

# **Annual Report 2013**

**Norwegian Finans Holding ASA**

# Annual Report 2013 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 2013 total assets of NOK 8,349 million.

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 Visa 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 303,100 customers, which can be broken down into 37,700 loan customers, 56,900 deposit customers, and 208,500 "Norwegian Reward" credit card customers.

## ECONOMIC DEVELOPMENT

### Profit and loss account for 4th quarter 2013

The NFH Group's profit after tax was NOK 65.3 million, an improvement of NOK 4.3 million compared with the 3rd quarter. The annual return on equity for the 4th quarter was 34.5 %.

Net interest income totalled NOK 186.6 million, an increase of NOK 22.3 million in the 4th quarter. The net interest margin rose 0.8 percentage points to 9.3 % in the 4th quarter. The increase in net interest margin is due to loan growth in Sweden and increased asset utilization.

Net other operating income totalled NOK 16.8 million, compared with NOK 17.7 million in the 3rd quarter. Net commission and bank services income fell NOK 0.9 million to NOK 13.2 million in the quarter. Net change in value on securities and currency was NOK 3.6 million, which is unchanged from the 3rd quarter.

Total operating expenses were NOK 85.8 million in the 4th quarter, an increase of NOK 10.1 million. Personnel expenses increased by NOK 0.3 million and general administrative expenses increased NOK 10.0 million. The increase in general administrative expenses is mainly explained by increased sales and marketing expenses in Sweden. Depreciation increased by NOK 0.1 million. Other operating expenses fell NOK 0.3 million.

The bank's write-downs on loans totalled NOK 26.8 million, an increase of NOK 5.3 million from the 3rd quarter. Write-downs as a percentage of average gross loans equalled 1.7 % in the 4th quarter, compared with 1.5 % in the 3rd quarter. The increase is explained by increased write-downs on groups of loans in Sweden.

### Profit and loss account for 2013

The NFH Group's profit after tax for 2013 was NOK 237.9 million, an increase of NOK 74.5 million or 46 % compared with 2012. The return on equity was 35.8 %. The improvement in profit is explained by customer and lending growth, increased cost efficiency and stable credit quality. Approximately 90,000 customers were recruited during the year. The bank had increased lending in the Norwegian market in 2013, in addition, the establishment in Sweden contributed with additional growth. The establishment in Sweden started with the launch of credit cards in May, following with installment loans in August and deposit accounts in October. The development in earnings is satisfactory especially taking into consideration the establishment of operations in Sweden.

### Net interest income

Net interest income was NOK 636.1 million, an increase of NOK 176.9 million in 2013. The net interest margin was 8.5 % compared with 8.2 % in the previous year. The increase in net interest margin is attributed to lending growth and improved asset utilization.

### Net other operating income

Net other operating income was NOK 62.7 million, an improvement of NOK 24.2 million from 2012. Net commission and bank services income increased by NOK 15.7 million, totalling NOK 52.4 million in 2013. The increase is explained by higher credit card activity. The net change in value on securities and currency totalled NOK 10.1 million, compared with NOK 1.6 million in the previous year. Value-adjusted return on the securities portfolio was 2.6 %, compared with 3.5 % in the previous year. The securities valuation reserve amounted to NOK 1.9 million at the end of the year.

## **Operating expenses**

Total operating expenses totalled NOK 285.0 million, an increase of NOK 70.5 million from 2012, of which operating expenses for the Swedish operations amounted to NOK 34.4 million. Personnel expenses increased with NOK 4.4 million. The staff increased with five permanent employees during the year. General administrative expenses increased NOK 66.2 million. The increase in administrative expenses is attributed to higher sales and marketing expenses. The increase in sales and marketing expenses of NOK 53.2 million was evenly distributed between the Norwegian and Swedish market. Depreciation decreased NOK 5.0 million and other operating expenses increased NOK 5.0 million.

## **Write-downs on loans**

Write-downs on loans were NOK 82.8 million, compared with NOK 56.7 million in 2012. Write-downs equalled 1.5 % of average gross loans, unchanged from the previous year.

Delinquent loans over 90 days were NOK 406.6 million at year end, compared with NOK 304.2 million at the end of 2012. Relative to gross loans, delinquency fell from 6.7 % in 2012 to 6.5 % at the end of 2013. Non-performing loans totalled 4.8 % of gross loans at year end, unchanged from the end of 2012.

At year end, individual write-downs on loans totalled NOK 126.2 million, and write-downs on groups of loans totalled NOK 121.0 million.

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

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

The group's total assets were NOK 8,349 million at the end of the year, an increase of NOK 1,778 million for the full year. Net loans to customers increased by NOK 1,906 million and totalled NOK 6,364 million at year end, of which net loans to customers in Sweden totalled NOK 289 million. Installment loans increased by NOK 1,402 million, while credit card loans increased by NOK 540 million. Customer deposits increased by NOK 965 million and totalled NOK 6,592 million at year end. Customer deposits from Swedish customers totalled NOK 143 million. The deposit-to-loan ratio was 104 %.

The holdings of certificates and bonds decreased by NOK 174 million and totalled NOK 1,694 million at the end of 2013. Other liquid assets totalled NOK 160 million at the end of 2013.

The bank has during the year issued NOK 250 million in bonds with three and five years maturity. Debt securities issued totalled NOK 500 million.

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

As preparation to the upcoming capital requirements, the bank issued during the 4th quarter NOK 175 million in subordinated loan and NOK 125 million in hybrid capital. A subordinated loan of NOK 30 million was redeemed at the same time. Total equity was NOK 790 million for the group at year end. The total capital ratio at the end of 2013 was 17.9 % for the group and 17.7 % for the bank. The core capital ratio at the same point in time was 14.9 % for the group and 14.8 % for the bank. The common equity tier 1 ratio was 12.8 % for the group and 12.7 % for the bank. The group and the bank are managed based on target capital ratios of 16 % total capital, 14 % core capital and 12.5 % common equity tier 1.

## **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, bonds 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 we are 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 it can make raising capital difficult at the same time. 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 staff has yet again delivered good results. At 31.12.13 the bank had 47 permanent employees, corresponding to 44.5 man-labour years. Contracted personnel accounted for four man-labour years at year end.

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 47 permanent employees, there are 26 men and 21 women. Of the 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 personal insurance schemes, and offers a programme for employees to counteract ergonomic injuries.

Absence due to illness was 4.6 %. The working environment is regarded as good. 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**

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**

There are indications of increased growth in the international economy, while a somewhat lower growth is expected for the Norwegian economy. There is an outlook for increased activity in the Swedish economy. Going forward, a steady employment and interest rate level are expected in Norway and Sweden.

The bank delivers strong earnings in 2013 even with the establishment of banking operations in Sweden. The earnings growth is expected to continue based on strong lending growth, stable margins, cost control and good credit quality. An increase in lending growth and customer deposit levels is expected in Sweden.

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

The investment portfolio has provided a satisfactory return in 2013. 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 are expected to remain stable going forward. The bank's credit models are subject to continuous improvements.

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 2013 of NOK 1.0 million is subtracted from other reserves.

Bærum, 27 February 2014  
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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Ada Kjeseth  
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

2012	2013	Amounts in NOK 1000	Note	2013	2012
7	102	Interest income	2	864,320	636,623
-0	-	Interest expenses		228,248	177,436
<b>7</b>	<b>102</b>	<b>Net interest income</b>		<b>636,073</b>	<b>459,187</b>
-	-	Commission and bank services income	10	88,408	60,458
46	62	Commission and bank services expenses		35,990	23,693
-	-	Net change in value on securities and currency		10,111	1,605
-	-	Other income		181	167
<b>-46</b>	<b>-62</b>	<b>Net other operating income</b>		<b>62,710</b>	<b>38,536</b>
<b>-39</b>	<b>40</b>	<b>Total income</b>		<b>698,782</b>	<b>497,723</b>
1,284	1,311	Personnel expenses	7	46,282	41,896
-	20	General administrative expenses	12	216,763	150,561
-	-	Ordinary depreciation	4	9,682	14,708
69	94	Other operating expenses	11	12,296	7,308
<b>1,353</b>	<b>1,424</b>	<b>Total operating expenses</b>		<b>285,022</b>	<b>214,474</b>
-	-	Provision for loan losses	2	82,760	56,733
<b>-1,392</b>	<b>-1,385</b>	<b>Profit on ordinary activities before tax</b>		<b>331,000</b>	<b>226,517</b>
-390	-360	Tax charge	8	93,099	63,160
<b>-1,002</b>	<b>-1,025</b>	<b>Profit on ordinary activities after tax</b>		<b>237,901</b>	<b>163,356</b>

## Balance sheet

Norwegian Finans Holding ASA

Norwegian Finans Holding Group

31.12.12	31.12.13	Amounts in NOK 1000	Note	31.12.13	31.12.12
<b>Assets</b>					
-	-	Deposits with Norges Bank	6	54,007	49,969
306	9,306	Loans and deposits with credit institutions	6	106,140	99,771
-	-	Loans to customers	2,6	6,363,708	4,457,455
-	-	Certificates and bonds	3,6	1,694,114	1,867,992
310,000	310,000	Ownership interests in group companies		-	-
-	-	Other intangible assets	4	30,616	23,488
394	758	Deferred tax asset	8	1,296	625
-	-	Fixed assets	4	1,539	830
5,060	-	Receivables and accrued income	13	97,124	70,349
<b>315,761</b>	<b>320,064</b>	<b>Total assets</b>		<b>8,348,544</b>	<b>6,570,479</b>
<b>Liabilities and equity</b>					
-	-	Deposits from customers	6	6,592,180	5,626,927
-	-	Debt securities issued	17	499,762	250,000
-	-	Tax payable	8	93,413	63,219
-	-	Other liabilities	9	29,836	19,448
1,306	1,329	Accrued expenses and unearned income received	14	44,133	33,602
-	-	Subordinated debt	5	298,729	30,000
<b>1,306</b>	<b>1,329</b>	<b>Total liabilities</b>		<b>7,558,054</b>	<b>6,023,195</b>
171,776	172,594	Share capital	5	172,594	171,776
135,457	139,945	Share premium	5	139,945	135,457
7,221	6,196	Retained earnings and other reserves	5	477,951	240,050
<b>314,454</b>	<b>318,735</b>	<b>Total equity</b>		<b>790,490</b>	<b>547,284</b>
<b>315,761</b>	<b>320,064</b>	<b>Total liabilities and equity</b>		<b>8,348,544</b>	<b>6,570,479</b>

Bærum, 27 February 2014  
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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Ada Kjeseth  
Board Member

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Kristin Farstad  
Board Member

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Daniel Skjeldam  
Board Member

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John Høstelund  
Board Member

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Erik Jensen  
CEO



## Cash flow statement

Norwegian Finans Holding ASA

Norwegian Finans Holding Group

2012	2013	Amounts in NOK 1000	2013	2012
<b>Cash flows from operating activities</b>				
-1,392	-1,385	Profit / loss before tax	331,000	226,517
-	-	Taxes paid	-63,572	-27,235
-	-	Ordinary depreciations	9,682	14,708
-	-	Change in loans	-1,906,253	-1,321,860
-	-	Change in deposits from customers	965,254	2,050,211
-	-	Change in securities	173,877	-931,669
-2,807	5,060	Change in other receivables	-	-
-	-	Change in other accruals	-26,774	-17,319
-58	22	Change in short-term liabilities	20,920	-3,766
<b>-4,257</b>	<b>3,698</b>	<b>Net cash flow from operating activities</b>	<b>-495,866</b>	<b>-10,413</b>
<b>Cash flows from investment activities</b>				
-	-	Investment in subsidiary	-1,100	-673
-	-	Payment for acquisition of tangible fixed assets	-	43
-	-	Payment for acquisition of intangible assets	-16,419	-7,828
-	-	<b>Net cash flow from investment activities</b>	<b>-17,519</b>	<b>-8,458</b>
<b>Cash flow from financing activities</b>				
-	-	Debt securities issued	249,762	100,000
-16	-16	Cash flow before financing activities	-16	-16
-	-	Subordinated debt	268,729	-
4,101	5,318	Gross payments of subordinated debt	5,318	4,101
<b>4,086</b>	<b>5,301</b>	<b>Net cash flow from financing activities</b>	<b>523,793</b>	<b>104,086</b>
-171	8,999	Net cash flow for the period	10,407	85,215
477	306	Cash and cash equivalents at the start of the period	149,740	64,525
<b>306</b>	<b>9,306</b>	<b>Cash and cash equivalents at the end of the period</b>	<b>160,147</b>	<b>149,740</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 proprietary 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 and other 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 2013 47 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.

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

The comparison figures in the balance sheet are as at 31 December 2012.

#### **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 2013.

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

<i>Amounts in NOK 1000</i>	31.12.13	31.12.12
Overdraft facilities and lines of credit	26,908	27,839
Credit cards	1,772,599	1,217,967
Installment loans	4,811,459	3,376,132
<b>Gross lending</b>	<b>6,610,966</b>	<b>4,621,938</b>
- individual write-downs on loans	126,238	79,057
- write-downs on groups of loans	121,020	85,426
<b>Net loans to and receivables from customers</b>	<b>6,363,708</b>	<b>4,457,455</b>

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

<i>Amounts in NOK 1000</i>	Gross lending		Potential exposure of gross credit facilities	
	31.12.13	31.12.12	31.12.13	31.12.12
Retail customers	6,610,966	4,621,938	14,627,943	9,364,267
<b>Total</b>	<b>6,610,966</b>	<b>4,621,938</b>	<b>14,627,943</b>	<b>9,364,267</b>

Potential exposure of gross credit facilities equals gross lending plus unutilised credit limits as at 31 December 2013.

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

<i>Gross lending Amounts in NOK 1000</i>	Gross lending	
	31.12.13	31.12.12
Akershus	879,574	676,509
Oslo	839,082	618,935
Hordaland	693,973	498,698
Rogaland	511,495	371,168
Østfold	401,115	288,214
Buskerud	360,166	275,192
Nordland	323,972	229,292
Sør-Trøndelag	323,228	241,661
Vestfold	305,630	216,590
Møre og Romsdal	268,610	197,742
Troms	239,930	170,405
Hedmark	219,359	156,424
Oppland	190,977	139,758
Telemark	182,198	129,478
Vest-Agder	142,258	102,965
Nord-Trøndelag	131,843	95,427
Finnmark	112,220	79,434
Aust-Agder	101,210	71,375
Sogn og Fjordane	89,253	62,671
Sweden	294,872	-
<b>Total</b>	<b>6,610,966</b>	<b>4,621,938</b>

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

The risk of all customers is classified, and this risk classification is an integral part of the credit evaluation process.

### *Risk classification.*

The risks associated with customers are classified based on their application score. This risk classification is used in the bank's risk-based product pricing.

Risk classes	Gross lending		Individual write-downs on loans/guarantees	
	31.12.13	31.12.12	31.12.13	31.12.12
<i>Amounts in NOK 1000</i>				
A	1,941,675	1,340,909		
B	1,566,092	1,020,566		
C	580,158	536,614		
D	568,426	488,511		
E	375,083	331,794		
F	156,000	118,569		
G	196,298	114,609		
H	127,287	32,600		
I	159,606	23,569		
J	80,576	14,288		
S	106,082	63,592		
T	100,497	74,786		
U	39,198	29,697		
V	300,682	236,286		
W	232,122	146,935	126,238	79,057
Total classified	6,529,782	4,573,324	126,238	79,057
Not classified	81,184	48,614	-	-
Total	6,610,966	4,621,938	126,238	79,057

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

The risks associated with customers are classified in the Norwegian market based on their behavioural and application score, while the classification in the Swedish market is based primarily on application score.

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>	31.12.13	31.12.12
<b>Defaulted loans</b>		
Gross defaulted loans	532,804	383,221
- Individual write-downs on loans	126,238	79,057
- Write-downs on groups of loans	121,020	85,426
<b>Net defaulted loans</b>	<b>285,546</b>	<b>218,737</b>
Defaulted loans which are performing:	108,629	85,158

From 2013 net defaulted loans are presented after write-downs on groups of loans. Comparison figures for 2012 are restated.

<i>Amounts in NOK 1000</i>	2013	2012
<b>Write-downs on loans for the period</b>		
Change in group write-downs for the period	35,575	28,312
Write-offs for which provisions were made earlier	54,975	31,370
Write-offs for which provisions were not made earlier	-	-
Included in earlier write-offs	-7,789	-2,948
<b>Write-downs on loans for the period</b>	<b>82,760</b>	<b>56,733</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.

### 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>

### 2012

<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	134,883	186,666	125,866	35,158	236,286	718,859
<b>Total</b>	<b>134,883</b>	<b>186,666</b>	<b>125,866</b>	<b>35,158</b>	<b>236,286</b>	<b>718,859</b>

## Note 2.G. Specification of interest income

<i>Amounts in NOK 1000</i>	2013	2012
Loans to and receivables from credit institutions	2,594	2,355
Bonds and certificates	46,342	42,259
Loans to and receivables from customers		
– Installment loans	591,349	434,597
– Overdraft facilities and lines of credit	222,075	156,386
Other interest income	1,959	1,026
<b>Total interest income</b>	<b>864,320</b>	<b>636,623</b>

Average interest rate on bonds and certificates was 2.47 % in 2013 and 2.81 % in 2012.

## Note 3. Certificates and bonds

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

<i>Amounts in NOK 1000</i>	31.12.13	31.12.12
Bonds	1,094,084	1,142,015
Certificates	600,030	725,976
<b>Total</b>	<b>1,694,114</b>	<b>1,867,992</b>

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

<i>Amounts in NOK 1000</i>	31.12.13				31.12.12			
	Nominal value	Historical cost price	Book value	Fair value	Nominal value	Historical cost price	Book value	Fair value
Risk weight 0%	602,500	600,030	600,030	600,298	668,000	663,264	663,264	663,235
Risk weight 10%	-	-	-	-	-	-	-	-
Risk weight 20%	1,083,000	1,094,084	1,094,084	1,095,711	1,203,500	1,204,727	1,204,727	1,213,144
Risk weight 100%	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,685,500</b>	<b>1,694,114</b>	<b>1,694,114</b>	<b>1,696,009</b>	<b>1,871,500</b>	<b>1,867,992</b>	<b>1,867,992</b>	<b>1,876,379</b>
Non-listed bonds	107,500	108,331	108,331	108,801	127,500	127,344	127,344	127,898
Listed bonds	1,578,000	1,585,783	1,585,783	1,587,207	1,744,000	1,740,648	1,740,648	1,748,481
<b>Total</b>	<b>1,685,500</b>	<b>1,694,114</b>	<b>1,694,114</b>	<b>1,696,009</b>	<b>1,871,500</b>	<b>1,867,992</b>	<b>1,867,992</b>	<b>1,876,379</b>
Banks	1,046,000	1,056,460	1,056,460	1,058,021	1,104,500	1,105,196	1,105,196	1,113,511
Other financial institutions	37,000	37,624	37,624	37,690	99,000	99,531	99,531	99,634
Government	602,500	600,030	600,030	600,298	668,000	663,264	663,264	663,235
<b>Total bonds</b>	<b>1,685,500</b>	<b>1,694,114</b>	<b>1,694,114</b>	<b>1,696,009</b>	<b>1,871,500</b>	<b>1,867,992</b>	<b>1,867,992</b>	<b>1,876,379</b>

<b>Change in stocks - fair value</b>	2013	2012
Opening balance as at 01.01	1,876,379	936,322
Additions	-180,370	938,850
Disposals	-	-
Revaluations/write-downs	-	-1,207
<b>Closing balance as at 31.12</b>	<b>1,696,009</b>	<b>1,876,379</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 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 01.01.12</b>	<b>44,728</b>	<b>12,500</b>	<b>17,337</b>	<b>74,565</b>
Additions	7,828	-	-	7,828
Disposals	-	-	-	-
<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 31.12.13</b>	<b>68,976</b>	<b>12,500</b>	<b>17,337</b>	<b>98,813</b>
<b>Depreciation</b>				
<b>As at 01.01.12</b>	<b>27,527</b>	<b>10,208</b>	<b>7,104</b>	<b>44,842</b>
Depreciation for the year	9,742	2,292	2,034	14,067
<b>As at 01.01.13</b>	<b>37,269</b>	<b>12,500</b>	<b>9,138</b>	<b>58,910</b>
Depreciation for the year	7,274	-	2,017	9,291
<b>As at 31.12.13</b>	<b>44,543</b>	<b>12,500</b>	<b>11,155</b>	<b>68,197</b>
<b>Book value as at 31.12.12</b>	<b>15,288</b>	<b>-</b>	<b>8,199</b>	<b>23,488</b>
<b>Book value as at 31.12.13</b>	<b>24,434</b>	<b>-</b>	<b>6,182</b>	<b>30,616</b>

Intangible assets are related to the connection fee that gives access to the common areas for payment services with a book value of NOK 6.2 million as at 31 December 2013, and rights of use of software and propriety software with a book value of NOK 24.4 million as at 31 December 2013.

##### 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 01.01.12</b>	<b>1,326</b>	<b>2,047</b>	<b>528</b>	<b>1,633</b>	<b>5,534</b>
Additions	600	33	-	41	674
Disposals	-43	-	-	-	-43
<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 31.12.13</b>	<b>2,648</b>	<b>2,163</b>	<b>528</b>	<b>1,927</b>	<b>7,265</b>
<b>Depreciation</b>					
<b>As at 01.01.12</b>	<b>1,086</b>	<b>1,749</b>	<b>528</b>	<b>1,330</b>	<b>4,693</b>
Depreciation for the year	247	280	-	114	641
<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 31.12.13</b>	<b>1,542</b>	<b>2,067</b>	<b>528</b>	<b>1,589</b>	<b>5,726</b>
<b>Book value as at 31.12.12</b>	<b>550</b>	<b>52</b>	<b>-</b>	<b>229</b>	<b>830</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>



## Note 5. Subordinated capital

### Note 5.A. Equity specification

#### Norwegian Finans Holding ASA

<i>Amounts in NOK 1000</i>	31.12.13	31.12.12
<b>Paid-in equity</b>		
Share capital	171,594	171,776
Share premium	139,945	135,457
<b>Retained earnings</b>		
Retained earnings and other reserves	6,196	7,221
<b>Total equity</b>	<b>317,735</b>	<b>314,454</b>

#### Norwegian Finans Holding Group

<i>Amounts in NOK 1000</i>	31.12.13	31.12.12
<b>Paid-in equity</b>		
Share capital	171,594	171,776
Share premium	139,945	135,457
<b>Retained earnings</b>		
Retained earnings and other reserves	477,951	240,050
<b>Total equity</b>	<b>789,490</b>	<b>547,284</b>

The share capital comprise of NOK 171.6 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 01.01.12	170,682	132,461	8,223	311,366
Capital increase	1,094	2,997	-	4,090
Profit/loss for the year	-	-	-1,002	-1,002
<b>Balance sheet as at 31.12.12</b>	<b>171,776</b>	<b>135,457</b>	<b>7,221</b>	<b>314,454</b>
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>

#### Norwegian Finans Holding Group

<i>Amounts in NOK 1000</i>	Share capital	Share premium	Other reserves	Total
Balance sheet as at 01.01.12	170,682	132,461	76,694	379,837
Capital increase	1,094	2,997	-	4,090
Profit/loss for the year	-	-	163,356	163,356
<b>Balance sheet as at 31.12.12</b>	<b>171,776</b>	<b>135,457</b>	<b>240,050</b>	<b>547,284</b>
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>

The 20 largest shareholders as at 31 December 2013 are:

Shareholder	Holdings	Percentage
NORWEGIAN AIR SHUTTLE ASA	34,518,817	20.00 %
GOLDMAN SACHS INTERN	15,937,346	9.23 %
APOLLO ASSET LIMITED	14,700,000	8.52 %
LAGUAN AS	12,871,013	7.46 %
BORAK AS	8,580,454	4.97 %
MP PENSJON PK	8,000,000	4.64 %
SPENCER TRADING INC	6,817,219	3.95 %
SKAGEN VEKST	6,565,356	3.80 %
TVENGE TORSTEIN INGV	5,014,635	2.91 %
SNEISUNGEN AS	3,720,333	2.16 %
PORTILLO HOLDING AS	2,500,000	1.45 %
KLP AKSJE NORGE VPF	2,300,000	1.33 %
BLYSTAD ARNE	2,203,581	1.28 %
VERDIPAPIRFONDET OME	2,028,646	1.18 %
JENSEN ERIK	1,516,942	0.88 %
DIRECTMARKETING INVE	1,301,000	0.75 %
GJERSVIK KARSTEIN	1,300,000	0.75 %
SVINDAL AKSEL LUND	1,180,000	0.68 %
SVENKERUD PÅL	1,131,220	0.66 %
DNB LUXEMBOURG S.A.	1,090,000	0.63 %

### 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 concession terms require that total capital shall account for at least 10%. The total capital consists of common equity tier 1, core capital and supplemental capital. The supplemental capital is limited to a maximum amount equal to the core capital. Subordinated loan capital with a remaining term of less than five years shall be reduced by 20% each year.

Norwegian Finans Holding ASA			Norwegian Finans Holding Group	
31.12.12	31.12.13	Amounts in NOK 1000	31.12.13	31.12.12
171,776	172,594	Share capital	172,594	171,776
135,457	139,945	+ Share premium reserve	139,945	135,457
7,221	6,196	+ Other reserves	477,951	240,050
-	758	- Deferred tax assets and intangible assets	31,912	24,113
<b>314,454</b>	<b>317,977</b>	<b>Common equity tier 1</b>	<b>758,578</b>	<b>523,171</b>
-	-	+ Hybrid capital	124,250	-
<b>314,454</b>	<b>317,977</b>	<b>Core capital</b>	<b>882,828</b>	<b>523,171</b>
-	-	+ Supplemental capital	174,479	30,000
<b>314,454</b>	<b>317,977</b>	<b>Total capital</b>	<b>1,057,307</b>	<b>553,171</b>
<b>Calculation basis</b>				
<b>Credit risk</b>				
-	-	From assets 10%	-	-
61	9,306	+ From assets 20%	240,045	260,900
-	-	+ From assets 75%	4,653,300	3,238,331
315,060	310,000	+ From assets 100%	505,229	375,343
-	-	+ From assets 150%	-	-
-	-	+ Other off-balance sheet items	3,515	3,334
-	-	- Provisions for losses that cannot be included	121,020	85,426
-	-	<b>+ Operational risk</b>	<b>640,956</b>	<b>402,792</b>
<b>315,121</b>	<b>319,306</b>	<b>Total calculation basis</b>	<b>5,922,025</b>	<b>4,195,274</b>
<b>99.79 %</b>	<b>99.58 %</b>	<b>Common equity tier 1 %</b>	<b>12.81 %</b>	<b>12.47 %</b>
<b>99.79 %</b>	<b>99.58 %</b>	<b>Core capital %</b>	<b>14.91 %</b>	<b>12.47 %</b>
<b>99.79 %</b>	<b>99.58 %</b>	<b>Total capital %</b>	<b>17.85 %</b>	<b>13.19 %</b>

## Note 5.D. Subordinated debt

<i>Amounts in NOK 1000</i>	Interest rate	31.12.13	31.12.12
Floating rate note subordinated loan 2009/2014	3 mnd NIBOR + 6,00 %	-	30,000
Floating rate note subordinated loan 2013/2023	3 mnd NIBOR + 2,65 %	174,479	-
Floating rate note hybrid capital 2013	3 mnd NIBOR + 4,10 %	124,250	-
<b>Total</b>		<b>298,729</b>	<b>30,000</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>31.12.13</b> Total
Cash and deposits w ith 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 w ithout 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>

<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>31.12.12</b> Total
Cash and deposits w ith the central bank	-	-	-	-	-	49,969	49,969
Loans to and receivables from credit institutions	-	-	-	-	-	99,771	99,771
Net loans to and receivables from customers	52,568	98,267	389,801	1,409,298	1,363,673	1,143,847	4,457,455
Bonds and certificates	-	-	755,804	1,112,188	-	-	1,867,992
Assets w ithout any remaining term to maturity	-	-	-	-	-	95,293	95,293
<b>Total assets</b>	<b>52,568</b>	<b>98,267</b>	<b>1,145,605</b>	<b>2,521,486</b>	<b>1,363,673</b>	<b>1,388,879</b>	<b>6,570,479</b>
Subordinated debt	-	-	-	-	30,000	-	30,000
Deposits from and debt to customers	-	-	-	-	-	5,626,927	5,626,927
Debt securities issued	-	-	-	250,000	-	-	250,000
Non interest-bearing assets	24,051	10,613	81,604	-	-	-	116,268
Equity	-	-	-	-	-	547,284	547,284
<b>Total liabilities and equity</b>	<b>24,051</b>	<b>10,613</b>	<b>81,604</b>	<b>250,000</b>	<b>30,000</b>	<b>6,174,210</b>	<b>6,570,479</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>31.12.13</b> Total
Cash and deposits w 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>-</b>	<b>163,854</b>	<b>-</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>-</b>	<b>7,390,672</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>957,872</b>	<b>8,348,544</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>31.12.12</b> Total
Cash and deposits w with the central bank	49,969	-	-	-	-	-	49,969
Loans to and receivables from credit institutions	99,771	-	-	-	-	-	99,771
Net loans to and receivables from customers	-	4,457,455	-	-	-	-	4,457,455
Bonds and certificates	191,495	905,197	662,930	108,370	-	-	1,867,992
Non interest-bearing assets	-	-	-	-	-	95,293	95,293
<b>Total assets</b>	<b>341,234</b>	<b>5,362,652</b>	<b>662,930</b>	<b>108,370</b>	<b>-</b>	<b>95,293</b>	<b>6,570,479</b>
Subordinated debt	-	30,000	-	-	-	-	30,000
Deposits from and debt to customers	-	5,626,927	-	-	-	-	5,626,927
Debt securities issued	-	250,000	-	-	-	-	250,000
Non interest-bearing liabilities	-	-	-	-	-	116,268	116,268
Equity	-	-	-	-	-	547,284	547,284
<b>Total liabilities and equity</b>	<b>-</b>	<b>5,906,927</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>663,552</b>	<b>6,570,479</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 3.38% in 2013 and 3.52% in 2012.

### 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	
	2013	2012
Deposits with Norges Bank	-133	-123
Loans and deposits with credit institutions	-261	-245
Loans to customers	-15,645	-10,939
Certificates and bonds	-2,999	-5,501
<b>Total assets</b>	<b>-19,037</b>	<b>-16,808</b>
Deposits from customers	16,207	13,809
Debt securities issued	1,229	614
Subordinated debt	734	74
<b>Total liabilities</b>	<b>18,170</b>	<b>14,496</b>
Total interest rate risk, before tax*	-868	-2,311

\* 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>	31.12.13			31.12.12		
	Nominal values	Positive market value	Negative market value	Nominal values	Positive market value	Negative market value
Currency forwards	196,909	-	-1,491	-	-	-
<b>Sum</b>	<b>196,909</b>	<b>-</b>	<b>-1,491</b>	<b>-</b>	<b>-</b>	<b>-</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>	31.12.13	31.12.12
Loans and deposits with credit institutions	52,289	-
Loans to customers	289,048	-
Other assets	22,358	-
<b>Total assets</b>	<b>363,695</b>	<b>-</b>
Deposits from customers	142,565	-
Other liabilities	247,405	-
<b>Total liabilities</b>	<b>389,970</b>	<b>-</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	
2012	2013	Amounts in NOK 1000		2013	2012
1,114	1,148	Wages		38,163	34,743
157	163	Social security tax		5,666	4,971
-	-	Pension premiums		1,348	1,223
-	-	Social benefits		1,105	947
<b>1,271</b>	<b>1,311</b>	<b>Total wages etc.</b>		<b>46,282</b>	<b>41,884</b>

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

### Note 7.B. Number of employees as at 31 December 2013, wages and remuneration

The bank employed 47 permanent employees, corresponding 44.4 man-labour years as at 31 December 2013.

Amounts in NOK 1000	2013			2012		
	Wages	Pension premiums	Remuneration	Wages	Pension premiums	Remuneration
<b>Combined wages, pension liabilities and other remuneration:</b>						
CEO	2,362	62	1,122	1,959	60	948
Financial Manager	1,506	62	805	1,343	60	668
Marketing Manager	1,217	62	630	1,157	60	473
Operations Manager	1,417	62	719	1,509	60	475
IT Manager	1,166	62	586	1,017	60	523
Risk Manager	1,166	62	616	1,017	60	554
<b>Total</b>	<b>8,833</b>	<b>373</b>	<b>4,478</b>	<b>8,003</b>	<b>360</b>	<b>3,641</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 2013, including social security tax, is the base for the bonus that will be paid to employees in 2014, amount to NOK 10 million.

#### Fees to governing bodies

Norwegian Finans Holding ASA				Norwegian Finans Holding-konsernet			
2012		2013		2013		2012	
Fees paid	Total remuneration	Fees paid	Total remuneration	Fees paid	Total remuneration	Fees paid	Total remuneration
865	865	865	865	1,503	1,503	1,590	1,590
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>2,038</b>	<b>2,038</b>	<b>2,125</b>	<b>2,125</b>

## Auditor fees

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

Norwegian Finans Holding ASA			Norwegian Finans Holding Group	
2012	2013	Amounts in NOK 1000	2013	2012
50	75	Statutory auditing (incl. VAT)	745	725
19	19	Tax consultancy	56	56
13	13	Attestation services in connection with the capital increase	13	13
-	-	Other certification services	88	38
<b>81</b>	<b>106</b>	<b>Total</b>	<b>902</b>	<b>831</b>

## Note 8. Information on taxes

Norwegian Finans Holding ASA			Norwegian Finans Holding Group	
31.12.12	31.12.13	Amounts in NOK 1000	31.12.13	31.12.12
-	-	Net temporary differences	-1,992	-826
-1,408	-2,809	Loss and remuneration to be carried forward	-2,809	-1,408
-1,408	-2,809	Basis for deferred tax / tax assets in the balance sheet	-4,800	-2,234
-394	-758	Deferred tax assets / deferred tax	-1,296	-625
<b>-394</b>	<b>-758</b>	<b>Deferred taxes / tax assets in the accounts</b>	<b>-1,296</b>	<b>-625</b>

2012	2013	Basis for tax charge, change in deferred tax and tax payable	2013	2012
-1,392	-1,385	Profit before tax	331,000	226,517
-	-	Permanent differences	65	-944
-1,392	-1,385	Basis for the tax charge for the year	331,065	225,573
-	-	Change in differences included in the basis for deferred tax / tax assets	1,166	-1,183
1,408	1,401	Change in losses and remuneration to be carried forward	1,401	1,408
-16	-16	Formation/new issue expenses entered directly against equity	-16	-16
-	-	Taxable income (basis for tax payable in the balance sheet)	333,616	225,782
<b>Distribution of tax charge</b>				
-	-	Tax payable (28% of the basis for tax payable in the profit and loss account)	93,412	63,219
-	-	Too much or too little allocated in previous year	353	-
-	-	Total tax payable	93,765	63,219
4	5	Tax effect of formation/new issue expenses entered directly against equity	5	4
-394	-392	Change in deferred tax / tax assets	-719	-63
-	28	Change in deferred tax / tax assets due to change in tax rate	48	-
<b>-390</b>	<b>-360</b>	<b>Tax charge (28% of basis for the tax charge for the year)</b>	<b>93,099</b>	<b>63,160</b>
<b>Tax payable in the balance sheet</b>				
-	-	Tax payment in the tax change	93,412	63,219
-	-	Total tax payable	93,412	63,219

## Note 9. Other liabilities specification

Norwegian Finans Holding ASA			Norwegian Finans Holding Group	
31.12.2012	31.12.2013	Amounts in NOK 1000	31.12.13	31.12.12
-	-	Payables to suppliers	24,735	14,355
-	-	Tax withholdings	1,462	1,179
-	-	Value added tax	1,301	171
-	-	Currency forwards	1,491	-
-	-	Other liabilities	847	3,742
-	-	<b>Total</b>	<b>29,836</b>	<b>19,448</b>

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

Norwegian Finans Holding ASA			Norwegian Finans Holding Group	
2012	2013	Amounts in NOK 1000	2013	2012
-	-	Payment services	37,089	25,682
-	-	Insurance services	23,289	15,133
-	-	Other fees and commission and bank services income	28,029	19,643
-	-	<b>Total</b>	<b>88,408</b>	<b>60,458</b>

#### Note 11. Other operating expenses specification

Norwegian Finans Holding ASA			Norwegian Finans Holding Group	
2012	2013	Amounts in NOK 1000	2013	2012
-	-	Rental of premises	1,788	1,715
-	-	Machinery, fixtures and transport vehicles	517	175
-	-	Insurance	439	627
69	94	Auditor	764	744
-	-	Other operating expenses	8,788	4,048
<b>69</b>	<b>94</b>	<b>Total</b>	<b>12,296</b>	<b>7,308</b>

#### Note 12. General administrative expenses specification

Norwegian Finans Holding ASA			Norwegian Finans Holding Group	
2012	2013	Amounts in NOK 1000	2013	2012
-	20	External services fees and hired temporary staff for ordinary operations	7,299	5,914
-	-	Performance-based fees to Norwegian Air Shuttle ASA	12,500	5,000
-	-	IT operations	30,035	22,761
-	-	Sales and marketing	155,149	109,466
-	-	Other administrative expenses	11,781	7,421
-	<b>20</b>	<b>Total</b>	<b>216,763</b>	<b>150,561</b>

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

Norwegian Finans Holding ASA			Norwegian Finans Holding Group	
31.12.12	31.12.13	Amounts in NOK 1000	31.12.13	31.12.12
-	-	Distribution commissions	58,998	44,411
5,060	-	Other receivables	361	274
-	-	Earned, not yet received income	32,637	23,223
-	-	Prepaid expenses	5,128	2,442
<b>5,060</b>	-	<b>Total</b>	<b>97,124</b>	<b>70,349</b>



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

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Norwegian Finans Holding ASA			Norwegian Finans Holding Group	
31.12.12	31.12.13	Amounts in NOK 1000	31.12.13	31.12.12
-	-	Norwegian Air Shuttle	14,574	7,546
-	-	Holiday pay	2,941	2,552
-	-	Social security tax	1,149	972
-	-	Accrued, but not due expenses	13,141	10,116
1,306	1,329	Accrued fees	2,394	2,381
-	-	Bonuses	9,935	10,035
<b>1,306</b>	<b>1,329</b>	<b>Total</b>	<b>44,133</b>	<b>33,602</b>

#### Note 15. Lease agreements

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The bank is sharing premises with Norwegian Air Shuttle. There is a lease agreement for Oksenøyveien 3 at Lysaker. The agreement expires 31 March 2016, and the tenancy terminates without notice. The annual rent totals NOK 1.7 million.

#### Note 16. Related parties

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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 2013 the bank has no liabilities to Norwegian Finans Holding, whereas 5.1 million kroner at 31 December 2012.

#### Note 17. Debt securities issued

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Amounts in NOK 1000	31.12.13	31.12.12
Floating rate note bonds 2011/2014	250,000	250,000
Floating rate note bonds 2013/2016	149,883	-
Floating rate note bonds 2013/2018	99,879	-
<b>Total</b>	<b>499,762</b>	<b>250,000</b>



To the Annual Shareholders' Meeting of Norwegian Finans Holding ASA

## **Independent auditor's report**

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

We have audited the accompanying financial statements of Norwegian Finans Holding ASA, which comprise the financial statements of the parent company, showing a loss of NOK 1 025 thousand, and the financial statements of the group, showing a profit of NOK 237 901 thousand. The financial statements of the parent company and the financial statements of the group comprise the balance sheet as at 31 December 2013, 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 Holding ASA as at 31 December 2013, 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, 27 February 2014  
**PricewaterhouseCoopers AS**

Bjørn Rydland  
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 2013 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 2013.

Bærum, March 5, 2014

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Pål Sveinsson

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Knut Gillesen

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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 2013.

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 27, 2014

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Tord Meling

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Alf Nielsen

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Dag Håvard Haug Hansen