

**Annual Report 2014**

**Norwegian Finans Holding ASA**

# Annual Report 2014 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 %. The company has been capitalised with NOK 310 million and had at the end of 2014 total assets of NOK 13,425 million. Norwegian Finans Holding ASA is registered at NOTC with the ticker code BANK.

Bank Norwegian started its operations in November 2007 and offers high interest no-fee deposit accounts, and consumer loans, which are distributed through the Internet. The bank also offers "Norwegian Reward" a combined credit card and reward card for the airline Norwegian. The Bank started operations in Sweden in May 2013 and offers "Norwegian Reward" credit card, consumer loans and deposit accounts.

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 the year the bank had a customer base of 445,900 customers, which can be broken down into 57,200 loan customers, 72,900 deposit customers, and 315,800 "Norwegian Reward" credit card customers.

## ECONOMIC DEVELOPMENT

### Profit and loss account for 4th quarter 2014

The NFH Group's profit after tax was NOK 104.4 million, an improvement of NOK 10.2 million compared with the 3rd quarter. The Swedish operations showed a profit after tax of NOK 3.7 million in the quarter. The annual return on equity for the 4th quarter was 38.3 %, while the annual return on assets was 3.2 %. The increase in lending in the 4th quarter was NOK 599 million. The increase was positively impacted by exchange rate changes. The bank carried out a sale of non-performing loans in December 2014 with a book value of NOK 174 million.

Net interest income totalled NOK 286.5 million, an increase of NOK 32.4 million in the 4th quarter. The net interest margin rose 0.4 percentage points to 8.7 % in the 4th quarter. The increase in net interest margin is due to increased lending, increased asset utilization, lower funding costs and increased yield on credit cards in Sweden.

Net other operating income totalled NOK 16.7 million, compared with NOK 15.3 million in the 3rd quarter. Net commission and bank services income increased NOK 2.9 million to NOK 20.1 million in the quarter. Net change in value on securities and currency was NOK -3.4 million, compared with NOK -2.3 million in the 3rd quarter. Net loss on value of securities was NOK 5.2 million and net gain on currency was NOK 1.8 million.

Total operating expenses were NOK 115.2 million in the 4th quarter, an increase of NOK 10.1 million. Personnel expenses increased by NOK 0.4 million and general administrative expenses increased NOK 8.5 million. The increase in general administrative expenses is mainly explained by increased sales and marketing expenses. Depreciation was unchanged and other operating expenses increased NOK 1.2 million.

The bank's write-downs on loans totalled NOK 43.3 million, an increase of NOK 8.0 million from the 3rd quarter. The change is explained by increased write-downs in relation to the sale of non-performing loans of NOK 5.7 million and increased write-downs on groups of loans in Sweden. Write-downs as a percentage of average gross loans, adjusted for the sale of non-performing loans equalled 1.6 % in the 4th quarter, unchanged from the 3rd quarter.

### Profit and loss account for 2014

The NFH Group's profit after tax for 2014 was NOK 345.8 million, an increase of NOK 107.9 million or 45 % compared with 2013. The return on equity was 36.4 % and the return on assets was 3.0 %. The improvement in profit is mainly explained by customer and lending growth. The bank recruited approximately 140,000 customers in 2014 and shows a lending growth of NOK 3.037 billion evenly distributed between Norway and Sweden. 2014 was the first full year of operations in Sweden, showing results in line with expectations.

### Net interest income

Net interest income was NOK 969.9 million, an increase of NOK 333.8 million in 2014. The net interest margin was 8.5 %, unchanged from 2013.

### Net other operating income

Net other operating income was NOK 68.9 million, an improvement of NOK 6.2 million from 2013. Net commission and bank services income increased by NOK 19.4 million, totalling NOK 71.9 million in 2014. The increase is explained by higher credit card activity. The net change in value on securities and currency totalled

NOK -3.4 million, compared with NOK 10.1 million in the previous year. Value-adjusted return on the securities portfolio was 2.0 %, compared with 2.6 % in the previous year.

### **Operating expenses**

Total operating expenses totalled NOK 420.9 million, an increase of NOK 135.9 million from 2013. Personnel expenses increased with NOK 5.7 million or 13 %. General administrative expenses increased NOK 126.7 million. The increase in administrative expenses is attributed to higher sales and marketing expenses. The increase in sales and marketing expenses of NOK 100.0 million was divided by NOK 64.0 million in Sweden and NOK 36.0 million in Norway. Depreciation increased NOK 0.8 million and other operating expenses increased NOK 2.6 million.

### **Write-downs on loans**

Write-downs on loans were NOK 142.6 million, compared with NOK 82.8 million in 2013. Write-downs equalled 1.6 % of average gross loans, adjusted for the sale of non-performing loans, compared with 1.5 % in the previous year. The increase is explained by increased write-downs on groups of loan in Sweden.

Delinquent loans over 90 days were NOK 392.0 million at the end of the year, compared with NOK 406.6 million at the end of 2013. Relative to gross loans, delinquency fell from 6.3 % in 2013 to 4.1 % at the end of 2014. Non-performing loans totalled 4.6 % of gross loans at the end of 2013 and fell to 2.8 % at the end of 2014.

At year end, individual write-downs on loans totalled NOK 13.7 million, and write-downs on groups of loans totalled NOK 182.2 million.

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

The Board decided in the 4th quarter to sell a portfolio of non-performing loans for MNOK 168.3 million. The sale resulted in additional write-downs on loans of MNOK 5.7 million. The sale reduces future administrative costs related to bad debt collection and confirms that the bank's impairment practice is reasonable and eliminates uncertainty relating to future recovery of outstanding claims.

### **Balance sheet, liquidity and capital**

The group's total assets were NOK 13,425 million at the end of the year, an increase of NOK 5,076 million for the full year. Net loans to customers increased by NOK 3,037 million and totalled NOK 9,401 million at year end, of which net loans to customers in Sweden totalled NOK 1,737 million. Installment loans increased by NOK 2,151 million, while credit card loans increased by NOK 883 million. Customer deposits increased by NOK 3,564 million and totalled NOK 10,156 million at year end. Customer deposits from Swedish customers totalled NOK 2,230 million. The deposit-to-loan ratio was 108 %.

The holdings of certificates and bonds increased by NOK 1,760 million and totalled NOK 3,454 million at the end of 2014. Other liquid assets totalled NOK 359 million at the end of 2014.

The bank has during the year issued NOK 1,102 million in senior debt securities with up to five years maturity. Debt securities issued totalled NOK 1,602 million at year end.

The liquidity position has been strong throughout the year. The securities portfolio is liquid with solid counterparties and a high percentage of government certificates.

Total equity was NOK 1,142 million for the group at year end. The total capital ratio at the end of 2014 was 16.1 % for the group and 15.9 % for the bank. The core capital ratio at the same point in time was 14.1 % for the group and 13.9 % for the bank. The common equity tier 1 ratio was 12.7 % for the group and 12.5 % for the bank. The group and the bank are managed based on target capital ratios of 16.0 % total capital ratio, 14.0 % core capital ratio and 12.5 % common equity tier 1 ratio .

## **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 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 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.

Customer's application score is used in the bank's risk-based product pricing.

Customers are regularly risk assessed based on behavioural score, if sufficient track records exists. For new customers and customers in new markets, application score is used in addition to any clear negative observations, such as default on loan agreement.

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 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 majority 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 operations abroad. 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. The guidelines also set limits based on credit risk weights and maximum exposure for each counterpart in accordance with their credit rating. The lowest acceptable credit rating is BBB-. The bank's investment portfolio is managed by Storebrand Kapitalforvaltning. The 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 limiting the operational risk.

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

In addition to an annual review of significant operational risks and control measures, there is 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, such as services related to system operations, telecommunications, distribution, investment management, payment card issuance and debt collection. The agreements contain quality standard provisions and they are followed up on an ongoing basis by the bank in accordance with the outsourcing guidelines.

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

## **Business and strategic risk**

Business risk is a significant risk for Bank Norwegian. 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 lower interest rates which, in turn is positive for the bank's earnings. Business risk demands that the board of directors and management have good planning processes and are able to adapt to reduce losses.

## **PERSONNEL AND THE ENVIRONMENT**

The bank's employees have yet again delivered good results. At 31.12.14 the bank had 59 employees, corresponding to 55 man-labour years, compared with 51 employees and 48.5 man-labour years in 2013.

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 59 employees, there are 33 men and 26 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 3.4 %. The working environment is regarded as good. The bank has established a Workers Environment Committee and Liaison Committee during the year. 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 bank is located at Oksenøyveien 3, Lysaker.

## **CORPORATE SOCIAL RESPONSIBILITY**

Specific guidelines regarding corporate social responsibility have not been established.

## **EVENTS AFTER THE DATE OF THE BALANCE SHEET**

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

## **OUTLOOK**

The Norwegian and Swedish economy show signs of slow growth and there are expectations of a somewhat higher unemployment rate in Norway while it is expected to remain stable in Sweden. Increased unemployment may entail higher levels of loan losses. The level of interest rates in Norway and Sweden are expected to remain low going forward. The bank will benefit from the low levels of interest rates through reduced funding costs in the coming year.

The earnings growth is expected to continue based on strong lending growth, stable margins, cost control and good credit quality.

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 level of return is expected to remain steady going forward. The portfolio's low risk mandate will remain.

The credit quality of the loan portfolio shows a stable development and the level of write-downs is expected to remain stable going forward. The credit quality of the Swedish loan portfolio is developing in line with expectations.

The bank has a sound capital situation. 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 loss for 2014 of NOK -1.1 million is subtracted from other reserves.

Bærum, 26 February 2015  
Board of Directors of Norwegian Finans Holding ASA

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Bjørn H. Kise  
Chairman of the Board

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Anita Aarnæs  
Board Member

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Karin Bing Orgland  
Board Member

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Kristin Farstad  
Board Member

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Daniel Skjeldam  
Board Member

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John Høsteland  
Board Member

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Erik Jensen  
CEO

## Profit and loss account

Norwegian Finans Holding ASA

Norwegian Finans Holding Group

2013	2014	Amounts in NOK 1000	Note	2014	2013
102	124	Interest income	2	1,279,849	864,320
-	-	Interest expenses		309,930	228,248
<b>102</b>	<b>124</b>	<b>Net interest income</b>		<b>969,918</b>	<b>636,073</b>
-	-	Commission and bank services income	10	127,903	88,408
62	261	Commission and bank services expenses		56,045	35,990
-	-	Net change in value on securities and currency		-3,401	10,111
-	-	Other income		443	181
<b>-62</b>	<b>-261</b>	<b>Net other operating income</b>		<b>68,900</b>	<b>62,710</b>
<b>40</b>	<b>-137</b>	<b>Total income</b>		<b>1,038,819</b>	<b>698,782</b>
1,311	1,282	Personnel expenses	7	51,966	46,282
20	21	General administrative expenses	12	343,475	216,763
-	-	Ordinary depreciation	4	10,514	9,682
94	94	Other operating expenses	11	14,930	12,296
<b>1,424</b>	<b>1,397</b>	<b>Total operating expenses</b>		<b>420,884</b>	<b>285,022</b>
-	-	Provision for loan losses	2	142,570	82,760
<b>-1,385</b>	<b>-1,534</b>	<b>Profit on ordinary activities before tax</b>		<b>475,364</b>	<b>331,000</b>
-360	-414	Tax charge	8	129,585	93,099
<b>-1,025</b>	<b>-1,120</b>	<b>Profit on ordinary activities after tax</b>		<b>345,779</b>	<b>237,901</b>

## Balance sheet

Norwegian Finans Holding ASA

Norwegian Finans Holding Group

31.12.13	31.12.14	Amounts in NOK 1000	Note	31.12.14	31.12.13
<b>Assets</b>					
-	-	Deposits with Norges Bank	6	58,998	54,007
9,306	13,342	Loans and deposits with credit institutions	6	299,705	106,140
-	-	Loans to customers	2.6	9,401,001	6,363,708
-	-	Certificates and bonds	3.6	3,454,319	1,694,114
310,000	310,000	Ownership interests in group companies		-	-
-	-	Shares and other securities	3	443	-
-	-	Other intangible assets	4	33,874	30,616
758	1,172	Deferred tax asset	8	1,326	1,296
-	-	Fixed assets	4	1,124	1,539
-	-	Receivables and accrued income	13	174,191	97,124
<b>320,064</b>	<b>324,515</b>	<b>Total assets</b>		<b>13,424,980</b>	<b>8,348,544</b>
<b>Liabilities and equity</b>					
-	-	Deposits from customers	6	10,155,698	6,592,180
-	-	Debt securities issued	17	1,601,856	499,762
-	-	Tax payable	8	129,591	93,413
-	-	Other liabilities	9	21,755	29,836
1,329	1,315	Accrued expenses and unearned income received	14	75,446	44,133
-	-	Subordinated loan	5	298,782	298,729
<b>1,329</b>	<b>1,315</b>	<b>Total liabilities</b>		<b>12,283,127</b>	<b>7,558,054</b>
172,594	173,000	Share capital	5	173,000	172,594
139,945	145,123	Share premium reserve	5	145,123	139,945
6,196	5,076	Retained earnings and other reserves	5	823,730	477,951
<b>318,735</b>	<b>323,200</b>	<b>Total equity</b>		<b>1,141,853</b>	<b>790,490</b>
<b>320,064</b>	<b>324,515</b>	<b>Total liabilities and equity</b>		<b>13,424,980</b>	<b>8,348,544</b>

Bærum, 26 February 2015  
Board of Directors of Norwegian Finans Holding ASA

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Bjørn H. Kise  
Chairman of the Board

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Daniel Skjeldam  
Board Member

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John Høsteland  
Board Member

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Erik Jensen  
CEO



## Cash flow statement

Norwegian Finans Holding ASA

Norwegian Finans Holding Group

2013	2014	<i>Amounts in NOK 1000</i>	2014	2013
<b>Cash flows from operating activities</b>				
-1,385	-1,534	Profit / loss before tax	475,364	331,000
-	-	Taxes paid	-93,436	-63,572
-	-	Ordinary depreciations	10,514	9,682
-	-	Change in loans	-3,037,294	-1,906,253
-	-	Change in deposits from customers	3,563,517	965,254
-	-	Change in securities	-1,760,205	173,877
5,060	-	Change in other receivables	-	-
-	-	Change in other accruals	-77,067	-26,774
22	-14	Change in short-term liabilities	23,231	20,920
<b>3,698</b>	<b>-1,548</b>	<b>Net cash flow from operating activities</b>	<b>-895,375</b>	<b>-495,866</b>
<b>Cash flows from investment activities</b>				
-	-	Payment for acquisition of tangible fixed assets	-92	-1,100
-	-	Payment for acquisition of intangible assets	-13,264	-16,419
-	-	<b>Net cash flow from investment activities</b>	<b>-13,356</b>	<b>-17,519</b>
<b>Cash flow from financing activities</b>				
-	-	Debt securities issued	1,102,094	249,762
-16	-	Cash flow from financing activities	-443	-16
-	-	Subordinated debt	53	268,729
5,318	5,584	Gross payments of subordinated debt	5,584	5,318
<b>5,301</b>	<b>5,584</b>	<b>Net cash flow from financing activities</b>	<b>1,107,287</b>	<b>523,793</b>
8,999	4,036	Net cash flow for the period	198,556	10,407
306	9,306	Cash and cash equivalents at the start of the period	160,147	149,740
<b>9,306</b>	<b>13,342</b>	<b>Cash and cash equivalents at the end of the period</b>	<b>358,703</b>	<b>160,147</b>

# Notes for Norwegian Finans Holding ASA

## Note 1. General accounting principles

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The annual accounts 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.

### 1. Financial instruments

Financial instruments include primarily loans and securities with fixed and variable rates of return, such as certificates, bonds and other short-term interest rate instruments.

#### 1.1. Loans and guarantees

The bank's loans are calculated initially at fair value on the balance sheet. Subsequent calculation of the loans is based on their amortised expense by means of the effective interest rate method and direct expenses are included in the amortised expenses. If there is objective evidence that the value of a loan or group of loans has fallen then they shall be written down. The bank 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 bank 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 shall be based on risk classification in accordance with the established guidelines stipulated in the bank's credit guidelines.

Write-downs represent the difference between the book value and the present value of the estimated future cash flows. The current effective interest rate is used when calculating the present value. Securities are valued at their expected sales price less the selling expenses.

#### 1.2. Securities

Current assets are valued at the lesser value of historical cost and market value. Portfolio valuation is used for groups of current assets, the purpose of the composition of the portfolio is to reduce risk through diversification. All the bank's interest-bearing securities are defined as current assets.

#### 1.3. Financial derivatives

Currency forwards are recorded and measured at fair value.

### 2. 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 bank 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: 10%

### 3. 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. If a fall in value is deemed not to be of a temporary nature, the fixed asset's recoverable amount will be 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%

#### **4. Customer receivables and other receivables**

Customer receivables and other receivables are recognised in the accounts at historical cost less value impairment losses.

#### **5. Debt and other liabilities**

Debt securities issued are recognised in the accounts at amortised cost in accordance with the principles of IFRS. Other debt and liabilities are recognised in the accounts at cost.

#### **6. Accruals**

Revenues are recognised in the profit and loss account when they are earned. Expenses are matched with revenues, so that the expenses are recognised in the same accounting period as the associated revenues. Expenses related to revenues earned in subsequent periods are recognised on the balance sheet and accrued in accordance with the revenues. Expenses that are incurred during future periods related to revenues that have been earned are recognised during the same period as revenues. Expenses that are not related to future revenues are recognised as expenses when they are identified.

##### **6.1. Accrual of interest and fees**

Interest and commissions are recognised in the profit and loss account as they are earned as revenue or accrued as expenses. Interest income and expenses are recognised in the profit and loss account at the amortised cost in accordance with the effective interest method.

##### **6.2. Agent commission**

Cost related to commissions to agents, are recognised and amortized over the expected average maturity of three years.

##### **6.3. Pensions**

The bank are obliged to have an occupational pension scheme for their employees, and have a scheme that meets the requirements. 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. Therefore the bank does not have any further obligation related to work performed after the annual contribution has been paid. There are thus no provisions for accrued pension liabilities in such schemes. At 31 December 2014 50 employees were included in the pension scheme.

##### **6.4. Tax charge**

Taxes are charged as an expense when they are incurred, i.e. the tax charge related to the financial result before taxes. Adjustments are made for temporary and permanent differences before the basis for the tax payable is calculated. Deferred tax and deferred tax assets are calculated based on temporary differences between the financial and tax-related values at the end of the financial year. The nominal tax rate is used for this calculation. Tax-increasing and tax-reducing differences within the same time interval are set off against each other. The tax charge consists of tax payable (tax on taxable income for the year), change in the net deferred tax and too little/much tax payable allocated in previous years.

##### **6.5. Deferred tax**

Deferred tax asset is recognised in the balance sheet to the extent it is expected to offset future taxable profit.

#### **7. Comparison figures**

The comparison figures in the balance sheet are as at 31 December 2013.

#### **8. Cash flow statement**

The cash flow statement is based on the operations and 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 consists of bank deposits. The bank has a unused overdraft facility of 50 million kroner.

#### **9. Consolidation**

The consolidated accounts include the parent company Norwegian Finans Holding ASA and the daughter company Bank Norwegian AS (100 % ownership). The companies share offices at Oksøyveien 3, Lysaker. The consolidated accounts have been prepared on the basis of uniform principles, since the subsidiaries follow the same accounting policies as the parent company. Internal transactions, receivables and liabilities are eliminated.

#### **10. Concentration risk**

Concentration risk on the investment portfolio and customer portfolio is managed by limiting the size of individual commitment.

#### **11. Conversion of transactions in foreign currency**

The bank's functional currency is Norwegian kroner (NOK). Balance sheet items in Swedish kroner are translated into Norwegian kroner according to exchange rates prevailing on the balance sheet date. Profit and loss items are translated according to average exchange rates.

## Note 2. Loans and guarantees

Bank Norwegian AS and Norwegian Finans Holding ASA have no guarantees as at 31 December 2014.

The comparison with 2013 reflects the sale of non-performing loans.

### Note 2.A. Loans to and receivables from customers

<i>Amounts in NOK 1000</i>	31.12.14	31.12.13
Overdraft facilities and lines of credit	20,600	26,908
Credit cards	2,652,814	1,772,599
Installment loans	6,923,503	4,811,459
<b>Gross lending</b>	<b>9,596,917</b>	<b>6,610,966</b>
- individual write-downs on loans	13,690	126,238
- write-downs on groups of loans	182,226	121,020
<b>Net loans to and receivables from customers</b>	<b>9,401,001</b>	<b>6,363,708</b>

### Note 2.B. Loans and guarantees by customers group

<i>Amounts in NOK 1000</i>	Gross lending		Potential exposure of gross credit facilities	
	31.12.14	31.12.13	31.12.14	31.12.13
Retail customers	9,596,917	6,610,966	22,102,989	14,627,943
<b>Total</b>	<b>9,596,917</b>	<b>6,610,966</b>	<b>22,102,989</b>	<b>14,627,943</b>

Potential exposure of gross credit facilities equals gross lending plus unutilised credit limits as at 31 December 2014.

### Note 2.C. Loans and guarantees by geographical region

<i>Gross lending Amounts in NOK 1000</i>	Gross lending	
	31.12.14	31.12.13
Akershus	1,063,288	879,574
Oslo	1,040,583	839,082
Hordaland	867,734	693,973
Rogaland	634,624	511,495
Østfold	498,009	401,115
Buskerud	451,518	360,166
Sør-Trøndelag	403,924	323,228
Nordland	399,052	323,972
Vestfold	383,579	305,630
Møre og Romsdal	328,575	268,610
Troms	293,875	239,930
Hedmark	264,598	219,359
Oppland	234,307	190,977
Telemark	229,739	182,198
Vest-Agder	183,253	142,258
Nord-Trøndelag	165,142	131,843
Finnmark	143,872	112,220
Aust-Agder	125,982	101,210
Sogn og Fjordane	109,083	89,253
Sverige	1,776,180	294,872
<b>Total</b>	<b>9,596,917</b>	<b>6,610,966</b>

## Note 2.D. Losses on loans and guarantees

Risk classification.

Risk classes <i>Amounts in NOK 1000</i>	Gross lending		Individual write-downs on loans/guarantees	
	31.12.14	31.12.13	31.12.14	31.12.13
A	1,412,567	1,941,675		
B	3,509,950	1,566,092		
C	1,135,789	580,158		
D	909,224	568,426		
E	638,781	375,083		
F	356,823	156,000		
G	379,658	196,298		
H	168,493	127,287		
I	296,939	159,606		
J	84,380	80,576		
S	163,290	106,082		
T	27,454	100,497		
U	42,699	39,198		
V	382,701	300,682		
W	14,999	232,122	13,690	126,238
<b>Total classified</b>	<b>9,523,747</b>	<b>6,529,782</b>	<b>13,690</b>	<b>126,238</b>
<b>Not classified</b>	<b>73,170</b>	<b>81,184</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>9,596,917</b>	<b>6,610,966</b>	<b>13,690</b>	<b>126,238</b>

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

"Not classified" consists of Norwegian engagements relating to sales financing and bank accounts with and without credit facilities. In the chance of a 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 behavioural 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 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.

## Note 2.E. Default and loss on loans

<i>Amounts in NOK 1000</i>	31.12.14	31.12.13
<b>Defaulted loans</b>		
Gross defaulted loans	405,668	532,804
- Individual write-downs on loans	13,690	126,238
- Write-downs on groups of loans	182,226	121,020
<b>Net defaulted loans</b>	<b>209,752</b>	<b>285,546</b>
Defaulted loans which are performing:	123,240	108,629
<i>Amounts in NOK 1000</i>	2014	2013
<b>Write-downs on loans for the period</b>		
Change in group write-downs for the period	83,277	35,575
Write-offs for which provisions were made earlier	59,294	54,975
Write-offs for which provisions were not made earlier	-	-
Included in earlier write-offs	-	-7,789
<b>Write-downs on loans for the period</b>	<b>142,570</b>	<b>82,760</b>

## Note 2.F. 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.

### 2014

<i>Amounts in NOK 1000</i>	5 - 15 days	16 - 30 days	31 - 60 days	61 - 90 days	Over 90 days	<b>Total</b>
Loans to customers						
- Retail market	286,065	463,377	257,588	77,752	390,130	1,474,912
<b>Total</b>	<b>286,065</b>	<b>463,377</b>	<b>257,588</b>	<b>77,752</b>	<b>390,130</b>	<b>1,474,912</b>

### 2013

<i>Amounts in NOK 1000</i>	5 - 15 days	16 - 30 days	31 - 60 days	61 - 90 days	Over 90 days	<b>Total</b>
Loans to customers						
- Retail market	183,842	264,339	167,980	52,209	300,682	969,052
<b>Total</b>	<b>183,842</b>	<b>264,339</b>	<b>167,980</b>	<b>52,209</b>	<b>300,682</b>	<b>969,052</b>

## Note 2.G. Specification of interest income

<i>Amounts in NOK 1000</i>	2014			2013		
	Norway	Sweden	Total	Norway	Sweden	Total
Loans to and receivables from credit institutions	3,114	539	3,653	2,594	-	2,594
Bonds and certificates	52,664	10,105	62,769	46,342	-	46,342
Loans to and receivables from customers						
- Installment loans	778,331	114,448	892,779	585,446	5,904	591,349
- Overdraft facilities and lines of credit	300,333	17,874	318,208	220,516	1,559	222,075
Other interest income	2,417	22	2,439	1,959	-	1,959
<b>Total interest income</b>	<b>1,136,860</b>	<b>142,989</b>	<b>1,279,849</b>	<b>856,857</b>	<b>7,463</b>	<b>864,320</b>

Average interest rate on bonds and certificates was 2.21 % in 2014 and 2.47 % in 2013.

## Note 3. Certificates and bonds

### Note 3.A. Certificates and bonds break down as follows

<i>Amounts in NOK 1000</i>	31.12.14			31.12.13		
	Norway	Sweden	Total	Norway	Sweden	Total
Bonds	2,144,026	268,356	2,412,382	1,094,084	-	1,094,084
Certificates	950,774	91,163	1,041,937	600,030	-	600,030
<b>Total</b>	<b>3,094,801</b>	<b>359,518</b>	<b>3,454,319</b>	<b>1,694,114</b>	<b>-</b>	<b>1,694,114</b>

**Note 3.B. Aforementioned securities portfolio breaks down as follows**

<i>Amounts in NOK 1000</i>	31.12.14				31.12.13			
	Nominal value	Historical cost price	Book value	Fair value	Nominal value	Historical cost price	Book value	Fair value
Risk weight 0%	1,225,060	1,222,989	1,221,631	1,221,631	602,500	600,030	600,030	600,298
Risk weight 10%	169,552	170,883	170,156	170,156	-	-	-	-
Risk weight 20%	2,041,316	2,064,988	2,062,533	2,062,533	1,083,000	1,094,084	1,094,084	1,095,711
<b>Total</b>	<b>3,435,928</b>	<b>3,458,860</b>	<b>3,454,319</b>	<b>3,454,319</b>	<b>1,685,500</b>	<b>1,694,114</b>	<b>1,694,114</b>	<b>1,696,009</b>
Non-listed bonds	129,000	128,977	129,096	129,096	107,500	108,331	108,331	108,801
Listed bonds	3,306,928	3,329,883	3,325,223	3,325,223	1,578,000	1,585,783	1,585,783	1,587,207
<b>Total</b>	<b>3,435,928</b>	<b>3,458,860</b>	<b>3,454,319</b>	<b>3,454,319</b>	<b>1,685,500</b>	<b>1,694,114</b>	<b>1,694,114</b>	<b>1,696,009</b>
Banks	1,896,388	1,921,996	1,918,126	1,918,126	1,046,000	1,056,460	1,056,460	1,058,021
Other financial institutions	130,993	131,285	131,412	131,412	37,000	37,624	37,624	37,690
Government	1,238,995	1,234,696	1,234,626	1,234,626	602,500	600,030	600,030	600,298
<b>Total bonds</b>	<b>3,435,928</b>	<b>3,458,860</b>	<b>3,454,319</b>	<b>3,454,319</b>	<b>1,685,500</b>	<b>1,694,114</b>	<b>1,694,114</b>	<b>1,696,009</b>

<b>Change in stocks - fair value</b>	2014	2013
Opening balance as at 01.01	1,696,009	1,876,379
Additions	1,762,891	0
Disposals	-	-180,370
Revaluations/write-downs	-4,582	0
<b>Closing balance as at 31.12</b>	<b>3,454,319</b>	<b>1,696,009</b>

Change in stocks shows the annual additions or disposal adjusted for revaluations/write-downs.

Fair value of government certificates are stated based on quoted prices. Fair value of other certificates and bonds are based on other observable assumptions.

**Note 3.C. Shares**

The bank was 12 August 2014 issued 280 shares in BankID Norge AS based on the bank's share of participation in the BankID association.

#### Note 4. Intangible assets and tangible fixed assets

##### Intangible assets

<i>Amounts in NOK 1000</i>	IT/Software	Trademark	Connection fee	Total
<b>Historical cost</b>				
<b>As at 01.01.13</b>	<b>52,557</b>	<b>12,500</b>	<b>17,337</b>	<b>82,394</b>
Additions	16,419	-	-	16,419
Disposals	-	-	-	-
<b>As at 01.01.14</b>	<b>68,976</b>	<b>12,500</b>	<b>17,337</b>	<b>98,813</b>
Additions	13,264	-	-	13,264
Disposals	-	-	-	-
<b>As at 31.12.14</b>	<b>82,240</b>	<b>12,500</b>	<b>17,337</b>	<b>112,077</b>
<b>Depreciation</b>				
<b>As at 01.01.13</b>	<b>37,269</b>	<b>12,500</b>	<b>9,138</b>	<b>58,907</b>
Depreciation for the year	7,274	0	2,017	9,291
<b>As at 01.01.14</b>	<b>44,543</b>	<b>12,500</b>	<b>11,155</b>	<b>68,199</b>
Depreciation for the year	8,189	-	1,817	10,006
<b>As at 31.12.14</b>	<b>52,732</b>	<b>12,500</b>	<b>12,972</b>	<b>78,204</b>
<b>Book value as at 31.12.13</b>	<b>24,433</b>	<b>-</b>	<b>6,182</b>	<b>30,616</b>
<b>Book value as at 31.12.14</b>	<b>29,509</b>	<b>-</b>	<b>4,365</b>	<b>33,874</b>

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 4.4 million as at 31 December 2014, and rights of use of software and propriety software with a book value of NOK 29.5 million as at 31 December 2014.

##### Tangible fixed assets

<i>Amounts in NOK 1000</i>	Office machines and motor vehicles	Fixtures and fittings	Upgrading of rented premises	Hardware	Total
<b>Historical cost</b>					
<b>As at 01.01.13</b>	<b>1,883</b>	<b>2,081</b>	<b>528</b>	<b>1,674</b>	<b>6,165</b>
Additions	765	82	-	253	1,100
Disposals	-	-	-	-	-
<b>As at 01.01.14</b>	<b>2,648</b>	<b>2,163</b>	<b>528</b>	<b>1,927</b>	<b>7,265</b>
Additions	-	92	-	-	92
Disposals	-	-	-	-	-
<b>As at 31.12.14</b>	<b>2,648</b>	<b>2,255</b>	<b>528</b>	<b>1,927</b>	<b>7,357</b>
<b>Depreciation</b>					
<b>As at 01.01.13</b>	<b>1,333</b>	<b>2,029</b>	<b>528</b>	<b>1,445</b>	<b>5,335</b>
Depreciation for the year	209	38	-	144	391
<b>As at 01.01.14</b>	<b>1,542</b>	<b>2,067</b>	<b>528</b>	<b>1,589</b>	<b>5,726</b>
Depreciation for the year	273	40	-	195	508
<b>As at 31.12.14</b>	<b>1,815</b>	<b>2,107</b>	<b>528</b>	<b>1,784</b>	<b>6,233</b>
<b>Book value as at 31.12.13</b>	<b>1,106</b>	<b>96</b>	<b>-</b>	<b>338</b>	<b>1,539</b>
<b>Book value as at 31.12.14</b>	<b>833</b>	<b>148</b>	<b>-</b>	<b>143</b>	<b>1,124</b>



## Note 5. Subordinated capital

### Note 5.A. Equity specification

	Norwegian Finans Holding ASA	
<i>Amounts in NOK 1000</i>	31.12.14	31.12.13
<b>Paid-in equity</b>		
Share capital	173,000	172,594
Share premium	145,123	139,945
<b>Retained earnings</b>		
Retained earnings and other reserves	5,076	6,196
<b>Total equity</b>	<b>323,200</b>	<b>318,735</b>

	Norwegian Finans Holding Group	
<i>Amounts in NOK 1000</i>	31.12.14	31.12.13
<b>Paid-in equity</b>		
Share capital	173,000	172,594
Share premium	145,123	139,945
<b>Retained earnings</b>		
Retained earnings and other reserves	823,730	477,951
<b>Total equity</b>	<b>1,141,853</b>	<b>790,490</b>

The share capital comprise of NOK 173.0 million shares of NOK 1.0. Bank Norwegian AS' annual accounts are included in the group accounts of Norwegian Finans Holding ASA. The bank's reports are available at [www.banknorwegian.no](http://www.banknorwegian.no).

### Note 5.B. Equity and shareholders

The tables below illustrate the changes in equity:

	Norwegian Finans Holding ASA			
<i>Amounts in NOK 1000</i>	Share capital	Share premium	Other reserves	Total
Balance sheet as at 01.01.13	171,776	135,457	7,221	314,454
Capital increase	818	4,488	-	5,306
Profit/loss for the year	-	-	-1,025	-1,025
<b>Balance sheet as at 31.12.13</b>	<b>172,594</b>	<b>139,945</b>	<b>6,196</b>	<b>318,735</b>
Capital increase	406	5,178	-	5,584
Profit/loss for the year	-	-	-1,120	-1,120
<b>Balance sheet as at 31.12.14</b>	<b>173,000</b>	<b>145,123</b>	<b>5,076</b>	<b>323,200</b>

	Norwegian Finans Holding Group			
<i>Amounts in NOK 1000</i>	Share capital	Share premium	Other reserves	Total
Balance sheet as at 01.01.13	171,776	135,457	240,050	547,284
Capital increase	818	4,488	-	5,306
Profit/loss for the year	-	-	237,901	237,901
<b>Balance sheet as at 31.12.13</b>	<b>172,594</b>	<b>139,945</b>	<b>477,951</b>	<b>790,490</b>
Capital increase	406	5,178	-	5,306
Profit/loss for the year	-	-	345,779	345,779
<b>Balance sheet as at 31.12.14</b>	<b>173,000</b>	<b>145,123</b>	<b>823,730</b>	<b>1,141,853</b>

The 20 largest shareholders as at 31 December 2014 are:

Shareholder	Holdings	Percentage
NORWEGIAN AIR SHUTTLE ASA	34,600,040	20.00 %
GOLDMAN SACHS	14,999,999	8.67 %
SOCIETE GENERALE	14,700,000	8.50 %
LAGUAN AS	12,871,013	7.44 %
BORAK AS	8,580,454	4.96 %
MP PENSJON PK	7,500,000	4.34 %
SPENCER TRADING INC	7,138,450	4.13 %
STENSHAGEN INVEST AS	6,170,379	3.57 %
SNEISUNGEN AS	3,720,333	2.15 %
TVENGE TORSTEIN	3,050,000	1.76 %
PROTECTOR FORSIKRING	2,987,000	1.73 %
SKAGEN VEKST	2,500,000	1.45 %
BLYSTAD ARNE	2,000,000	1.16 %
KLP AKSJE NORGE	1,910,000	1.10 %
JENSEN ERIK	1,617,888	0.94 %
DIRECTMARKETING INVEST	1,500,000	0.87 %
VEVLEN GÅRD AS	1,377,470	0.80 %
LITHINON AS	1,332,000	0.77 %
AWILCO INVEST AS	1,208,100	0.70 %
SVENKERUD PÅL	1,199,797	0.69 %

### Note 5.C. Capital adequacy

The statutory capital adequacy requirement stipulates that the total capital shall be at least 8% of a specified calculation basis. The total capital consists of common equity tier 1, core capital and supplemental capital.

Norwegian Finans Holding ASA			Norwegian Finans Holding Group	
31.12.13	31.12.14	Amounts in NOK 1000	31.12.14	31.12.13
172,594	173,000	Share capital	173,000	172,594
139,945	145,123	+ Share premium reserve	145,123	139,945
6,196	5,076	+ Other reserves	823,730	477,951
758	1,172	- Deferred tax assets and intangible assets	35,199	31,912
<b>317,977</b>	<b>322,028</b>	<b>Common equity tier 1</b>	<b>1,106,654</b>	<b>758,578</b>
-	-	+ Hybrid capital	124,250	124,250
<b>317,977</b>	<b>322,028</b>	<b>Core capital</b>	<b>1,230,904</b>	<b>882,828</b>
-	-	+ Supplemental capital	174,532	174,479
<b>317,977</b>	<b>322,028</b>	<b>Total capital</b>	<b>1,405,436</b>	<b>1,057,307</b>
<b>Calculation basis</b>				
<b>Credit risk</b>				
-	-	From assets 10%	17,016	-
1,861	2,668	+ From assets 20%	472,448	240,045
-	-	+ From assets 75%	6,903,704	4,653,300
310,000	310,000	+ From assets 100%	567,736	505,229
-	-	+ Other off-balance sheet items	3,423	3,515
-	-	- Provisions for losses that cannot be included	182,226	121,020
-	-	<b>+ Operational risk</b>	<b>960,303</b>	<b>640,956</b>
<b>311,861</b>	<b>312,668</b>	<b>Total calculation basis</b>	<b>8,742,403</b>	<b>5,922,025</b>
<b>101.96 %</b>	<b>102.99 %</b>	<b>Common equity tier 1 %</b>	<b>12.66 %</b>	<b>12.81 %</b>
<b>101.96 %</b>	<b>102.99 %</b>	<b>Core capital %</b>	<b>14.08 %</b>	<b>14.91 %</b>
<b>101.96 %</b>	<b>102.99 %</b>	<b>Total capital %</b>	<b>16.08 %</b>	<b>17.85 %</b>

## Note 5.D. Subordinated debt

<i>Amounts in NOK 1000</i>	Interest rate	31.12.14	31.12.13
Floating rate note ansvarlig obligasjonslån 2013/2023	3 mnd NIBOR + 2,65 %	174,532	174,479
Floating rate note evigvarende fondsobligasjonslån 2013	3 mnd NIBOR + 4,10 %	124,250	124,250
<b>Total</b>		<b>298,782</b>	<b>298,729</b>

## Note 6. Liquidity situation and funding

Information on terms of balance sheet items.

### Note 6.A. Remaining term to maturity for main items

<i>Amounts in NOK 1000</i>	Up to 1 month	From 1 month up to 3 months	From 3 month up to 1 year	From 1 year up to 5 year	Over 5 years	Without any term	<b>31.12.14</b> Total
Cash and deposits with the central bank	-	-	-	-	-	58,998	58,998
Loans to and receivables from credit institutions	-	-	-	-	-	299,705	299,705
Net loans to and receivables from customers	8,117	3,099	91,009	953,561	5,815,259	2,529,956	9,401,001
Bonds and certificates	-	268,710	2,381,161	804,448	-	-	3,454,319
Assets without any remaining term to maturity	-	-	-	-	-	210,957	210,957
<b>Total assets</b>	<b>8,117</b>	<b>271,810</b>	<b>2,472,170</b>	<b>1,758,008</b>	<b>5,815,259</b>	<b>3,099,616</b>	<b>13,424,980</b>
Subordinated debt	-	-	-	-	298,782	-	298,782
Deposits from and debt to customers	-	-	-	-	-	10,155,698	10,155,698
Debt securities issued	-	-	199,992	1,401,864	-	-	1,601,856
Non interest-bearing assets	21,755	75,446	129,591	-	-	-	226,792
Equity	-	-	-	-	-	1,141,853	1,141,853
<b>Total liabilities and equity</b>	<b>21,755</b>	<b>75,446</b>	<b>329,583</b>	<b>1,401,864</b>	<b>298,782</b>	<b>11,297,551</b>	<b>13,424,980</b>

<i>Amounts in NOK 1000</i>	Up to 1 month	From 1 month up to 3 months	From 3 month up to 1 year	From 1 year up to 5 year	Over 5 years	Without any term	<b>31.12.13</b> Total
Cash and deposits with the central bank	-	-	-	-	-	54,007	54,007
Loans to and receivables from credit institutions	-	-	-	-	-	106,140	106,140
Net loans to and receivables from customers	66,895	120,235	498,396	1,866,587	2,000,216	1,811,379	6,363,708
Bonds and certificates	-	453,520	146,510	1,094,084	-	-	1,694,114
Assets without any remaining term to maturity	-	-	-	-	-	130,575	130,575
<b>Total assets</b>	<b>66,895</b>	<b>573,755</b>	<b>644,906</b>	<b>2,960,671</b>	<b>2,000,216</b>	<b>2,102,101</b>	<b>8,348,544</b>
Subordinated debt	-	-	-	-	298,729	-	298,729
Deposits from and debt to customers	-	-	-	-	-	6,592,180	6,592,180
Debt securities issued	-	-	250,000	249,762	-	-	499,762
Non interest-bearing assets	43,414	14,767	109,200	-	-	-	167,382
Equity	-	-	-	-	-	790,490	790,490
<b>Total liabilities and equity</b>	<b>43,414</b>	<b>14,767</b>	<b>359,200</b>	<b>249,762</b>	<b>298,729</b>	<b>7,382,671</b>	<b>8,348,544</b>

### 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 consist of readily 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 means of summaries illustrating cash flows in the short term and by means of liquidity due date summaries. See the Directors' Report for further comments.

Restricted funds related to employee tax is NOK 1.5 million.

**Note 6.B. Time until an agreed/probable change in interest terms**

<i>Amounts in NOK 1000</i>	Up to 1 month	From 1 month up to 3 months	From 3 month up to 1 year	From 1 year up to 5 year	Over 5 years	Fixed rate / no interest	<b>31.12.14</b> Total
Cash and deposits with the central bank	58,998	-	-	-	-	-	58,998
Loans to and receivables from credit institutions	299,705	-	-	-	-	-	299,705
Net loans to and receivables from customers	-	9,401,001	-	-	-	-	9,401,001
Bonds and certificates	-	2,183,156	977,786	293,377	-	-	3,454,319
Non interest-bearing assets	-	-	-	-	-	210,957	210,957
<b>Total assets</b>	<b>358,703</b>	<b>11,584,157</b>	<b>977,786</b>	<b>293,377</b>	-	<b>210,957</b>	<b>13,424,980</b>
Subordinated debt	-	298,782	-	-	-	-	298,782
Deposits from and debt to customers	-	10,155,698	-	-	-	-	10,155,698
Debt securities issued	-	1,601,856	-	-	-	-	1,601,856
Non interest-bearing liabilities	-	-	-	-	-	226,792	226,792
Equity	-	-	-	-	-	1,141,853	1,141,853
<b>Total liabilities and equity</b>	-	<b>12,056,335</b>	-	-	-	<b>1,368,645</b>	<b>13,424,980</b>

<i>Amounts in NOK 1000</i>	Up to 1 month	From 1 month up to 3 months	From 3 month up to 1 year	From 1 year up to 5 year	Over 5 years	Fixed rate / no interest	<b>31.12.13</b> Total
Cash and deposits with the central bank	54,007	-	-	-	-	-	54,007
Loans to and receivables from credit institutions	106,140	-	-	-	-	-	106,140
Net loans to and receivables from customers	-	6,363,708	-	-	-	-	6,363,708
Bonds and certificates	274,330	1,255,930	-	163,854	-	-	1,694,114
Non interest-bearing assets	-	-	-	-	-	130,575	130,575
<b>Total assets</b>	<b>434,477</b>	<b>7,619,637</b>	-	<b>163,854</b>	-	<b>130,575</b>	<b>8,348,544</b>
Subordinated debt	-	298,729	-	-	-	-	298,729
Deposits from and debt to customers	-	6,592,180	-	-	-	-	6,592,180
Debt securities issued	-	499,762	-	-	-	-	499,762
Non interest-bearing liabilities	-	-	-	-	-	167,382	167,382
Equity	-	-	-	-	-	790,490	790,490
<b>Total liabilities and equity</b>	-	<b>7,390,672</b>	-	-	-	<b>957,872</b>	<b>8,348,544</b>

**Interest rate risk**

The board of directors of Norwegian Finans Holding ASA has defined guidelines that set limits for the maximum interest rate risk. 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 protected by hedging instruments. A scheme has been established for the ongoing monitoring and reporting of the interest rate risk to the board of directors.

**Foreign currency risk**

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

**Average interest rate**

Average interest rate on deposits in was 2.97% in 2014 and 3.38% in 2013.

## Note 6.C. 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.

<i>Amounts in NOK 1000</i>	Interest rate risk, 1 % change	
	2014	2013
Deposits with Norges Bank	-146	-133
Loans and deposits with credit institutions	-707	-238
Loans to customers	-23,203	-15,645
Certificates and bonds	-9,052	-2,999
<b>Total assets</b>	<b>-33,108</b>	<b>-19,014</b>
Deposits from customers	25,066	16,207
Debt securities issued	3,954	1,229
Subordinated debt	737	734
<b>Total liabilities</b>	<b>29,757</b>	<b>18,170</b>
Total interest rate risk, before tax*	-3,351	-845

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

## Note 6.D. Financial derivatives

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 for another at a specified date in the future at a fixed price set at the purchase date.

<i>Amounts in NOK 1000</i>	31.12.14			31.12.13		
	Nominal values	Positive market value	Negative market value	Nominal values	Positive market value	Negative market value
Currency forwards	-	-	-	196,909	-	-1,491
<b>Total</b>	-	-	-	<b>196,909</b>	-	<b>-1,491</b>

The table presents the financial derivatives' nominal values in addition to positive and negative market values. Positive market values are recognized as an asset in the balance sheet, while negative market values are 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 the interest rate differences between currencies. Hedge accounting is not used.

## Note 6.E. Currency

The table presents positions in Swedish kroner 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.

<i>Amounts in NOK 1000</i>	31.12.14	31.12.13
Loans and deposits with credit institutions	128,751	52,289
Loans to customers	1,736,295	289,048
Other assets	369,600	22,358
<b>Total assets</b>	<b>2,234,646</b>	<b>363,695</b>
Deposits from customers	2,229,758	142,565
Other liabilities	1,149	247,405
<b>Total liabilities</b>	<b>2,230,907</b>	<b>389,970</b>

## Note 7. Information on employees and employee representatives

### Note 7.A. Specification in accordance with the financial reporting regulations

Norwegian Finans Holding ASA				Norwegian Finans Holding Group	
2013	2014	Amounts in NOK 1000		2014	2013
1,148	1,121	Wages		42,951	38,163
163	161	Social security tax		6,200	5,666
-	-	Pension premiums		1,454	1,348
-	-	Social benefits		1,362	1,105
<b>1,311</b>	<b>1,282</b>	<b>Total wages etc.</b>		<b>51,966</b>	<b>46,282</b>

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

### Note 7.B. Number of employees as at 31 December 2014, wages and remuneration

At 31 December 2014 the bank had 59 employees, corresponding to 55 man-labour years.

Wages and remuneration to key employees	2014				2013			
	Wages	Pension premiums	Other remuneration	Total remuneration	Wages	Pension premiums	Other remuneration	Total remuneration
<i>Amounts in NOK 1000</i>								
<b>Combined wages, pension liabilities and other remuneration:</b>								
CEO	2,499	65	1,153	3,716	2,362	62	1,122	3,546
Financial Manager	1,657	65	831	2,552	1,506	62	805	2,374
Marketing Manager	1,375	65	642	2,082	1,217	62	630	1,909
Operations Manager	1,608	65	753	2,425	1,417	62	719	2,198
IT Manager	1,292	65	635	1,992	1,166	62	586	1,814
Risk Manager	1,292	65	643	1,999	1,166	62	616	1,844
<b>Total</b>	<b>9,723</b>	<b>387</b>	<b>4,657</b>	<b>14,766</b>	<b>8,833</b>	<b>373</b>	<b>4,478</b>	<b>13,684</b>

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 4.00 % 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 2013 to 2015.

The bonus accrual for 2014, including social security tax, is the base for the bonus that will be paid to employees in 2015, amount to NOK 10.9 million.

#### Fees to governing bodies

Norwegian Finans Holding ASA				Norwegian Finans Holding Group			
2013		2014		2014		2013	
Fees paid	Total remuneration	Fees paid	Total remuneration	Fees paid	Total remuneration	Fees paid	Total remuneration
865	865	865	865	1,559	1,559	1,503	1,503
178	178	178	178	355	355	355	355
90	90	90	90	180	180	180	180
<b>1,133</b>	<b>1,133</b>	<b>1,133</b>	<b>1,133</b>	<b>2,094</b>	<b>2,094</b>	<b>2,038</b>	<b>2,038</b>

## Auditor fees

The following expenses for external auditor fees have been recognised in the accounts:

Norwegian Finans Holding ASA		Norwegian Finans Holding Group	
2013	2014 Amounts in NOK 1000	2014	2013
75	75	760	745
19	19	56	56
13	-	-	13
-	-	51	88
<b>106</b>	<b>94 Total</b>	<b>867</b>	<b>902</b>

## Note 8. Information on taxes

Norwegian Finans Holding ASA		Norwegian Finans Holding Group	
31.12.13	31.12.14 Amounts in NOK 1000	31.12.14	31.12.13
-	-	-567	-1,992
-2,809	-4,343	-4,343	-2,809
-1,408	-4,343	-4,910	-4,801
-758	-1,172	-1,326	-1,296
<b>-758</b>	<b>-1,172 Deferred taxes / tax assets in the accounts</b>	<b>-1,326</b>	<b>-1,296</b>

2013	2014	Basis for tax charge, change in deferred tax and tax payable		2014	2013
-1,385	-1,534	Profit before tax		475,364	331,000
-	-	Permanent differences		4,493	65
-1,385	-1,534	Basis for the tax charge for the year		479,857	331,065
-	-	Change in differences included in the basis for deferred tax / tax assets		-1,424	1,166
1,401	1,534	Change in losses and remuneration to be carried forward		1,534	1,401
-16	-	Formation/new issue expenses entered directly against equity		-	-16
-	-	Taxable income (basis for tax payable in the balance sheet)		479,967	333,616
<b>Distribution of tax charge</b>					
-	-	Tax payable (27% of the basis for tax payable in the profit and loss account)		129,591	93,412
-	-	Too much or too little allocated in previous year		24	353
-	-	Total tax payable		129,615	93,765
5	-	Tax effect of formation/new issue expenses entered directly against equity		-	5
-392	-414	Change in deferred tax / tax assets		-30	-719
28	-	Change in deferred tax / tax assets due to change in tax rate		-	48
<b>-360</b>	<b>-414</b>	<b>Tax charge (27% of basis for the tax charge for the year)</b>		<b>129,585</b>	<b>93,099</b>
<b>Tax payable in the balance sheet</b>					
-	-	Tax payment in the tax change		129,591	93,412
-	-	Total tax payable		129,591	93,412

## Note 9. Other liabilities specification

Norwegian Finans Holding ASA		Norwegian Finans Holding Group	
31.12.2013	31.12.2014 Amounts in NOK 1000	31.12.14	31.12.13
-	-	17,326	24,735
-	-	1,538	1,462
-	-	652	1,301
-	-	-	1,491
-	-	2,238	847
-	-	<b>21,755</b>	<b>29,836</b>

#### Note 10. Commission and bank services income specification

Norwegian Finans Holding ASA			Norwegian Finans Holding Group	
2013	2014	Amounts in NOK 1000	2014	2013
-	-	Payment services	57,182	37,089
-	-	Insurance services	28,279	23,289
-	-	Other fees and commission and bank services income	42,441	28,029
-	-	<b>Total</b>	<b>127,903</b>	<b>88,408</b>

#### Note 11. Other operating expenses specification

Norwegian Finans Holding ASA			Norwegian Finans Holding Group	
2013	2014	Amounts in NOK 1000	2014	2013
-	-	Rental of premises	1,866	1,788
-	-	Machinery, fixtures and transport vehicles	503	517
-	-	Insurance	518	439
94	94	Auditor	779	889
-	-	Other operating expenses	11,264	8,663
<b>94</b>	<b>94</b>	<b>Total</b>	<b>14,930</b>	<b>12,296</b>

#### Note 12. General administrative expenses specification

Norwegian Finans Holding ASA			Norwegian Finans Holding Group	
2013	2014	Amounts in NOK 1000	2014	2013
20	21	External services fees and hired temporary staff for ordinary operations	14,125	7,299
-	-	IT operations	44,366	30,035
-	-	Sales and marketing	267,741	167,649
-	-	Other administrative expenses	17,243	11,781
<b>20</b>	<b>21</b>	<b>Total</b>	<b>343,475</b>	<b>216,763</b>

#### Note 13. Receivables and accrued income specification

Norwegian Finans Holding ASA			Norwegian Finans Holding Group	
31.12.13	31.12.14	Amounts in NOK 1000	31.12.14	31.12.13
-	-	Distribution commissions	108,202	58,998
-	-	Other receivables	777	361
-	-	Earned, not yet received income	57,522	32,637
-	-	Prepaid expenses	7,689	5,128
-	-	<b>Total</b>	<b>174,191</b>	<b>97,124</b>



#### Note 14. Accrued expenses and unearned income received specification

Norwegian Finans Holding ASA			Norwegian Finans Holding Group	
31.12.13	31.12.14	Amounts in NOK 1000	31.12.14	31.12.13
-	-	Holiday pay	3,265	2,941
-	-	Social security tax	1,267	1,149
-	-	Accrued, but not due expenses	57,582	27,715
1,329	1,315	Accrued fees	2,470	2,394
-	-	Bonuses	10,862	9,935
<b>1,329</b>	<b>1,315</b>	<b>Total</b>	<b>75,446</b>	<b>44,133</b>

#### Note 15. Lease agreements

The bank is sharing premises with Norwegian Air Shuttle. There is a lease agreement for Oksenhøyveien 3 at Lysaker. The agreement expires 31 March 2016, and the tenancy terminates without notice. The annual rent totals NOK 1.8 million.

#### Note 16. 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 credit cards, the loyalty program and sales financing. In connection with the bank's establishment in Sweden, the original agreement was replaced by new agreements as of 1 January 2013. The agreements have a duration of three years. 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.

Norwegian Finans Holding ASA (org. number 991 281 924) owns 100% of Bank Norwegian AS (org. number 991 455 671). At 31 December 2014 the bank has no liabilities to Norwegian Finans Holding.

#### Note 17. Debt securities issued

Amounts in NOK 1000	31.12.14	31.12.13
Floating rate note obligasjonslån 2011/2014	-	250,000
Floating rate note obligasjonslån 2013/2016	300,228	149,883
Floating rate note obligasjonslån 2013/2018	302,314	99,879
Floating rate note obligasjonslån 2014/2017	399,767	-
Floating rate note sertifikatlån 2014/2015	199,992	-
Floating rate note obligasjonslån 2014/2019	399,556	-
<b>Total</b>	<b>1,601,856</b>	<b>499,762</b>



To the Annual Shareholders' Meeting of Norwegian Finans Holdings ASA

## **Independent auditor's report**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Norwegian Finans Holdings ASA, which comprise the financial statements of the parent company, showing a loss of NOK 1 120 thousand, and the financial statements of the group, showing a profit of NOK 345 779 thousand. The financial statements of the parent company and the financial statements of the group comprise the balance sheet as at 31 December 2014, and the income statement and cash flow statement, for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *The Board of Directors and the Managing Director's Responsibility for the Financial Statements*

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the parent company and the group Norwegian Finans Holdings ASA as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.



## **Report on Other Legal and Regulatory Requirements**

### *Opinion on the Board of Directors' report*

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

### *Opinion on Registration and Documentation*

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

Oslo, 26 February 2015  
**PricewaterhouseCoopers AS**

Geir Julsvoll  
State Authorised Public Accountant (Norway)

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

## **CONTROL COMMITTEE'S STATEMENT**

To the board of representatives in Norwegian Finans Holding ASA

The control committee has supervised Norwegian Finans Holding ASA in accordance with the rules and regulations set by the board of representatives.

The control committee has in connection with the reporting for the fiscal year 2014 reviewed the annual report, the financial statements and auditor's report for Norwegian Finans Holding ASA.

The control committee finds that the board's assessment of Norwegian Finans Holding ASA's financial standing is adequate and recommends that the profit and loss account and balance sheet is adopted as the company's accounts for the fiscal year 2014.

Bærum, March 4, 2015

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Knut Gillesen

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Jarl Borgvin Dørre

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Sigmund Håland

## **BOARD OF REPRESENTATIVES' STATEMENT**

To the general meeting of shareholders of Bank Norwegian AS and Norwegian Finans Holding ASA.

The board of representatives has reviewed the financial statements, the annual report, the control committee's statement and the auditor's report for Bank Norwegian AS and Norwegian Finans Holding ASA for 2014.

The board of representatives has no remarks to the financial statements, the annual report, the proposed allocation of the result for the year, and recommends that the annual report is presented to the general meeting for approval.

Bærum, March 26, 2015

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Tord Meling

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Alf Nielsen

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Dag Håvard Haug Hansen