ANNUAL REPORT PARETO BANK

2016

Pareto bank

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NORWAYS LEADING PROJECT BANK

2016 proved to be an eventful year for Pareto Bank. The bank posted its best-ever post-tax profits: NOK 247.3 million, which represents a post-tax return on equity of 15.9 per cent. This high level of profitability can be ascribed to a substantial growth in lending on improved margins, combined with a stable cost ratio and the enduring high quality of the portfolio. At the same time, the equity of the bank was enhanced substantially by the year's profits and by share issues of in total NOK 403.2 million. This equips the bank with a solid platform for continued profitable growth and the ability to take on heavier credit commitments.

The bank's share was accepted for listing on Oslo Axess on 27 May 2016 and on Oslo Børs on 12 December 2016. The aim of these listings is to increase the liquidity of the share and to open the way for institutional investors with management mandates that make listing a prerequisite for investment in the share. During 2016, the bank increased its stake in real estate brokers Sem & Johnsen Eiendomsmegling, as well as securing an agreement to acquire 35 per cent of the shares of project brokers NyeBoliger AS. The purchase was finalised on 5 January 2017.

All of the above developments combine to illustrate that Pareto Bank has continued to consolidate its position as Norway's leading project bank.

ATTRACTIVE NICHE MARKETS

Pareto Bank has carved out a strong position as a source of financing for real estate projects and all growth in 2016 was within this area of business. The market for housing development projects was buoyant in 2016, driven by factors such as low interest rates, moderate unemployment levels and an imbalance between supply and demand in Oslo. Eastern Norway and Oslo are a primary area of focus for the bank, and by year-end almost 50 per cent of real estate exposure was in Oslo.

The bank also provides various forms of corporate and securities financing. Going forward, Pareto Bank will intensify its focus on furnishing corporate financing to small and medium-sized businesses. The bank already has a broad range of offerings, including competitive deposit products and loans for acquisitions, liquidity loans and bridging loans. Our ambition is to be one of the leading providers of financing solutions for small and medium-sized enterprises and their owners.

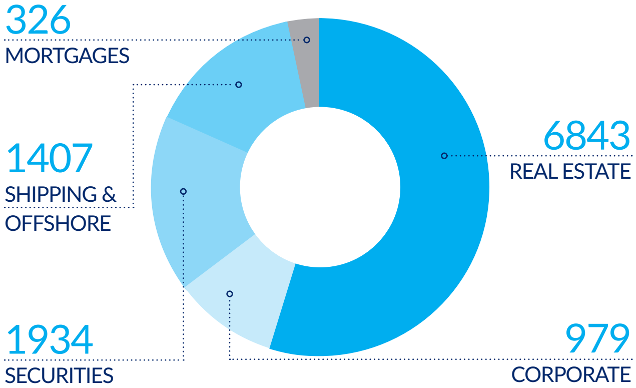
Pareto Bank's third area of focus is shipping and offshore investment projects. Towards the end of 2016, the bank revised its strategy and policy in this area. The outcome of this process is that the bank will continue its strategy of cautiously building a diversified portfolio. It has been decided that credit exposure in the shipping and offshore sector should not exceed 15 per cent of the overall credit exposure of the bank. A more restrictive credit policy was launched in the spring of 2016 in response to negative developments in a number of markets and the bank's own observations. A strong Norwegian foothold will be a key element of our strategy and policy.

A STRONG CORPORATE CULTURE BACKED BY AN EFFICIENT ORGANISATION

Pareto Bank is a compact organisation with short lines of command and an efficient credit decision-making process. We maintain close contact with our customers and are responsive to their needs. Competence, efficiency in our decision-making processes and a high degree of flexibility in response to the needs of our customers are guiding principles. At the same time, we seek to emphatically foster a commercial culture in which the profitability of the bank and the customers are at the centre. We value team players who take responsibility and show a high level of ownership of all their endeavours.

TOTAL CREDIT EXPOSURE NOK 11 488 MILLION

By sector (all figures in NOK million)



Pareto bank

DIRECTORS' REPORT

THE BUSINESS IN 2016

In its ninth year of operations, Pareto Bank's performance continued to develop well, with post-tax profits of NOK 247.3 million (NOK 174.6 million in 2015). This corresponded to a post-tax return on equity of 15.9 per cent (14.8 per cent).

Increased margins on a higher volume of credit contributed to a very satisfactory rise in the bank's net interest income in 2016. Added to this, gains in the value of the bank's holdings of securities and revenues from the holding in real estate brokers Sem & Johnsen Eiendomsmegling increased total net income up to NOK 457.9 million (NOK 356.7 million).

The bank recorded individual write-downs of NOK 25.7 million (NOK 17.6) and increased collective write-downs by NOK 5 million (NOK 14.0 million) in 2016, bringing the total up to NOK 45.7 million, which corresponds to 0.52 per cent of gross loans.

The total assets of the bank stood at NOK 12.9 billion (NOK 11.2 billion) at year-end 2016. Lending to customers increased steadily throughout the year, reaching NOK 8.8 billion (NOK 7.9 billion) by year-end. Customer deposits also grew substantially, from NOK 1.2 billion to NOK 7.6 billion.

During 2016, the equity of the bank was increased through share issues to a total value of NOK 403.2 million, which figure is supplemented by the year's profits. As a consequence, the common equity Tier 1 capital ratio (CET1) at year-end was 17.21 per cent (13.22 per cent), while the primary capital ratio stood at 21.46 per cent (16.74 per cent) calculated by the standard method. Total equity amounted to NOK 1,985.2 million (NOK 1 350.4 million), of which paid-in equity and retained earnings amounted to NOK 1,825.2 million (NOK 1,190.4).

One of Pareto Bank's aims is to provide its shareholders with a competitive overall return on invested capital in the form of dividend payouts and share price rises. The long-term ambition of the bank is to pay out between 30 and 50 per cent of post-tax profits in dividends. At its present stage of development, however, Pareto Bank is pursuing increased lending and higher profits, in addition to which a share issue was recently conducted for the purpose of enhancing the financial strength of the bank. The Directors have therefore proposed that a dividend of NOK 1.00 per share should be paid out for 2016, equivalent to a dividend payout ratio of 23.7 per cent.

The bank's share was accepted for listing on Oslo Axess on 27 May 2016 and on Oslo Børs on 12 December 2016. The objective of these listings is to increase the liquidity of the share and to open the way for institutional investors with management mandates that make listing a prerequisite for investment in the share.

At year-end, the bank also held a 24.5 per cent ownership interest in Verdun Holding (Sem & Johnsen Eiendomsmegling). Moreover, on 15 November 2016 the bank signed an agreement to purchase 35 per cent of the shares of NyeBoliger AS. The purchase was finalised on 5 January 2017. With these acquisitions, Pareto Bank is seeking to exploit synergies between its banking and real estate broking businesses and to consolidate its position as Norway's leading project bank.

THE ANNUAL FINANCIAL STATEMENTS

Net interest income

Net interest income totalled NOK 415.9 (NOK 344.3 million). This increase came about as a consequence of an improved credit margin, lower borrowing costs and a higher volume of lending. The bank brought down its borrowing costs in 2016 by reducing interest rates on deposits and lowering credit premiums on issued securities. Going forward, the deposit margin is expected to continue to fall, primarily as a consequence of payments coming due on previously-concluded fixed interest rate agreements.

The net interest margin between lending and deposits was 5.17 per cent in 2016, as compared with 4.94 per cent in 2015, which corresponds to an increase of 0.23 percentage points.

The fee of NOK 5.7 million (NOK 5.4 million) payable to the Norwegian Banks' Guarantee Fund was charged to net interest income for 2016.

The Board of Directors is of the view that net interest income will increase in 2017 as a result of a higher volume of lending, but that downward pressure will be exerted on credit margins as a consequence of greater competition. Some of this increase is expected to be offset by falling borrowing costs.

Other income

Other income recorded in 2016 amounted to NOK 42.0 million (NOK 12.4 million).

Net commission income and income from banking services remained stable, amounting to NOK 14.6 million (NOK 14.6 million). Of this, guarantee commissions accounted for NOK 11.5 million (NOK 10.4 million).

Income from ownership interests in associate companies (Sem & Johnsen Eiendomsmegling) amounted to NOK 2.5 million.

Net gains on the bank's portfolio of financial instruments amounted to NOK 24.5 million (NOK -2.3 million). These gains derived chiefly from lower credit premiums on the bank's bond holdings. The principle of valuing financial instruments at fair value entails that the results reported by the bank may show considerable variation from quarter to quarter.

Operating costs

Operating costs in 2016 amounted to NOK 98.8 million (NOK 82.7 million). This made for a cost/income ratio in 2016 of 21.6 per cent (23.9 per cent).

Salaries and other personnel costs account for the largest proportion of the overall operating costs of the bank, amounting to NOK 61.6 (NOK 53.0 million). This includes a provision for an employee profit-sharing programme in the amount of NOK 16.2 million (NOK 10.8 million). The scheme is performance-based and the variable remuneration is paid out in the form of shares in Pareto Bank. Adjusted for the provision for profit-sharing, the cost ratio would be 18.0 per cent (20.2 per cent). The bank also expanded its staff count by three full-time equivalents during 2016, which contributed to the rise in personnel costs. This increase in staffing levels was planned and the new personnel have mainly been deployed in customer-related functions.

Administrative costs amounted to NOK 18.4 million (NOK 15.0 million) and consisted largely of IT and marketing costs. Other operating costs came to NOK 14.6 million (NOK 10.1 million). This increase includes a non-recurring cost for listing on Oslo Axess of NOK 3.0 million.

The Directors are expecting a modest increase in costs in 2017 as a consequence of the hiring of new personnel and higher National Insurance contributions.

LOSSES AND NON-PERFORMANCE

Gross non-performing credit commitments stood at NOK 74.5 million (NOK 143.5 million) at year-end 2016, spread across eight credit commitments. Individual write-downs were performed with respect to three of these commitments in the total amount of NOK 11.0 million.

Net non-performing credit commitments at year-end amounted to NOK 63.5 million (NOK 126.0 million), corresponding to 0.72 per cent of gross lending (1.58 per cent).

The bank also held impaired credit commitments with a total amount outstanding of NOK 146.0 million (NOK 0) at year-end 2016, in respect of which individual write-downs were performed in the amount of NOK 28.2 million (NOK 0). The background to these write-downs was the very substantial fall in values in the dry cargo and offshore sector. The commitments are being serviced and are not in default. Net impaired credit commitments amounted to NOK 117.8 billion, corresponding to 1.33 per cent of gross lending.

The bank increased its collective write-downs in 2016 by NOK 5.0 million (NOK 14.0 million) to NOK 45.7 million (NOK 40.7 million), equivalent to 0.52 per cent (0.51 per cent) of gross lending. This was largely in response to a reduction in the values of ships within individual sectors. No objective events necessitating write-downs in other parts of the credit portfolios of the bank have occurred.

Write-downs and losses on loans and guarantees in 2016 amounted to NOK 30.7 million (NOK 31.6 million).

PROFIT FOR THE YEAR

The pre-tax profit for 2016 amounted to NOK 328.5 million (NOK 242.3 million). The profit after taxes was NOK 247.3 (NOK 174.6 million).

The tax cost came to NOK 81.2 million, while taxes payable amounted to NOK 63.2 million (NOK 57.6 million). The bank has negative temporary differences of NOK 48.1 million (NOK 100.7), and at year-end deferred tax assets stood at NOK 12.0 million (NOK 25.2 million). The negative temporary differences relate primarily to net gains/(losses) on the bank's holdings of derivatives and securities.

BALANCE SHEET

At year-end 2016, the bank held total assets of NOK 12,941 million (NOK 11,140 million).
Net lending to customers rose to NOK 8,754 million (NOK 7,931 million), following an increase in lending in 2016 of NOK 823 million. All of the growth in lending was in the area of real estate financing with growth of NOK 1,055 million. The volume of loans for financing shipping and offshore investment projects fell by NOK 144.9 million in 2016.

In addition, undrawn credit lines and guarantees amounted to NOK 2,348 million (NOK 2,207 million). The credit portfolio contains a high proportion of short-term credits, which means that the rate of redemption on the portfolio of loans is naturally high. Activity levels were very satisfactory, and credit lines amounting to NOK 9,565 million (NOK 9,320 million) were granted during the course of 2016.

At year-end, gross lending, undrawn credit lines and guarantees comprised 59.9 per cent (54.9 per cent) for real estate financing, 2.9 per cent (3.2 per cent) for mortgages, 25.5 per cent (27.0 per cent) for corporate and securities financing and 12.3 per cent (14.9 per cent) for shipping and offshore financing.

At year-end 2016, customer deposits amounted to NOK 7,647 million (NOK 6,455 million), having increased by NOK 1,192 million during the course of the year. The proportion of fixed-rate deposits stood at 23.4 per cent of total deposits, as compared with 21.1 per cent at year-end 2015. The target deposit-to-lending ratio is in the region of 80 per cent, and at year-end 2016 this ratio stood at 87.4 per cent (81.4 per cent).

Net outstanding securities debt at year-end 2016 was NOK 2,886 million (NOK 3,018 million). The bank issued one certificate loan in 2016 with a 1-year term and two bond loans with terms of 3 and 4 years. In total, the bank issued and extended loans in the gross amount of NOK 1,430 million in 2016 as well as redeeming loans in the amount of NOK 495 million before time. Three loans with a total amount outstanding of NOK 1,105 million matured in April, May and October. In addition, the bank trades actively in the market by buying and selling from its own holdings.

Pareto bank

At year-end, the bank held relatively large sums of surplus liquidity amounting to NOK 4,119 million (NOK 3,141 million). This high level of surplus liquidity can be ascribed to factors that include the maturing of two bond loans in January and February 2017 in the gross amount of NOK 400 million.

Surplus liquidity is invested chiefly in interest-bearing securities, or is on deposit with large banks and Norges Bank. Securities investments are in sovereign and municipal bonds, covered bonds, banks and individual investment-grade bonds.

The bank may also invest in fixed-income funds and individual bonds with credit ratings below investment-grade and a minimum credit rating of B. At year-end, the bank held no investments of this nature.

ASSOCIATE COMPANIES

The bank owns a 24.5 per cent interest in Verdun Holding AS, the parent company of Sem & Johnsen Eiendomsmegling. Verdun Holding's operations reported a very satisfactory performance in 2016 with increases in both market share and turnover. Verdun Holding AS increased its profits after tax to NOK 16.9 million (NOK 6.8 million).

Moreover, on 15 November 2016 the bank concluded an agreement to acquire 35.0 per cent of the shares of NyeBoliger AS. Verdun Holding AS also concluded an agreement to purchase 16 per cent of the shares of NyeBoliger AS. The purchase was finalised on 5 January 2017. NyeBoliger will operate as a branch of Sem & Johnsen Eiendomsmegling.

The rationale for the purchase of NyeBoliger was the wish of the parties to derive mutual benefit from each other's expertise in banking and real estate broking. The bank and NyeBoliger AS both have extensive experience and in-depth knowledge of the new-build market in Oslo and the surrounding areas and see this collaboration as commercially beneficial.

In acquiring these ownership interests Pareto Bank is seeking to exploit synergies between its own operations and those of the real estate broking business, as well as to consolidate its position as Norway's leading project bank.

DISTRIBUTIONS

One of Pareto Bank's aims is to provide its shareholders with a competitive overall return on invested capital in the form of dividend payouts and share price rises. The long-term ambition of the bank is to pay out between 30 and 50 per cent of post-tax profits in dividends. Since operations started in 2008, the bank has paid out total dividends per share of NOK 3.74.

In order to improve the financial strength of the bank and to lay the foundations for future profitable growth, Pareto Bank recently proceeded with a share issue. Furthermore, the bank posted very satisfactory profits for 2016. In light of this, and having assessed the totality of the situation, the Directors propose the payment of dividend of NOK 1.00 per share for 2016. This represents a dividend payout ratio of 23.7 per cent.
The profit for the year was NOK 247.3 million. The reserve for unrealised gains will be increased by NOK 3.0 million, while the remaining amount will be transferred to other equity.

The total equity of the bank stands at NOK 1,985.2 million at year-end, of which shareholders' equity amounts to NOK 1,825.2 million.

SHAREHOLDERS

The bank's share was quoted on Oslo Axess on 27 May 2016 and on the Oslo Børs Benchmark Index on 12 December 2016. The objective of these listings is to increase the liquidity of the share and to open the way for institutional investors with management mandates that make listing a prerequisite for investment in the share.

In the first quarter of 2016, the bank carried out equity capital issues of in total NOK 203.1 million. In the fourth quarter 2016, a further NOK 200 million was issued in a rights issue. These issues were aimed at increasing the financial strength of the bank and laying the foundations for continued profitable growth.

The share has been traded at prices of between NOK 21.50 and NOK 43.00.

(NOK)	2016	2015
Earnings per share	4.08	3.91
Dividend per share	1.00	0.00
Book value of equity per share	31.14	28.1
P/E	**9,34**	**6,97**
P/BV	**1,22**	**0,97**
Share price	38,10	27,25
No. of shares	58.619.688	42.500.000

At year-end, there were 706 shareholders in the bank. The share capital was NOK 70.4 million divided into 58,619,688 shares with a nominal value of NOK 12.00 each.

Senior employees of Pareto Bank own 790,948 shares – or 1.35 per cent of all shares in issue – directly or through limited companies in which they have a controlling interest.

ACCOUNTING POLICIES

The annual financial statements have been prepared in accordance with International Financial Reporting Standards and associated interpretations as adopted by the European Union and in force at 31 December 2016, as well as the additional Norwegian information requirements that follow from the Norwegian Accounting Act, including the Regulations Governing the Annual Financial Statements of Banks, Finance Houses etc.

FINANCIAL POSITION AND CAPITAL REQUIREMENTS

At year-end 2016, the common equity Tier 1 capital and subordinated capital stood at NOK 1,737.7 million (NOK 1,165.3 million) and NOK 2,167.7 million (NOK 1,475.3 million), respectively. This made for a common equity Tier 1 capital ratio of 17.21 per cent (13.22 per cent) and a capital adequacy of 21.46 per cent (16.74 per cent) calculated according to the standard method.
The bank increased its equity capital during 2016 by means of share issues to a total value of NOK 403.2 million. This figure is supplemented by the year's profits.

Pareto bank

Total equity amounted to NOK 1,985.2 million (NOK 1,350.4 million), of which paid-in equity and retained earnings amounted to NOK 1,825.2 million (NOK 1,190.4). Effective from 1 January 2016, the bank adjusted the classification of its two perpetual hybrid Tier 1 bond loans with a total amount outstanding of NOK 160 million. Certain properties of these loans mean that they should be classified as equity capital.

The bank has performed a risk and capital assessment process (ICAAP) and this has been assessed by Finanstilsynet (Financial Supervisory Authority of Norway). Finanstilsynet's opinion is that Pareto Bank should aim to achieve a common equity Tier 1 capital ratio of at least 15.0 per cent by the end of 2016. Then in November 2016, the Norwegian Ministry of Finance raised the counter-cyclical capital buffer requirement by a further 0.5 percentage points to 2.0 percentage points effective from 31 December 2017. Accordingly, the bank will increase its target capital at the start of 2017 by a corresponding factor to 15.50 per cent.

It is therefore assumed that the bank's common equity Tier I ratio and capital adequacy will as a minimum be 15.5 per cent and 19.0 per cent at year-end 2017.

Finanstilsynet has given notice that on the basis of the submitted ICAAP for 2017 and taking this review as the point of departure an individual Pillar 2 add-on will be fixed for the bank during the course of 2017. The bank's expectation is that the add-on will lie within the CET1 target capital ratio of 15.5 per cent by year-end 2017.

RISK

Pareto Bank takes a proactive stance on the management, control and monitoring of the overall risk of the bank. The Directors note that there were no deviations, losses or events of significance in this regard in 2016 and that the bank's management of risk and its internal control procedures are satisfactory. The Board of Directors reviews the bank's guidelines, governing documentation, risk profile and internal control procedures at least once a year.

Pareto Bank has a Risk Committee comprising members of the Board of Directors in accordance with Section 2-9 b of the Financial Institutions Act. The Committee met once during 2016.

The main areas of risk faced by the bank are:
Credit risk: Credit risk is the most substantial risk that Pareto Bank seeks to manage. Credit risk is the risk that a borrowing or guarantee commitment will be defaulted upon and that a customer will fail to fulfil the commitments agreed with the bank. The credit risk of the bank is influenced by general economic conditions and the skill applied by the bank in granting and following up on commitments.
Pareto Bank actively seeks to diversify its portfolio of loans and has requirements and metrics in place governing the exposure of the portfolio in terms of industry, collateral and the size of individual commitments. The bank endeavours to diversify across business sectors and to avoid risk in industries in which it has insufficient expertise or is uncertain about general levels of risk.

The bank has always stressed the importance of establishing credit management systems that ensure a satisfactory level of reporting. In the area of securities in particular, emphasis is placed on ensuring that access to information and control procedures are satisfactory and are automated to the greatest extent possible.

Credit policy and credit management documents are evaluated by the Board of Directors at least once a year.

A risk classification system has been compiled by the bank to enable credit risk to be managed in line with the bank's credit policy. This forms the basis for the bank's pricing model, which is designed to ensure that risk is correctly priced in terms of a debtor's debt-servicing and repayment ability, collateral in place for the commitment and the applicable capital requirements.

Liquidity risk: Pareto Bank's goal is to maintain a low to moderate level of liquidity risk, in both the short and the long term. A further goal of the bank is to ensure that it at all times has an adequate liquidity buffer in place, the size of this buffer being determined by the bank's growth and balance sheet structure. The bank's deposit mix and ability to issue securities may vary more than will be the case for an average Norwegian bank. For this reason, Pareto Bank needs to maintain a somewhat higher level of surplus liquidity than the average Norwegian bank.

Pareto Bank's policy is to have a robust liquidity management system in place based on guidelines adopted by the Board of Directors. The bank has defined limits and principles for managing its liquidity risk. In addition, forecasts and contingency plans have been drawn up for use in the event of a liquidity crisis. A policy document has been drafted defining levels of liquidity risk tolerance and limits in accordance with guidelines issued by Finanstilsynet.

Market risk: Pareto Bank does not trade for its own account on the fixed-income and currency markets and, to the greatest extent possible, continuously manages any exposure that occurs. All items on and off the balance sheet and the associated income and expense items are identified, which entails that the exposure of the bank will be limited. Exposure lie within the limits and powers granted by the Board of Directors.

The bank has internal limits in place governing overall interest rate risk in Norwegian kroner and foreign currency and measures this risk within defined maturity intervals and from the total of pairs of proximate maturity intervals on a continuous basis. The limit is in force on a continuous basis and encompasses all maturities, all financial instruments and all currencies.

The bank measures currency risk as the net position of the bank in an individual currency. In addition, the bank measures the total of net positions in each individual currency as a gross value without netting between currencies. The net positions are converted to Norwegian kroner. The bank stress tests the currency positions by analysing the impact on the income statement of a market change of 10 percentage points for each individual currency and for all currencies overall.

The bank will be exposed to the risk of changes in the market value of its portfolio of bonds, certificates and mutual funds as a consequence of general changes in credit spreads. The bank uses a method that is based on the methodology in the Solvency II Directive to monitor and manage the credit spread risk. Risk must be moderately diversified. Limits and guidelines have been put in place to ensure that the portfolio is diversified in terms of issuers, sectors and geographical areas. The market risk in the portfolio must be moderate and its market liquidity must be high. Limits and guidelines on liquidity risk are in place. Most of the portfolio must be highly liquid, with a limited difference between bid and ask prices and a large depth of market in relation to the bank's exposure.

Operational risk: The bank reduces operational risk by means of efficient management and supervision in the form of effective control mechanisms, a well-established set of procedures and a dedicated risk control and compliance function.

Other risk factors: The bank continuously assesses changes and requirements with which it is faced that might influence developments in profits and its balance sheet.

CORPORATE RESPONSIBILITY

The Board of Directors has put policies in place governing ethics, corporate responsibility and conflict-of-interest. The document summarises the bank's overarching values and lays the foundations for the operational procedures governing this work within the bank.

Going forward, the bank wishes to strengthen its work on developing procedures and guidelines with a view to increasing awareness of the bank's role in terms of its corporate responsibility.

Further information on corporate responsibility can be found on the bank's web site at www.paretobank.no.

HUMAN RIGHTS

The operations of the bank are conducted in Norway and accordingly the bank does not encounter major challenges in the area of human rights in its day-to-day business activities. In its choice of products and suppliers, the bank endeavours to promote support and respect for universally recognised human rights.

EMPLOYEE RIGHTS AND SOCIAL CONDITIONS

The personnel of the bank are its most important resource. A sense of well-being at work helps the individual member of staff to give of her or his best. With the aid of targeted Health, Safety and Environment measures and programmes to build expertise and corporate culture, the bank seeks to develop its personnel and to play a part in ensuring that the bank continues to be a fulfilling and attractive place to work.

Developments within the financial services industry are imposing increasingly tougher demands on the expertise and competence of the bank's personnel. The bank therefore maintains a focus on continuing professional development and competence-building measures.

THE EXTERNAL ENVIRONMENT

Apart from its own consumption of paper, energy and its waste products the bank does not pollute the external environment. The bank seeks to act responsibly in relation to the climate and environment in areas in which it is able to make an impact.

CORRUPTION

The bank's policy governing ethics, corporate responsibility and conflict-of-interest regulates factors designed to strengthen the independence and integrity of the bank. In addition, the bank has guidelines in place to counteract corruption, money laundering and businesses that do not operate within generally accepted business practice.

ORGANISATION

Pareto Bank is a Norwegian commercial bank headquartered at Dronning Mauds gt. 3 in Oslo, from where its banking operations are conducted. Pareto Bank is regarded as a good workplace with a high ethical standard and an atmosphere of mutual respect amongst its employees. The bank has dedicated ethical guidelines applicable to all employees and officers. These guidelines cover issues such as confidentiality, disqualification, gifts and favours, and trading in financial instruments.

Pareto Bank is a workplace at which equality between men and women is practised. At year-end, the bank had 35 permanent employees: 24 men and 11 women. In the view of the Directors, gender equality within the bank is satisfactory and such that there is no need to implement special measures. The bank has an HSE officer.

The working environment is considered to be good. Absence due to illness in 2016 was low, totalling 253 days, equivalent to 3.13 per cent. No accidents or injuries were registered in 2016.

The bank has established incentive schemes for its employees. These include a scheme under which employees may purchase Pareto Bank shares with a subsidy of NOK 1,500 per employee per year. In 2016, 28 employees opted to take advantage of this scheme.

Pareto Bank also operates a profit-sharing scheme based on reported post-tax profits and return on equity after tax. Profit-sharing takes place if the bank delivers a return on equity after tax in excess of a strike point fixed annually by the bank's Board of Directors. For 2016, the Directors fixed a strike point of 6.5 per cent. A share of profits over and above a 6.5 per cent return on equity is distributed to the bank's employees as a variable benefit.
The Board of Directors adopted a decision to allocate NOK 16.2 million, including employer's tax and holiday pay, to cover this commitment in 2016. Parts of the provision are contingent upon developments in the performance of the bank in the period 2017 to 2020, and may be taken back. The Board values work well done in the form of target achievement, quality and hard work. The benefit will be paid out in the form of shares.

The bank has a Remunerations Committee made up of members the Board of Directors, the remit of which is to ensure that the bank operates a remuneration scheme that serves to promote and incentivise good management of the bank's risk to counteract excessive risk-taking, and to avoid conflicts-of-interest.

The Board of Directors wishes to take this opportunity to thank the personnel of the bank for their outstanding efforts in 2016.
The bank's Supervisory Board and Control Committee were dissolved with effect from 1 January 2016 in accordance with the provisions of the Act on Financial Undertakings and Financial Groups, which came into force on 1 January 2016. The changes have resulted in the streamlining of the organisation, clarifying the respective responsibilities of the corporate bodies of Pareto Bank. The proposal must be viewed against the backdrop of the new requirements governing board committees and control functions, including internal audit and compliance functions. To this end, the bank has put in place a dedicated risk management function, as well as a risk committee and audit committee, both of which are made up of members of the Board of Directors.

THE BOARD OF DIRECTORS

The directors of the bank are Åsmund Skår (Chairman), Brita Eilertsen (Deputy Chairwoman), Camilla Wahl, Carl Erik Steen, Per Kristian Spone and Lena Krogh (employee-elected). The Board is composed of three men and three women.

The Board of Directors of the bank convened on 21 occasions during 2016, 10 of these meetings being extraordinary board meetings called to consider major credit commitments and to adopt resolutions relating to issues and exchange listing. At its regular meetings, the Board of Directors considered matters such as the bank's business plan, risk management and internal control procedures, approval of various guidelines, procedures and instructions and the financial development of the bank.

CORPORATE GOVERNANCE

The Board of Directors of the bank follows the Norwegian Code of Practice for Corporate Governance in so far as this is applicable. The Board has adopted guidelines aimed at promoting the goal of achieving efficient management of the bank to the benefit of the shareholders and stakeholders over the long term. These guidelines clarify the allocation of roles between shareholders, the Board of Directors and the management of the bank, supplementing the applicable legislation and defining the basis for the way in which the bank's goals are defined, attained and monitored. The Board also conducts an annual review of its work and working methods.

GOING CONCERN ASSUMPTION

The going concern assumption has been applied in the preparation of the annual financial statements for 2016. The Board confirms that this assumption is applicable. In the assessment of the Board of Directors, the submitted financial statements, comprising the income statement, balance sheet and associated notes, provide a full picture of the operations and position of the company at year-end. No events of significance have occurred that would impact upon the reported profit and the evaluations that had been performed. Moreover, nothing has occurred since the reporting date that would be of significance in assessing the company.

OUTLOOK

The performance recorded in 2016 is the best in the bank's history. Profitability is high, with a return on equity after tax of 15.9 per cent.

In response to the negative developments in the shipping and offshore markets and its own observations of the current situation, the bank is applying a more restrictive credit policy in this area. The bank is continuing to pursue its strategy of cautiously building a diversified shipping and offshore portfolio. A strong Norwegian foothold forms a key part of this strategy.

Activity levels in the market for financing housing development projects remain high. Future levels of activity will depend on movements in house prices, amongst other factors. Movements in interest rates and the restrictions introduced in the new Housing Loan Regulations are factors that may influence price levels. The bank is monitoring developments closely, paying particular attention to the fulfilment of requirements relating to advance sales, liquidity and equity contribution.

The common equity Tier 1 capital ratio at year-end was 17.2 per cent. There is no doubt that Pareto Bank is financially sound and has considerable freedom of action. Capital injections and a high level of profitability have provided the bank with a solid platform on which to build continued profitable growth.

31 December 2016/1 March 2017
The Board of Directors of Pareto Bank ASA

Åsmund Skår
Chairman

Brita Eilertsen
Deputy Chairwoman

Carl Erik Steen

Camilla Wahl

Per Kristian Spone

Lena Krog

Pareto bank

INCOME STATEMENT

(NOK 1.000)	Note	2016	2015
Interest income and similar income		618 683	553 039
Interest expense and similar expense		202 786	208 787
Net interest income	**5**	**415 897**	**344 252**
Commission income & income from banking services		15 232	15 105
Commission expenses & banking service expenses		597	470
Income from ownership interests in associate companies		2 533	0
Net gains((losses) on fin. instruments at fair value	3,6,7	24 534	-2 289
Other operating income		342	56
Net other operating income	**6**	**42 045**	**12 403**
Total net income		**457 942**	**356 655**
Salaries & other personnel expenses	8,9,10,37	61 551	53 033
Administrative expenses		18 384	14 987
Ordinary depreciation & amortisation	21,22	4 272	4 568
Other operating expenses		14 600	10 098
Total operating expenses before write-downs & losses	**8**	**98 807**	**82 685**
Operating profit before write-downs and losses		**359 135**	**273 970**
Write-downs and losses on loans & guarantees	3,12	30 661	31 635
Operating profit		328 474	242 335
Taxes	11	81 167	67 690
Post-tax profit		**247 308**	**174 646**
Other income & expense		0	0
Total comprehensive income for the period		**247 308**	**174 646**
Earnings per share, ordinary and diluted (NOK)		4,08	3,91

BALANCE SHEET

(NOK 1.000)	Note	31.12.2016	31.12.2015
Cash and balances at central banks	14	57 075	459 229
Loans to and claims on credit institutions	14,16,17,18,31	747 274	362 528
Lending to customers	12,13,14,15,16,17,18,31	8 753 761	7 930 634
Certificates and bonds	14,15,16,19,31	3 315 103	2 318 758
Financial derivatives	14,15,27,28	12 725	7 658
Shares, fund units and other securities	14,15,16,19	10	8 010
Ownership interests in associate companies	20	14 654	0
Intangible assets	21	24 913	25 884
Deferred tax assets	11	12 019	25 174
PP&E	22	735	785
Other assets		852	1 001
Pre-paid costs and accrued income		1 641	346
Assets		**12 940 761**	**11 140 008**

(NOK 1.000)		31.12.2016	31.12.2015
Deposits by credit institutions	14,16	4 133	398
Deposits by customers	14,15,16,23	7 646 800	6 454 925
Debt created by issuance of securities	14,15,16,24	2 885 545	3 017 509
Financial derivatives	14,15,27,28	55 805	83 346
Tax payable	11	63 172	57 647
Other liabilities	26	5 705	6 987
Accrued costs and pre-paid income	26	24 218	18 680
Subordinated loan capital	14,16,25	270 221	150 125
Liabilities		**10 955 599**	**9 789 617**
Share capital	38	703 436	510 000
Share premium		424 615	225 469
Reserve, unrealised gains		7 746	4 752
Other equity		689 365	450 169
Hybrid Tier 1 bonds		160 000	160 000
Equity	**30**	**1 985 163**	**1 350 391**
Liabilities and equity		**12 940 761**	**11 140 008**
Contingencies	**17,18,29**	**434 912**	**476 848**

31 December 2016/1 March 2017
The Board of Directors of Pareto Bank ASA

Åsmund Skår
Chairman

Brita Eilertsen
Deputy Chairwoman

Carl Erik Steen

Camilla Wahl

Per Kristian Spone

Lena Krog

Pareto bank

STATEMENT OF CHANGES IN EQUITY

(NOK 1.000)	Share capital	Share premium	Reserve, unrealised gains	Other equity	**Share-holders' capital**	Hybrid Tier 1 bond loans	**Equity capital**
Equity at 31.12.2015	**510 000**	**225 469**	**15 932**	**297 564**	**1 048 964**	**160 000**	**1 208 964**
Total comprehensive income for period	0	0	-11 180	185 825	**174 645**	0	**174 645**
Interest paid on hybrid bond loans	0	0	0	-10 765	**-10 765**	0	**-10 765**
Tax saved on interest hybrid bonds	0	0	0	3 045	**3 045**	0	**3 045**
Dividend paid out for 2014	0	0	0	-25 500	**-25 500**	0	**-25 500**
Equity at 31.12.2015	**510 000**	**225 469**	**4 752**	**450 169**	**1 190 390**	**160 000**	**1 350 391**
Total comprehensive income for period	0	0	2 994	244 314	**247 308**	0	**247 308**
Interest paid on hybrid bond loans	0	0	**0**	-10 377	**-10 377**	0	**-10 377**
Tax saved on interest hybrid bonds	0	0	0	2 595	**2 595**	0	**2 595**
Share issue	193 436	199 146	0	0	**392 583**	0	**392 583**
Tax saved on issue costs	0	0	**0**	2 665	**2 665**	0	**2 665**
Equity at 31.12.2016	**703 436**	**424 615**	**7 746**	**689 365**	**1 825 163**	**160 000**	**1 985 163**

CASH FLOW STATEMENT

(NOK 1.000)	**2016**	**2015**
Interest paid by central banks and credit institutions	3 552	8 180
Receipts/payments of deposits by customers	1 191 875	-892 597
Interest paid on deposits by customers	- 100 376	-167 022
Receipts/payments on loans to customers	- 794 588	-754 935
Interest received on loans to customers	559 816	491 749
Receipts/payments of deposits by credit institutions	3 736	-1 179
Interest paid on deposits by credit institutions	- 657	-974
Receipts/payments on certificates and bonds	- 997 291	1 106 428
Interest received on certificates and bonds	47 457	50 737
Receipts/payments on shares, mutual fund units and other securities	- 3 865	211 153
Receipts/payments on securities debt	- 131 964	666 487
Interest paid on securities debt	- 88 147	-71 663
Receipts/payments on financial derivatives	57 142	-72 654
Commission received	15 319	15 105
Commission paid	- 597	-470
Payments for operations	- 95 510	-78 949
Tax paid	- 57 587	-83 434
Net cash flow from operating activities	**- 391 687**	**425 961**
Paid for purchases of PP&E	- 215	-646
Received on sale of PP&E	0	6
Paid for purchases of intangible assets	- 3 036	-5 403
Net cash flow from investing activities	**-3 251**	**-6 043**
Paid-in capital	392 583	0
Interest paid on subordinated loan capital	- 4 676	-5 224
Interest paid, hybrid bond loans	- 10 377	-10 765
Dividend paid	0	-25 500
Net cash flow from financing activities	**377 530**	**-41 489**
Net change in cash and cash equivalents	-17 408	378 429
Holdings of cash and cash equivalents at 1 Jan.	821 757	443 328
Holdings of cash and cash equivalents	**804 349**	**821 757**

Cash and cash equivalents are defined as claims on credit institutions and central banks with no agreed term or period of notice.

NOTE 1: GENERAL INFORMATION
Pareto Bank ASA is a Norwegian commercial bank headquartered at Dronning Mauds gt. 3 in Oslo. The annual financial statements were adopted by the Board of Directors on 1 March 2017.

NOTE 2: SUMMARY OF KEY ACCOUNTING POLICIES
The following contains a description of key accounting principles applied in the preparation of the annual financial statements. These principles have been applied consistently in all the periods presented, except as otherwise specified in the description.

Reclassification of hybrid Tier 1 bond loans
Pareto Bank has issued two perpetual hybrid bond loans in the total amount of NOK 160 million. One loan is for NOK 110 million and was issued on 29 March 2012 with an interest rate of 3-month NIBOR + 600 bp. The second loan was issued on 9 September 2014 in the amount of NOK 50 million with an interest rate of 3-month NIBOR + 370 bp. Both loans are perpetual with the right for the issuer to redeem the loans 5 years after the date of issue, with no incentive to repay.

Under the terms of the loans they form part of the Tier 1 capital of the bank for capital adequacy purposes.

Historically, these hybrid Tier 1 bond loans have been classified as debt in the financial statements of the bank. The fact that the loans are perpetual combined with the unconditional formal right of the issuer not to pay interest entails that under IFRS (IAS 32) these loans are classified as equity.

The bank therefore reclassified outstanding hybrid Tier 1 bonds as equity with effect from 1 January 2015. These are presented in the accounts in the line item Hybrid bond loans under the equity capital of the bank. Moreover, this entails that the interest is not presented in the line item for interest expense. This entails that the total comprehensive income for the year is increased by the amount of the previously-expensed interest after tax. Moreover, interest paid is deducted from the shareholders' equity capital. The net effect on equity is equal to the value of the hybrid Tier 1 bonds recorded in the balance sheet.

To ensure consistency in the presentation of historical information, the bank has restated the comparative figures for 2015. This has resulted in the following changes to the accounts at 31 December 2015:

Interest expense	-11 279
Tax cost	3 045
Profit for the year	8 233
Debt – hybrid bonds	-159 233
Equity	159 233

2.1 Framework for the presentation of the accounts
The annual financial statements were prepared in accordance with International Financial Reporting Standards and associated interpretations as adopted by the European Union and in force at 31 December 2016, as well as the additional Norwegian information requirements that follow from the provisions of the Norwegian Accounting Act, including the Regulations Governing the Annual Financial Statements of Banks, Finance Houses etc.

The accounts were prepared on the basis of the historical cost principle, subject to the following modifications: financial assets and financial liabilities (including financial derivatives) at fair value through profit or loss.

The preparation of accounts in accordance with IFRS requires the use of estimates. Moreover, the application of the accounting principles of the company require management to exercise judgement. Areas involving a high degree of discretionary assessments of this nature, a high degree of complexity, or areas in which assumptions and estimates are of significance to the consolidated accounts are described in Note 3.

New and amended standards applied by the bank in 2016

No new or amended standards or interpretations of significance were applied by the bank in 2016.

Standards, amendments and interpretations of existing standards that have not yet come into force where the bank has decided against early adoption.

A number of new standards and amendments to standards and interpretations are mandatory for future annual financial statements. The most significant of the standards, amendments and interpretations that the bank has decided against early adoption of are discussed below.

IFRS 9 Financial instruments addresses the classification, measurement and recognition of financial assets and financial liabilities, impairment and hedge accounting. It replaces those parts of IAS 39 that address corresponding issues. The standard comes into effect for the 2018 financial year, but early application is permitted. The bank is planning to apply the standard when it comes into force.

Under IFRS 9, financial assets are classified into three primary measurement categories: fair value through other comprehensive income, fair value through profit or loss, and amortised cost. The measurement category is determined at the initial recording of the asset. In the case of financial assets, a distinction is made between debt instruments and equity instruments. The classification of debt instruments is determined by the contractual conditions governing the financial assets and the business model applied in managing the portfolio of which the assets form part.

Financial assets that are debt instruments
Debt instruments with contractual cash flows that are solely payments of interest and principal on specified dates and are held in a business model where the objective is achieved by collecting contractual cash flows must generally be measured at amortised cost. Instruments with contractual cash flows that are solely payments of interest and principal on specified dates and are held in a business model where the objective is achieved both by collecting contractual cash flows and selling financial assets must generally be measured at fair value through other comprehensive income, with interest income, foreign currency translation effects and write-downs for impairment being presented in ordinary profit or loss. Any value changes recorded in other comprehensive income must be reclassified to profit or loss on the sale or other disposal of the assets.

Instruments to be measured at amortised cost or at fair value through other comprehensive income may be designated for measurement at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

Derivatives and investments in equity instruments
All derivatives must be measured at fair value with all changes in fair value recognised in profit or loss, but derivatives designated as hedging instruments must be recognised in accordance with the principles governing hedge accounting. Investments in equity instruments must be measured at fair value in the balance sheet. Changes in value must as a general rule be reported in profit or loss, but an equity instrument not held for trading purposes may be designated as measured at fair value

with value changes presented in other comprehensive income. When equity instruments are designated as measured at fair value with value changes presented in other comprehensive income, ordinary dividend payments are recognised in profit or loss, whereas value changes are not recognised in profit or loss either on an ongoing basis or upon sale.

Financial liabilities
The rules governing financial liabilities are essentially the same as in the current IAS 39. As a general rule, financial liabilities must still be measured at amortised cost with the exception of financial derivatives measured at fair value, financial instruments that form part of a trading portfolio and financial liabilities designated as recorded at fair value with value changes recognised in profit or loss. One change from IAS 39 is that financial liabilities designated as recognised at fair value through profit or loss, changes in value attributable to the company's own credit risk must be presented in comprehensive income unless this creates or enlarges an accounting mismatch, rather than in profit or loss, as is the case at present. In addition, the fair value option may be chosen in the case of a group of financial liabilities or financial assets and financial liabilities that is managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on this basis to key personnel in the enterprise's management team.

The bank's assessment at the time of writing is that the new standard will not have an appreciable effect on the bank's measurement of financial assets and liabilities.

Hedge accounting
IFRS 9 simplifies the hedge accounting requirements in that the hedge effectiveness is linked more closely to the management team's risk management and offers greater scope for evaluation. The 80-125 per cent hedge effectiveness requirement has been removed and replaced with requirements that are more qualitative in nature, including that there must be an economic relationship between the hedging instrument and the hedged item, and that credit risk does not dominate the value changes in the hedging instrument. According to IFRS 9 it is sufficient for an effectiveness test to be prospective, whereas under IAS 39 hedge effectiveness must be assessed both prospectively and retrospectively. Documentation of the hedge continues to be a requirement.

The amended rules on hedge accounting will have no effect on the financial statements of the bank, since the bank does not at present apply hedge accounting.

Impairment losses on loans and guarantees
Under current rules, losses are impaired only if there is objective evidence of the occurrence of a loss event after initial recognition of the asset. Under IFRS 9, loss allowances are recognised on the basis of expected credit loss (ECL). The general model for writing down for impairment of financial assets in IFRS 9 will apply to financial assets measured at amortised cost or at fair value through other comprehensive income and for which no losses were determined at initial recognition. Loan commitments, financial guarantee contracts not measured at fair value through profit or loss and lease receivables are also encompassed by the model.

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

The bank has not yet concluded what in the case of loans to customers will constitute a significant increase in credit risk or the quantitative effect of the transition to the new standard.

The bank has yet to decide which transitional rules will be applied, but the comparative figures for 2017 will not be restated.

IFRS 15 *Revenue from contracts with customers* deals with revenue recognition. The standard specifies the identification of the individual performance obligations within the contract with the customer. A performance obligation may take the form of a good or service. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. The standard is effective for the 2018 financial year, but earlier application is permitted. The standard will not have a significant effect on the financial statements of the bank.

IFRS 16 *Leases*
IFRS 16 will primarily impact upon the accounting of lessees and will entail that virtually all contracts of lease will be recognised in the balance sheet. The standard eliminates the existing distinction between operating and finance leases and requires the recognition of a right-of-use asset (the right to use the leased asset) and a financial liability representing the present value of the lease payments for the right-of-use. Exemptions from this solution apply in the case of short-term leases and leases of low-value assets.

The income statement will also be affected because the overall cost is normally higher during the initial years of a contract of lease and lower in the later years of the lease. Moreover, operating costs will be replaced by interest and depreciation/amortisation.

There will be no major changes to the accounting of the lessor. Some differences may arise as a consequence of new guidelines on the definition of a lease. Under IFRS 16, a contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The standard comes into force for the financial year starting on 1 January 2019.

The provisional assessment of the bank is that the new standard may affect the recording in the accounts of the bank's contract of lease on its premises.

There are no other standards or interpretations that are not yet effective that would be expected to have a material impact on the financial statements of the bank.

2.2 Translation of transactions in foreign currencies
The financial statements are presented in Norwegian kroner (NOK), which is also the functional currency of the bank. Monetary items in foreign currencies are translated at the rate of exchange applicable on the balance sheet date. Changes in value as a consequence of changes in the rate of exchange between the transaction date and the balance sheet date are recognised in the income statement.

2.3 Repurchase agreements

The purchase of securities subject to an agreement on repurchase is classified as loans to and claims on customers. The difference between the purchase and sales price is accrued as interest income.

2.4 Financial instruments

Financial assets and liabilities are recorded in the balance sheet at the point in time at which Pareto Bank becomes party to the contractual terms attaching to the instrument. Regular purchases and sales of investments are recognised in the accounts on the trade date. Financial assets are removed from the balance sheet when the rights to receive cash flows from the investment cease or when these rights are transferred and Pareto Bank has largely transferred the risk and the entire potential for gain associated with ownership. Financial liabilities are derecognised at the point at which the rights to the contractual conditions have been fulfilled, cancelled or expired.

Classification

On initial recognition, financial instruments are classified in one of the following categories:

Financial assets:

- Financial assets at fair value through profit or loss.
- Lending and receivables recognised at amortised cost.

Financial liabilities:

- Financial liabilities designated to be measured at fair value, with value changes recognised in profit or loss.
- Other financial liabilities recognised at amortised cost.

Financial assets and liabilities at fair value through profit or loss:

Within this category, it may be mandatory that attribution should be, or the entity may designate that measurement should be, at fair value, with value changes recognised in profit or loss. The first category encompasses the financial derivatives of the bank, unless they form part of a hedge. The second category encompasses certificates and bonds, lending to and deposits by customers and credit institutions at fixed rates of interest, as well as debt created by the issuance of securities. After 1 January 2014, only debt securities in issue with fixed rates of interest will be classified in this category. Financial instruments are classified in the category of designated to be measured at fair value, with value changes recognised in profit and loss for the purpose of substantially reducing inconsistency in measurement (accounting mismatch). The chief reason that an accounting mismatch might otherwise occur is that all financial derivatives are required to be measured at fair value and that these are extensively used in the financial hedging of market risk.

Loans and receivables recorded at amortised cost:

Loans and receivables are financial assets that are not derivatives and have fixed or determinable payments, and are not traded on an active market. This category encompasses loans and receivables as well as bonds that are not defined as assets valued at fair value through profit or loss.

Other financial liabilities recognised at amortised cost:

This category encompasses deposits by customers and credit institutions without locked-in interest rates and other financial liabilities, that are not specified as liabilities valued at fair value through profit or loss.

Measurement

All financial assets that are not recognised at fair value through profit or loss are initially recognised in the balance sheet at fair value with the addition of transaction costs. Other liabilities recognised at amortised cost are initially recognised in the balance sheet at fair value less transaction costs. Financial assets and liabilities recognised at fair value through profit or loss are recognised at the time of acquisition at fair value and transaction costs are recognised in the income statement. Financial assets and liabilities at fair value through profit or loss are measured in subsequent periods at fair value. Loans and receivables and other financial commitments are measured at amortised cost using the effective interest method.

Fair value measurement:

Fair value is the amount for which an asset can be exchanged or a liability can be settled in a transaction between independent parties. The going concern assumption is applied in the calculation and a provision for the credit risk associated with the instrument is included in the valuation.

In the case of financial instruments where a corresponding market risk can be shown to be present to a sufficient degree of probability, middle rates on the balance sheet date are applied. Other financial assets and liabilities are valued at purchase and sales prices, respectively. In the case of financial instruments where it is possible to obtain externally observable prices, rates or volatilities and where these prices represent actual and frequent market transactions, the quoted price obtained from either an exchange or a broker will be applied. In so far as no quoted prices for the instrument are obtainable, the instrument will be decomposed and valued on the basis of the prices of the individual components. This applies to the majority of derivatives such as forward exchange contracts and interest rate swaps, as well as to certificates and bonds.

In the case of other financial instruments such as deposits and loans by customers and credit institutions with locked-in rates, contractual cash flows are determined, discounted by the market rate including a credit risk margin at the reporting date.

Amortised cost measurement

Financial instruments that are not measured at fair value are measured at amortised cost and income is calculated using the effective rate of interest of the instrument (internal rate of return). The internal rate of return is determined by discounting contractual cash flows within the anticipated term. The cash flow includes arrangement fees and direct transaction costs not payable by the customer, as well as any residual value at the end of the anticipated term. Amortised cost is the present value of these cash flows discounted at the internal rate of return.

Writing down of financial assets

If objective evidence of the impairment of loans can be identified, the write-down on loans is calculated as the difference between the accounting value in the balance sheet and the present value of estimated future cash flows discounted by the internal rate of return of the asset. The internal rate of return applied is the internal rate of return of the asset before objective evidence of impairment is identified. Objective evidence of impairment includes significant financial problems on the part of a debtor, payment default or other material breaches of contract, circumstances in which it is viewed as likely that a debtor will commence upon debt restructuring negotiations or where other material circumstances have occurred. Writing down reduces the value of the loan as recorded in the balance sheet and the changes in estimated value during the period are recognised in the income statement in the line item “Losses on loans and guarantees etc.”. Interest calculated using the internal rate of return on the written down value of the asset is included in the line item “Net interest income”. Loans are also valued collectively.

If objective evidence exists of the impairment of a group of loans, a write-down must be calculated.

Presentation in the balance sheet and income statement

Loans and receivables

Loans and receivables are recognised in the balance sheet, depending on counterparty, either as loans to and receivables from credit institutions or loans to and receivables from customers, without regard to the principle of valuation applied. Interest received on financial instruments classified as loans is included in “Interest income and similar income”. Changes in value that can be related to the writing down of loans are recorded in the line item “Losses on loans & guarantees etc.”. Other changes in value on loans with locked-in rates that are valued at fair value are recorded in the line item “Net gains/(losses) on financial instruments at fair value”.

Certificates, bonds and other securities with fixed returns

This category includes securities designated to be measured at fair value through profit or loss. Interest income is recognised in the line item “Interest income and similar income”. Other changes in value are recorded in the line item “Net gains/(losses) on financial instruments at fair value”.

Financial derivatives

Financial derivatives are valued at fair value through profit or loss and presented as an asset if the value is positive and as a liability if the value is negative. Interest income and expense on financial derivatives and changes in value are recorded in “Net gains/(losses) on financial instruments at fair value”.

Deposits by credit institutions and deposits by customers

Debt to credit institutions and customers is recognised, depending on counterparty, either as a deposit by a credit institution or a deposit by a customer, without regard to the principle of valuation applied. Interest expense is included in “Interest expense and similar expense”. Other changes in value are recorded in the line item “Net gains/(losses) on financial instruments at fair value”.

Debt created by issuance of securities

This category includes debt established by the issuance of securities designated to be measured at fair value through profit or loss. Interest expense is included in “Interest expense and similar expense”. Other changes in value are recorded in the line item “Net gains/(losses) on financial instruments at fair value”.

Issued financial guarantees

Contracts which entail that the bank is required to remunerate a loss to the holder as a consequence of the failure of a specific debtor to pay an amount outstanding in accordance with the terms attaching to an instrument of debt are classified as issued financial guarantees. Commission income is recorded over the term of the guarantee in the line item “Commission income and income from banking services”. Changes in value as a consequence of credit commitments that have been written down are recorded in “Losses on loans and guarantees etc.”. Other changes in the value of issued financial guarantees are recognised in the balance sheet in the line item “Provisions for liabilities”.

Derivatives and hedging

Derivatives are recognised in the balance sheet at fair value at the time the derivative contract is entered into and thereafter at fair value. The recording of the associated gains and losses will depend on whether the derivative is designated a hedging instrument and, if applicable, the type of hedge. The bank has earmarked certain derivatives as hedges of the fair value of fixed-income bonds (value hedging).

When establishing a hedge, the bank documents the relationship between the hedging instruments and the hedged items, as well as the purpose of managing the risk and the strategy underlying the various hedging transactions. The bank also documents its assessment of whether the derivatives used are sufficiently efficient in hedging changes in the fair value linked to the hedged items. Assessments of this nature are documented both when the hedge is entered into and continuously during the hedging period.

Changes in the fair value of derivatives that are earmarked and qualify for hedging fair value and that are effective, are recorded in the income statement together with changes in the fair value associated with the hedged risk of the hedged item in “Net gains/(losses) on financial instruments at fair value”.

2.5 Net presentation of financial assets and liabilities

Financial assets and liabilities are presented net in the balance sheet only where an unconditional and legally-enforceable right of set-off exists and the intention is to effect net settlement or to realise the asset and the same time settle the liability.

2.6 Accrual of interest and charges

Interest and commission is recognised in the income statement as it is earned as income or accrues as expense. Charges that are direct payment for services rendered are taken to income when they are paid. Arrangement fees are included in the cash flows when calculating amortised costs and recognised as income in the line item “Interest income and similar income” using the internal rate of return method. Charges included in the setting up of financial guarantees are included in the valuation of the guarantee and recognised as income over the term of the guarantee in the line item “Changes in value and gains/losses on financial instruments”.

2.7 Recognition of interest

Interest income is recognised using the internal rate of return method. This involves recognising nominal interest with the addition of the amortisation of arrangement fees less direct arrangement costs. The recognition of interest by the internal rate of return method is used both for balance sheet items valued at amortised cost and for balance sheet items valued at fair value through profit or loss. Interest income on written down credit commitments is calculated as the internal rate of return on the written down value.

2.8 Tangible fixed assets

Material assets are classified as tangible fixed assets and valued at acquisition cost less accumulated depreciation and write-downs. Acquisition cost includes expenses related directly to the acquisition. Repairs and maintenance are expensed on an ongoing basis in the income statement. Tangible fixed assets are depreciated on a straight-line basis over their expected useful life. Fixtures and fittings etc. are depreciated over a period of 2 – 5 years and computer equipment over a period of 2 – 3 years. The residual values and useful lives of the assets are assessed on an annual basis and adjusted as necessary. The need for write-downs is also assessed on a regular basis.

2.9 Intangible assets

Purchased software/licences and the bank’s connection to the Norwegian infrastructure for payment transfer are classified as intangible assets and recognised in the balance sheet at acquisition cost with the addition of the expenses required to make the software ready for use. These are amortised in line with the duration of the contracts and the expected economic life of the asset. The development of software is recorded in the balance sheet and, where the value is assessed as substantial and

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is expected to have lasting value, it is amortised over the course of its estimated useful life. The residual values and useful lives of the assets are assessed on an annual basis and adjusted as necessary. The need for write-downs is also assessed on a regular basis.

2.10 Pensions

The bank has a defined contribution pension scheme for its employees and the scheme is managed by a life assurance company. The bank pays an annual contribution to the group pension savings scheme of the individual employee of 5 per cent in the case of salary rates of between 1 and 6 G (G = the basic National Insurance amount) and 8 per cent in the case of salary rates of between 6 and 12 G. The bank has no further commitments beyond the payment of the annual contribution. Premium including employer's tax is taken to expense directly.

2.11 Taxes

The year's tax cost comprises taxes payable for the financial year as well as changes in deferred tax on temporary differences. Temporary differences are the differences between the accounting and tax values of balance sheet items. Deferred tax is determined using the tax rates and tax rules applicable on the reporting date and that it is assumed will be applied when the deferred tax asset is realised or when the deferred tax is settled. Deferred tax asset is recognised in the balance sheet in so far as it is probable that it can be charged to future taxable income.

2.12 Dividend

Proposed dividend remains part of equity capital until a decision on the payment of a dividend has been adopted by the general meeting. Proposed dividend is not included in the calculation of capital adequacy.

2.13 Contracts of lease

Contracts of lease where a significant portion of the risk and return relating to ownership remain with the lessor are classified as operating leases. Pareto Bank has only operating leases. Leasing costs are expensed on a straight-line basis over the term of the lease.

2.14 Associate companies

Associate companies are companies in which the bank has a significant influence, but not control. Significant influence normally occurs where the group holds between 20 and 50 per cent of the voting rights. Investments in associate companies are recognised using the equity method. Investments are recognised at the time of purchase at acquisition cost, and the bank's share of profits or losses in subsequent periods is taken to income or expense. Amounts recognised in the balance sheet include any implicit goodwill identified at the time of purchase.

2.15 Statement of Cash Flows

The Statement of Cash Flows has been prepared using the direct method.

2.15 Events since the reporting date

Information that comes to light after the balance sheet date about the financial position of the company on the balance sheet date will form part of the basis for assessing the accounting estimates in the financial statements and will accordingly be taken into account in the annual financial statements. Events that do not affect the financial position of the company on the balance sheet date, but that will affect the financial position of the company in the future, are disclosed where significant. The financial statements of the bank will to some extent be based on estimates and discretionary assessments. These are based on historical experience and expectations of future events viewed as likely at the balance sheet date. The accounting estimates will rarely accord entirely with the final outcome and represent a risk of future, substantial changes in the values of financial instruments and intangible assets recorded in the balance sheet.

NOTE 3: ACCOUNTING ESTIMATES AND DISCRETIONARY ASSESSMENTS

The use of estimates

The presentation of the accounts will to some extent be based on estimates and discretionary assessments. These are based on historical experience and expectations concerning future events viewed as likely on the balance sheet date. The accounting estimates will rarely accord entirely with the final outcome and represent a risk of future, substantial changes in the value of financial instruments and intangible assets recorded in the balance sheet.

Fair value measurement

Fair value is the amount for which an asset can be exchanged or a liability can be settled in a transaction between independent parties. The fair value of financial instruments that are not traded in an active market is determined by means of valuation techniques. The bank values and applies methods and assumptions that are as far as possible based on the market conditions prevailing on the balance sheet date. This applies to the bank's holdings of certificates and bonds, financial derivatives and deposits and loans with locked-in interest rates. The methods and assumptions applied in the calculation of fair value are also described in the bank's accounting principles and in Note 15 to the annual financial statements.

The writing down of financial assets

If objective evidence of the impairment of loans can be identified, the write-down on loans is calculated as the difference between the accounting value in the balance sheet and the present value of estimated future cash flows discounted by the internal rate of return of the asset. The internal rate of return applied is the internal rate of return of the asset before objective evidence of impairment is identified. Objective evidence of impairment includes significant financial problems on the part of a debtor, payment default or other material breaches of contract, circumstances in which it is viewed as likely that a debtor will commence upon debt restructuring negotiations or where other material circumstances have occurred.

Objective evidence of reductions in value in groups of loans has been observed, which has resulted in write-downs. This implies that assessments are performed on the basis of approaches and historical material relating both to the individual commitment and to macro-economic conditions and expectations thereof.

Reference is also made to the bank's accounting principles.

Intangible assets and tangible fixed assets

The residual value and useful lives of the assets are assessed annually and adjusted as necessary. The need for write-downs is also assessed on a regular basis.

Other circumstances

The bank is not involved in any legal disputes.

NOTE 4: MARKET SEGMENTS

In light of the size and areas of business of the bank, all credit activities are concentrated in a single credit area. Pareto Bank manages and monitors these credit activities as a single business area.

NOTE 5: NET INTEREST AND CREDIT COMMISSION INCOME

(NOK 1.000)	2016	2015
Interest income and similar income on loans to and claims on central banks, amortised cost	292	608
Interest income and similar income on loans to and claims on credit institutions, amortised cost	4 421	5 085
Interest income and similar income on loans to and claims on customers, fair value	559	606
Interest income and similar income on loans to and claims on customers, amortised cost	479 508	434 484
Interest income and similar income on bonds and certificates, fair value	51 370	52 239
Arrangement fees etc.	60 371	40 632
Commission income etc.	22 150	19 383
Other interest income and similar income	10	3
Interest income and similar income	**618 683**	**553 039**
Interest expense and similar expense on debt to financial institutions, fair value	0	457
Interest expense and similar expense on debt to financial institutions, amortised cost	493	737
Interest expense and similar expense on deposits by customers, fair value	40 728	45 150
Interest expense and similar expense on deposits by customers, amortised cost	67 279	78 408
Interest expense and similar expense on securities debt, fair value	21 413	37 994
Interest expense and similar expense on securities debt, amortised cost	62 267	35 380
Interest expense and similar expense on subordinated loan capital, amortised cost	4 891	5 057
Fee to Norwegian Banks' Guarantee Fund	5 716	5 420
Other interest expense and similar expense, amortised cost	0	182
Interest expense and similar expense	**202 786**	**208 787**
Net interest and credit commission income	**415 897**	**344 252**

NOTE 6: OTHER INCOME

(NOK 1.000)	2016	2015
Commission income from payment transfers	607	577
Commission income from guarantees	11 505	10 432
Commission income from conditional subscriptions	0	118
Commission income from investment services	2 619	2 191
Inter-bank commissions	32	27
Commission income from other banking services	469	1 761
Commission income and income from banking services	**15 232**	**15 105**
Commission expense on payment transfers	588	463
Inter-bank commissions	9	7
Commission expense and banking service expenses	**597**	**470**
Income from ownership interests in associate companies	**2 533**	**0**
Net gains/(losses) on financial instruments at fair value	**24 534**	**-2 288**
Other operating income	**342**	**56**
Net other operating income	**42 045**	**12 403**

NOTE 7: NET GAINS/(LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE

(NOK 1.000)	2016	2015
Net gains/(losses) on foreign exchange	-17 050	-1 312
Net gains/(losses) on currency derivatives	25 290	11 735
Net gains/(losses) on money market derivatives	-2 678	-5 095
Net gains/(losses) on financial instruments, trading	**5 562**	**5 327**
Net gains/(losses) on loans to customers	-198	-139
Net gains/(losses) on bonds and certificates	18 573	-47 279
Net gains/(losses) on shares and fund units	790	4 522
Net gains/(losses) on securities debt	-459	16 916
Net gains/(losses) on deposits by customers	266	8 014
Net gains/(losses) on financial instruments at fair value	**18 972**	**-17 965**
Net gains/(losses) on derivatives, hedging	0	-5 320
Net gains/(losses) on bonds, hedged	0	15 669
Net gains/(losses) on hedged items	**0**	**10 349**
Net gains/(losses) on financial instruments at fair value	**24 534**	**-2 289**

NOTE 8: OPERATING COSTS

(NOK 1.000)	2016	2015
Ordinary salary costs	31 883	31 522
Provision for profit sharing	16 159	10 773
Fees, elected officers	1 247	1 203
Pension costs	2 235	2 508
Employer's National Insurance contributions	8 025	5 006
Other personnel costs	2 001	2 022
Salaries and other personnel expenses	**61 551**	**53 033**
IT costs	12 056	10 642
Office supplies, postage etc.	1 295	1 223
Sales, entertainment expenses and marketing	3 891	2 046
Andre administrasjonskostnader	1 142	1 075
Administrative expenses	**18 384**	**14 987**
Rent and other operating costs, leased premises	3 301	3 346
Fees auditing, consultancy and legal advice	9 969	5 173
Membership subscriptions	870	919
Insurance cover	405	406
Sundry operating costs	55	253
Other operating costs	**14 600**	**10 098**
Depreciation, amortisation etc. on property, plant and equipment and intangible assets	**4 272**	**4 568**
Total operating costs	**98 807**	**82 685**

NOTE 9: PENSION COSTS

Pareto Bank is required to have an occupational pension scheme pursuant to the Act concerning occupational pension schemes and has a scheme that complies with the provisions of the Act. The bank has a defined contribution pension scheme for all employees, which is managed by life assurance company Storebrand Livsforsikring AS. The pension benefits provided are retirement, disability, spouse and child cover. Cover for continuing premium payments to the retirement scheme in the event of disability has been arranged and 30 years' service is required in order to qualify for full benefits.

The pensionable income is the employee's annual salary including fixed benefits, with annual payments of 5 per cent of pensionable income for salaries of between 1 G and 6 G and of 8 per cent for salaries of 6 G and 12 G, G being equal to the basic payment under the Norwegian National Insurance scheme. The retirement age is 67.

Disability cover has also been taken out in the form of a group disability annuity for salaries exceeding 12 G. The pensionable income is salary in excess of 12 G. Cover for continuing premium payments to the retirement scheme in the event of disability has been arranged. 30 years' service is required in order to qualify for full benefits. The disability pension is 45 per cent of salaries in excess of 12 G.

The bank has no pension commitments beyond the payment of the annual premiums on the above schemes.

(NOK 1.000)	2016	2015
Pension cost, defined contribution scheme	1 993	2 242
Pension cost, annuity	242	266
Pension cost	**2 235**	**2 508**

NOTE 10: NUMBER OF EMPLOYEES/ MAN-YEARS (FULL-TIME EQUIVALENTS)

	2016	2015
Number of employees at 31 Dec.	35,0	33,0
Number of full-time equivalents at 31 Dec.	34,0	33,0
Average number of employees	33,8	29,6
Average number of full-time equivalents	33,3	30,0

NOTE 11: TAX COST

(NOK 1.000)

Temporary differences	**2016**	**2015**
Intangible assets	1 740	2 052
Loans to customers	0	198
Certificates and bonds	10 328	6 311
Derivatives	12 137	7 097
Positive temporary differences	**24 205**	**15 658**
Tangible fixed assets	-266	-292
Certificates and bonds	-11 553	-23 495
Certificates and bonds – own issue	-15	-3 492
Customer deposits	-4 641	-4 907
Shares, mutual fund units and other securities	0	0
Derivatives	-55 805	-84 167
Negative temporary differences and carry-forward loss	**-72 280**	**-116 353**
Basis for deferred tax in balance sheet	**-48 075**	**-100 695**
Deferred tax/tax asset	**-12 019**	**-25 174**

Basis for tax cost, change in deferred tax and tax payable		
Profit before taxes	328 474	231 057
Permanent differences	-23 165	908
Basis for year's tax cost	**305 309**	**231 965**
Change in differences included in basis for deferred tax	-52 620	-18 458
Basis for tax payable in income statement	**252 689**	**213 507**
Taxable income (basis for tax payable in balance sheet)	**252 689**	**213 507**

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NOTE 11: TAX COST, CONTINUED...

(NOK 1.000)

Breakdown of tax cost	2016	2015
Tax payable (25% of basis for tax payable in income statement)	63 172	57 647
Change in deferred tax/tax asset	13 155	6 998
Items charged directly to equity	5 259	0
Excess/insufficient provision for tax preceding year	-419	0
Tax cost (27% of basis for year's tax cost)	**81 167**	**64 645**

Tax payable in balance sheet		
Tax payable on year's profit	63 172	57 647
Tax effect of group contribution	0	0
Tax payable in balance sheet	**63 172**	**57 647**

NOTE 12: WRITE-DOWNS AND LOSSES

(NOK 1.000)	2016	2015
Cost of losses in period		
Change in individual write-downs	21 642	17 597
Change in collective write-downs	5 000	14 000
Actual losses charged to previous write-downs	4 002	0
Actual losses without previous write-downs	18	38
Recoveries on past actual losses	0	0
Change in specified provisions for guarantee liability	0	0
Write-downs and losses on loans and guarantees	**30 661**	**31 635**
Individual write-downs		
Individual write-downs 1 Jan.	17 597	0
-Actual losses charged to previous write-downs	4 002	0
+ Increase individual write-downs	31 912	0
+ New individual write-downs	0	17 597
- Reversed write-downs	6 358	0
Individual write-downs 31 Dec.	**39 150**	**17 597**
Collective write-downs		
Collective write-downs 1 Jan.	40 700	26 700
+ Change in collective write-downs in period	5 000	14 000
Collective write-downs 31 Dec.	**45 700**	**40 700**

NOTE 13: NON-PERFORMING AND IMPAIRED COMMITMENTS

(NOK 1.000)	**31.12.2016**	**31.12.2015**
Non-performing commitments		
Gross non-performing commitments	74 475	143 549
Individual write-downs	10 996	17 597
Net non-performing commitments	63 479	125 952
Provision ratio	14,76 %	12,26 %
Non-performing commitments as % of gross lending	**0,72 %**	**1,58 %**

Non-performing commitments are commitments where the customer has failed to pay instalments payable on the loan within 90 days after the due date, or when amounts overdrawn on credit lines are not redeemed as agreed within 90 days after the credit line was overdrawn.

Other impaired commitments		
Other impaired commitments	145 952	0
Individual write-downs	28 154	0
Net impaired commitments	117 797	0
Provision ratio	19,29 %	0,00 %
Other impaired commitments as % of gross lending	**1,33 %**	**0,00 %**

Other impaired commitments are commitments that are not non-performing as defined above, but where a write-down has been performed.

Overdue loans, excluding loans that have been written down		
6-30 days	1 934	26 364
31-60 days	69 193	31 690
61-90 days	0	20 200
>90 days	47 955	90 757
Total	**119 081**	**169 011**

NOTE 14: CLASSIFICATION OF FINANCIAL INSTRUMENTS

At 31 Dec. 2016 (NOK 1.000)	Finacial instruments at fair value through profit and loss	Finacial instruments valued at amortised cost	**Finacial instruments**
Cash and balances at central banks	0	57 075	**57 075**
Loans and advances to credit institutions	0	747 274	**747 274**
Lending to customers	0	8 753 761	**8 753 761**
Certificates and bonds	3 315 103	0	**3 315 103**
Shares, fund units and other securities	10	0	**10**
Financial derivatives	12 725	0	**12 725**
Assets	**3 327 838**	**9 558 110**	**12 885 948**
Deposits by credit institutions	0	4 133	**4 133**
Deposits by and debt to customers	1 789 370	5 857 430	**7 646 800**
Debt created by issuance of securities	62 441	2 823 104	**2 885 545**
Financial derivatives	55 805	0	**55 805**
Subordinated loan capital	0	270 221	**270 221**
Liabilities	**1 907 616**	**8 954 888**	**10 862 504**

As 31 Dec. 2015 (NOK 1.000)	Finacial instruments at fair value through profit and loss	Finacial instruments valued at amortised cost	**Finacial instruments**
Cash and balances at central banks	0	459 229	**459 229**
Loans and advances to credit institutions	0	362 528	**362 528**
Lending to customers	11 809	7 918 825	**7 930 634**
Certificates and bonds	2 318 758	0	**2 318 758**
Shares, fund units and other securities	8 010	0	**8 010**
Financial derivatives	7 658	0	**7 658**
Assets	**2 346 235**	**8 740 582**	**11 086 817**
Deposits by credit institutions	0	398	**398**
Deposits by and debt to customers	1 360 247	5 094 678	**6 454 925**
Debt created by issuance of securities	1 003 904	2 013 605	**3 017 509**
Financial derivatives	83 346	0	**83 346**
Subordinated loan capital	0	150 125	**150 125**
Liabilities	**2 447 497**	**7 258 805**	**9 706 303**

NOTE 15: FINANCIAL INSTRUMENTS AT FAIR VALUE

Classification of valuation based on the reliability of the information used

At 31 Dec. 2016 (NOK 1.000)	Level 1	Level 2	Level 3	Financial instruments
Certificates and bonds	0	3 315 103	0	**3 315 103**
Shares and units in mutual funds	0	0	10	**10**
Financial derivatives	0	12 725	0	**12 725**
Assets	**0**	**3 327 828**	**10**	**3 327 838**
Deposits by customers	0	0	1 789 370	**1 789 370**
Debt created by issuance of securities	0	62 441	0	**62 441**
Financial derivatives	0	55 805	0	**55 805**
Liabilities	**0**	**118 246**	**1 789 370**	**1 907 616**

Classification of valuation based on the reliability of the information used

At 31 Dec. 2015 (NOK 1.000)	Level 1	Level 2	Level 3	Financial instruments
Lending to customers	0	0	11 809	**11 809**
Certificates and bonds	0	2 318 758	0	**2 318 758**
Shares and units in mutual funds	0	0	8 010	**8 010**
Financial derivatives	0	7 658	0	**7 658**
Assets	**0**	**2 326 416**	**19 819**	**2 346 235**
Deposits by customers	0	0	1 360 247	**1 360 247**
Debt created by issuance of securities	0	1 003 904	0	**1 003 904**
Financial derivatives	0	83 346	0	**83 346**
Liabilities	**0**	**1 087 250**	**1 360 247**	**2 447 497**

NOTE 15: FINANCIAL INSTRUMENTS AT FAIR VALUE, CONTINUED...

There was no movement between levels 1 and 2 during the periods.

Financial instruments valued at fair value are valued using a fair-value hierarchy that reflects the reliability of the information used based on the following levels:

Level 1: Market price (non-adjusted) quoted in an active market for identical assets or liabilities.
Level 2: Market price that is not quoted but that is observable for assets or liabilities either directly or indirectly (for example in the form of prices).
Level 3: Information that is not based on observable market data.

Method for calculating the fair value of financial instruments for financial instruments valued at fair value:

Loans to customers: The bank calculates contractual cash flows discounted by the market rate of return, including a credit premium at the balance sheet date. The credit premium is obtained from independent brokers in major financial institutions.

Certificates and bonds: The bank obtains market prices and credit spreads from independent brokers from major financial institutions in order to calculate fair value.

Units in mutual funds: The bank obtains the market value of fund units from the individual fund manager.

Deposits by customers, financial institutions and debt created by issuance of securities: The bank calculates contractual cash flows discounted by the market rate of return with the addition of the estimated credit spreads of the bank in deposit and security markets on the balance sheet date.

Financial derivatives: The fair value of financial derivatives is calculated on the basis of discounted cash flows based on foreign exchange rates and current yield curves on the balance sheet date.

See also the description provided in Note 2: Summary of key accounting policies

NOTE 15: FINANCIAL INSTRUMENTS AT FAIR VALUE, CONTINUED...

Changes in financial instruments Level 3
At 31 Dec. 2016

(NOK 1.000)	Loans to and claims on customers	Shares and units in mutual funds	Total assets	Deposits by and debt to cusomers	Total debt
Balance sheet at 1 Jan. 2016	11 809	8 010	**19 819**	1 360 247	**1 360 247**
Gains/(losses) in IS in item for net gain/losses on financial instruments at fair value	-198	0	**-198**	266	**266**
Reclassification associate companies	0	-8 000	**-8 000**	0	**0**
Payments to and from counterparties	11 611	0	**3 611**	428 857	**428 857**
Balance sheet at 31 Dec. 2016	**0**	**10**	**10**	**1 789 370**	**1 789 370**
Total gains/losses for period for financial instruments retained on balance sheet date are recorded in net gains/losses on financial instruments at fair value	-198	0	**-198**	266	**266**

Changes in financial instruments Level 3
At 31 Dec. 2015

(NOK 1.000)	Loans to and claims on customers	Shares and units in mutual funds	Total assets	Deposits by and debt to cusomers	Total debt
Balance sheet at 1 Jan. 2016	15 529	4 005	**19 534**	2 886 388	**2 886 388**
Gains/(losses) in IS in item for net gain/losses on financial instruments at fair value	-139	0	**-139**	-9 102	**-9 102**
Payments to and from counterparties	-3 581	4 005	**424**	-1 517 039	**-1 517 039**
Balance sheet at 31 Dec. 2015	**11 809**	**8 010**	**19 819**	**1 360 247**	**1 360 247**
Total gains/losses for period for financial instruments retained on balance sheet date are recorded in net gains/losses on financial instruments at fair value	-139	0	**-139**	8 014	**8 014**

Sensitivity analysis, Level 3

	Balance sheet value 31 Dec 2016	Effect of assumptions
Deposits by and debt to customers	1 789 370	1 439

	Balance sheet value 31 Dec 2015	Effect of assumptions
Loans to and claims on customers	11 809	-10
Deposits by and debt to customers	1 360 247	1 319

In the case of loans to customers at fair value, margin changes are the only non-observable input into the fair value calculation. To show the sensitivity of deposits by and debt to customers, a change of 10 basis points has been applied to the credit spread/discount rate of the individual deposit.

NOTE 16: THE FAIR VALUE OF FINANCIAL INSTRUMENTS AT AMORTISED COST

(NOK 1.000)	31 Dec. 2016 Balance sheet value	31 Dec. 2016 Fair value	31 Dec. 2015 Balance sheet value	31 Dec. 2015 Fair value
Debt created by issuance of securities	2 351 022	2 831 890	2 013 605	1 994 816
Subordinated loan capital	270 221	265 562	150 125	145 500
Liabilities	**2 621 243**	**3 097 452**	**2 163 730**	**2 140 316**

The method used for calculating the fair value of financial instruments at amortised cost

Valuation is performed on the basis of the properties and values of the individual instruments on the balance sheet date. The values are calculated on the basis of prices quoted on active markets where such information is available, internal models that calculate the theoretical value when no active market is available, or by comparing the prices of instruments in the portfolio in relation to the last available transaction prices. Valuation is performed on the basis of the properties and values of the individual instruments on the balance sheet date.

These valuations will not always provide values that accord with the market's valuation of the same instruments. Such variations may be due, inter alia, to different perceptions of market prospects, market conditions, risk factors and required rate of return, as well as to variations in the availability of precise information.

Certificates and bonds
The bank obtains market values from the Bloomberg information system and prices and credit matrices from independent brokers in major financial institutions in order to calculate fair value.

Subordinated loan capital
The fair value of subordinated loan capital is fixed at the estimated realisation value based on prices quoted by independent brokers.
In the case of the balance sheet items cash and claims on central banks, loans to and claims on credit institutions, loans to customers, deposits by credit institutions, deposits by customers, the balance sheet value is approximately equal to fair value.

NOTE 17: CREDIT COMMITMENTS BY CUSTOMER GROUP

	Loans		Guarantees		Undrawn credit lines	
(NOK 1.000)	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Private customers	458 115	430 686	1 501	1 501	338 734	328 256
Agriculture, forestry and fisheries	0	101	0	0	6 000	5 899
Industry	31 759	26 469	600	600	8 097	14 766
Elec. power, natural gas, steam and hot water providers	0	0	4 323	0	0	0
Building and construction	1 849 064	1 705 428	85 576	80 612	573 195	377 118
Retail	14 596	8 771	196	196	8 536	15 337
Transport and storage	725 171	672 069	500	0	4 411	5 898
Accommodation and hospitality	32 249	11 750	0	0	1	0
Information and communication	7 327	515	1 656	1 656	24 173	25 485
Finance and insurance	808 784	959 136	8 807	4 820	248 512	200 166
Sales and management of real property	3 313 299	3 023 908	201 318	253 631	710 217	765 446
Professional, scientific and technical services	988 257	394 797	13 581	15 201	197 564	58 264
Commercial services	149 042	137 719	2 300	2 050	64 432	30 671
Health, social services and entertainment	9 504	9 584	0	0	3 496	3 416
Foreign	428 632	587 262	114 554	116 581	50 389	43 326
Total customers, principal	**8 815 799**	**7 968 195**	**434 912**	**476 848**	**2 237 757**	**1 874 048**
Accrued interest and amortisation	22 812	20 539	0	0	0	0
Write-downs	-84 850	-58 297	0	0	0	0
Adjustment to fair value	0	198	0	0	0	0
Total customers	**8 753 761**	**7 930 634**	**434 912**	**476 848**	**2 237 757**	**1 874 048**
Credit institutions, principal	743 424	359 840	0	0	0	0
Accrued interest and amortisation	3 850	2 688	0	0	0	0
Adjustment to fair value	0	0	0	0	0	0
Total credit institutions	**747 274**	**362 528**	**0**	**0**	**0**	**0**
Total customers and credit institutions	**9 501 035**	**8 293 162**	**434 912**	**476 848**	**2 237 757**	**1 874 048**

The above divisions are based on Statistics Norway’s sector and industry categories using the primary business of the customers.

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NOTE 18: CREDIT COMMITMENTS BY GEOGRAPHICAL LOCATION

	Loans		Guarantees		Undrawn credit lines	
(NOK 1.000)	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Eastern Norway	2 121 854	1 629 279	75 379	41 649	627 380	427 330
Oslo	5 372 347	4 988 220	237 479	296 765	1 091 472	1 034 570
Southern Norway	377 297	281 064	5 381	10 450	145 831	125 082
Western Norway	309 248	141 828	2 120	1 620	107 106	125 180
Northern and Central Norway	206 421	340 542	0	9 782	215 579	118 559
Foreign	428 632	587 262	114 554	116 581	50 389	43 326
Total customers, principal	**8 815 799**	**7 968 194**	**434 912**	**476 848**	**2 237 757**	**1 874 048**
Accrued interest and amortisation	22 812	20 539	0	0	0	0
Write-downs	-84 850	-58 297	0	0	0	0
Adjustment to fair value	0	198	0	0	0	0
Total customers	**8 753 761**	**7 930 634**	**434 912**	**476 848**	**2 237 757**	**1 874 048**
Credit institutions, principal	743 424	359 840	0	0	0	0
Accrued interest and amortisation	3 850	2 688	0	0	0	0
Adjustment to fair value	0	0	0	0	0	0
Total credit institutions	**747 274**	**362 528**	**0**	**0**	**0**	**0**
Total customers and credit institutions	**9 501 035**	**8 293 162**	**434 912**	**476 848**	**2 237 757**	**1 874 048**

NOTE 19: CERTIFICATES AND BONDS

(NOK 1.000)	31.12.2016	31.12.2015
Certificates (cost price), quoted	600 000	0
Accrued interest and amortisation	0	0
Adjustment to fair value	-1 560	0
Certificates at fair value	**598 440**	**0**
Average duration of credit	0,59	0,00
Average effective rate of interest	0,45 %	0,00 %
Bonds (cost price), quoted	2 683 716	2 329 640
Accrued interest and amortisation	25 747	9 040
Adjustment to fair value	7 200	-19 923
Bonds at fair value	**2 716 663**	**2 318 758**
Average duration of credit	3,38	3,45
Average effective rate of interest	0,98 %	0,94 %
Total certificates and bonds	**3 315 103**	**2 318 758**

NOTE 20: OWNERSHIP INTERESTS ASSOCIATE COMPANIES

(NOK 1.000)	Land	Assets	Debts	Revenues	Share of profits	Stake	Book value
Verdun Holding AS	Norge	79 438	55 420	142 861	2 533	24,5 %	14 654
Total associate companies		**79 438**	**55 420**	**142 861**	**2 533**		**14 654**

Balance sheet value, associate company

Value recognised in balance sheet 1 Jan. 2016	**0**
Acquisitions	12 120
Share of profits	2 533
Value recognised in balance sheet 31 Dec. 2016	**14 654**

Reconciliation, accounts of Verdun Holding AS

Net assets	24 018
Ownership interest (24.5%)	5 884
Goodwill	8 769
Value recognised in balance sheet	**14 654**

Verdun Holding AS is the holding company of real estate brokers Eiendomsmegler Sem & Johnsen, based at Klingenberggata 7 in Oslo.

NOTE 21: OTHER INTANGIBLE ASSETS

(NOK 1.000)	**31.12.2016**	**31.12.2015**
Purchase cost 1 Jan.	51 581	46 178
Acquisitions during year	3 036	5 403
Disposals during year	0	0
Purchase cost 31 Dec.	54 618	51 581
Accumulated amortisation 1 Jan.	-25 697	-21 328
Year's write-downs	0	0
Year's amortisations	-4 007	-4 369
Accumulated amortisations 31 Dec.	-29 704	-25 697
Book value 31 Dec.	**24 913**	**25 884**
Economic life	1-5 years	1-5 years
Amortisation plan	Straight line	Straight line

Other intangible assets consist of software licences and the affiliation charge payable to Finance Norway for access to the banks' infrastructure for payment transfers. The affiliation charge for access to the banks' infrastructure in the amount of NOK 15.5 million is not amortised.

NOTE 22: TANGIBLE FIXED ASSETS

(NOK 1.000)	**31.12.2016**	**31.12.2015**
Purchase cost 1 Jan.	3 795	3 126
Acquisitions during year	215	669
Disposals during year	0	0
Purchase cost 31 Dec.	4 010	3 795
Accumulated amortisation 1 Jan.	-3 010	-2 818
Year's write-downs	0	6
Year's amortisations	-265	-198
Accumulated amortisations 31 Dec.	-3 275	-3 010
Book value 31 Dec.	**735**	**785**
Economic life	3 years	3 years
Amortisation plan	Straight line	Straight line

The tangible fixed assets of the bank comprise fixtures and equipment and office machines.
The bank has not mortgaged or accepted other restrictions on its right to dispose its property, plant and equipment.

NOTE 23: DEPOSITS BY CUSTOMER GROUPS

(NOK 1.000)	31.12.2016	31.12.2015
Customer deposits by segment		
Private customers	2 471 612	2 047 047
Agriculture, forestry and fisheries	26 360	25 397
Mining and extraction	1 484	48
Industry	35 881	47 661
Elec. power, natural gas, steam and hot water providers	44 959	52 237
Building and construction	221 124	160 636
Retail, motor vehicle repairs	117 866	88 445
Transport and storage	109 159	221 068
Accommodation and hospitality	22 602	21 179
Information and communication	106 162	85 208
Finance and insurance	1 431 571	1 137 088
Sales and management of real property	1 601 923	1 410 918
Professional, scientific and technical services	453 950	400 061
Commercial services	242 920	130 487
Public administration and defence, and social security schemes subject to public administration	36 499	35 973
Education	36 406	14 045
Health and social services	81 899	51 472
Other services	329 642	256 152
Foreign	246 291	218 351
Total customers, principal	7 618 310	6 403 472
Accrued interest	23 849	16 219
Adjustment to fair value	4 641	4 907
Customer deposits	**7 646 800**	**6 424 598**

The above divisions are based on Statistics Norway's sector and industry categories using the primary business of the customers.

Customer deposits by geographical location

(NOK 1.000)	31.12.2016	31.12.2015
Eastern Norway	2 119 195	1 503 722
Oslo	4 162 755	3 824 684
Southern Norway	426 520	333 169
Western Norway	442 228	385 014
Northern and Central Norway	221 321	168 860
Foreign	246 291	218 351
Total customers, principal	7 618 310	6 433 800
Accrued interest	23 849	16 219
Adjustment to fair value	4 641	4 907
Customer deposits	**7 646 800**	**6 454 925**

NOTE 24: DEBT CREATED BY ISSUANCE OF SECURITIES

(NOK 1.000)	**31.12.2016**	**31.12.2015**
Certificate debt, nominal value	300 000	670 000
- Own non-amortised certificates, nominal value	-130 000	0
Accrued interest	590	1 980
Adjustment to fair value	-1	-55
Total certificate debt	**170 588**	**671 925**
Bond debt, nominal value	3 020 000	2 820 000
- Own non-amortised bonds, nominal value	-313 000	-488 000
Accrued interest	8 423	11 499
Adjustment to fair value	-466	2 085
Total bond debt	**2 714 957**	**2 345 584**
Debt created by issuance of securities	**2 885 545**	**3 017 509**

The bank issues securities to finance its business.

Loans issued 31 December 2016

(NOK 1.000)	**Currency**	**Nom. value**	**Term**	**Yield**
NO001075783	NOK	300 000	12.02.2016 - 07.02.2017	3 mnths NIBOR + 1.20 %-points
NO0010669641	NOK	500 000	09.01.2013 - 09.01.2017	3 mnths NIBOR + 1.85 %-points
NO0010702897	NOK	500 000	30.01.2014 - 30.01.2018	3 mnths NIBOR + 1.35 %-points
NO0010722796	NOK	500 000	04.11.2014 - 03.11.2017	3 mnths NIBOR + 0.70 %-points
NO0010722804	NOK	200 000	04.11.2014 - 04.11.2019	3 mnths NIBOR + 1.00 %-points
NO0010747389	NOK	320 000	12.10.2015 - 12.10.2018	3 mnths NIBOR + 1.37 %-points
NO001075835	NOK	500 000	01.03.2016 - 01.03.2019	3 mnths NIBOR + 1.75 %-points
NO001076826	NOK	500 000	23.06.2016 - 23.06.2020	3 mnths NIBOR + 1.40 %-points

NOTE 25: SUBORDINATED LOAN CAPITAL

(NOK 1.000)	31.12.2016	31.12.2015
Subordinated Tier 2 bond loans, nominal value	270 000	150 000
Accrued interest	590	375
Amortisations	-369	-250
Total subordinated Tier 2 bond loans	**270 221**	**150 125**

Pareto Bank has issued two subordinated Tier 2 bond loans in the total amount of NOK 270 million. One loan was issued on 3 September 2014 with an interest rate of 3-month NIBOR + 195 bp. The second loan was issued on 19 December 2016 with an interest rate of 3-month NIBOR + 290 bp. The loans have terms of 10 years with the right for the issuer to redeem the loans 5 years after the date of issue.

The issuer also has the right to redeem the loans in the event of the introduction by the authorities of changes that impact on the extent to which capital of this type can be counted as core capital or supplementary capital.

Hybrid Tier 1 bond loans
Pareto Bank has issued two perpetual hybrid Tier 1 bond loans in the total amount of NOK 160 million. One loan is for NOK 110 million and was issued on 29 March 2012 with an interest rate of 3-month NIBOR + 600 bp. The second loan was issued on 9 September 2014 in the amount of NOK 50 million with an interest rate of 3-month NIBOR + 370 bp. Both loans are perpetual with the right for the issuer to redeem the loans 5 years after the date of issue, with no incentive to repay.

The issuer also has the right to redeem the loans in the event of the introduction by the authorities of changes that impact on the extent to which capital of this type can be counted as core capital or supplementary capital.

The perpetual hybrid Tier 1 bonds are classified in the balance sheet as equity capital. Please also see Note 1.

NOTE 26: OTHER LIABILITIES AND ACCRUED COSTS

(NOK 1.000)	31.12.2016	31.12.2015
Payment transfer services	1 224	3 033
Trade payables	2 231	1 745
Tax withholdings	2 173	2 050
VAT payable	65	158
Other liabilities	12	0
Other liabilities	**5 705**	**6 987**
Holiday pay, Employer's NI contributions and salaries	22 468	17 329
Other accrued costs	1 750	1 351
Accrued costs	**24 218**	**18 680**

NOTE 27: FINANCIAL DERIVATIVES

Pareto Bank uses derivatives in order to reduce the interest rate and foreign exchange risk that occurs in the course of the ordinary business operations of the bank. This includes in particular the interest rate risk associated with long-term borrowing and lending. These derivatives take the form of swaps and FRAs and forward exchange contracts, as well as combinations thereof.

Interest-rate swaps: Agreements whereby two parties swap cash flows for an agreed amount over an agreed period of time. Thus the bank switches from a fixed to a variable rate of interest or from a variable to a fixed rate. The agreements are normally customised and are traded off-exchange.

Forward exchange contract: Agreement to purchase or sell interest rate terms at a specific time in the future at a pre-agreed price. The agreements are customised and are traded off-exchange.

The overview below shows the nominal values of the financial derivatives according to type of derivative, as well as positive and negative market values. Positive market values are recognised in the balance sheet as assets, while negative market values are charged as debt. For further details of the valuation of financial derivatives, see Note 1 and Note 12.

At 31.12.2016

(NOK 1.000)	**Nominal values**	**Positive market values**	**Negative market values**
Interest rate-related contracts			
Interest rate swaps	2 320 500	9 355	18 948
Total interest rate-related contracts	**2 320 500**	**9 355**	**18 948**
Currency-related contracts			
Forward exchange agreements	1 805 512	3 370	36 856
Total currency-related contracts	**1 805 512**	**3 370**	**36 856**
Financial derivatives	**4 126 012**	**12 725**	**55 805**

At 31.12.2015

(NOK 1.000)	**Nominal values**	**Positive market values**	**Negative market values**
Interest rate-related contracts			
Interest rate swaps	1 780 425	7 562	26 423
Total interest rate-related contracts	**1 780 425**	**7 562**	**26 423**
Currency-related contracts			
Forward exchange agreements	2 068 586	96	56 923
Total currency-related contracts	**2 068 586**	**96**	**56 923**
Financial derivatives	**3 849 011**	**7 658**	**83 346**

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NOTE 28: NET SETTLEMENT FINANCIAL INSTRUMENTS

At 31.12.2016
Assets

(NOK 1.000)	Gross financial assets in BS	Gross debt presented net	Net financial assets in BS	Related amounts not presented net: Fincial instruments	Related amounts not presented net: Collateral in cash (received)	Net amount
Derivatives	12 725	0	12 725	-7 569	3 900	1 256
Total	**12 725**	**0**	**12 725**	**-7 569**	**3 900**	**1 256**

Liabilities

(NOK 1.000)	Gross financial assets in BS	Gross debt presented net	Net financial assets in BS	Related amounts not presented net: Fincial instruments	Related amounts not presented net: Collateral in cash (paid)	Net amount
Derivatives	55 805	0	55 805	-7 569	-48 236	0
Total	**55 805**	**0**	**55 805**	**-7 569**	**-48 236**	**0**

At 31.12.2015
Assets

(NOK 1.000)	Gross financial assets in BS	Gross debt presented net	Net financial assets in BS	Related amounts not presented net: Fincial instruments	Related amounts not presented net: Collateral in cash (received)	Net amount
Derivatives	7 658	0	7 658	-7 658	0	0
Total	**7 658**	**0**	**7 658**	**-7 658**	**0**	**0**

Liabilities

(NOK 1.000)	Gross financial assets in BS	Gross debt presented net	Net financial assets in BS	Related amounts not presented net: Fincial instruments	Related amounts not presented net: Collateral in cash (paid)	Net amount
Derivatives	83 346	0	83 346	-7 658	-68 836	6 852
Total	**83 346**	**0**	**83 346**	**-7 658**	**-68 836**	**6 852**

NOTE 29: FINANCIAL GUARANTEES AND PLEDGES ETC.

(NOK 1.000)	31.12.2016	31.12.2015
Guarantees		
Contract guarantees	139 122	122 725
Payment guarantees	295 791	354 124
Total guarantee liability	**434 912**	**476 848**
Pledges		
Securities pledged to Norges Bank, nominal principal	0	250 000
Total pledges	**0**	**250 000**

NOTE 30: RISK MANAGEMENT AND CAPITAL ADEQUACY

The overarching objective of the bank with regard to risk and risk tolerance is that this should be moderate and concentrated around the primary business areas of the bank on the credit side. Risk relating to other business activities in the short and medium term largely derives from the credit activities of the bank, including its borrowing activities. In addition to credit risk, this relates to limits on interest-rate, foreign exchange and liquidity exposure. In these areas, the bank will have absolute targets for risk and risk tolerance.

The capital adequacy regulations provided for in Basel II are based on three "pillars". Pillar 1 stipulates minimum capital adequacy requirements, while Pillar 2 addresses the bank's assessments of its overall capital requirements and supervisory review. Pillar 3 addresses the financial disclosure requirements to which the bank is subject.

Pillar 1 – Minimum capital adequacy requirements
Pillar 1 encompasses capital requirements relating to credit risk, market risk and operational risk. Pareto Bank applies the standardised approach. The minimum capital adequacy requirement in accordance with Pillar 1 is 8 per cent, of which core capital must constitute at least half.

Credit risk:
Credit risk represents the greatest risk for the bank and relates primarily to all lending to and claims on customers and financial institutions as well as to holdings of securities. Under Pillar 1, these are divided into categories and the capital requirement is calculated on the basis of commitment amount, type of collateral/amount and the status of the commitment/counterparty using standardised risk weightings.

Operational risk:
Pareto Bank has chosen to apply the basic approach under Pillar 1 for calculating operational risk. This applies a capital requirement of 15 per cent of the annual revenue reported in the last three years.

Market risk:
The market risk of the bank is modest and is calculated using the standardised approach in Pillar 1.

Pareto bank

NOTE 30: RISK MANAGEMENT AND CAPITAL ADEQUACY, CONTINUED...

Pillar 1 capital adequacy

(NOK 1.000)	**31.12.2016**	**31.12.2015**
Subordinated capital		
Equity	1 825 163	1 191 168
Less 0.1% of absolute value of financial instruments at fair value	-3 963	0
Less other tangible assets	-24 913	-25 884
Dividend	-58 620	0
Total CET1	**1 737 667**	**1 165 284**
Subordinated loan capital (Tier 1)	160 000	160 000
Total Tier 1 capital	**1 897 667**	**1 325 284**
Subordinated loan capital (Tier 2)	270 000	150 000
Total capital	**2 167 667**	**1 475 284**
Minimum requirements subordinated capital		
Local and regional authorities (incl. municipalities)	2 410	4 316
Institutions	15 866	15 135
Enterprises	540 881	492 117
Commitments secured by mortgages on property	183 248	134 888
Commitments that have come due	1 979	7 183
Covered bonds	11 771	8 562
Units in mutual funds	0	0
Other commitments	13 700	12 010
Capital requirements credit risk standard approach (SA)	769 856	674 211
Capital requirements for operational risk	44 867	35 585
Deduction of write-downs of groups of loans and provisions for guarantee commitments	-6 788	-4 664
Minimum requirements total capital	**807 935**	**705 133**
Surplus of total capital	**1 359 732**	**770 151**
Capital adequacy ratio	**21,46 %**	**16,74 %**
Tier 1 capital ratio	**18,79 %**	**15,04 %**
Common equity Tier 1 ratio	**17,21 %**	**13,22 %**
Calculation base	**10 099 183**	**8 814 158**

NOTE 30: RISK MANAGEMENT AND CAPITAL ADEQUACY, CONTINUED...

Pillar 2 – Assessment of overall capital requirement and supervisory review
Pillar 2 requires the bank to conduct analyses of the risk profile and capital requirements of its business as a whole in order to assess whether the chosen risk profile and activity accords with the financial strength of the bank. This involves assessing the capital requirement and the level of this requirement to determine risk not taken into account in Pillar 1, including capital required for future growth matched to the bank's business and risk profile.

Sensitivity tests and future scenarios relating to serious economic downturns
A stress test has been performed based on a serious economic downturn and major credit losses over a three-year period. A credit loss of 10 per cent over the course of the period was assumed, of which 5 per cent in year 1 and 15 per cent in both years 2 and 3. A further assumption was that the debt and equity capital market was closed throughout the period, combined with extensive withdrawals of deposits.

The analysis reveals that, notwithstanding this scenario, the capital situation of the bank would continue to be satisfactory, with a common equity Tier 1 ratio of 17.1 per cent at the lowest point. This exceeds the requirements of the authorities, including capital buffers and the Pillar 2 capital add-on. This can be attributed to the healthy capital situation, the large surplus of liquid assets and the high rate of loan redemption, all of which factors give the bank considerable freedom of action and the ability to put in place a number of measures at short notice in order to reduce the calculation base.

Reverse stress test
Based on the stress test that was conducted, a calculation was performed to determine what scope of credit losses the bank could take before it expended in the 2.5 per cent capital conservation buffer and ending up below the capital requirements of the authorities.

In a test of this nature, the bank would have to withstand a credit loss of 13.2 per cent of the opening balance for gross lending in year 1. In years 2 and 3, credit losses would, correspondingly, have to increase to 4.6 and 5.4 per cent of the opening balance for gross lending each year. This entails losses of up to 30 per cent on the bank's portfolio of loans for shipping, offshore and corporate financing projects and 24 per cent on commercial property projects over a three-year period.

Pillar 3 – Disclosure requirements with regard to financial information
Pillar 3 requires the disclosure of financial information on the Internet covering the bank's adjustment to and fulfilment of the capital requirement regulations. See www.paretobank.no.

Management control and interventions
All areas of risk have been reviewed with the Board of Directors of the bank and limits on risk have been determined and fixed at an appropriate level in light of the strategy/areas of business of the bank. The Directors receive monthly reports on compliance with regulatory requirements and internal limits.

This also involves continuous reporting on market risk and liquidity risk for control purposes. The bank's management group, Price and Balance Sheet Committee meet regularly in order to analyse and discuss market perspectives, activities and risk levels.

The management also receives daily reports on payment discrepancies, defaults and breaches of borrowing conditions. The Credit Committee of the bank meets at regular intervals and otherwise as required.

NOTE 31: CREDIT RISK

Managing credit risk
Of the various types of risk, credit risk is of the greatest importance to Pareto Bank. Credit risk is the risk to a bank that a lending or guarantee commitment will be defaulted upon and that the customer will fail to meet the commitments that have been agreed with the bank. The credit risk borne by the bank is affected by general developments in the economy and the skill of the bank in its granting and following up of commitments.

Pareto Bank takes a proactive approach to the diversification of its lending portfolio in terms of sector, collateral and the size of the individual commitment. The bank aims to diversify between the various sectors and to avoid risk in sectors in which the bank does not have sufficient expertise or is uncertain about the general level of risk associated with a sector in the future.

The bank has made a particular point of putting in place credit management systems that safeguard an appropriate level of reporting. Within the area of securities in particular, emphasis has been placed on ensuring that the availability of information and control are satisfactory and are automated to the extent possible.

The residual risk that collateral will prove less effective than anticipated forms a natural part of the credit assessments performed by the bank, both at the time of granting of a loan and in the ongoing follow-up. This is handled by appropriately low loan-to-value ratios on collateral and assessing the liquidity of the collateral. Even so, it will always be assumed that the debtor has a satisfactory debt-servicing ability and this too will be stress tested against various scenarios, e.g. unemployment, higher interest rates and reductions in rental income.

Where the bank holds collateral in the form of securities of various kinds, the counterparty/credit risk associated with the individual loan will be assessed. All loans are credit approved individually in advance by the relevant decision-making body. Moreover, there is continuous monitoring and the credit risk attaching to counterparties and the associated loan-to-value ratios are assessed at least once a year. The same applies to counterparty/credit risk associated with issues of bonds and certificates in which the bank itself invests. In addition to the bank's own credit assessment processes, the rating of the counterparty will also be considered, the requirement being that the individual papers/counterparties in the liquidity portfolio of the bank must be of investment-grade.

The Credit Handbook, including the Credit Policy and the Credit Management Memo provide guidelines and limits with respect to all credit provision/exposure. One key principle is that a debtor must be sound, have an acceptable cash flow and preferably pledge security of stable value. In addition, the bank must know its customers well. All commitments and counterparties must be viewed a minimum of once every year. According to the credit policy of the bank, all commitments must be secured in full by mortgages on property, securities or some other qualified form of collateral. All commitments are stress tested when an agreement is concluded as well as during the annual commitment review in order to assess the robustness of the individual commitment in a worst-case scenario, both in relation to debt-servicing ability and in relation to the value of the collateral held by the bank.

In relative terms, the bank holds a limited number of credit commitments. However, these will be consistently somewhat larger than those of other more established banks. For this reason, the bank is considered to have greater exposure to large individual losses than losses that come about as a consequence of a general economic downturn or a downturn in specific industries/types of collateral.

Risk classification system
Risk classification is intended to provide the basis for the uniform assessment of the risk taken on by the bank in connection with lending, credits and guarantees and its own investments in securities. This model also provides the basis for the pricing of the risk associated with commitments. Each commitment is classified when granted and in connection with reviews, or in the event of known changes to the commitment or to the value of the collateral.

Risk classification is performed in two dimensions: the debtor dimension and the collateral dimension. In the debtor dimension, the repayment ability of the customer is assessed, i.e. the cash flow of the customer and the quality of this cash flow, as well as the customer's financial strength. In the collateral dimension, the bank assesses the quality of the collateral, its liquidity and its ability to withstand fluctuations in market value over time. Classifications range from A to E in each of the dimensions. This provides a risk matrix comprising up to 25 risk classes, which are in turn grouped as follows:

Risk groups

No/very little risk	AA, AB, BA
Little risk	AC, BB, CA
Moderate risk	AD, BC, CB, DA
Some risk	AE, BD, CC, DB, EA
High risk	BE, CD, DC, EB
Very high risk	CE, DD, EC
Impaired	ED, DE, EE

NOTE 31: CREDIT RISK, CONTINUED...

The tables below present the bank's credit commitments, loans to credit institutions and investments in certificates and bonds categorised by risk group and by the primary collateral furnished. The tables also show maximum credit exposure.

Maximum credit exposure on financial derivatives is discussed in Note 27. Reference is made to Note 30 and the capital requirement applicable to the bank's credit risk.

Customers: Credit commitments by risk group:

(NOK 1.000)	Loans	Guarantees	Unused credit limits	Total credit exposures 31.12.2016	Total credit exposures 31.12.2015
No/very little risk	3 889 654	176 053	1 371 648	5 437 355	4 567 590
Little risk	3 395 856	204 884	638 652	4 239 392	4 265 080
Moderate risk	1 124 846	45 594	220 577	1 391 017	1 093 909
Some risk	193 916	8 381	8 488	210 786	337 738
High risk	5 745	0	0	5 745	0
Very high risk	204 173	0	0	204 173	54 773
Impaired	0	0	0	0	0
Value changes, accrued interest, write-downs and amortisation	-60 429	0	0	-60 429	-37 560
Loans to and claims on customers principal	**8 753 761**	**434 912**	**2 239 366**	**11 428 039**	**10 281 530**

Customers: Credit commitments by primary collateral/exposure: 1)

(NOK 1.000)	Loans	Guarantees	Unused credit limits	Total credit exposures 31.12.2016	Total credit exposures 31.12.2015
Shares and mutual fund units	1 188 300	2 050	982 968	2 173 319	2 002 712
Bonds	252 088	0	146 586	398 674	269 521
Commercial property – Offices	561 008	0	3 842	564 850	646 188
Commercial property – Storage/multipurpose	364 063	106 378	48 050	518 491	434 504
Commercial property – Retail premises	593 931	600	8 794	603 325	447 272
Commercial property – Housing	2 564 253	128 287	834 845	3 527 385	2 949 803
Commercial property – Land	1 391 125	18 000	167 533	1 576 658	1 170 283
Commercial property – Other	119 049	1 115	1	120 165	289 433
Maritime sector	1 376 275	115 054	0	1 491 329	1 638 398
Housing mortgages/credits	298 703	0	38 065	336 767	270 839
Cash deposit	0	62 547	0	62 547	57 770
Unsecured	0	0	0	0	1 625
Other	105 396	882	8 681	114 959	140 744
Value changes, accrued interest, write-downs and amortisation	-60 429	0	0	-60 429	-37 560
Loans to and claims on customers principal	**8 753 761**	**434 912**	**2 239 366**	**11 428 039**	**10 281 530**

1) With the exception of ordinary housing mortgages/credits, the collateral structure of most commitments will normally be made up of multiple elements. These might comprise various types of collateral security, such as real property, securities, sureties and cash deposits etc.

NOTE 31: CREDIT RISK, CONTINUED...

Credit institutions: Rating

(NOK 1.000)	31.12.2016	31.12.2015
External rating S&P, AA-/A-1+	24 373	26 217
External rating S&P, A+ /A-1+	147 862	304 910
External rating S&P, A /A-1	575 039	31 401
Loans to and claims on credit institutions	**747 274**	**362 528**

Certificates and bonds: Classification of issuers by sector

(NOK 1.000)	31.12.2016	31.12.2015
Central government	1 329 204	279 385
Local authority	364 196	415 858
Credit institution	1 480 888	1 205 646
Bank	140 814	417 869
Certificates and bonds	**3 315 103**	**2 318 758**

Certificates and bonds: Classification of issuers by rating

(NOK 1.000)	31.12.2016	31.12.2015
AAA	2 825 373	1 441 502
AA-/AA/AA+	299 162	373 287
A-/A/A+	0	49 659
BBB-/BBB/BBB+	190 569	454 309
Certificates and bonds	**3 315 103**	**2 318 758**

Where issuers have no official rating, a “shadow rating” provided by DNB and Nordea will be applied.

NOTE 32: INTEREST RATE RISK

Managing interest rate risk

For the bank, interest rate risk occurs as a consequence of changes in the underlying market rates of interest, and relates to differences in the interest payment dates for the bank's financial instruments. The policy of Pareto Bank is not to take positions of its own in the money market. The bank will be exposed to interest rate risk in its borrowing and lending business, but will in so far as this is possible seek to identify this risk.

The bank measures interest rate risk as the overall economic consequences of a parallel shift in the yield curve of two percentage points. All items sensitive to interest rate changes, on and off the balance sheet, are included in this calculation. The consequences are expressed as a change in the present value of future cash flows following the interest rate change. The economic consequences are calculated for a specific number of different maturities in order to illustrate the interest rates to which the bank is exposed. Interest rate risk relating to foreign currency is shown provisionally as an aggregated value according to currency type.

The bank also measures the total interest rate risk for paired adjacent maturity ranges. Limits for each individual maturity range are intended to limit the scope for taking yield-curve risk. In addition to the methodical calculation of interest rate risk, interest rate positions are also stress tested for parallel shifts in the yield curves.

The bank has internal limits on overall interest rate risk in Norwegian kroner and foreign currency and measures this within defined maturity ranges and using the total of pairs of proximate maturity ranges. The limit applies continuously and encompasses all maturities, all financial instruments and all currencies.

The interest rate positions of the bank reported daily to the management of the bank and monthly to the Board of Directors of the bank.

The calculation below was performed on the basis of positions and market rates of interest at 31 December. All financial instruments with locked-in rates of interest are valued at fair value, and the table shows accounting changes in pre-tax profit by agreed interest rate lock-in period of the items distributed by currency type in the event of a 1 per cent parallel shift in market rates of interest.

Interest rate risk at 31.12.2016

(NOK 1.000)	Up to 3 mnths	From 3 mnths up to 6 mnths	From 3 mnths up to 9 mnths	From 9 mnths up to 12 mnths	Over 12 mnths	Total
NOK	2 493	64	-81	-259	-97	2 121
USD	-2 819	-420	0	0	0	-3 239
EUR	-230	-292	0	0	0	-522
DKK	0	0	0	0	0	0
CHF	0	0	0	0	0	0
SEK	89	-145	0	0	0	-57
Total	**-467**	**-793**	**-81**	**-259**	**-97**	**-1 696**

Interest rate risk at 31.12.2015

(NOK 1.000)	Up to 3 mnths	From 3 mnths up to 6 mnths	From 3 mmths up to 9 mnths	From 9 mnths up to 12 mnths	Over 12 mnths	Total
NOK	612	1 501	-367	123	-266	1 604
USD	-2 694	0	0	0	0	-2 693
EUR	-307	-192	0	0	0	-499
CHF	0	0	0	0	0	0
SEK	-46	0	0	0	0	-46
Total	**-2 434**	**1 309**	**-367**	**123**	**-266**	**-1 635**

NOTE 33: FOREIGN EXCHANGE RISK

Managing foreign exchange risk
The risk of potential losses in the form of a reduction in market value as a consequence of changes in foreign exchange rates.

Pareto Bank does not take positions of its own in the foreign exchange market and must continuously and to the greatest extent possible identify risk exposure that occurs. All items on and off the balance sheet and the associated income and expense items are identified. This entails that the exposure of the bank on the foreign exchange market will generally be limited. Exposure must lie within the limits and authorisations determined by the Board of Directors.

The bank measures foreign exchange risk as the net position of the bank in the individual currency. In addition, the bank measures the total of its net positions in each currency as a gross value, without netting between currencies. The net positions are translated to Norwegian kroner.

The bank stress tests the currency positions by analysing the effect on pre-tax profits of a market change of 10 percentage points for the largest permitted net position in an individual currency and the aggregated net position for all currencies.

The currency positions of the bank are reported daily to the management of the bank and monthly to the Board of Directors of the bank.

The calculation below was performed on the basis of positions and foreign exchange rates at 31 December at fair value. The table shows distribution by currency type in the event of a 10 per cent shift in foreign exchange rates.

(NOK 1.000)	Assets	Liabilities	Financial derivatives	Net currency exposure	% change in result
Foreign exchange risk at 31.12.2016:					
USD	1 520 141	-243 301	-1 262 393	14 446	1 445
EUR	422 187	-49 113	-371 768	1 306	131
CHF	0	0	0	0	0
SEK	164 704	-9 577	-154 596	531	53
GBP	988	-903	0	85	9
DKK	5 284	-279	-4 889	116	12
Total	**2 113 304**	**-303 173**	**-1 793 646**	**16 485**	**1 648**
Foreign exchange risk at 31.12.2015:					
USD	1 882 086	-386 359	-1 500 449	-4 723	-472
EUR	374 245	-96 532	-275 906	1 807	181
CHF	0	0	0	0	0
SEK	142 740	-6 103	-135 998	639	64
GBP	774	-640	0	134	13
DKK	0	0	0	0	0
Total	**2 399 845**	**-489 634**	**-1 912 354**	**-2 143**	**-214**

NOTE 34: LIQUIDITY RISK

Managing liquidity risk
Liquidity risk is the risk attaching to the bank's scope for financing increases in lending and ability to settle commitments as they come due.

Three factors in particular are of importance to the liquidity risk borne by the bank. The first is the structure of the balance sheet of the bank, where major differences in the turnover rate and duration of asset and liability items result in liquidity risk since there will be a continuous need to invest or recruit funds from the market. A further factor is the liquidity of the market, i.e. the risk that an unfavourable price will be obtained in a financial market because there is an insufficient number of buyers and sellers in the market. Finally, the creditworthiness of the bank will be of major importance, including its financial strength and the trust it enjoys in the market.

The aim of Pareto Bank is to maintain a moderate level of liquidity risk over both the short and the long term and a ratio of deposits to loans of between 70 and 80 per cent. A further goal is for the bank to at all times maintain an appropriate liquidity buffer, the size of which will be determined by bank's development and its balance sheet.

The quantitative assessment of the liquidity risk level of the bank in the short-term is performed by calculating the liquidity gap of the bank on a daily basis and for the next three months. For the longer term, the assessment is performed on the basis of three liquidity indicators, including Finanstilsynet's liquidity indicators 1 and 2. As a supplement to the quantitative assessment, a more discretionary assessment is performed of other factors affecting the level of liquidity risk of the bank.

At 31 December 2016, the positive liquidity gap of the bank was NOK 2,639 million (NOK 1,601 million). LCR was 188 per cent (162 per cent). Finanstilsynet's liquidity indicator 1 was 138 per cent (188 per cent) and liquidity indicator 2 was 146 per cent (138 per cent). The LCR was 260 per cent, while the NSFR was 139 per cent.

The ratio of deposits to loans was 87.4 per cent (81.4 per cent) at year-end 2016.

The policy is that the bank should have a robust liquidity management regime based on guidelines adopted by the Board of Directors. The bank has drawn up limits and principles for managing liquidity risk. In addition, forecasts and contingency plans have been formulated for possible liquidity crises. A policy document has been drafted defining liquidity risk tolerance and limits reflecting guidelines issued by Finanstilsynet.

The liquidity situation of the bank is reported daily to the management of the bank and monthly to the Board of Directors of the bank.

The calculation was performed on the basis of the remaining contract terms of liability items and commitments at 31 December.

(NOK 1.000)

Maturities, liquidity items at 31.12.2016	Undefined	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	Over 1 year	Over 5 years	Total
Cash and claims on central banks	0	57 075	0	0	0	0	**57 075**
Loans to and claims on credit insts	0	747 274	0	0	0	0	**747 274**
Loans to customers	0	2 931 230	1 302 222	3 052 771	1 814 670	32 888	**9 133 780**
Certificates and bonds	0	3 334	330 845	500 521	2 212 926	604 847	**3 652 473**
Shares, fund units and other securities	14 664	0	0	0	0	0	**14 664**
Total assets	**14 664**	**3 738 913**	**1 633 067**	**3 553 291**	**4 027 596**	**637 734**	**13 605 266**
Deposits by credit institutions	0	4 133	0	0	0	0	**4 133**
Deposits by and debt to customers	0	6 039 670	460 231	601 563	586 503	0	**7 687 967**
Debt created by issuance of securities	0	81 800	219 098	606 012	2 502 203	0	**3 409 112**
Subordinated loan capital	0	0	9 483	8 436	332 156	0	**350 075**
Total liabilities	**0**	**6 125 602**	**688 812**	**1 216 012**	**3 420 862**	**0**	**11 451 288**
Total financial derivatives, net settlement	**0**	**-25 541**	**-8 826**	**-1 938**	**-12 039**	**3 050**	**-45 292**
Total maturities of liquidity items	**14 664**	**-2 412 230**	**935 430**	**2 335 342**	**594 695**	**640 785**	**2 108 686**

NOTE 34: LIQUIDITY RISK, CONTINUED...

(NOK 1.000)

Maturities, liquidity items at 31.12.2015	Undefined	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	Over 1 year	Over 5 years	Total
Cash and claims on central banks	0	459 229	0	0	0	0	**459 229**
Loans to and claims on credit insts	0	362 528	0	0	0	0	**362 528**
Loans to customers	0	4 342 972	652 782	1 812 111	1 292 155	29 843	**8 129 863**
Certificates and bonds	0	4 290	52 495	265 382	2 091 794	368 919	**2 782 881**
Shares, fund units and other securities	8 010	0	0	0	0	0	**8 010**
Total assets	**8 010**	**5 169 019**	**705 277**	**2 077 493**	**3 383 949**	**398 762**	**11 742 511**
Deposits by credit institutions	0	398	0	0	0	0	**398**
Deposits by and debt to customers	0	5 173 838	198 652	686 888	435 960	0	**6 495 338**
Debt created by issuance of securities	0	47 808	15 270	1 334 634	2 109 076	0	**3 506 788**
Subordinated loan capital	0	0	15 039	26 974	353 219	0	**395 232**
Total liabilities	**0**	**5 222 043**	**228 961**	**2 048 496**	**2 898 255**	**0**	**10 397 755**
Total financial derivatives, net settlement	**0**	**-43 415**	**-14 632**	**-32 866**	**-14 361**	**92**	**-105 182**
Total maturities of liquidity items	**8 010**	**-96 439**	**461 684**	**-3 869**	**471 332**	**398 855**	**1 239 573**

The residual term of assets and liabilities shows the remaining term of interest-bearing assets and liabilities, including stipulated interest. Subordinated loan capital is classified in accordance with the first right to redemption of the issuer.

NOTE 35: OTHER RISK FACTORS

Managing commercial and strategic risk
Competition, products and the expectations of customers will change over time and are difficult to value and estimate. This will both offer opportunities and pose threats in relation to the plans that have been laid and budgets/forecasts will understandably be characterised by an element of inherent uncertainty.

Sensitivity analyses have been performed in order to assess capital needs over and above Pillar 1 for those factors that will have the greatest impact on the development of the profits of the bank and the main changes in terms of borrowing costs, changes in interest rate margins on lending and changes in lending volume. In addition, other factors may impact on the profits reported by the bank, such as a shortfall in other revenues, higher-than-anticipated costs and the like.

Managing operational risk
The operational risk of the bank occurs as a consequence of systemic faults or control faults, as a consequence of which the management of the bank is prevented from monitoring or controlling other risks or where the normal processing of transactions is obstructed. Moreover, there is the risk associated with errors in economic reporting resulting in an unsound basis for decision-making, both internally and externally.

This type of risk also encompasses administrative risk, i.e. that the day-to-day operations of the bank do not function properly.

The bank reduces operational risk through prudent management and supervision by establishing efficient control procedures, a well-established set of routines, a compliance function, as well as insurance cover against attempts at defrauding the bank.

Managing other identified forms of risk
Other risk includes changes in operating conditions, new regulations that might impact upon the costs and revenues and competitive situation of the bank. This includes unintended risk exposure as a consequence of weaknesses in the risk management and control systems of the bank. Moreover, there may be other factors of which the bank is not at present aware or that it might face in the future.

NOTE 36: OTHER COMMITMENTS

Pareto AS
Pareto Bank has an agreement with Pareto AS to lease premises at Dronning Mauds gt. 3. The agreement is in force until 2020 and the rent payable at present is NOK 1.9 million per annum. The rent is adjusted in line with changes in the Consumer Price Index.

Evry ASA
In September 2016, the bank signed a five-year agreement for the delivery and operation of banking systems. Evry ASA supplies a full portfolio of solutions, including bank office equipment, online banking, anti-money-laundering and payment transfer services. In addition, Evry ASA will provide operating services. The amount payable under the contract is between NOK 30 and 40 million, depending on the development of the bank over the term of the contract.

NOTE 37: REMUNERATIONS ETC.

The Board of Directors gives the following declaration concerning the fixing of pay and other remunerations to senior personnel etc. in accordance with the provisions of Section 6-16a of the Public Limited Companies Act (Norway):

Remuneration paid to the Chief Executive Officer
The Supervisory Board fixed the salary payable to the CEO at a meeting on 10 March 2016 at the sum of NOK 2,422,000. The individual remunerations etc. paid in 2016 are detailed below.

Advisory guidelines for the forthcoming accounting year
Pareto Bank's guidelines for determining the remuneration of the Chief Executive Officer and other members of the management team serve to support the strategy of the bank. The Board has appointed a Remunerations Committee, which makes recommendations to the Board on issues of remuneration in accordance with the Regulations on Remuneration Schemes at Financial Institutions etc.

The assessment of the Board is that the CEO should have a salary and other terms that are competitive. The remuneration and terms should not be such that they are likely to harm the reputation of Pareto Bank.

The CEO fixes the remuneration payable to senior employees of the bank in consultation with the Chairman of the Board. Pareto Bank is a specialized niche bank and needs employees with a high level of specialist expertise. Salaries must therefore set at a level that is competitive in terms of the bank's main areas of focus. The salaries paid must enable Pareto Bank to attract and retain senior personnel with the required expertise and experience.

Payments in kind may be offered to senior personnel in so far as the benefit in question is relevant in relation to the function of the employee within the bank or reflects general practice in the market. Benefits of this nature must not be disproportionate to the basic salary of the employee.

Variable remunerations may be paid to senior personnel in accordance with the Regulations on Remuneration Schemes at Financial Institutions etc. based on their performance and a discretionary assessment. The arrangement must be performance-related without being risk-enhancing and must not be such that it is likely to harm the reputation of Pareto Bank.

Pension benefits and any agreements on severance pay must be considered against the background of other remunerations paid. Pension schemes and severance pay arrangements must not in their individual components or totality be such that they are likely to harm the reputation of Pareto Bank. Senior employees are members of the general pension scheme for employees of Pareto Bank ASA. The retirement age is 67 years.

Guidelines governing shares, warrants, options etc. in the forthcoming financial year
It is desirable for the Chief Executive Officer, senior personnel and other employees to own shares in the bank. As are other employees, the CEO and senior personnel are eligible to participate in a share-purchase programme for employees. A profit-sharing scheme will apply to all employees in 2017. The scheme is performance-based and the remuneration paid out is variable, generally taking the form of Pareto Bank shares.

The terms of the Chairman of the Board
The Chairman of the Board of Pareto Bank, Åsmund Skår, received total remuneration of NOK 275,685 in 2016.

NOTE 37: REMUNERATIONS ETC., CONTINUED...

Remunerations etc. in 2016

(NOK 1.000)	Fixed salary 31.12.16	Salary paid	Bonus paid	Other re-muneration	**Total re-muneration**	Pension cost	Loans at 31.12.16	No.of shares [1]
Management:								
Tiril Haug Villum, adm.direktør	2 442	2 633	635	94	3 362	71	2 399	258 817
Ole Tandberg, viseadm. direktør	1 931	2 050	505	37	2 591	69	737	198 008
Sven Erik Klepp, direktør eiendom	1 920	2 038	505	43	2 586	74	5 294	203 983
Per Ø. Schiong, kredittdirektør	2 472	2 602	0	61	2 663	70	0	53 776
Erik Skarbøvik, direktør verdipapirer	1 741	1 835	500	31	2 367	71	65	46 676
Erling Mork, finansdirektør	1 370	1 442	425	22	1 889	70	0	29 688
Total, Management	**11 876**	**12 600**	**2 570**	**288**	**15 458**	**424**	**8 494**	**790 948**

(NOK 1.000)	Fee paid	Salary paid	Bonus paid	Other re-muneration	**Total re-muneration**	Pension cost	Loans at 31.12.16	No.of shares [1]
Board of Directors:								
Finn Øystein Bergh, leder (1.1 - 17.03)	32	0	0	0	32	0	0	0
Åsmund Skår, leder (17.03 - 31.12)	276	0	0	0	276	0	0	9 026
Brita Eilertsen, medlem	304	0	0	0	304	0	0	0
Camilla Wahl, medlem	269	0	0	0	269	0	0	0
Carl Erik Steen, medlem	269	0	0	0	269	0	0	0
Lena Krog, ansatte medlem	0	1 083	370	15	1 468	64	2 354	38 467
Per K. Spone, varamedlem	23	0	0	0	23	0	0	4 382 711
Kristin Ekvold, varamedlem (1.1 - 17.03)	8	0	0	0	0	0	0	0
Trine Charlotte Høgås-Ellingsen, varamedlem (17.03 - 31.12)	38	0	0	0	38	0	0	0
Mariann Heggelien, ansattes varamedlem (17.03 - 31.12)	0	959	260	12	1 231	57	0	21 764
Svein Jansen, ansattes varamedlem (1.1. - 17.03)	0	1 101	210	11	1 322	65	0	6 287
Total, Board of Directors	**1 217**	**3 143**	**840**	**39**	**5 238**	**186**	**2 354**	**4 458 255**

1) Shares owned directly or via limited companies in which the persons in question have a controlling interest.

Auditor	**31.12.2016**	**31.12.2015**
Statutory audit	926	600
Other assurance engagements	48	75
Tax advice	0	15
Other non-audit services	628	0
Total fee to elected auditor including VAT	**1 602**	**690**

Loans to employees and Directors at 31 December 2016 amounted to NOK 21.7 million. Loans to employees lie within the limits and terms applicable to ordinary loans to customers and collateral has been furnished for these loans in accordance with the requirements provided for in Section 2-15 of the Financial Institutions Act (Norway). The interest rate payable on the loans has been the standard rate for taxation of loans granted in employer/employee relationships as applicable from time to time.

NOTE 37: REMUNERATIONS ETC., CONTINUED...

Remunerations etc. in 2015

(NOK 1.000)	Fixed salary 31.12.15	Salary paid	Bonus paid	Other remuneration	**Total remuneration**	Pension cost	Loans at 31.12.15	No.of shares [1)]
Management:								
Tiril Haug Villum, adm.direktør	2 415	2 638	1 270	99	4 008	69	2 526	195 650
Ole Tandberg, viseadm. direktør	1 885	1 977	994	34	3 005	69	0	193 850
Sven Erik Klepp, direktør eiendom	1 875	1 964	987	43	2 994	72	3 856	172 550
Per Ø. Schiong, kredittdirektør	2 415	2 488	1 074	90	3 651	69	0	36 500
Erik Skarbøvik, direktør verdipapirer	1 700	1 716	838	45	2 598	69	0	55 350
Erling Mork, finansdirektør	1 315	1 380	697	18	2 094	68	0	24 400
Total, management	**11 605**	**12 163**	**5 859**	**328**	**18 351**	**416**	**6 382**	**678 300**

(NOK 1.000)	Fee paid	Salary paid	Bonus paid	Other remuneration	**Total remuneration**	Pension cost	Loans at 31.12.15	No.of shares [1)]
Board of Directors:								
Finn Øystein Bergh	150	0	0	0	150	0	0	4 500
Tormod Schartum, nestleder (1.1 - 10.03.2015)	56	0	0	0	56	0	0	826 500
Brita Eilertsen, medlem	276	0	0	0	276	0	0	0
Kristin Ekvold, medlem (1.1 - 10.03.2015), varamedlem)11.03 -31.12.2015)	44	0	0	0	44	0	0	0
Camilla Wahl, medlem (11.03 - 31.12.2015)	181	0	0	0	181	0	0	0
Carl Erik Steen, medlem (11.03 - 31.12.2015)	181	0	0	0	181	0	0	0
Bo W. Kielland, ansatte medlem (1.1 - 10.03.2015)	0	797	605	6	1 408	28	0	8 450
Lena Krog, ansatte medlem (11.03 - 31.12.2015)	0	1 038	493	11	1 542	62	2 000	16 700
Per K. Spone, varamedlem (11.03 - 31.12.2015)	45	0	0	0	45			0
Erik Braathen, varamedlem (1.1 - 10.03.2015)	8	0	0	0	8	0	0	0
Svein Jansen, ansattes varamedlem	0	1 056	514	10	1 580	64	4 377	4 950
Total, Board of Directors	**941**	**2 891**	**1 611**	**28**	**5 471**	**154**	**6 377**	**861 100**

(NOK 1.000)	Fee paid	Salary paid	Bonus paid	Other remuneration	**Total remuneration**	Pension cost	Loans at 31.12.15	No.of shares [1)]
Control Committee:								
Erik Thrane, formann	110	0	0	0	110	0	0	0
Paul Bellamy, medlem	55	0	0	0	55	0	0	0
Finn-Erik Bjerke, medlem	55	0	0	0	55	0	0	0
Leiv Lageraaen, varamedlem	15	0	0	0	15	0	0	0
Total Control Committee	**235**	**0**	**0**	**0**	**235**	**0**	**0**	**0**

1) Shares owned directly or via limited companies in which the persons in question has a controlling interest.

NOTE 38: SHAREHOLDERS

Name	Shareholding 31.12.2016	Percentage stake
Pareto AS	8 921 873	15,22 %
Pecunia Forvaltning AS	5 861 859	10,00 %
Saga Tankers ASA	4 989 516	8,51 %
Arne Helge Fredly	4 524 885	7,72 %
Indigo Invest AS	4 382 711	7,48 %
Perestroika AS	2 636 429	4,50 %
Verdipapirfondet Pareto Investment Fund	2 262 440	3,86 %
Kolberg Motors AS	1 131 220	1,93 %
GH Holding AS	1 002 012	1,71 %
Artel Holding AS	900 820	1,54 %
Verdipapirfondet Landkreditt Utbytte	856 485	1,46 %
Castel AS	689 779	1,18 %
Centennial AS	616 163	1,05 %
Ola Rustad AS	585 996	1,00 %
Belvedere AS	584 368	1,00 %
Profond AS	559 597	0,95 %
Uthalden AS	551 657	0,94 %
Eiendomsutvikling Kristiansand AS	519 125	0,89 %
Thabo Energy AS	452 486	0,77 %
Clipper AS	433 845	0,74 %
Andre aksjonærer	16 156 422	27,56 %
Total	**58 619 688**	**100,00 %**

At 31 December 2016, the share capital of Pareto Bank totalled NOK 703,436,256 divided into 58,619,688 shares with a nominal value of NOK 12 each. The bank had 706 shareholders at that date. All shares carry equal voting rights.

Senior employees of the Pareto Group owned 280,103 shares, equivalent to 0.48 per cent of the shares, directly or via limited companies in which the persons in question had a controlling interest.

Senior employees of the Pareto Bank ASA owned 790,948 shares, equivalent to 1.35 per cent of the shares, directly or via limited companies in which the persons in question had a controlling interest.

NOTE 38: SHAREHOLDERS, CONTIUNED...

Name	Shareholding 31.12.2015	Percentage stake
Pareto AS	6 375 000	15,00 %
Societe Generale SS (nom.)	3 700 000	8,71 %
Perestroika AS	3 581 400	8,43 %
Indigo Invest AS	3 328 000	7,83 %
Geveran Trading Co Ltd.	2 110 000	4,96 %
Pecunia Forvaltning AS	1 434 600	3,38 %
Tonsenhagen Forretningssentrum AS	1 147 100	2,70 %
Larre Eiendom 2 AS	925 300	2,18 %
Tove Reistads Stiftelse	850 000	2,00 %
Eiendomsutvikling Kristiansand AS	801 000	1,88 %
Verdipapirfondet Pareto Investment Fund	722 600	1,70 %
Artel Holding AS	684 000	1,61 %
Profond AS	599 500	1,41 %
Verdipapirfondet Landkreditt Utbytte	590 600	1,39 %
GH Holding AS	570 000	1,34 %
Castel AS	524 100	1,23 %
Kolberg Motors AS	507 500	1,19 %
Holta Invest AS	500 650	1,18 %
Ola Rustad AS	425 000	1,00 %
Belvedere AS	401 500	0,94 %
Andre	12 722 150	29,93 %
Sum	**42 500 000**	**100,00 %**

At 31 December 2015, the share capital of Pareto Bank totalled NOK 510,000,000 divided into 42,500,000 shares with a nominal value of NOK 12 each. The bank had 343 shareholders at that date. All shares carry equal voting rights.

Senior employees of Pareto Bank ASA and senior employees of the Pareto Group owned 678,000 shares, equivalent to 1.60 per cent of the shares, directly or via limited companies in which the persons in question had a controlling interest.

NOTE 39: EVENTS AFTER THE BALANCE SHEET DATE AND CONTINGENT OUTCOMES

Events after the balance sheet date
There have been no significant events that would impact upon profits and the valuations performed.

Contingent outcomes
Pareto Bank is not a party in any legal action nor is the bank aware of any ongoing legal action.

KEY FIGURES

	2016	2015	2014
Profitability			
Cost/income (%)	21,6 %	23,2 %	26,9 %
Other income as % of total income	9,2 %	3,5 %	6,7 %
Return on equity after taxes*)	15,9 %	14,8 %	15,60 %
Earnings per share, ordinary and diluted (NOK)	4,08	3,91	3,6
Paid-in capital and retained earnings per share (NOK)	31,14	28,01	24,7
Number of shares in issue (‘000)	58 620	42 500	42 500
Nominal value per share (NOK)	12,00	12,00	12,0
Balance sheet			
Total assets end of year (NOK ‘000)	12 940 761	11 140 008	11 339 992
Average total assets (NOK ‘000)	12 733 335	10 285 000	10 285 000
Equity as % of total assets	15,3 %	12,1 %	9,3 %
Deposits as % of lending	87,4 %	81,4 %	102,0 %
Liquidity indicator 1	138 %	188 %	
Liquidity indicator 2	146 %	138 %	
Personell			
Number of permanent employees	35,0	33,0	28,0
Number of full-time equivalents (FTE)	33,3	30,0	27,5
Net revenue per FTE (NOK ‘000)	13 773	11 888	10 805
Cost per FTE (NOK ‘000)	2 972	2 756	2 902
Profit after tax per FTE (NOK ‘000)	7 438	5 822	5 608
Forvaltning pr. årsverk (NOK 1.000)	389 196	371 334	412 363

*) Profit for the period less interest expense after tax on hybrid Tier 1 bond loans in proportion to average paid-in capital and retained earnings

Statement by the Board of Directors and the Chief Executive Officer as required by Section 5-5 of the Securities Trading Act.

The Board of Directors and the Chief Executive Officer have today reviewed and approved the report and financial statements for Pareto Bank ASA for 2016.

To the best of the knowledge of the Board of Directors and the Chief Executive Officer, the financial statements for 2016 have been prepared in accordance with the applicable accounting standards and the information in the financial statements provides a true and fair picture of the assets, liabilities, financial position and profits of the bank taken as a whole at 31 December 2016.

To the best of the knowledge of the Board of Directors and the Chief Executive Officer, the annual report also provides a true and fair review of the development, profits and position of the bank as well as a description of the principal risks and uncertainties facing the bank.

31 December 2016/1 March 2017
The Board of Directors ASA

Åsmund Skår Chairman	**Brita Eilertsen** Deputy Chairwoman	**Carl Erik Steen**
Camilla Wahl	**Per Kristian Spone**	**Lena Krog**

Til generalforsamlingen i Pareto Bank ASA

Uavhengig revisors beretning

Uttalelse om revisjonen av årsregnskapet

Konklusjon

Vi har revidert Pareto Bank ASAs årsregnskap som består av balanse per 31. desember 2016, resultatregnskap, oppstilling over endringer i egenkapital og kontantstrømoppstilling for regnskapsåret avsluttet per denne datoen og noter til årsregnskapet, herunder et sammendrag av viktige regnskapsprinsipper.

Etter vår mening er det medfølgende årsregnskapet avgitt i samsvar med lov og forskrifter og gir et rettvisende bilde av selskapets finansielle stilling per 31. desember 2016, og av dets resultater og kontantstrømmer for regnskapsåret avsluttet per denne datoen i samsvar med International Financial Reporting Standards som fastsatt av EU.

Grunnlag for konklusjonen

Vi har gjennomført revisjonen i samsvar med lov, forskrift og god revisjonsskikk i Norge, herunder de internasjonale revisjonsstandardene International Standards on Auditing (ISA-ene). Våre oppgaver og plikter i henhold til disse standardene er beskrevet i Revisors oppgaver og plikter ved revisjon av årsregnskapet. Vi er uavhengige av selskapet slik det kreves i lov og forskrift, og har overholdt våre øvrige etiske forpliktelser i samsvar med disse kravene. Etter vår oppfatning er innhentet revisjonsbevis tilstrekkelig og hensiktsmessig som grunnlag for vår konklusjon.

Sentrale forhold ved revisjonen

Sentrale forhold ved revisjonen er de forhold vi mener var av størst betydning ved revisjonen av årsregnskapet for 2016. Disse forholdene ble håndtert ved revisjonens utførelse og da vi dannet oss vår mening om årsregnskapet som helhet. Vi konkluderer ikke særskilt på disse forholdene.

Sentrale forhold ved revisjonen	Hvordan vi i vår revisjon håndterte sentrale forhold ved revisjonen
Verdien av utlån til kunder	
Vi har fokusert på dette området fordi det utgjør en betydelig del av eiendelene i balansen og fordi vurdering av nedskrivningsbehov for utlån involverer stor grad av skjønn. Bankens rutiner og systemer for oppfølging av utlån og identifisering av utlån med nedskrivningsbehov samt vurderingen av disse utlånene er sentrale. Bruken av skjønn kan påvirke årets regnskapsmessige resultat og ha betydning for overholdelse av	Vi har vurdert og testet utformingen og effektiviteten av bankens etablerte kontroller over nedskrivning av utlån til kunder. Disse kontrollene inkluderte kontroller som identifiserer utlån til kunder som har objektive indikasjoner på verdifall og kontroller rettet mot beregningen av nedskrivningsbeløpet. Vi konkluderte med at vi kunne basere oss på disse kontrollene i vår revisjon. Vi testet også et utvalg av utlån til kunder som ikke var identifisert av ledelsen som utlån med objektive indikasjoner på verdifall. For disse utlånene gjorde vi

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kapitaldekningsregelverket som følge av risikoklassifiseringen av utlån. Etter regnskapsreglene skal banken på slutten av hver rapporteringsperiode vurdere om det finnes objektive indikasjoner på at et utlån har falt i verdi. Dersom det foreligger objektive indikasjoner på at et tap ved verdifall på utlån har inntruffet, skal nedskrivningsbeløpet beregnes som forskjellen mellom utlånets balanseførte verdi og nåverdien av fremtidige kontantstrømmer. Begge vurderingene involverer stor grad av skjønn. Vi har i revisjonen særlig fokusert på: • Ledelsens prosess for identifikasjon av utlån med objektive indikasjoner på verdifall • De forutsetninger ledelsen legger til grunn ved beregning av nedskrivningsbeløp for utlån som har objektive indikasjoner på verdifall Se note 2.4, note 3, note 13 og note 31 til regnskapet for en beskrivelse av bankens kredittrisiko og nedskrivning av utlån til kunder.	oss opp vår egen oppfatning av hvorvidt disse utlånene hadde objektive indikasjoner på verdifall og sammenlignet med ledelsens konklusjon. Vi fant ingen ytterligere objektive indikasjoner på verdifall i utvalget i denne testen. For utlån der nedskrivningsbeløp var individuelt beregnet testet vi et utvalg ved å vurdere forutsetninger og beregninger ledelsen hadde lagt til grunn for å underbygge nedskrivningsbeløpet. Vi sammenlignet forutsetningene med ekstern dokumentasjon der dette var tilgjengelig. Resultatet av denne testingen av individuelle nedskrivninger viste at ledelsen hadde benyttet rimelige forutsetninger i beregningen av nedskrivningsbeløpene. Der nedskrivningsbeløp var beregnet for grupper av utlån har vi gjennomgått og vurdert ledelsens notat som redegjør for forutsetningen for beregningen. Vi vurderte om forutsetningene var i tråd med kravene i det gjeldende rammeverket. Vårt arbeid inkluderte sammenligninger av de vesentligste forutsetningene mot vår erfaring om bransjepraksis; vi sammenlignet nedskrivningsbeløpene mot nivået av gruppevise nedskrivninger hos andre banker i det norske markedet. Resultatet av våre vurderinger viste at forutsetninger benyttet ved beregningen av nedskrivningsbeløpene var rimelige.
IT systemer som støtter finansiell rapportering	
Vi har fokusert på dette området fordi bankens finansielle rapporteringssystemer og virksomhet er avhengig av komplekse IT-systemer. Eventuelle svakheter i automatiserte prosesser og tilhørende IT avhengige manuelle kontroller kan medføre problemer knyttet til den løpende driften av IT-systemene og risiko for feil.	Banken benytter eksterne serviceleverandører for å drifte enkelte sentrale IT-systemer. Revisor hos de relevante serviceorganisasjonene er benyttet til å evaluere design og effektivitet av og teste etablerte kontroller som skal sikre integriteten av IT- og betalingsformidlings systemene som er relevante for finansiell rapportering. Vi forsikret oss om revisorens kompetanse og objektivitet. Vi har gjennomgått tilsendte rapporter og vi vurderte mulige avvik og tiltak. Vi har lest gjennom og forstått rammeverket for styring av serviceorganisasjonenes IT-organisasjon. Tilsvarende for de etablerte kontroller over programutvikling og endring, tilgang til programmer og data og IT-drift, herunder kompenserende kontroller der det var nødvendig. Vi har også gjennomført testing av tilgangskontroller til IT-

	systemer og arbeidsdeling der det var nødvendig av hensyn til vår revisjon. Våre vurderinger og kontroller viser at vi kan bygge på bankens systemer for IT og betalingsformidling i vår revisjon.
Verdsettelse finansielle eiendeler og forpliktelser regnskapsført til virkelig verdi over resultatet	
Vi har fokusert på dette området både fordi det utgjør en vesentlig del av balansen og fordi markedsverdien i enkelte tilfeller må estimeres ved hjelp av verdsettelsesmodeller som vil inneholde en viss grad av skjønn. Det alt vesentlige av de finansielle eiendelene som regnskapsføres til virkelig verdi over resultatet er notert på børs. For disse eiendelene har vi fokusert på Pareto Banks rutiner og prosesser for å sikre et nøyaktig grunnlag for verdsettelsen. For derivater og finansielle eiendeler og forpliktelser som er verdsatt basert på modeller og enkelte forutsetninger som ikke er direkte observerbare for tredjeparter har vi fokusert på de forutsetninger som ligger til grunn for verdsettelsen. Se note 2.4, note 3 og note 15 til regnskapet for en beskrivelse av verdsettelse av finansielle eiendeler som måles til virkelig verdi over resultatet.	Vi har vurdert Pareto Banks retningslinjer for verdsettelse av finansielle instrumenter og er enig med ledelsen i at disse er i tråd med anerkjente prinsipper og gjeldende regelverk. Vi har vurdert og gjennomgått bankens etablerte kontroller over verdsettelse av finansielle eiendeler til virkelig verdi over resultatet og derivater. Dette omfattet gjennomgang av kontroller som sikrer nøyaktighet og fullstendig registrering av grunnlaget for prisfastsettelsen. Vår gjennomgang avdekket ingen avvik av betydning. Ved årsslutt har vi på stikkprøvebasis sammenlignet fastsatte verdier for finansielle eiendeler som regnskapsføres til virkelige verdi over resultatet mot eksterne kilder som ligningskurser og børskurser. Denne testingen avdekket ingen avvik av betydning. Ved årsslutt har vi gjennomført en uavhengig verdsettelse av ett utvalg av bankens finansielle derivater samt sammenlignet fastsatte verdier for derivater mot motpartens verdsettelse. Denne testingen avdekket ingen avvik av betydning.

Øvrig informasjon

Ledelsen er ansvarlig for øvrig informasjon. Øvrig informasjon består av årsberetningen, redegjørelsene om foretaksstyring og samfunnsansvar samt nøkkeltall, men inkluderer ikke årsregnskapet og revisjonsberetningen.

Vår uttalelse om revisjonen av årsregnskapet dekker ikke øvrig informasjon, og vi attesterer ikke den øvrige informasjonen.

I forbindelse med revisjonen av årsregnskapet er det vår oppgave å lese øvrig informasjon med det formål å vurdere hvorvidt det foreligger vesentlig inkonsistens mellom øvrig informasjon og årsregnskapet, kunnskap vi har opparbeidet oss under revisjonen, eller hvorvidt den tilsynelatende inneholder vesentlig feilinformasjon.

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Dersom vi konkluderer med at den øvrige informasjonen inneholder vesentlig feilinformasjon er vi pålagt å rapportere det. Vi har ingenting å rapportere i så henseende.

Styrets og daglig leders ansvar for årsregnskapet

Styret og daglig leder (ledelsen) er ansvarlig for å utarbeide årsregnskapet i samsvar med lov og forskrifter, herunder for at det gir et rettvisende bilde i samsvar med International Financial Reporting Standards som fastsatt av EU. Ledelsen er også ansvarlig for slik intern kontroll som den finner nødvendig for å kunne utarbeide et regnskap som ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil.

Ved utarbeidelsen av årsregnskapet må ledelsen ta standpunkt til selskapets evne til fortsatt drift og opplyse om forhold av betydning for fortsatt drift. Forutsetningen om fortsatt drift skal legges til grunn for årsregnskapet med mindre ledelsen enten har til hensikt å avvikle selskapet eller legge ned virksomheten, eller ikke har noe realistisk alternativ til dette.

Revisors oppgaver og plikter ved revisjonen av årsregnskapet

Vårt mål med revisjonen er å oppnå betryggende sikkerhet for at årsregnskapet som helhet ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil, og å avgi en revisjonsberetning som inneholder vår konklusjon. Betryggende sikkerhet er en høy grad av sikkerhet, men ingen garanti for at en revisjon utført i samsvar med lov, forskrift og god revisjonsskikk i Norge, herunder ISA-ene, alltid vil avdekke vesentlig feilinformasjon som eksisterer. Feilinformasjon kan oppstå som følge av misligheter eller utilsiktede feil. Feilinformasjon blir vurdert som vesentlig dersom den enkeltvis eller samlet med rimelighet kan forventes å påvirke økonomiske beslutninger som brukerne foretar basert på årsregnskapet.

Som del av en revisjon i samsvar med lov, forskrift og god revisjonsskikk i Norge, herunder ISA-ene, utøver vi profesjonelt skjønn og utviser profesjonell skepsis gjennom hele revisjonen. I tillegg:

- identifiserer og anslår vi risikoen for vesentlig feilinformasjon i regnskapet, enten det skyldes misligheter eller utilsiktede feil. Vi utformer og gjennomfører revisjonshandlinger for å håndtere slike risikoer, og innhenter revisjonsbevis som er tilstrekkelig og hensiktsmessig som grunnlag for vår konklusjon. Risikoen for at vesentlig feilinformasjon som følge av misligheter ikke blir avdekket, er høyere enn for feilinformasjon som skyldes utilsiktede feil, siden misligheter kan innebære samarbeid, forfalskning, bevisste utelatelser, uriktige fremstillinger eller overstyring av intern kontroll.

- opparbeider vi oss en forståelse av den interne kontroll som er relevant for revisjonen, for å utforme revisjonshandlinger som er hensiktsmessige etter omstendighetene, men ikke for å gi uttrykk for en mening om effektiviteten av selskapets interne kontroll.

- evaluerer vi om de anvendte regnskapsprinsippene er hensiktsmessige og om regnskapsestimatene og tilhørende noteopplysninger utarbeidet av ledelsen er rimelige.

- konkluderer vi på hensiktsmessigheten av ledelsens bruk av fortsatt drift-forutsetningen ved avleggelsen av regnskapet, basert på innhentede revisjonsbevis, og hvorvidt det foreligger vesentlig usikkerhet knyttet til hendelser eller forhold som kan skape tvil av betydning om selskapets evne til fortsatt drift. Dersom vi konkluderer med at det eksisterer vesentlig usikkerhet, kreves det at vi i revisjonsberetningen henleder oppmerksomheten på

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tilleggsopplysningene i regnskapet, eller, dersom slike tilleggsopplysninger ikke er tilstrekkelige, at vi modifiserer vår konklusjon om årsregnskapet og årsberetningen. Våre konklusjoner er basert på revisjonsbevis innhentet inntil datoen for revisjonsberetningen. Etterfølgende hendelser eller forhold kan imidlertid medføre at selskapet ikke fortsetter driften.

- evaluerer vi den samlede presentasjonen, strukturen og innholdet, inkludert tilleggsopplysningene, og hvorvidt årsregnskapet representerer de underliggende transaksjonene og hendelsene på en måte som gir et rettvisende bilde.

Vi kommuniserer med styret blant annet om det planlagte omfanget av revisjonen og til hvilken tid revisjonsarbeidet skal utføres. Vi utveksler også informasjon om forhold av betydning som vi har avdekket i løpet av revisjonen, herunder om eventuelle svakheter av betydning i den interne kontrollen.

Vi gir styret en uttalelse om at vi har etterlevd relevante etiske krav til uavhengighet, og om at vi har kommunisert og vil kommunisere med dem alle relasjoner og andre forhold som med rimelighet kan tenkes å kunne påvirke vår uavhengighet, og, der det er relevant, om tilhørende forholdsregler.

Av de sakene vi har kommunisert med styret, tar vi standpunkt til hvilke som var av størst betydning for revisjonen av årsregnskapet for den aktuelle perioden, og som derfor er sentrale forhold ved revisjonen. Vi beskriver disse sakene i revisjonsberetningen med mindre lov eller forskrift hindrer offentliggjøring av saken, eller dersom vi, i ekstremt sjeldne tilfeller, beslutter at en sak ikke skal omtales i beretningen siden de negative konsekvensene av en slik offentliggjøring med rimelighet må forventes å oppveie allmennhetens interesse av at saken blir omtalt.

Uttalelse om øvrige lovmessige krav

Konklusjon om årsberetningen

Basert på vår revisjon av årsregnskapet som beskrevet ovenfor, mener vi at opplysningene i årsberetningen og i redegjørelsene om foretaksstyring og samfunnsansvar om årsregnskapet, forutsetningen om fortsatt drift og forslaget til anvendelse av overskuddet er konsistente med årsregnskapet og i samsvar med lov og forskrifter.

Konklusjon om registrering og dokumentasjon

Basert på vår revisjon av årsregnskapet som beskrevet ovenfor, og kontrollhandlinger vi har funnet nødvendig i henhold til internasjonal standard for attestasjonsoppdrag (ISAE) 3000 «Attestasjonsoppdrag som ikke er revisjon eller forenklet revisorkontroll av historisk finansiell informasjon», mener vi at ledelsen har oppfylt sin plikt til å sørge for ordentlig og oversiktlig registrering og dokumentasjon av selskapets regnskapsopplysninger i samsvar med lov og god bokføringsskikk i Norge.

Oslo 1 .mars 2017
PricewaterhouseCoopers AS
Ola Anfinsen
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Statsautorisert revisor

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