian F. Stray	5	5
Tord Strømme Meling	5	5
Asgeir Nyseth	-	5
Betty Tandberg	5	5
Gunnar Martinsen	5	5
Thomas Berntsen	5	5
Truls Persen	5	5
Dag Håvard H. Hanssen	5	5
Helge Bergh	-	5
Brede Huser	5	5
Bjørn Olaf Svindal	5	5
Kristin Møllerplass	5	5
Anders Gullestad	5	5
Sammy J.F. Mendez Caparros	5	5
Håkon Rådmannsøy Hovde	5	5
Esma Candic	-	5
Roger Stange Nilsen	5	-
Total	**100**	**110**

Auditor fees

The following expenses for external auditor fees have been regonised in the accounts, incl VAT.

Amounts in NOK 1000	2016	2015
Statutory auditing	100	99
Other certification services	31	-
Other services outside auditing	209	-
Total	**340**	**99**

Note 4. Information on taxes

Amounts in NOK 1000

Deferred taxes / tax assets in the accounts	2016	2015
Loss and remuneration to be carried forward	-15,783	-6,164
Basis for deferred tax / tax assets in the balance sheet	-15,783	-6,164
Deferred tax assets / deferred tax	-3,946	-1,541
Deferred taxes / tax assets in the accounts	-3,946	-1,541
Basis for tax charge, changes in deferred tax and tax payable		
Profit before tax	-1,019	-1,821
Basis for the tax charge for the year	-1,019	-1,821
Change in losses and remuneration to be carried forward	9,619	1,821
Foundation / issue expenses recognized directly in equity	-8,600	-
Basis for tax payable in the profit and loss	-	-
Taxable income (basis for tax payable in the balance sheet)	**-**	**-**
Distribution of tax charge		
Tax payable	-	-
Change in deferred tax / tax assets	-255	-368
Tax charge	**-255**	**-368**
Reconciliation of tax charge		
Profit on ordinary activities before tax	-1,019	-1,821
Estimated tax expense	-255	-492
Tax charge in profit and loss account	-255	-368
Difference	-	123
The difference consists of:		
Change in deferred tax / tax assets due to change in tax rate	-	-123
Explained difference	-	-123

Note 5. Ownership interests in group companies

Shares held by Norwegian Finans Holding ASA are 100% of shares in Bank Norwegian AS. These are recognized in the company accounts at cost, and eliminated in the Group accounts.

Corporate governance

Corporate governance at Norwegian Finans Holding ASA complies with Norwegian law and the Norwegian Code of Practice for Corporate Governance (NUES). Each year, the Board of Directors of Norwegian Finans Holding ASA evaluates compliance with the company's corporate governance principles, in relation to the Norwegian Accounting Act, Section 3-3b and the Norwegian Code of Practice for Corporate Governance. Any deviations from the Code are explained.

REPORT ON CORPORATE GOVERNANCE IN ACCORDANCE WITH THE ACCOUNTING ACT, SECTION 3-3B

1. The corporate governance structure of the Norwegian Finans Holding Group is based on Norwegian law and the Group follows the Norwegian Code of Practice for Corporate Governance.
2. The Code is available at www.nues.no.
3. Deviations from the Code are commented in the report.
4. A description of the main elements of the Group's internal control and risk management systems related to the financial reporting process is presented in Section 10 under the Norwegian Code of Practice for Corporate Governance below.
5. There are no provisions in the Articles of Association of Norwegian Finans Holding ASA which deviate from the Norwegian Public Limited Liability Companies Act, Chapter 5, which deals with the general shareholders' meeting.
6. The composition of governing bodies and a description of the main elements of the applicable instructions and guidelines are described under Sections 6, 7, 8 and 9 of the Norwegian Code of Practice for Corporate Governance below.
7. Provisions in the Articles of Association governing the appointment and replacement of Directors are presented under Section 8 of the Norwegian Code of Practice for Corporate Governance below.
8. Provisions in the Articles of Association and authorisations which allow the Board of Directors to decide to buy back or issue new shares are described in Section 3 under the Norwegian Code of Practice for Corporate Governance below.

THE NORWEGIAN CODE OF PRACTICE FOR CORPORATE GOVERNANCE

The following is a description of how the 15 sections of the Code are implemented in the Norwegian Finans Holding Group.

1. Description of corporate governance

The Group's activities shall be governed on the basis of high ethical standards and account shall be taken of our stakeholders in the bank's ordinary course of business. The bank shall maintain responsible credit standards and ensure that we provide all relevant information to our customers so that they are able to make informed decisions. We only approve loan applications from customers that we believe have the willingness and ability to repay the loan according to the loan terms.

Bank Norwegian has established corporate social responsibility and ethical guidelines, which govern the activities of the bank.

2. Activities

The bank's activities are described in the Articles of Association, which are available on the company's website. The bank may, subject to the applicable legislation, carry out all transactions and services which it is customary or natural for a bank to perform. Bank Norwegian offers banking services through the Internet to retail customers in the Nordic market.

The Board's annual and interim reports describe the company's goals and main strategies. The bank's strategy is based on leading e-commerce solutions, synergies with the airline Norwegian, attractive terms to customers, cost-effective operations and effective risk selection.

3. Share capital and dividends

The Board continuously monitors the company's capital situation in light of the defined goals, strategy and risk profile. The bank has a strong capital position with a core Tier 1 capital ratio of 13.7 per cent, a core capital ratio of 15.2 per cent and a capital ratio of 16.5 per cent at 31 December 2016. The Group has a core Tier 1 capital ratio of 13.7 per cent, a core capital ratio of 15.3 per cent and a capital ratio of 16.6 per cent. The bank's significant growth and profitability give it significant flexibility to control the capital situation.

Norwegian Finans Holding ASA aims to create shareholder value through a combination of share price growth and dividend yield. The Board has adopted a dividend policy which targets a long-term dividend payout ratio of at least 40 per cent of earnings. The bank is planning to distribute excess capital above a target capitalisation level to the shareholders. Due to the stability of its underlying earnings, the bank intends to pay quarterly dividends. The payout ratio will depend partly on expected loan growth and earnings growth as well as regulatory capital requirements. Changes in the bank's operating conditions and prospects may affect its ability to pay dividends and the payout ratio.

The general shareholders' meeting has authorised the Board to increase the share capital to enable issuance of shares as non-cash consideration under incentive schemes and to increase the share capital for acquisitions which are consistent with the company's objects or necessary to strengthen the company's equity capital. The general shareholders' meeting has also authorised the Board to buy back shares. The Board authorisations remain valid until the Annual General Meeting in 2017.

4. Equal treatment of shareholders and related-party transactions

The company has one class of shares. When the share capital is increased existing shareholders are given priority. If the Board proposes to the general shareholders' meeting to disapply the pre-emption rights of existing shareholders such disapplication must be based on the company's and shareholders' common interests.

The company has adopted guidelines on conflicts of interest. The Board assesses potential conflicts of interest in all matters considered by the Board. The rules of procedure for the Board of Directors are reviewed annually.

Board members and senior executives are required to notify the Board of any significant interests in an agreement which the company intends to conclude.

The Board obtains external independent valuations of the market value of the company's shares when the share capital is increased in connection with the bank's share-based incentive scheme.

Norwegian Air Shuttle ASA is the company's largest shareholder with a stake of 20 per cent. Since October 2007 Bank Norwegian AS and Norwegian Air Shuttle ASA have had an agreement governing the bank's use of the Norwegian brand, intellectual property rights, and collaboration on credit cards, loyalty programmes and sales finance. Following the establishment of banking operations in Sweden, Denmark and Finland, new agreements have been negotiated. Existing acquired rights have been transferred. The agreements are due for renegotiation by 31 December 2020.

5. Free negotiability

The company's shares are listed on the Oslo Stock Exchange and are freely negotiable. There are no statutory restrictions on trade.

6. The general shareholders' meeting

Notice of a general meeting of shareholders and of the appointment of the Nominating Committee must be available on the company's website no later than 21 days before a general shareholders' meeting. The deadline for registration is the last day before the meeting.

The Chairman of the Board, Chairman of the Nominating Committee, Chief Executive Officer, Chief Financial Officer and the company's auditor participate at general shareholders' meetings. Members of the Board of Directors may also participate.

The voting procedures are described in the notice of the meeting, including the procedure for representation by proxy. A general shareholders' meeting provides an opportunity to vote on each matter to be considered and each candidate for election to the company's governing bodies. Shareholders can attend a general shareholders' meeting and exercise their rights as shareholders by electronic means and cast their votes in advance in writing. The minutes of general shareholders' meetings are available on the company's website.

7. The Nominating Committee

Under the Articles of Association, the bank is required to have a Nominating Committee which shall make recommendations to the Annual General Meeting on the election of shareholder-elected Directors and Deputy Directors of the Board, the members and deputy members of the Nominating Committee, and the remuneration of the same.

The Nominating Committee consists of three members. One or more deputies may also be elected to the committee.

The members of the Nominating Committee are elected initially for two years, but the committee shall – through the annual appointment of at least one member of the committee – seek to achieve a satisfactory continuity in the committee.

No Directors or representatives of management are members of the Nominating Committee.

8. Board composition and independence

The company's Board of Directors shall consist of five to seven members, all of whom shall be elected by the general shareholders' meeting. The general shareholders' meeting shall appoint the Chairman of the Board from among the members of the Board. Directors are elected for two-year terms. At the end of 2016 the Board of Directors of Norwegian Finans Holding ASA consisted of five members, two of whom were women. The Board of Directors of Bank Norwegian AS consists of five members, one of whom was a woman and one of whom is a representative elected by the employees. No senior executives are members of the Board. The independence of Directors is assessed in connection with their election. The Board of Directors of Bank Norwegian AS held 11 meetings and the Board of Directors of Norwegian Finans Holding ASA held 12 meetings in 2016.

The Board of Directors of Norwegian Finans Holding ASA consists of the following Directors:

Bjørn H. Kise (1950)
Chairman of Norwegian Finans Holding ASA since 2007. LL.M. from the University of Oslo. Partner of the law firm Simonsen Vogt Wiig (formerly Advokatfirmaet Vogt Wiig AS) since 1983. Since 1997 Bjørn H. Kise has had the right to attend sittings of the Supreme Court of Norway. Bjørn H. Kise is Chairman of Norwegian Air Shuttle ASA and holds directorships in several large and medium-sized companies in Norway and abroad.

Anita Aarnæs (1950)
Director since 2007. Masters degree from Harvard University. Anita Aarnæs has been HR Director of DNO, head of Heidrick & Struggles' Norwegian business (2010-2012) and head of Triple A Consulting (2003-2010), and has held several positions at PA Consulting over the period 1983-2003.

John Høsteland (1947)
Director since 2007. Ph.D. in Economics from the Norwegian University of Life Sciences in Ås. John Høsteland is self-employed through JH Consulting, offering consulting services aimed at corporate clients. He has previously been CEO of several companies, including Höegh Capital Management AS, Skogbrand Forsikring, First Securities ASA and Elcon Securities ASA. He is a Director of Aberdeen Eiendomsfond Norden/Baltikum ASA, Höegh Capital Partners ASA, Guardian Corporate AS and First Asset Management AS.

Kristin Farstad (1959)
Director since 2007. LL.M. from the University of Bergen. Partner of the law firm Simonsen Vogt Wiig AS and Director of Bank Norwegian AS and Borea Asset Management AS. She has previously worked as a lawyer at DNB ASA. Kristin Farstad does currently not participate in the running business of the Board, due to being engaged as acting President of Lofoten District Court. She has, therefore, not signed the Board's annual report.

Brede G. Huser (1971)
Director since 2015. M.Sc. in Finance from BI Norwegian Business School. Brede G. Huser is a senior executive at Norwegian Air Shuttle ASA with responsibility for Norwegian Reward. He has previously been Head of Business Controlling (2010-2014) and Finance Manager (2006-2010) at Norwegian Air Shuttle ASA.

9. The work of the Board

The Board has adopted a set of instructions which govern its responsibilities, the duties and responsibilities of the CEO, matters to be discussed by the Board and rules of procedures, etc. The work and expertise of the Board are evaluated annually. The Board adopts an annual plan for its work.

The bank's Risk and Audit committee consists of three members and appoints its chairman from among its independent members. The committee chairman is appointed annually. At least one of the committee members must have relevant accounting or auditing expertise.

The Risk and Audit Committee is a sub-committee of the Board of Directors of Norwegian Finans Holding ASA and is tasked with carrying out more thorough assessments of specified matters and reports on the results of its work to the Board.

The Risk and Audit Committee is tasked with ensuring that the bank is audited effectively by an independent external auditor, satisfactorily fulfils its financial reporting obligations under applicable laws and regulations, and that internal control and risk management systems function effectively.

The Board as a whole constitutes the bank's Remuneration Committee and appoints the chairman of the committee from among its independent members. The committee chairman is appointed annually.

The Remuneration Committee is a sub-committee of the Board of Directors of Bank Norwegian AS and is tasked with preparing matters for the Board concerning the bank's remuneration policy and determining the remuneration of the CEO.

10. Risk management and internal control

The bank's risk management shall ensure the achievement of the bank's strategic objectives while also ensuring financial stability.

This goal shall be achieved through:
- A strong organisational culture marked by a high level of risk awareness.
- A good understanding of the risks that drive earnings.
- A striving for optimal capital utilisation within the framework of the adopted business strategy.
- Avoidance of unexpected individual events that can damage the bank's financial position.

The Board has adopted policies for financial risk, credit risk and internal control. As outlined in these policies and in the business strategy, the bank shall primarily generate earnings through exposure to unsecured lending in the retail segment. Other financial risks, such as market risk, interest rate risk, currency risk and counterparty risk, are limited by the defined risk limits. The risk limits are determined in relation to the bank's buffer capital and risk-bearing capacity.

Risk management and internal control are based on the following elements:
- Roles and responsibilities.
- Guidelines and procedures for managing and controlling risk.
- Strategic planning and capital planning.
- Reporting and monitoring.
- Contingency plans.

Roles and responsibilities
The Board exercises supervision and shall ensure that the bank has a sound system for managing and controlling risk. It defines overall goals, guidelines and authorities for the bank's risk management and control activities. The Risk and Audit Committee shall ensure that the bank is audited effectively by an independent auditor and satisfactorily fulfils its financial reporting obligations under applicable laws and regulations, and that internal risk management and internal control systems function effectively.

The CEO shall ensure that the Board-approved objectives, policies and authorities for the bank's risk management and internal control are complied with, and shall ensure the effective management and control of risk. Heads of division that report to the CEO are responsible for the control, reporting and monitoring of self-imposed and statutory requirements.

The risk control function shall ensure that all significant risks are identified, measured and reported by the relevant units. The credit risk department is responsible for monitoring the bank's adopted credit policy and procedures, and shall ensure regular reporting and monitoring. The treasury department is responsible for ensuring compliance with the guidelines for financial and operational risk management adopted by the Board and shall ensure regular reporting and monitoring.

The compliance function reports to the head of the risk control function and is responsible for independent control, monitoring and reporting of compliance with self-imposed and statutory requirements.

The internal audit function shall assist the Board and CEO in discharging their responsibilities for ensuring satisfactory internal control. It shall also assess the appropriateness and effectiveness of the bank's management and control processes.

Guidelines and procedures for managing and controlling risk
The Board has established guidelines for the management and control of financial risk, credit risk and operational risk. The guidelines define objectives, guidelines for risk management, risk tolerance and limits, monitoring systems, reporting, and contingency plans.

Strategic planning and capital planning
The Board approves strategic plans that are subject to ongoing review. The capital plan is a key element of the strategic planning process. Capital planning shall ensure adequate capitalisation of the bank beyond the legal minimum, and show the expected capital requirements and plan for raising capital. The plan shall also show the need for debt financing during the period.

Reporting and monitoring
The risk control function is responsible for ongoing and periodic risk reporting, and for ensuring that all risk factors are within the approved risk limits. Risk factors are reported to the CEO on a daily, weekly and monthly basis, and to the Board of Directors on a monthly basis.

Contingency plans
The bank has established Board-approved contingency plans for ensuring sufficient capital and liquidity in the event that internal and/or external factors have a negative impact on the bank's solvency or liquidity.

11. Remuneration of Directors

The remuneration of Directors is determined by the general shareholders' meeting based on the recommendation of the Nominating Committee. The remuneration of Directors is not performance-based or dependent on the company's share performance. None of the Directors have responsibilities for the company beyond their directorships. The remuneration of Directors is disclosed in the annual report.

12. Remuneration of senior executives

The guidelines for remuneration of senior executives are aimed at promoting long-term value creation for the shareholders while ensuring sound and effective risk management. The guidelines have been designed to attract, develop and retain highly qualified and productive executive staff. The remuneration shall also be related to the performance of the company and of the individual executive. The level of remuneration shall be competitive and reasonably distributed internally. The pay structure shall also be cost-effective.
Senior executives' total remuneration may consist of a basic salary, variable remuneration, pension and insurance benefits, benefits in kind, and severance pay. Basic salaries are set with regard to market conditions and on the basis of responsibility, experience and skills. Adjustments of basic salaries are based on an individual evaluation of the executive's performance. A variable remuneration scheme has been introduced under which executives are allocated shares in Norwegian Finans Holding ASA. The scheme complies with the provisions of the Norwegian Regulation on Remuneration Schemes in Financial Institutions, etc.

13. Information and communication

The Group aims to provide reliable and timely information to the securities market based on equal treatment of participants. Investor information such as annual and interim reports, presentations, stock exchange announcements and the company's financial calendar are made available on the bank's website at the same time as they are published to the market. The bank arranges quarterly earnings presentations with the participation of journalists, analysts and investors.

14. Takeover

An entity wishing to make an acquisition that will result in the entity becoming the owner of a qualified interest (10 per cent or more) in a financial undertaking is required to notify this in advance to the Financial Supervisory Authority of Norway. The acquisition of a qualified interest is subject to permission from the Norwegian Ministry of Finance.

The Board of Directors of Norwegian Finans Holding ASA handles any takeover bids in accordance with the principle of equal treatment of shareholders. The Board also seeks to ensure that shareholders are given the best possible information in all situations which affect their interests.

15. Auditor

The auditor presents the annual audit plan to the Board. The auditor participates in Board meetings at which the annual accounts are discussed. Each year, the auditor reviews the company's internal control system with the Board. The Board meets the auditor without the presence of management. Each year, the auditor confirms his or her independence in writing and gives an account of which other services other than the statutory audit have been provided to the company during the financial year.

Corporate Social Responsibility

Background
Bank Norwegian plays an important function in society by offering financing and saving products and services in addition to payment services in the Nordic retail market. Corporate social responsibility for us in Bank Norwegian is to reconcile profitability with responsible operations. An adoption of specific corporate responsibility guidelines integrates corporate responsibility into our goals and strategies. As part of responsible operations, operations in Bank Norwegian shall be exercised in accordance with all applicable laws and regulations, and by a high ethical standard.

The bank's operations in the retail market requires a long-term perspective and a high level of consumer confidence. The trust of customers and society are based on a good reputation. To contribute to confidence, Bank Norwegian shall conduct a transparent business and communicate openly with customers, employees, shareholders and other stakeholders in line with the regulations for listed companies on the Oslo Stock Exchange.

Corporate social responsibility guidelines
Bank Norwegian has prepared specific guidelines for corporate social responsibility adopted by the board on 13. February 2017. The considerations that underlie the guidelines are implemented in the bank's policies and guidelines, and are as such integrated into the bank's daily operations.

Responsible credit practices
The bank shall maintain a responsible credit practice where we provide all relevant information to customers enabling them to make informed decisions. We grant only loan applications from customers we believe have the willingness and ability to repay the loan in accordance with the terms of the loan. We price our products based on relevant factors such as credit risk, costs, and competition and market conditions. We respond quickly to customer requests and correct if we have made mistakes. The bank has adopted a credit policy that ensures a responsible credit practice.

Responsible investment and human rights, etc.
Bank Norwegian support UN and EU conventions on human rights and human dignity. The bank shall conduct responsible investment that safeguards human rights, social issues and the environment. The bank's investment policy states that the bank's liquid assets shall be invested in fixed income securities issued by governments, municipalities and financial institutions in the Nordic region. The bank does not invest in shares. Bank Norwegian does therefore not support businesses operating in violation of the UN and EU conventions on human rights or other social conditions, nor those who acts detrimental to the external environment.

Labour rights and social conditions
Bank Norwegian shall be an attractive and inclusive workplace with a good psychosocial and physical environment. The bank has established policies and procedures within employment, health, safety and environment, whistleblowing, intimidation and violence, harassment and discrimination and ethics. The bank has established a Workers Environment and Liaison Committee. The bank is considered to have a working environment with low employee turnover among employees and low work absence.

The external environment
The business operations aim to support environmental sustainability and minimize its negative impact on the environment. Bank Norwegian shall exercise environmental considerations in all aspects of the business. The bank offers its services exclusively over the internet and operates from one office with 62 full time employees. The bank's procedures and processes are largely automated with electronic documentation and communication that reduces paper consumption and transportation. The bank has not prepared specific guidelines related to the external environment, although its interests are considered covered through the bank's business model.

Ethics and fighting corruption
The bank shall be managed based on high ethical standards and fight money laundering, terrorist financing and corruption through conducting its business operations. An annual ethics seminar is a mandatory requirement for all employees. The bank has established ethics procedures that outlines guidelines for employee's behavior. Bank Norwegian has policies and dedicated resources for fighting matters such as money laundering, terrorism financing, crime financing, fraud, identity theft, extortion and bribery. The bank participates in various forums for international anti-money laundering and corruption such as the Sikkerhetsforum, Nordic Fraud Sharing Group and European Fraud Sharing Group in addition to attending external seminars.

To the General Meeting of Norwegian Finans Holding ASA

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Norwegian Finans Holding ASA, in our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of Norwegian Finans Holding ASA as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2016, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
The value of loans to customers Loans to customers represents a considerable part of the group's total assets. The assessment of impairment losses is a model based framework which includes elements of management judgement. The framework is complex, includes a considerable volume of data and judgemental parameters, which are based on a risk classification of loans. The risk classification of loans and internal controls in relation to identification of impaired loans is central to determining the value of the loans. The use of the model based framework and use of management judgement, affects the profit for the period and is important for the compliance with the capital requirement regulation. In our audit we have focused on: • The process for identification of loans with objective evidence of impairment • Assumptions and judgments made by management underlying the parameters and calculation We refer to note 1 and 4-7 to the financial statements for further descriptions related to impairment of loans to customers.	We have evaluated and tested the design and effectiveness of internal controls related to the model based framework. These controls, as they were directed towards risk classification of loans, identified correct input to the model and that the model meets relevant requirements in capital regulations. We concluded that we could base our audit on these controls. We satisfied ourselves as to the accuracy of the data used in the calculations by tracing data back to registration in the systems on a sample basis. We have also tested that the mathematical accuracy in the model is correct. To satisfy ourselves that the setting of parameters related to the probability of losses on loans were appropriate, we interviewed management and challenged the relevance and methods in the model. Further, we compared actual historical losses with previous years estimated losses. The result of our testing showed that management has used appropriate assumptions in their evaluation of parameters.
IT systems supporting processes over financial reporting The Group's financial accounting and reporting processes are dependent on	The Group uses external service organizations for support with their IT systems.

complex systems and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively.	We have received an assurance report from one of the service organizations. In this report the service organizations' auditor described the design and effectiveness of the controls, in addition to the results of testing of established controls. The audit team has evaluated the report and evaluated for any possible deviations and actions. For the other important IT-systems, the audit team performed detailed substantive testing of relevant reports and automated controls. We have also tested controls over application management and segregation of duties. Our work gave us sufficient evidence to enable us to rely on the operation of the Group's IT systems relevant for our audit.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, statements on Corporate Governance and Corporate Social Responsibility, 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.

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

In preparing the financial statements, management is responsible for assessing the Company's and the Group'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 Group 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, included International Standards on Auditing (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.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility 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, 13 February 2017
PricewaterhouseCoopers AS

Geir Julsvoll
State Authorised Public Accountant