ANNUAL REPORT PARETO BANK

2017

Pareto bank

Pareto bank

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NORWAY'S LEADING PROJECT BANK

Pareto Bank specialises in financing complex projects. Our primary focus is on real estate projects and our market position is especially strong within the area of housing development. In addition, we offer a range of funding solutions for medium-sized enterprises with particular transaction or project-related capital requirements.

We finance purchases of shares and bonds with the aid of customised solutions tailored to the needs of the individual customer. In the shipping and offshore sector, our activities are directed at Norwegian shipping companies, owners and the Norwegian project market.

Pareto Bank recorded a profit for the year in 2017 of NOK 313 million. This represents a post-tax return on equity of 15.9 per cent. This was yet again the bank's best year ever. Our profitability and financial strength mean that we are well positioned to make yet further advances in 2018.

PROFITABLE NICHE MARKETS

In its tenth year of operations Pareto Bank strengthened its position within the financing of real estate projects. Even in a year in which housing prices were falling, the inflow of new business was satisfactory. Diversification of the housing development portfolio served to limit the risk borne by the bank and helped to facilitate continued healthy growth. The majority of the projects financed by the bank at year-end were located in Eastern Norway, half of these being in Oslo. Of the 150 projects in the bank's portfolio, 94 comprise smaller dwellings, a market in which demand is buoyant. The bank has clearly-defined requirements for pre-sales, liquidity and equity and the quality thereof, the aim being to reduce the level of risk associated with the projects.

The bank has increased its focus on corporate financing for small and medium-sized enterprises. With the aid of targeted marketing activities, the bank raised its visibility in, and increased volumes of lending to, this market by NOK 388 million in 2017. The long-term ambition of the bank is to build a market position in this area that matches its position within real estate.

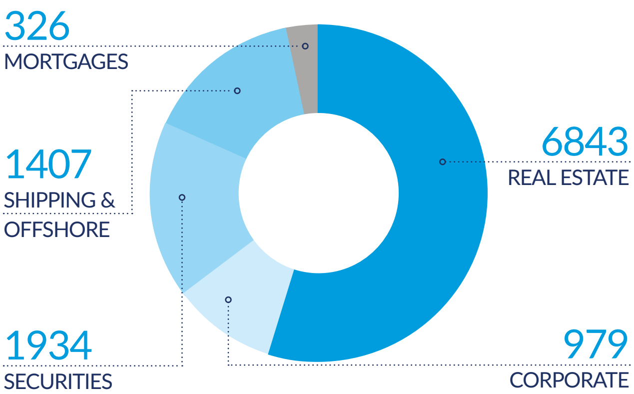
Pareto Bank's third area of specialisation is the shipping and offshore sector. The bank holds a diversified portfolio of loans to various segments in this area. The outlook in a number of shipping sectors now appears promising and the bank is favourably positioned to take advantage of this situation and offer financing to small and medium-sized Norwegian customers. Profitability, equity and links to Norway are the central pillars on which the bank's investments in this field are founded.

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, out aim is to foster an unabashedly commercial culture in which the profitability of the bank and of the customers are at the centre. We value team players who take responsibility and full ownership of all their endeavours.

TOTAL CREDIT EXPOSURE NOK 11 896 MILLION

By sector (all figures in NOK million)



Pareto bank

DIRECTORS' REPORT

THE BUSINESS IN 2017

In its tenth year of operations, Pareto Bank reported a profit for the year of NOK 312.6 million (NOK 247.3 million in 2016), corresponding to a post-tax return on equity of 15.9 per cent (15.9 per cent). This was yet again the bank's best year to date.

A higher volume of credit combined with a strong margin served to produce a very satisfactory level of growth in the bank's net interest income in 2017. Added to this, gains in the value of the bank's holdings of securities, commission income on banking services and revenues from associate companies raised total net income up to NOK 539.0 million (NOK 457.9 million).

The bank recorded individual allowances for impairments of NOK 9.4 million (NOK 25.7) in 2017 and increased group allowances for impairments by NOK 2.0 million (NOK 5.0 million) in 2016, bringing the total up to NOK 47.7 million, which corresponds to 0.50 per cent of gross loans.

The total assets of the bank stood at NOK 13.1 billion (NOK 12.9 billion) at year-end 2017.

Loans to customers continued to grow firmly throughout 2017. The availability of business opportunities within both real estate financing and corporate financing was high and the bank's access to projects remained good well into 2018. With a view to creating freedom of action and scope for further growth in lending, Pareto Bank syndicated loans to a total value of NOK 0.6 billion within real estate financing. For 2017 as a whole, loans to customers increased by NOK 0.7 billion to NOK 9.4 billion (NOK 8.8 billion) by year-end. Without syndication, the growth in lending in 2017 would have amounted to NOK 1.3 billion, corresponding to a volume of lending of NOK 10.1 billion at year-end.

Customer deposits were down from NOK 7.6 billion to NOK 7.1 billion at year-end. The reduction was largely in fixed-rate deposits and was the result of deliberate measures to reduce the bank's finance costs.

During 2017, the common equity Tier 1 capital ratio (CET1) of the bank was strengthened with the aid of healthy earnings, balance sheet management and targeted growth. As a result, at year-end the CET1 stood at 17.7 per cent (17.2 per cent), the Tier 1 capital ratio at 18.1 per cent (18.8 per cent) and the capital adequacy ratio at 20.6 per cent (21.5 per cent) calculated by the standard method. Total equity amounted to NOK 2,125.9 million (NOK 1,985.2 million), of which paid-in equity and retained earnings amounted to NOK 2,075.9 million (NOK 1,825.2 million).

Finanstilsynet (Financial Supervisory Authority of Norway) has determined an individual Pillar 2 add-on for the bank of 3.2 per cent applicable from 31 December 2017. As a consequence, Pareto Bank is required to have a CET1 of 15.2 per cent at year-end 2017. The Board has set a new target level for CET1 of 15.7 per cent, applicable from 31 December 2018.

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 phase of development, however, Pareto Bank needs to pursue increased lending, at the same time as which capital adequacy requirements have increased in stringency. The Directors are therefore proposing that a dividend of NOK 1.60 per share, equivalent to a dividend payout ratio of 30.3 per cent.

At year-end, the bank holds a 24.5 per cent ownership interest in Verdun Holding (Sem & Johnsen Eiendomsmegling) and a 35.0 per cent stake in NyeBoliger AS (Sem & Johnsen Prosjektmegling). The purchase of the shares in NyeBoliger AS was completed on 5 January 2017. In acquiring these stakes, the aim of the bank is to enable the two businesses to derive mutual advantage from their banking and real estate broking expertise.

THE ANNUAL FINANCIAL STATEMENTS

Net interest income

Net interest income totalled NOK 507.0 million (NOK 415.9 million). This increase came about as a consequence of an improved interest rate margin and a higher volume of lending. The bank has brought down its borrowing costs, in amongst other ways by reducing the interest rate paid on corporate deposits.

The net interest margin between lending and deposits was 5.7 per cent in 2017, as compared with 5.2 per cent in 2016, which corresponds to an increase of 0.5 percentage points.

The fee of NOK 5.7 million (NOK 5.7 million) payable to the Norwegian Banks' Guarantee Fund was charged to net interest income for 2017. The fee was accrued over the course of the year.

The Board of Directors is expecting net interest income to rise in 2018 as a result of a higher volume of lending.

Other income

Other income recorded in 2017 amounted to NOK 32.0 million (NOK 42.0 million).

Net commission income and income from banking services fell slightly in 2017, totalling NOK 10.8 million (NOK 14.6 million). Of this, guarantee commissions accounted for NOK 8.6 million (NOK 11.5 million).

Income from ownership interests in associate companies (Sem & Johnsen Eiendomsmegling and Sem & Johnsen Prosjektmegling) amounted to NOK 3.0 million (NOK 2.5 million).

Net gains on the bank's portfolio of financial instruments amounted to NOK 18.2 million (NOK 24.5 million). These gains derived chiefly from lower credit premiums on the bank's bond holdings and were for the most part recorded in the first half of 2017. The principle of valuing financial instruments at fair value entails that the earnings reported by the bank may show considerable variation from one quarter to another.

Operating costs

Operating costs in 2017 amounted to NOK 112.6 million (98.8 million). This made for a cost/income ratio in 2017 of 20.9 per cent (21.6 per cent).

Salaries and other personnel costs account for the largest proportion of the overall operating costs of the bank, amounting to NOK 76.6 million (NOK 61.6 million), including severance pay paid to the Deputy CEO. The provision for the employee profit-sharing programme amounted to NOK 19.7 million (NOK 16.2 million). The scheme is performance-based and the variable remuneration takes the form of shares in Pareto Bank. The bank expanded its staff count by three full-time equivalents during the course of the last year.

Administrative costs amounted to NOK 19.3 million (NOK 18.4 million) and consisted largely of IT and marketing costs. Other operating costs came to NOK 12.5 million (NOK 14.6 million). The reduction on the figure recorded for the preceding year was due to a non-recurring cost item in 2016 for stock exchange listing.

The Directors are expecting a modest increase in costs in 2018 as a consequence of the hiring of new personnel and increased IT investments.

Losses and non-performance

Gross non-performing credit commitments stood at NOK 105.3 million (NOK 74.5 million) at year-end 2017, for which impairment allowances were recorded in the amount of NOK 0.6 million. Net non-performing credit commitments at year-end amounted to NOK 104.6 million (NOK 63.5 million), corresponding to 1.10 per cent (0.72 per cent) of gross lending.

The bank also held three impaired credit commitments with a total amount outstanding of NOK 85.8 million (NOK 146.0 million) at year-end 2017, in respect of which individual impairment allowances were recorded in the amount of NOK 37.2 million (NOK 28.2 million). The background to these impairments consisted in large part of a previous fall in value in the dry cargo sector and a very substantial fall in value in the offshore sector. These commitments are not in default.

Net impaired credit commitments at year-end 2017 amounted to NOK 48.6 million (NOK 117.8 billion), corresponding to 0.51 per cent (1.33 per cent) of gross lending.

The bank increased its collective impairment allowances in 2017 by NOK 2.0 million (NOK 5.0 million) to NOK 47.7 million (NOK 45.7 million), equivalent to 0.50 per cent (0.52 per cent) of gross lending. This was largely in response to uncertainty surrounding movements in housing prices in Oslo and the values of ships within individual sectors. No objective events necessitating impairments in other parts of the credit portfolios of the bank have occurred.

Impairments and losses on loans and guarantees in 2017 amounted to NOK 11.4 million (NOK 30.7 million).

Profit for the year

The pre-tax profit for 2017 amounted to NOK 415.0 million (NOK 328.5 million). The profit after taxes was NOK 312.6 (NOK 247.3 million).

The tax cost in 2017 came to NOK 102.4 million (NOK 81.2 million), while taxes payable amounted to NOK 92.0 million (NOK 63.2 million). The bank has negative temporary differences of NOK 11.1 million (NOK 48.1 million), and at year-end deferred tax assets stood at NOK 2.8 million (NOK 12.0 million). The negative temporary differences relate primarily to net gains/(losses) on the bank's holdings of derivatives and securities.

LOSSES AND NON-PERFORMANCE

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BALANCE SHEET

At year-end 2017, the bank held total assets of NOK 13,104 million (NOK 12,941 million).

Net loans to customers rose to NOK 9,448 million (NOK 8,754 million), following an increase in lending in 2017 of NOK 694 million (NOK 823 million).

In order to create greater room for manoeuvre and scope for further growth in lending, the bank syndicated loans in the fourth quarter 2017 to a total value of NOK 629 million in the real estate financing sector of the portfolio. Real estate financing grew by NOK 939 million in 2017.

Without syndication, loans for real estate financing would have increased by NOK 1,568 million. Loans for corporate financing contributed growth of NOK 388 million. As expected, the volume of loans for securities financing fell gradually during the course of the year by NOK 305 million. Loans for shipping and offshore financing were down by NOK 268 million, largely as a consequence of redemptions, downward adjustments and foreign exchange effects.

Undrawn credit lines and guarantees amounted to NOK 2,403 million (NOK 2,674 million). The credit portfolio includes 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 9,322 million (NOK 9,565 million) were approved during the course of 2017.

At year-end 2017, gross lending, undrawn credit lines and guarantees comprised 65.1 per cent (59.9 per cent) for real estate financing, 2.0 per cent (2.9 per cent) for mortgages, 12.3 per cent (8.6 per cent) for corporate financing, 11.3 per cent (16.9 per cent) for securities financing and 9.6 per cent (12.3 per cent) for shipping and offshore financing.

Deposits from customer amounted to NOK 7,084 million (NOK 7,647 million) at year-end 2017, corresponding to a reduction of NOK 563 million on 2016.

The proportion of fixed-rate deposits was 15.9 per cent (23.4 per cent) of total deposits, while 24.9 per cent (22.0 per cent) was in the form of deposits in fixed-term investment accounts. The volume of client funds received by the bank in 2017 increased. The deposit-to-lending ratio at year-end 2017 stood at 75.0 per cent (87.4 per cent). The target deposit-to-lending ratio is between 70 and 80 per cent.

Net outstanding securities debt at year-end was NOK 3,250 million (2,886 million). The bank issued two bond loans in 2017 with terms of 3 and 5 years. In total, the bank issued and extended loans in the gross amount of NOK 1,080 million and redeemed loans in the amount of NOK 900 million. The bank trades actively in the market by buying and selling from its own holdings.

At year-end, the bank held surplus liquidity amounting to NOK 3,530 million, down from the figure of NOK 4,119 million recorded at the end of 2016. This reduction was a deliberate measure aimed at bringing down the finance expenses of the bank.

In the main, surplus liquidity is invested in interest-bearing securities, or is on deposit with larger banks and with Norges Bank. Securities investments are in sovereign and municipal bonds, supranational institutions, covered bonds and banks within investment grade.

The bank may invest in fixed-income funds and individual bonds below investment-grade and a minimum credit rating of B. At year-end 2017, the bank held NOK 41.2 million (NOK 0.0) in fixed-income funds 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, and a 35.0 per cent interest in NyeBoliger AS (Sem & Johnsen Prosjektmegling). Sem & Johnsen Prosjektmegling specialise in sales of new homes under construction and are the market leader in their field in Oslo and Akershus, selling some 1,500 units a year.Verdun Holding's profits after tax totalled NOK 2.5 million (NOK 15.2 million), while NyeBoliger AS reported profits after tax of NOK 7.2 million (NOK 15.9 million).

The rationale for the purchase of NyeBoliger AS 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.

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 4.14.

In view of the fact that the bank is still in a growth phase with access to profitable business opportunities, the Directors propose the payment of dividend of NOK 1.60 per share for 2017. This represents a dividend payout ratio of 30.3 per cent.

The profit for the year was NOK 312.6 million. The reserve for unrealised gains will be increased by NOK 3.7 million, while the remaining amount will be transferred to other equity.
The total equity of the bank stands at NOK 2,125.9 million at year-end, of which shareholders' equity amounts to NOK 2,075.9 million.

SHAREHOLDERS

The bank's share was admitted for listing on Oslo Axess on 27 May 2016 and on the Oslo Børs Benchmark Index on 12 December 2016. During 2017, the share was traded at prices of between NOK 32.50 and NOK 43.10.

(NOK)	**2017**	**2016**
Earnings per share	5.28	4.08
Dividend per share	1.60	1.00
Book value of equity per share	35.41	31.14
P/E	**7.49**	**9.34**
P/BV	**1.12**	**1.22**
Share price	39.50	38.10
No. of shares	58,619,688	58,619,688

At year-end, there were 839 shareholders of the bank. The share capital was NOK 703.4 million divided into 58,619,688 shares with a nominal value of NOK 12.00 each.

Senior employees of Pareto Bank own 633,655 shares – or 1.08 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 2017, 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.

IFRS 9 Financial Instruments concerns 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 matters. The standard is mandatory for financial periods beginning on or after 1 January 2018. The assessment of the bank is that the standard will not have significant effects on classification or measurement or on overall impairment of loans or guarantees and by extension on equity and capital adequacy. For further information, please see notes 2 and 40.

FINANCIAL POSITION AND CAPITAL REQUIREMENTS

At year-end 2017, the common equity Tier 1 capital, Tier 1 capital and subordinated capital stood at NOK 1,948.3 million (NOK 1,737.7 million), NOK 1,998.2 million (NOK 1,897.7 million) and NOK 2,268.3 million (NOK 2,167.7 million), respectively. This made for a common equity Tier 1 capital ratio of 17.66 per cent (17.21 per cent), a Tier 1 capital ratio of 18.11 per cent (18.79 per cent) and a capital adequacy of 20.56 per cent (21.46 per cent) calculated according to the standard method.
Total equity amounted to NOK 2,125.9 million (NOK 1,985.2 million), of which paid-in equity and retained earnings amounted to NOK 2,075.9 million (NOK 1,825.2). On 29 March 2017, the bank repurchased a hybrid Tier 1 bond loan in the amount of NOK 110 million, thereby reducing the hybrid capital to NOK 50 million.

The leverage ratio of the bank at year-end was 14.3 per cent (13.7 per cent).

Finanstilsynet has determined an individual Pilar 2 add-on for the bank of 3.2 per cent applicable from 31 December 2017. Thus the bank is subject to a common equity Tier 1 capital ratio requirement of 15.2 per cent as at the end of 2017.

Accordingly, the CET1 capital ratio, Tier 1 capital ratio and capital adequacy requirements applicable to the bank at year-end 2017 were 15.2 per cent, 16.7 per cent and 18.7 per cent, respectively. The bank meets these requirements by a substantial margin. The Directors have fixed a new target CET1 capital ratio of 15.7 per cent, applicable from 31 December 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 2017 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.
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 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. Exposures lie within the limits and powers granted by the Board of Directors.
The bank has internal limits in place governing overall interest rate risk

Pareto bank

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.

Currency risk is measured 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 Pareto Bank are conducted in Norway and accordingly the bank does not encounter major human rights issues in its day-to-day business activities. In its choice of products and suppliers, the bank endeavours to encourage 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 placing 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 paper use, energy consumption and 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 Pareto Bank's policy governing ethics, corporate responsibility and conflict-of-interest has been formulated 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 ethical guidelines in place applicable to all employees and officers, covering 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 39 permanent employees: 27 men and 12 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 2017 was low, totalling 209 days, equivalent to 2.2 per cent. No accidents or injuries were registered during the 2017 reporting year.

The bank has incentive schemes for its employees. These include a scheme under which employees purchasing Pareto Bank shares may receive a subsidy of up to NOK 3,000 per employee per year. In 2017, 25 employees opted to take advantage of this scheme.

Pareto Bank also operates a profit-sharing scheme based on reported profit for the year and return on equity after tax. Profit-sharing is triggered 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 2017, 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 19.7 million, including employer's tax and holiday pay, to cover this commitment in 2017. Parts of the provision are contingent upon developments in the performance of the bank in the period 2017 to 2021, and may be carried back. The Board values employee performance 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 2017.

THE BOARD OF DIRECTORS

The directors of the bank are Åsmund Skår (Chairman), Brita Eilertsen (Deputy Chair), Camilla Wahl, Espen Lundaas, Per Kristian Spone and Lars Christian Bjørge (employee-elected). The Board is composed of four men and two women.

The Board of Directors of the bank convened on 18 occasions during 2017, six of these meetings being extraordinary Board meetings called to consider major credit commitments and to consider issues of significance to the strategy of the bank. At its regular meetings, the Board of Directors considered matters such as strategy and planning, risk management and internal control procedures, approval of miscellaneous 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 it is applicable. The Board has adopted corporate governance guidelines aimed at promoting the 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.

For further information, please see the guidelines (in Norwegian) on corporate governance on the bank's web site: www.paretobank.no

GOING CONCERN ASSUMPTION

The going concern assumption has been applied in the preparation of the annual financial statements for 2017. The Directors 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

Project opportunities were plentiful throughout the reporting year. The performance recorded in 2017 is the best in the bank's history. Profitability is high, with a return on equity after tax of 15.9 per cent. The capital adequacy of the bank has been increased.

At year-end, the availability of real estate project opportunities remained good. As a consequence of the fall in housing prices and a shift in sentiment in the housing market in Oslo and its environs, the level of activity in the new build market has fallen. Nevertheless, the picture is nuanced and sales of small houses and demand for apartments on the outskirts of Oslo remain buoyant. Lower levels of housing new builds may have an impact on the availability of real estate projects for the bank, especially in the latter half of 2018. The bank maintained a sharper focus on pre-sales, liquidity and equity capital throughout 2017 and will carry this practice over into 2018. The bank remains cautious about financing projects in which project realisation lies far ahead in the future. Several market sectors within the shipping and offshore industry are showing signs of improvement and the bank is expecting lending to grow in 2018. High levels of profitability, project links to Norway, low loan to value ratios and modern tonnage are the central elements in our strategy of this area.

Project opportunities within corporate financing are abundant. In this area of business, the bank offers transaction-based financing solutions to investors, owners and medium-sized enterprises. The products offered by the bank include loans for M&A, bridge loans, investment loans and working capital facilities. The bank believes that growth opportunities in this area continue to abound and its long-term ambition is to build a market position within corporate financing that is as strong as its position in the real estate sector.

Accordingly, Pareto Bank will continue to pursue its growth strategy in 2018. A high degree of profitability and financial strength provide the best possible point of departure for success in 2018.

31 December 2017/28 February 2018
The Board of Directors of Pareto Bank ASA

Åsmund Skår Chairman	**Brita Eilertsen** Deputy chair	**Espen Lundaas**
Camilla Wahl	**Per Kristian Spone**	**Lars Christian Bjørge**

Pareto bank

INCOME STATEMENT

(NOK 1,000)	Note	2017	2016
Interest income and similar income		680 348	618 683
Interest expense and similar expense		173 382	202 786
Net interest income	**5**	**506 966**	**415 897**
Commission income & income from banking services		11 648	15 232
Commission expenses & banking service expenses		871	597
Income from ownership interests in associate companies	20	2 995	2 533
Net gains(losses) on fin. instruments at fair value	3,6,7	18 152	24 534
Other operating income		76	342
Net other operating income	**6**	**32 000**	**42 045**
Total net income		**538 966**	**457 942**
Salaries & other personnel expenses	8,9,10,37	76 621	61 551
Administrative expenses		19 310	18 384
Ordinary depreciation & amortisation	21,22	4 154	4 272
Other operating expenses		12 491	14 600
Total operating expenses before impairments & losses	**8**	**112 576**	**98 807**
Operating profit before impairments and losses		**426 390**	**359 135**
Impairments and losses on loans & guarantees	3,12	11 421	30 661
Operating profit		414 968	328 474
Tax expense	11	102 381	81 167
Profit for the year		**312 587**	**247 308**
Other income & expense		0	0
Comprehensive income for the year		**312 587**	**247 308**
Earnings per share, ordinary and diluted (NOK)		5.28	4.08

Pareto bank

BALANCE SHEET

(NOK 1,000)	Note	31.12.2017	31.12.2016
Cash and deposits with central banks	14	61 014	57 075
Due from credit institutions	14,16,17,18,31	295 533	747 274
Loans to customers	12,13,14,15,16,17,18,31	9 447 670	8 753 761
Certificates and bonds	14,15,16,19,31	3 173 886	3 315 103
Shares, fund units and other securities	14,15,16	41 192	10
Ownership interests in associate companies	20	35 970	14 654
Financial derivatives	14,15,27,28	11 611	12 725
Intangible assets	21	30 202	24 913
Deferred tax assets	11	2 782	12 019
Tangible Fixed Assets	22	3 200	735
Other assets		346	852
Pre-paid costs and accrued income		563	1 641
Total assets		**13 103 969**	**12 940 761**

(NOK 1,000)		31.12.2017	31.12.2016
Due to credit institutions	14,16	200 245	4 133
Deposits from customers	14,15,16,23	7 083 931	7 646 800
Debt securities issued	14,15,16,24	3 250 201	2 885 545
Financial derivatives	14,15,27,28	45 981	55 805
Payable taxes	11	92 029	63 172
Other liabilities	26	6 328	5 705
Accrued costs and pre-paid income	26	29 097	24 218
Subordinated loan capital	14,16,25	270 246	270 221
Total liabilities		**10 978 059**	**10 955 599**
Share capital	38	703 436	703 436
Share premium		424 615	424 615
Reserve, unrealised gains		11 405	7 746
Other equity		936 454	689 365
Additional Tier 1 bonds		50 000	160 000
Total equity	**30**	**2 125 910**	**1 985 163**
Total liabilities and equity		**13 103 969**	**12 940 761**
Contingencies	**17,18,29**	**348 789**	**434 912**

31 December 2017/28 February 2018
The Board of Directors of Pareto Bank ASA

Åsmund Skår
Chairman

Brita Eilertsen
Deputy chair

Espen Lundaas

Camilla Wahl

Per Kristian Spone

Lars Christian Bjørge

STATEMENT OF CHANGES IN EQUITY (NOK 1,000)	Share capital	Share premium	Reserve, unrealised gains	Other equity	**Shareholders' capital**	Additional Tier 1 bond loans	**Equity capital**
Equity at 01.01.2016	**510 000**	**225 469**	**4 752**	**450 169**	**1 190 390**	**160 000**	**1 350 391**
Comprehensive income for year	0	0	2 994	244 314	**247 308**	0	**247 308**
Interest paid on additional T1 bond loans	0	0	0	-10 377	**-10 377**	0	**-10 377**
Tax saved on interest additional T1 bonds	0	0	0	2 595	**2 595**	0	**2 595**
Tax saved on issuance costs	193 436	199 146	0	0	**392 583**	0	**392 583**
Equity at 31.12.2016	0	0	0	2 665	**2 665**	0	**2 665**
Equity pr. 31.12.2016	**703 436**	**424 615**	**7 746**	**689 365**	**1 825 163**	**160 000**	**1 985 163**
Comprehensive income for year	0	0	3 658	308 929	**312 587**	0	**312 587**
Interest paid on additional T1 bond loans	0	0	0	-4 294	**-4 294**	0	**-4 294**
Tax saved on interest additional T1 bonds	0	0	0	1 073	**1 073**	0	**1 073**
Dividend paid	0	0	**0**	-58 620	**-58 620**	0	**-58 620**
Repaid additional T1 bond loan	0	0	0	0	**0**	-110 000	**-110 000**
Equity at 31.12.2017	**703 436**	**424 615**	**11 405**	**936 454**	**2 075 910**	**50 000**	**2 125 910**

CASH FLOW STATEMENT

(NOK 1,000)	**2017**	**2016**
Interest paid by central banks and credit institutions	3 019	3 552
Receipts/payments of deposits from customers	-552 617	1 191 875
Interest paid on deposits from customers	-103 230	-100 376
Receipts/payments on loans to customers	-680 645	-794 588
Interest received on loans to customers	611 990	559 816
Receipts/payments of deposits by credit institutions	196 112	3 736
Interest paid on deposits by credit institutions	824	-657
Receipts/payments on certificates and bonds	144 620	-997 291
Interest received on certificates and bonds	42 167	47 457
Receipts/payments on shares, mutual fund units and other securities	-59 762	-3 865
Receipts/payments on securities debt	367 309	-131 964
Interest paid on securities debt	-67 297	-88 147
Receipts/payments on financial derivatives	9 442	57 142
Commission received	11 719	15 319
Commission paid	-871	-597
Payments for operations	-137 270	-95 510
Tax paid	-63 172	-57 587
Net cash flow from operating activities	**-277 661**	**-391 687**
Paid for purchases of tangible fixed assets	-560	-215
Paid for purchases of intangible assets	11 928	-3 036
Net cash flow from investing activities	**11 368**	**-3 251**
Paid-in capital	0	392 583
Paid on repayments of additional T1 bond	-109 464	0
Interest paid on subordinated loan capital	-9 090	-4 676
Interest paid, additional T1 bond loans	-4 336	-10 377
Dividend paid	-58 620	0
Net cash flow from funding activities	**-181 510**	**377 530**
Net change in cash and cash equivalents	-447 802	-17 408
Holdings of cash and cash equivalents at 1 Jan.	804 349	821 757
Holdings of cash and cash equivalents	**356 547**	**804 349**

Cash and cash equivalents are defined as claims on credit institutions and central banks with no agreed maturity 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 28 February 2018.

NOTE 2: SUMMARY OF KEY ACCOUNTING POLICIES

The following contains a description of key accounting policies applied in the preparation of the annual financial statements. These policies have been applied consistently in all the periods presented, except as otherwise specified in the description.

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 2017, as well as the additional 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 policies of the company require management to exercise discretionary 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 2017

The bank applied the following standards and amended standards with effect from 2017.

Disclosure initiative – Amendments to IAS 7

Information must be disclosed that will enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes caused by both cash flows and non-cash changes, see Note 25.

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 in which corresponding issues are addressed. The standard has been formally adopted by the European Union and comes into effect for the 2018 financial year. The bank will apply the standard with effect from 1 January 2018.

The rules on recognition and derecognition have not been amended.

Under IFRS 9, financial assets are classified into three measurement categories: fair value through profit or loss, fair value through other comprehensive income, and amortised cost. The measurement category is determined at the initial recognition 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 that 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 that 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 impairments 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 that are initially 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 will eliminate or significantly reduce an accounting mismatch.

Derivatives and investments in equity instruments

All derivatives must be measured at fair value through profit or loss, but derivatives designated as hedging instruments must be recognised in accordance with the policies 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 through other comprehensive income. When equity instruments are designated as measured at fair value through other comprehensive income, ordinary dividend payments must be recognised in profit or loss, whereas value changes are not recognised in profit or loss, be it on an ongoing basis or on disposal.

Financial liabilities

The rules governing financial liabilities are essentially the same as in the current IAS 39. As a general rule, financial liabilities must continue to be measured at amortised cost with the exception of financial derivatives measured at fair value, financial instruments held as part of a trading portfolio and financial liabilities designated as recorded at fair value through profit or loss. One departure from IAS 39 is that in the case of 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 other 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 that is managed and its performance 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 that basis to key personnel in the enterprise's management team.

Pareto bank

The bank has completed its assessment and has concluded that the new standard will not have an effect on the bank's measurement of financial assets and liabilities. There will be a change in the presentation of financial liabilities designated as measured at fair value through profit or loss (fixed-rate deposits from customers), since changes in fair value attributable to the company's own credit risk will be recognised in other comprehensive income rather than in profit or loss, as is the case at present.

Hedge accounting
IFRS 9 simplifies the hedge accounting requirements in that hedge effectiveness is linked more closely to the management team's risk management and affords 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 the requirement that an economic relationship must exist between the hedging instrument and the hedged item, and that credit risk does not dominate 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 as at 2017 the bank does not 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 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, or where the credit risk of the instrument is low at the reporting date, a loss allowance must be made for the 12-month expected credit loss ("Stage 1"). The 12-month expected loss 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 (it is assumed that the credit risk has not increased significantly if the credit risk of the instrument is low at the reporting date), but there is no objective evidence of loss, a loss allowance must be made for expected losses over the full lifetime of the instrument ("Stage 2"). The standard contains a presumption that the credit risk has increased significantly when contractual payments are more than 30 days past due. The accumulated expected credit losses in stages 1 and 2 replace the group provisions applicable under the current rules. If the credit risk has increased significantly and there is objective evidence of impairment, a lifetime expected credit loss allowance must be recorded ("Stage 3"). The standard contains a presumption that a default has occurred if contractual cash flows are more than 90 days past due, which is also the assumption applied by the bank. The individual loss provisions under IAS 39 will not change significantly with the transition to IFRS 9 ("Stage 3").

In assessing what constitutes a significant increase in credit risk, the bank – as well as applying the standard presumption that financial assets with cash flows that are past due by more than 30 days are exposed to a significantly increased credit risk – has applied qualitative and quantitative indicators. The primary quantitative indicator applied by the bank in assessing whether a significant increase in credit risk has occurred is determined by comparing the original probability of default and loss given default ("PDxLGD") with the probability of default and loss given default ("PDxLGD") at the reporting date. Based on this metric, the bank has defined that a doubling of the probability of default and loss given default or an absolute change of 1 per cent will constitute a significant increase in credit risk. In the case of qualitative indicators, the Watch List of the bank provides an important tool for determining whether credit risk has increased significantly since initial recognition. The bank monitors the Watch List on a continuous basis and in any situation in which it is suspected that circumstances detrimental to the commitment/customer may have occurred, the inclusion of the commitment/customer on the Watch List will be considered. Indicators that a commitment/customer should be placed on the Watch List are both internal and external in nature.

The bank's calculations of expected losses in "Stage 1" and "Stage 2" take account of forward-looking information (macroeconomic scenarios).

Interest income on financial assets in Stage 1 and Stage 2 is calculated with the aid of the effective interest method on the gross value of the financial asset recognised in the balance sheet, while interest income on financial assets in Stage 3 is calculated on the basis of the amortised cost of the financial asset.

The calculations of the bank show that the transition to IFRS 9 will lead to an increase of NOK 0.1 million before tax and 0.08 million after tax in the loss provision and accordingly will reduce equity by the corresponding amount.

Since the effect on equity capital is not significant, the bank has decided against applying the transition rules for impairments for capital adequacy purposes.

The new standard also introduces extended requirements for the information provided in notes to the financial statements as well as changes in the presentation. This is expected to change the nature and scope of the information furnished by the company about financial instruments, especially for the 2018 financial year.

As permitted under the rules on transition to IFRS 9, the company will not restate comparative information for 2017 concerning financial instruments within IFRS 9. Differences resulting from the adoption of IFRS 9 will be reported directly under other equity as at 1 January 2018.

Transitional notes relating to classification and measurement, the new impairment model, as well as changes in accounting policies for financial instruments (from 1 January 2018) are discussed in note 40.1 Changes in accounting policies. Summaries of key accounting policies relating to financial instruments effective from 1 January 2018 are discussed in note 40.2 *Summary of key accounting policies relating to financial instruments.*

IFRS 15 *Revenue from contracts with customers* concerns 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 has been adopted by the European Union and 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 since 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.

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 has been adopted by the European Union and comes into force for the financial year starting on 1 January 2019.

The provisional assessment of the bank is that the new standard may impact the reporting of the bank's contract of lease on its premises, which will primarily impact the balance sheet.

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 at balance sheet date. Changes in value as a consequence of changes in the rate of exchange between the transaction date and 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 a 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 have 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.
- Loans and receivables recognised at amortised cost.

Financial liabilities:
- Financial liabilities designated to be measured at fair value through 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 for attribution to be, or the entity may designate that measurement should be, at fair value through profit or loss. The first category encompasses the financial derivatives of the bank, unless they form part of a hedge, as well as shares and mutual fund units. The second category encompasses certificates and bonds, loans to and deposits from customers and credit institutions at fixed rates of interest, as well as debt securities issued. In the case of debt securities in issue, the bank has only classified those with fixed rates of interest in this category. Financial instruments are classified in the category designated to be measured at fair value through profit or loss with the aim 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 recognised 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 cash and deposits with central banks, loans and receivables due from credit insitutions as well as loans to customers.

Other financial liabilities recognised at amortised cost:
This category encompasses deposits from customers and credit institutions without locked-in interest rates and other financial liabilities, that are not designated 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 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 with transaction costs being 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 at 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 is 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.

In the case of other financial instruments such as deposits and loans by customers and credit institutions with locked-in rates, the bank determines contractual cash flows 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 expected life of the instrument. 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.

Impairment 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 embark on 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
Depending on counterparty, loans and receivables are recognised in the balance sheet as either loans to and payments due from credit institutions or loans to and payments due 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 impairment of loans are recorded in the line item "Impairment and losses on loans & guarantees". 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".

Amounts due to credit institutions and deposits from customers
Depending on counterparty, amounts due to credit institutions and customers are recognised, 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 securities issued
This category includes debt established by the issuance of securities designated to be recognised 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 under which 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 a debt instrument 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 impaired are recorded in "Impairments and losses on loans and guarantees". 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 of conclusion of the derivative contract and thereafter at fair value. The recording of the associated gains and losses will depend on whether the derivative is designated as 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 very efficient in mitigating changes in the fair value of 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 fair value hedging 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 earned in the form of income or accrued in the form of 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 impaired credit commitments is calculated as the internal rate of return on the impaired value.

2.8 Tangible fixed assets

Material assets are classified as tangible fixed assets and valued at acquisition cost less accumulated depreciation and impairments. 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 impairments 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 transfers are classified as intangible assets and recognised in the balance sheet at acquisition cost with the addition of the expenses required to ready the software 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 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 impairments 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 6 per cent in the case of salary rates of between 1 and 7.1 G (G = the basic National Insurance amount) and 9 per cent in the case of salary rates of between 7.1 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 expense comprises taxes due 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 regulations applicable on the reporting date and which are assumed to apply when the deferred tax asset is realised or when the deferred tax is due to be 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 declaration 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 holds operating leases only. 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 Additional Tier 1 bonds

Perpetual Tier 1 bond loans where the issuer has an unconditional right not to pay interest are classified as equity. Net interest paid out is classified as a reduction in shareholders' equity.

2.16 Statement of Cash Flows

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

2.17 Events since the reporting date

Information that comes to light after balance sheet date about the financial position of the company at 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 at 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 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 about future events viewed as likely at 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 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 at 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 policies and in Note 15 to the annual financial statements.

The impairment of financial assets

If objective evidence of the impairment of loans can be identified, loan impairment 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 embark on 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 impairments. 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 policies.

Other circumstances

The bank is not involved in any legal disputes.

NOTE 4: MARKET SEGMENTS

Because 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)	**2017**	**2016**
Interest income and similar income on amounts due from central banks, amortised cost	293	292
Interest income and similar income on amounts due from credit institutions, amortised cost	2 901	4 421
Interest income and similar income on amounts due from customers, fair value	0	559
Interest income and similar income on amounts due from customers, amortised cost	531 483	479 508
Interest income and similar income on bonds and certificates, fair value	45 606	51 370
Arrangement fees etc.	69 489	60 371
Commission income etc.	30 564	22 150
Other interest income and similar income	12	10
Interest income and similar income	**680 348**	**618 683**
Interest expense and similar expense on amounts due to financial institutions, fair value	824	493
Interest expense and similar expense on deposits from customers, fair value	26 977	40 728
Interest expense and similar expense on deposits from customers, amortised cost	66 002	67 279
Interest expense and similar expense on securities debt, fair value	446	21 413
Interest expense and similar expense on securities debt, amortised cost	64 198	62 267
Interest expense and similar expense on subordinated loan capital, amortised cost	9 115	4 891
Fee to Norwegian Banks' Guarantee Fund	5 705	5 716
Other interest expense and similar expense, amortised cost	115	0
Interest expense and similar expense	**173 382**	**202 786**
Net interest and credit commission income	**506 966**	**415 897**

NOTE 6: OTHER INCOME

(NOK 1,000)	2017	2016
Commission income from payment transfers	622	607
Commission income from guarantees	8 565	11 505
Commission income from investment services	1 634	2 619
Inter-bank commissions	32	32
Commission income from other banking services	796	469
Commission income and income from banking services	**11 648**	**15 232**
Commission expense on payment transfers	866	588
Inter-bank commissions	5	9
Commission expense and banking service expenses	**871**	**597**
Income from ownership interests in associate companies	**2 995**	**2 533**
Net gains/(losses) on financial instruments at fair value	**18 152**	**24 534**
Other operating income	76	342
Other operating income	**76**	**342**
Net other operating income	**32 000**	**42 045**

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

(NOK 1,000)	2017	2016
Net gains/(losses) on foreign exchange	-9 907	-17 050
Net gains/(losses) on currency derivatives	13 051	25 290
Net gains/(losses) on money market derivatives	-8 919	-2 678
Net gains/(losses) on financial instruments, trading	**-5 774**	**5 562**
Net gains/(losses) on loans to customers	0	-198
Net gains/(losses) on bonds and certificates	26 035	18 573
Net gains/(losses) on shares and fund units	1 182	790
Net gains/(losses) on loans from central banks	-12	0
Net gains/(losses) on securities debt	-5 373	-459
Net gains/(losses) on deposits from customers	2 094	266
Net gains/(losses) on financial instruments at fair value	**23 926**	**18 972**
Net gains/(losses) on financial instruments designated for reporting at fair value	**18 152**	**24 534**

NOTE 8: OPERATING COSTS

(NOK 1,000)	2017	2016
Ordinary salary costs	40 397	31 883
Provision for profit sharing	19 680	16 159
Fees, elected officers	1 742	1 247
Pension costs	2 737	2 235
Employer's National Insurance contributions	8 953	8 025
Other personnel costs	3 112	2 001
Salaries and other personnel expenses	**76 621**	**61 551**
IT costs	13 979	12 056
Office supplies, postage etc.	1 078	1 295
Sales, entertainment expenses and marketing	2 672	3 891
Other administrative expenses	1 581	1 142
Administrative expenses	**19 310**	**18 384**
Rent and other operating costs, leased premises	3 909	3 301
Fees auditing, consultancy and legal advice	6 616	9 969
Membership subscriptions	1 183	870
Insurance cover	544	405
Sundry operating costs	239	55
Other operating costs	**12 491**	**14 600**
Depreciation, amortisation etc. on tangible fixed assets and intangible assets	**4 154**	**4 272**
Total operating costs	**112 576**	**98 807**

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 in place 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 6 per cent of pensionable income for salaries of between 0 G and 7.1 G and of 9 per cent for salaries of 7.1 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)	2017	2016
Pension cost, defined contribution scheme	2 504	1 993
Pension cost, annuity	233	242
Total pension cost	**2 737**	**2 235**

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

	2017	2016
Number of employees at 31 Dec.	40.0	35.0
Number of full-time equivalents at 31 Dec.	39.4	34.0
Average number of employees	37.0	33.8
Average number of full-time equivalents	36.2	33.3

NOTE 11: TAX COST

(NOK 1,000)

Temporary differences	**2017**	**2016**
Tangible fixed assets	60	-266
Intangible assets	2 680	1 740
Financial instruments	-11 321	-44 908
Deposits from customers	-2 546	-4 641
Basis for deferred tax in balance sheet	**-11 128**	**-48 075**
Deferred tax/deferred tax asset	**-2 782**	**-12 019**

Basis for tax cost, change in deferred tax and payable tax	**2017**	**2016**
Profit before taxes	414 968	328 474
Permanent differences	-9 907	-23 165
Basis for year’s tax cost	405 062	305 309
Change in differences included in basis for deferred tax	-36 947	-52 620
Basis for payable tax in income statement	368 115	252 689
Taxable income (basis for tax payable in balance sheet)	368 115	252 689

Breakdown of tax cost	**2017**	**2016**
Tax payable (25% of basis for tax payable in income statement)	92 029	63 172
Change in deferred tax/tax asset	9 237	13 155
Items charged directly to equity	1 115	5 259
Excess/insufficient provision for tax preceding year	0	-419
Tax cost (25% of basis for year’s tax cost)	**102 381**	**81 167**

Tax payable in balance sheet	**2017**	**2016**
Tax payable on year’s profit	92 029	63 172
Tax payable in balance sheet	92 029	63 172

NOTE 12: LOSSES ON LOANS AND GUARANTEES

(NOK 1,000)	2017	2016
Cost of losses in period		
Change in individual impairments	-1 393	21 642
Change in collective impairments	2 000	5 000
Actual losses charged to previous impairments	10 727	4 002
Actual losses without previous impairments	87	18
Impairments and losses on loans and guarantees	**11 421**	**30 661**
Individual impairments		
Individual impairments 1 Jan.	39 150	17 597
-Actual losses charged to previous impairments	10 727	4 002
+ Increase individual impairments	20 052	31 912
-Reversed impairments	10 622	6 358
Individual impairments 31 Dec.	**37 853**	**39 150**
Collective impairments		
Collective impairments 1 Jan.	45 700	40 700
+ Change in collective impairments in period	2 000	5 000
Collective impairments 31 Dec.	**47 700**	**45 700**

NOTE 13: NON-PERFORMING AND IMPAIRED COMMITMENTS

(NOK 1,000)	**31.12.2017**	**31.12.2016**
Non-performing commitments		
Gross non-performing commitments	105 257	74 475
Individual impairments	633	10 996
Net non-performing commitments	104 624	63 479
Provision ratio	0.60 %	14.76 %
Non-performing commitments as % of gross lending	**1.10 %**	**0.72 %**

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	85 764	145 952
Individual impairments	37 220	28 154
Net impaired commitments	48 544	117 797
Provision ratio	43.40 %	19.29 %
Other impaired commitments as % of gross lending	**0.51 %**	**1.33 %**

Other impaired commitments are commitments that are not non-performing as defined above, but where an impairment has been recorded.

Overdue loans, excluding loans that have been impaired		
6-30 days	112 477	1 934
31-60 days	51 057	69 193
61-90 days	32	0
> 90 days	86 763	47 955
Total	**250 328**	**119 081**

NOTE 14: CLASSIFICATION OF FINANCIAL INSTRUMENTS

At 31.12.2017 (NOK 1,000)	Financial instru-ments at fair value through profit or loss	Financial instru-ments valued at amortised cost	**Financial insteruments**
Cash and deposits with central banks	0	61 014	**61 014**
Due from credit institutions	0	295 533	**295 533**
Loans to customers	0	9 447 670	**9 447 670**
Certificates and bonds	3 173 886	0	**3 173 886**
Shares, fund units and other securities	41 192	0	**41 192**
Financial derivatives	11 611	0	**11 611**
Other assets	0	346	**346**
Pre-paid costs and accrued income	0	563	**563**
Total assets	**3 226 690**	**9 805 126**	**13 030 907**
		5 958 097	**200 245**
Due to credit institutions	0	200 245	**7 083 931**
Deposits by and debt to customers	1 125 835	5 958 097	
Debt securities issued	0	3 250 201	**200 245**
Financial derivatives	45 981	0	**7 083 931**
Other debt	0	6 328	**3 250 201**
Accrued costs and pre-paid income	0	29 097	**45 981**
Subordinated loan capital	0	270 246	**270 246**
Total liabilities	**1 171 816**	**9 714 214**	**10 615 784**

At 31.12.2016 (NOK 1,000)	Financial instru-ments at fair value through profit or loss	Financial instru-ments valued at amortised cost	**Financial insteruments**
Cash and deposits with central banks	0	57 075	**57 075**
Due from credit institutions	0	747 274	**747 274**
Loans 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**
Other assets	0	852	**852**
Pre-paid costs and accrued income	**0**	1 641	**1 641**
Total assets	**3 327 838**	**9 560 603**	**12 888 441**
Due to credit institutions	0	4 133	**4 133**
Deposits by and debt to customers	1 789 370	5 857 430	**7 646 800**
Debt securities issued	62 441	2 823 104	**2 885 545**
Financial derivatives	55 805	0	**55 805**
Other debt	0	5 705	**5 705**
Accrued costs and pre-paid income	0	24 218	**24 218**
Subordinated loan capital	**0**	**270 221**	**270 221**
Total liabilities	**1 907 616**	**9 984 811**	**10 622 206**

NOTE 15: FINANCIAL INSTRUMENTS AT FAIR VALUE

Classification of valuation based on the reliability of the information used

At 31.12.2017 (NOK 1,000)	Level 1	Level 2	Level 3	Financial instruments
Certificates and bonds	0	3 173 886	0	**3 173 886**
Shares and units in mutual funds	0	0	41 192	**41 192**
Financial derivatives	0	11 611	0	**11 611**
Total assets	**0**	**3 185 498**	**41 192**	**3 226 690**
Deposits from customers	0	0	1 125 835	**1 125 835**
Financial derivatives	0	45 981	0	**45 981**
Liabilities	**0**	**45 981**	**1 125 835**	**1 171 816**

Classification of valuation based on the reliability of the information used

At 31.12.2016 (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 from customers	0	0	1 789 370	**1 789 370**
Debt securities issued	0	62 441	0	**62 441**
Financial derivatives	0	55 805	0	**55 805**
Total liabilities	**0**	**118 246**	**1 789 370**	**1 907 616**

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 listed, but that is observable for assets or liabilities either directly (for example in the form of prices) or indirectly (for example derived from 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 balance sheet date. The credit premium is obtained from independent brokers in major financial institutions.

Certificates, bonds and debt securities
The bank obtains market prices and credit spreads from Nordic Bond Pricing, the Bloomberg information system and independent brokers in 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 from customers and financial institutions
The bank calculates contractual cash flows discounted by the market rate of return with the addition of the bank's estimated credit spreads of the bank in deposit markets at 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 at balance sheet date.

See also the description provided in Note 2: Accounting policies

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

Changes in financial instruments Level 3
At 31.12.2017

(NOK 1,000)	Amounts due from customers	Shares and units in mutual funds	Total assets	Amounts due to customers	Total debt
Balance sheet at 1 Jan. 2017	0	10	**10**	1 789 370	**1 789 370**
Gains/(losses) in IS in line item for net gain/losses on financial instruments at fair value	0	1 182	**1 182**	2 094	**2 094**
Reclassification associate companies	0	0	**0**	0	**0**
Payments to and from counterparties	0	40 000	**40 000**	-665 629	**-665 629**
Balance sheet at 31 Dec. 2017	**0**	**41 192**	**41 192**	**1 125 835**	**1 125 835**
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	0	1 182	**1 182**	2 094	**2 094**

Changes in financial instruments Level 3
At 31 Dec. 2016

(NOK 1,000)	Amounts due from customers	Shares and units in mutual funds	Total assets	Amounts due to customers	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 line 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**

Sensitivity analysis, level 3

	Balance sheet value 31 Dec 2017	Effect of assumptions
Amounts due to customers	1 125 835	806

	Balance sheet value 31 Dec 2016	Effect of assumptions
Amounts due to customers	1 789 370	1 439

To show the sensitivity of amounts due to customers, a change of 10 basis points has been applied to the credit spread/discount rate.

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

(NOK 1,000)	31 Dec. 2017 Balance sheet value	Fair value	31 Dec. 2016 Balance sheet value	Fair value
Debt securities issued	3 250 201	3 261 603	2 823 104	2 831 890
Subordinated loan capital	270 246	274 042	270 221	265 562
Liabilities	**3 520 447**	**3 535 644**	**3 093 324**	**3 097 452**

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 at 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.

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.

Debt securities issued
The bank obtains market prices and credit spreads from Nordic Bond Pricing, the Bloomberg information system and independent brokers in major financial institutions in order to calculate fair value.

Subordinated loan capital
The fair value of subordinated loan capital is set at the market values obtained from Nordic Bond Pricing, estimated sales price based on past trades and estimates from independent brokers in major financial institutions.

Certificates, bonds and subordinated loan capital valued at amortised cost are classified as Level 2 fiancial instruments.

The balance sheet value of the line items cash and deposits with central banks, amounts due from credit institutions, loans to customers, amounts due to credit institutions, deposits from customers is approximately equal to fair value.

NOTE 17: CREDIT COMMITMENTS BY CUSTOMER GROUP

(NOK 1,000)	Loans 31.12.2017	Loans 31.12.2016	Guarantees 31.12.2017	Guarantees 31.12.2016	Undrawn credit lines 31.12.2017	Undrawn credit lines 31.12.2016
Private customers	385 203	467 536	3 793	1 501	242 128	345 551
Agriculture, forestry and fisheries	0	0	0	0	6 000	6 000
Mining and quarrying	40 000	0	0	0	0	0
Industry	17 206	31 759	600	600	14 936	8 097
Elec. power, natural gas, steam and hot water providers	0	0	0	4 323	0	0
Building and construction	2 858 194	1 849 157	132 116	85 576	579 402	573 602
Retail	19 526	14 596	1 170	196	7 774	8 536
Transport and storage	847 703	739 434	500	500	35 761	23 380
Accommodation and hospitality	40 000	32 249	2 000	0	0	1
Information and communication	9 825	7 327	1 656	1 656	1 542	24 173
Finance and insurance	1 271 159	1 728 533	122 053	127 034	330 669	377 918
Sales and management of real property	3 360 825	3 313 299	61 830	201 318	640 381	710 217
Professional, scientific and technical services	444 375	473 363	14 909	9 909	130 559	92 353
Commercial services	176 106	149 042	2 050	2 300	41 423	64 432
Education	0	0	0	0	2 500	0
Health, social services and entertainment	23 188	9 504	6 112	0	20 812	3 496
Total customers, principal	**9 493 311**	**8 815 799**	**348 789**	**434 912**	**2 053 887**	**2 237 757**
Accrued interest and amortisation	39 912	22 812	0	0	0	0
Impairments	-85 553	-84 850	0	0	0	0
Adjustment to fair value	0	0	0	0	0	0
Total customers	**9 447 670**	**8 753 761**	**348 789**	**434 912**	**2 053 887**	**2 237 757**
Credit institutions, principal	291 508	743 424	0	0	0	0
Accrued interest and amortisation	4 025	3 850	0	0	0	0
Adjustment to fair value	0	0	0	0	0	0
Total credit institutions	**295 533**	**747 274**	**0**	**0**	**0**	**0**
Total customers and credit institutions	**9 743 203**	**9 501 035**	**348 789**	**434 912**	**2 053 887**	**2 237 757**

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

NOTE 18: CREDIT COMMITMENTS BY GEOGRAPHICAL LOCATION

	Loans		Guarantees		Undrawn credit lines	
(NOK 1,000)	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Eastern Norway	2 407 915	2 121 854	64 848	75 379	742 382	627 380
Oslo	5 450 622	5 372 347	110 543	237 479	916 068	1 091 472
Southern Norway	292 297	377 297	238	5 381	92 673	145 831
Western Norway	276 377	309 248	2 120	2 120	116 308	107 106
Northern and Central Norway	439 404	206 421	61 846	0	135 963	215 579
Outside Norway	626 697	428 632	109 195	114 554	50 493	50 389
Total customers, principal	**9 493 311**	**8 815 799**	**348 789**	**434 912**	**2 053 887**	**2 237 757**
Accrued interest and amortisation	39 912	22 812	0	0	0	0
Impairments	-85 553	-84 850	0	0	0	0
Adjustment to fair value	0	0	0	0	0	0
Total customers	**9 447 670**	**8 753 761**	**348 789**	**434 912**	**2 053 887**	**2 237 757**
Credit institutions, principal	291 508	743 424	0	0	0	0
Accrued interest and amortisation	4 025	3 850	0	0	0	0
Adjustment to fair value	0	0	0	0	0	0
Total credit institutions	**295 533**	**747 274**	**0**	**0**	**0**	**0**
Total customers and credit institutions	**9 743 203**	**9 501 035**	**348 789**	**434 912**	**2 053 887**	**2 237 757**

NOTE 19: CERTIFICATES AND BONDS

(NOK 1,000)	**31.12.2017**	**31.12.2016**
Certificates (cost price), quoted	450 000	600 000
Accrued interest and amortisation	0	0
Adjustment to fair value	-333	-1 560
Certificates at fair value	**449 667**	**598 440**
Average duration of credit	0.22	0.59
Average effective rate of interest	0.36 %	0.45 %
Bonds (cost price), quoted	2 678 627	2 683 716
Accrued interest and amortisation	31 758	25 747
Adjustment to fair value	13 834	7 200
Bonds at fair value	**2 724 219**	**2 716 663**
Average duration of credit	3,49	3,38
Average effective rate of interest	0.90 %	0.98 %
Total certificates and bonds	**3 173 886**	**3 315 103**

NOTE 20: OWNERSHIP INTERESTS ASSOCIATE COMPANIES

(NOK 1,000)	Land	Assets	Debt	Revenues	Share of profits	Stake	Book value
Verdun Holding AS	Norway	63 800	43 484	108 325	313	24.5 %	13 747
NyeBoliger AS	Norway	21 753	10 407	43 649	2 424	35.0 %	22 223
Total associate companies		85 553	53 891	151 974	2 737		**35 970**

Balance sheet value, associate company	**31.12.2017**
Value recognised in balance sheet 1 Jan.	**14 654**
Acquisitions	19 800
Dividend paid out	-1 220
Share of profits*	2 737
Value recognised in balance sheet 31 Dec.	**35 970**

*Share of profits is estimated

Reconciliation, accounts of Verdun Holding AS:	**31.12.2017**
Net assets	20 317
Ownership interest (24.5%)	4 978
Goodwill	8 769
Value recognised in balance sheet 31 Dec.	**13 747**

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

Reconciliation, accounts of NyeBoliger AS	**31.12.2017**
Net assets	11 346
Ownership interest (35.0%)	3 971
Goodwill	18 252
Value recognised in balance sheet 31 Dec.	**22 223**

NyeBoliger AS (Sem & Johnsen Prosjektmegling) is a specialist in the sale of new homes under construction and is based at Klingenberggata 7 in Oslo.

NOTE 21: OTHER INTANGIBLE ASSETS

(NOK 1,000)	**31.12.2017**	**31.12.2016**
Purchase cost 1 Jan.	54 618	51 581
Acquisitions during year	8 920	3 036
Disposals during year	-20 847	0
Purchase cost 31 Dec.	42 690	54 618
Accumulated amortisation 1 Jan.	-29 704	-25 697
Year's asset retirements	20 847	0
Year's amortisations	-3 631	-4 007
Accumulated amortisations 31 Dec.	-12 488	-29 704
Book value 31 Dec.	**30 202**	**24 913**
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)	**31.12.2017**	**31.12.2016**
Purchase cost 1 Jan.	4 010	3 795
Acquisitions during year	2 987	215
Disposals during year	-2 428	0
Purchase cost 31 Dec.	4 569	4 010
Accumulated amortisation 1 Jan.	-3 275	-3 010
Year's asset retirements	2 428	0
Year's depreciation	-522	-265
Accumulated depreciation 31 Dec.	-1 370	-3 275
Book value 31 Dec.	**3 200**	**735**
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)	**31.12.2017**	**31.12.2016**
Private customers	2 060 788	2 471 612
Agriculture, forestry and fisheries	51 472	26 360
Mining and quarrying	1 353	1 484
Industry	63 364	35 881
Elec. power, natural gas, steam and hot water providers	44 810	44 959
Building and construction	208 907	221 124
Retail, motor vehicle repairs	102 670	117 866
Transport and storage	244 358	109 159
Accommodation and hospitality	18 641	22 602
Information and communication	102 031	106 162
Finance and insurance	1 283 622	1 431 571
Sales and management of real property	1 960 809	1 601 923
Professional, scientific and technical services	422 174	453 950
Commercial services	122 686	242 920
Public administration and defence, and social security schemes subject to public administration	21 208	36 499
Education	28 175	36 406
Health and social services	49 933	81 899
Other services	280 786	329 642
Outside Norway/Undefined sector	0	246 291
Total customers, principal	7 067 787	7 618 310
Accrued interest	13 598	23 849
Adjustment to fair value	2 546	4 641
Deposits from customers	**7 083 931**	**7 646 800**

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)	**31.12.2017**	**31.12.2016**
Eastern Norway	1 902 893	2 119 195
Oslo	4 085 245	4 162 755
Southern Norway	351 605	426 520
Western Norway	284 860	442 228
Northern and Central Norway	186 193	221 321
Outside Norway	256 992	246 291
Total customers, principal	7 067 787	7 618 310
Accrued interest	13 598	23 849
Adjustment to fair value	2 546	4 641
Deposits from customers	**7 083 931**	**7 646 800**

NOTE 24: DEBT SECURITIES

(NOK 1,000)	**31.12.2017**	**31.12.2016**
Certificate debt, nominal value	0	300 000
- Own non-amortised certificates, nominal value	0	-130 000
Accrued interest	0	590
Adjustment to fair value	0	-1
Total certificate debt	**0**	**170 588**
Bond debt, nominal value	3 500 000	3 020 000
- Own non-amortised bonds, nominal value	-259 000	-313 000
Accrued interest	6 359	8 423
Adjustment to fair value	2 842	-466
Total bond debt	**3 250 201**	**2 714 957**
Debt securities issued	**3 250 201**	**2 885 545**

The bank issues securities to finance its operations.

Loans issued 31 December 2017

(NOK 1,000)		**Currency**	**Nominal value**	**Term**		**Yield**
NO0010702897	Pareto Bank ASA 14/18 FRN	NOK	500 000	30.01.2014 - 30.01.2018	3 mnth	NIBOR + 1.35 %-points
NO0010747389	Pareto Bank ASA 15/18 FRN	NOK	500 000	12.10.2015 - 12.10.2018	3 mnth	NIBOR + 1.37 %-points
NO0010722804	Pareto Bank ASA 14/19 FRN	NOK	500 000	04.11.2014 - 04.11.2019	3 mnth	NIBOR + 1.00 %-points
NO0010758352	Pareto Bank ASA 16/19 FRN	NOK	500 000	01.03.2016 - 01.03.2019	3 mnth	NIBOR + 1.75%-points
NO0010768260	Pareto Bank ASA 16/20 FRN	NOK	500 000	23.06.2016 - 23.06.2020	3 mnth	NIBOR + 1 .40 %-points
NO0010805989	Pareto Bank ASA 17/20 FRN	NOK	500 000	21.09.2017 - 21.09.2020	3 mnth	NIBOR + 0.85 %-points
NO0010805997	Pareto Bank ASA 17/22 FRN	NOK	500 000	21.09.2017 - 21.09.2022	3 mnth	NIBOR + 1.12 %-points

NOTE 25: SUBORDINATED LOAN CAPITAL

(NOK 1,000)	**31.12.2017**	**31.12.2016**
Subordinated Tier 2 bond loans, nominal value	270 000	270 000
Accrued interest	517	590
Amortisations	-271	-369
Total subordinated Tier 2 bond loans	**270 246**	**270 221**

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.

Additional Tier 1 bond loans
Pareto Bank has one outstanding perpetual Tier 1 bond loan in the amount of NOK 50 million. The loan was issued on 9 September 2014 in the amount of NOK 50 million with an interest rate of 3-month NIBOR + 370 bp. The loan is perpetual with the right for the issuer to redeem 5 years after the date of issue, with no incentive to repay.

The issuer also has the right to redeem the loan 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 Tier 1 bond is classified in the balance sheet as equity capital. Please also see Note 2.

The table below shows the reconciliation of opening and closing balances for financial liabilities as a consequence of financing activities, including changes as a consequence of cash flows as well as non-cash changes.

(NOK 1,000)	31.12.2016	Interest paid	Interest expense	31.12.2017
Subordinated loan capital	270 221	-9 090	9 115	270 246

NOTE 26: OTHER LIABILITIES AND ACCRUED COSTS

(NOK 1,000)	**31.12.2017**	**31.12.2016**
Payment transfer services	1 510	1 224
Trade payables	1 679	2 231
Tax withholdings	2 530	2 173
VAT payable	110	65
Other liabilities	499	12
Other liabilities	**6 328**	**5 705**
Holiday pay, Employer's NI contributions and salaries	27 529	22 468
Other accrued costs	1 568	1 750
Accrued costs	**29 097**	**24 218**

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, in particular 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 contracts: Agreement to purchase or sell currency 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 3 and Note 12.

At 31.12.2017

(NOK 1,000)	Nominal values	Positive market values	Negative market values
Interest rate-related contracts			
Interest rate swaps	2 999 627	7 503	23 346
Total interest rate-related contracts	**2 999 627**	**7 503**	**23 346**
Currency-related contracts			
Forward exchange agreements	1 752 987	4 108	22 636
Total currency-related contracts	**1 752 987**	**4 108**	**22 636**
Financial derivatives	**4 752 615**	**11 611**	**45 981**

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**

NOTE 28: NET SETTLEMENT FINANCIAL INSTRUMENTS

At 31.12.2017

Assets

(NOK 1,000)	Gross financial assets in BS	Gross debt presented net	Net financial assets in BS	Related amounts not presented net: Financial instruments	Related amounts not presented net: Collateral in cash (received)	Net amount
Derivatives	11 611	0	11 611	-10 267	0	1 344
Total	**11 611**	**0**	**11 611**	**-10 267**	**0**	**1 344**

Liabilities

(NOK 1,000)	Gross financial assets in BS	Gross debt presented net	Net financial assets in BS	Related amounts not presented net: Financial instruments	Related amounts not presented net: Collateral in cash (received)	Net amount
Derivatives	45 981	0	45 981	-10 267	-35 714	0
Total	**45 981**	**0**	**45 981**	**-10 267**	**-35 714**	**0**

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: Financial 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: Financial instruments	Related amounts not presented net: Collateral in cash (received)	Net amount
Derivatives	55 805	0	55 805	-7 569	-48 236	0
Total	**55 805**	**0**	**55 805**	**-7 569**	**-48 236**	**0**

NOTE 29: FINANCIAL GUARANTEES AND PLEDGES ETC.

(NOK 1,000)	31.12.2017	31.12.2016
Guarantees		
Contract guarantees	112 091	139 122
Payment guarantees	236 698	295 791
Total guarantee liability	**348 789**	**434 912**
Pledges		
Securities pledged to Norges Bank, nominal principal	205 000	0
Total pledges	**205 000**	**0**

NOTE 30: RISK MANAGEMENT AND CAPITAL ADEQUACY

The overarching objective of the bank is that risk and risk tolerance should be moderate and concentrated around the primary business areas of the bank on the credit side. Risk in the short and medium term in other business activities derives largely from the credit activities of the bank, including its borrowing activities. As well as credit risk, this is related to limits on interest-rate, foreign exchange and liquidity exposure. In these areas, the bank seeks to put absolute risk and risk tolerance targets in place.

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 adequacy 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 the weighted calculation base, of which core capital must constitute at least 4.5 percentage points.

Credit risk:

Credit risk represents the greatest risk for the bank and relates primarily to all loans 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 income 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.

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

Pillar 1 capital adequacy

(NOK 1,000)	**31.12.2017**	**31.12.2016**
Subordinated capital		
Paid-in equity and retained earnings	2 075 910	1 825 163
Non-Tier 1 book equity	-93 792	-58 620
Less 0.1% of absolute value of financial instruments at fair value	-3 657	-3 963
Less intangible assets	-30 202	-24 913
Total CET1	**1 948 260**	**1 737 667**
Subordinated loan capital (Tier 1)	50 000	160 000
Total Tier 1 capital	**1 998 260**	**1 897 667**
Subordinated loan capital (Tier 2)	270 000	270 000
Total subordinated capital	**2 268 260**	**2 167 667**
Minimum requirements subordinated capital		
Local and regional authorities (incl. municipalities)	2 446	2 410
Institutions	6 674	15 866
Enterprises	533 808	540 881
Commitments secured by mortgages on property	250 245	183 248
Commitments that have come due	12 408	1 979
Covered bonds	9 562	11 771
Units in mutual funds	3 295	0
Other commitments	15 684	13 700
Capital requirements credit risk standard approach (SA)	834 122	769 856
Capital requirements for operational risk	55 461	44 867
Deduction of impairments of groups of loans and provisions for guarantee commitments	-6 844	-6 788
Minimum requirements, subordinated capital	**882 739**	**807 935**
Surplus of subordinated capital	**1 385 521**	**1 359 732**
Capital adequacy ratio	**20.56 %**	**21.46 %**
Tier 1 capital ratio	**18.11 %**	**18.79 %**
Common equity Tier 1 ratio	**17.66 %**	**17.21 %**
Calculation base	**11 034 232**	**10 099 183**

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

Pillar 2 – Assessment of overall capital requirement and supervisory review
Pillar 2 requires the bank to perform 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.

Finanstilsynet has completed its assessment of Pareto Bank's risks, capital requirements and liquidity requirements (Supervisory Review and Evaluation Process). The bank underwent an assessment of this nature in 2017, resulting in a decision requiring the bank to have a capital corresponding to a minimum of 3.2 per cent of its risk weighted calculation base in order to cover risks that are not, or are only partially, covered by Pillar 1. The Pillar 2 requirement must be covered by common equity Tier 1 capital.

Accordingly, the CET1 capital ratio, Tier 1 capital ratio and capital adequacy requirements applicable to the bank at year-end 2017 were 15.2 per cent, 16.7 per cent and 18.7 per cent, respectively. The bank meets these requirements by a substantial margin. The Directors have fixed a new target CET1 capital ratio of 15.7 per cent, applicable from 31 December 2018.

Sensitivity tests and future scenarios relating to serious economic reversals
The bank has performed stress testing to ensure that it has sufficient capital to withstand major losses and challenging market conditions. The test assumes that the bank will sustain losses in multiple areas simultaneously, as well as a lower level of profitability, while at the same time maintaining a normal level of activity. The test assumes major credit losses, a high level of defaults, lower lending margins, higher deposit margins and no access to the securities market.

The bank sustains a major loss in the stress test in the first two years. The common equity Tier 1 capital ratio of the bank falls by just under 0.5 per cent in the first year. The stress test reveals that the bank is able to withstand major losses and difficult market conditions without finding itself in breach of the minimum common equity Tier 1 capital ratio requirement, assuming that the bank adheres to its capital target. The background to this is that the bank has considerable room for manoeuvre and is able to implement a number of measures at short notice aimed at reducing the calculation basis.

Pillar 3 – Financial information disclosure requirements
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 and the 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 irregularities, defaults and breaches of borrowing conditions. The Credit Committee of the bank meets at regular intervals and otherwise as required.

Pareto Bank has a risk management function which safeguards the bank's fulfillment of its obligations under the applicable framework regulations and the Articles of Association of the bank. In the assessment of the Directors the risk management function is well suited to the size and business of the bank and is equipped with sufficient capacity and expertise.

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 granting and following up of commitments.

The bank takes a proactive approach towards the risk taken on at any given time. The risk associated with credit must be calculated and comprehensible, and the exposure of the bank in terms of a concrete amount must be computable. Risk management systems/procedures have been put in place to monitor/define the risk taken on by the bank.

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 endeavours to diversify between the various sectors and to avoid risk in sectors in which it lacks the necessary expertise or is uncertain about the future general level of risk associated with the sector.

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 financially 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 reviewed as a minimum 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
The purpose of risk classification is to provide the basis for an overall assessment of the risk undertaken by the bank in its lending, credit and guarantee business 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 in turn are 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 exposure 31.12.2017	31.12.2016
No/very little risk	4 232 231	64 765	1 202 696	5 499 691	5 437 355
Little risk	3 875 787	186 027	712 807	4 774 622	4 239 392
Moderate risk	1 005 229	92 286	136 720	1 234 235	1 391 017
Some risk	320 903	5 711	1 000	327 614	210 786
High risk	17 487	0	664	18 151	5 745
Very high risk	38 087	0	0	38 087	204 173
Impaired	3 587	0	0	3 587	0
Value changes, accrued interest, impairments and amortisation	-45 641	0	0	-45 641	-60 429
Loans to and claims on customers principal	**9 447 670**	**348 789**	**2 053 887**	**11 850 346**	**11 428 039**

Customers: Credit commitments by primary collateral/exposure[1] :

(NOK 1,000)	Loans	Guarantees	Unused credit-limits	Total credit exposure 31.12.2017	31.12.2016
Shares and mutual fund units	1 267 692	2 050	761 303	2 031 046	2 173 319
Bonds	179 008	0	102 620	281 628	398 674
Commercial property – Offices	74 000	0	0	74 000	564 850
Commercial property – Storage/multipurpose	1 182 744	21 566	9 826	1 214 136	518 491
Commercial property – Retail premises	313 031	600	19 167	332 797	603 325
Commercial property – Housing	2 486 740	144 654	1 049 525	3 680 919	3 527 385
Commercial property – Land	1 943 627	5 000	12 274	1 960 901	1 576 658
Commercial property – Other	416 419	0	0	416 419	120 165
Maritime sector	1 115 512	109 695	0	1 225 206	1 491 329
Housing mortgages/credits	206 980	0	51 732	258 713	336 767
Cash deposits	5 477	55 256	0	60 734	62 547
Other	302 082	9 968	47 440	359 489	114 959
Value changes, accrued interest, impairments and amortisation	-45 641	0	0	-45 641	-60 429
Loans to and claims on customers principal	**9 447 670**	**348 789**	**2 053 887**	**11 850 346**	**11 428 039**

[1] With the exception of standard housing mortgages/credits, the collateral structure of most commitments will normally consist 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)	31.12.2017	31.12.2016
External rating S&P, AA-/A-1+	26 960	24 373
External rating S&P, A+/A-1+	261 882	147 862
External rating S&P, A/A-1	6 691	575 039
Loans to and claims on credit institutions	**295 533**	**747 274**

Certificates and bonds: Classification of issuers by sector

(NOK 1,000)	31.12.2017	31.12.2016
Central government	1 518 439	1 329 204
Local authority	366 638	364 196
Credit institution	1 195 163	1 480 888
Bank	93 647	140 814
Certificates and bonds	**3 173 886**	**3 315 103**

Certificates and bonds: Classification of issuers by rating

(NOK 1,000)	31.12.2017	31.12.2016
AAA	2 917 002	2 825 373
AA-/AA/AA+	163 237	299 162
BBB-/BBB/BBB+	93 647	190 569
Certificates and bonds	**3 173 886**	**3 315 103**

Where issuers have no official rating, an automated credit score provided by DNB and Nordea is 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 one percentage point. 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 of the interest rate change. The economic consequences are calculated for a specific number of different maturities in order to illustrate the interest rates in which the bank has exposure. 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 set 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 applies internal limits on overall interest rate risk in Norwegian kroner and foreign currencies and measures this within defined maturity ranges and using the total of pairs of adjacent maturity ranges. The limit applies continuously and encompasses all maturities, all financial instruments and all currencies.

The interest rate positions of the bank is 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. Should a corresponding negative parallel shift occur the effect will be the same, but the value will be negative.

Interest rate risk at 31.12.2017

(NOK 1,000)	Up to 3 mnths	From 3 mnths up to 6 mnths	From 6 mnths up to 9 mnths	9 mnths up to 12 mnths	Over 12 mnths	Total
NOK	1 648	771	335	-906	1 788	3 635
USD	-2 742	0	0	0	0	-2 742
SEK	48	-36	0	0	0	11
EUR	-254	-1 071	0	0	0	-1 326
DKK	0	0	0	0	0	0
GBP	0	0	0	0	0	0
CHF	0	0	0	0	0	0
Total	**-1 301**	**-337**	**335**	**-906**	**1 788**	**-421**

Interest rate risk at 31.12.2016

(NOK 1,000)	Up to 3 mnths	From 3 mnths up to 6 mnths	From 6 mnths up to 9 mnths	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**

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 any 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	Effect on profits of 10% change
Foreign exchange risk at 31.12.2017:					
USD	1 231 392	-236 949	-975 096	19 348	1 935
EUR	683 414	-31 304	-651 720	391	39
SEK	126 844	-18 337	-107 912	595	59
DKK	18 046	-7 462	-9 923	661	66
GBP	713	-519	0	193	19
CHF	0	0	0	0	0
Total	**2 060 409**	**-294 571**	**-1 744 651**	**21 187**	**2 119**
‘					
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
SEK	164 704	-9 577	-154 596	531	53
DKK	5 284	-279	-4 889	116	12
GBP	988	-903	0	85	9
CHF	0	0	0	0	0
Total	**2 113 304**	**-303 173**	**-1 793 646**	**16 485**	**1 648**

NOTE 34: LIQUIDITY RISK

Managing liquidity risk
The aim of Pareto Bank is to maintain a moderate level of liquidity risk over both the short and the long term. This means that the bank will have a ratio of deposits to loans over the coming years that is higher than the average level of Norwegian banks. Moreover, this means that the bank will at all times maintain a high liquidity buffer. The buffer consists of investments in other banks and securities with equivalent investment grade ratings. The size of the buffer is a function of expected developments in lending and the structure of the balance sheet.

The quantitative assessment of the liquidity risk level of the bank in the short-term is performed by calculating the liquidity gap and the Liquidity Coverage ratio (LCR) of the bank on a daily basis. The liquidity gap is the difference between the surplus liquidity of the bank and an estimated liquidity requirement. A forecast is calculated of the liquidity gap and the LCR for the coming 12 months, which forms a survival horizon. Liquidity risk in the long term is measured by calculating Finanstilsynet's liquidity indicators 1 and 2, as well as the Net Stable Funding Ratio (NSFR) and Additional Monitoring Metrics (AMM). As a supplement to the quantitative assessment, a more discretionary assessment is performed of other factors that impact upon the liquidity risk level of the bank.

At 31 December 2017, the positive liquidity gap of the bank was NOK 1,326 million (NOK 2,639 million). The LCR was 135 per cent (260 per cent). Finanstilsynet's liquidity indicator 1 was 127 per cent (138 per cent) and liquidity indicator 2 was 134 per cent (146 per cent). The NSFR was 127 per cent.

The ratio of deposits to loans was 75.0 per cent (87.4 per cent) at 31 December 2017.

The liquidity management regime of the bank is based on guidelines adopted by the Board of Directors. These in turn are based on recommendations issued by Finanstilsynet. 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. 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 31.12.2017	Undefined	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 1 year	Over 1 year	Over 5 years	Total
Cash and deposits with central banks	0	61 014	0	0	0	0	**61 014**
Due from credit institutions	0	295 533	0	0	0	0	**295 533**
Loans to customers	0	2 185 129	879 762	4 490 871	2 305 342	27 110	**9 888 215**
Certificates and bonds	0	1 717	553 622	79 097	2 017 305	664 041	**3 315 782**
Shares, fund units and other securities	77 162	0	0	0	0	0	**77 162**
Total assets	**77 162**	**2 543 393**	**1 433 384**	**4 569 968**	**4 322 647**	**691 151**	**13 637 706**
Due to credit institutions	0	200 245	0	0	0	0	**200 245**
Deposits from customers	0	6 151 963	286 153	384 547	302 525	0	**7 125 188**
Debt securities issued	0	246 067	12 965	538 206	2 602 069	0	**3 399 307**
Subordinated loan capital	0	0	2 175	1 857	277 549	0	**281 580**
Total liabilities	**0**	**6 598 275**	**301 293**	**924 610**	**3 182 142**	**0**	**11 006 321**
Total financial derivatives, net settlement	**0**	**-8 858**	**-7 558**	**-8 323**	**-110**	**8 312**	**-16 537**
Total maturities of liquidity items	**77 162**	**-4 063 741**	**1 124 533**	**3 637 035**	**1 140 395**	**699 463**	**2 614 848**

NOTE 34: LIQUIDITY RISK, CONTINUED...

(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 1 year	Over 1 year	Over 5 years	Total
Cash and deposits with central banks	0	57 075	0	0	0	0	**57 075**
Due from credit institutions	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**
Due to credit institutions	0	4 133	0	0	0	0	**4 133**
Deposits from customers	0	6 039 670	460 231	601 563	586 503	0	**7 687 967**
Debt securities issued	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**

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, other factors of which the bank is not at present aware or that it might face in the future may also come into play.

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 2.9 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 provides 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 21 June 2017 at the sum of NOK 2,500,000. The individual remunerations etc. paid in 2017 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 niche bank and having employees with a high level of specialist expertise is of paramout importance. Salaries must therefore be set at a level that is competitive in terms of the bank's main areas of focus. The salaries paid must be such that Pareto Bank is able to attract and retain senior personnel with the requisite 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.

Pareto Bank operates a profit-sharing scheme based on reported profit for the year 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 2017, 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.

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 applies to all employees for 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 390,000 in 2017.

NOTE 37: REMUNERATIONS ETC., CONTINUED...

Remunerations etc. in 2017

(NOK 1,000)	Fixed Salary 31.12.17	Salary paid	Bonus paid	Other remun-eration	**Total remun-eration**	Pension cost	Loans at 31.12.17	No. of shares [1]
Management:								
Tiril Haug Villum, CEO	2 500	2 577	1 050	108	3 735	86	3 167	272 453
Ole Tandberg, deputy CEO (1 Jan. - 30 Sep.)		3 798	850	25	4 673	63		
Sven Erik Klepp, Executive Director, Real Estate	1 980	2 086	915	54	3 055	90	5 617	216 256
Per Ø. Schiong, Executive Director, Credit	2 530	2 529	0	63	2 591	85	0	54 166
Erik Skarbøvik, Executive Director, Securities	1 900	2 180	835	58	3 073	86	0	52 910
Erling Mork, Executive Director, Finance	1 700	1 733	630	78	2 441	85	0	37 870
Total, Management	**10 610**	**14 904**	**4 280**	**385**	**19 569**	**494**	**8 784**	**633 655**

(NOK 1,000)	Fee paid	Salary paid	Bonus paid	Other remun-eration	**Total remun-eration**	Pension cost	Loans at 31.12.17	No. of shares [1]
Board of Directors:								
Åsmund Skår, Chairman	390	0	0	0	390	0	0	9 026
Brita Eilertsen, Deputy Chair	330	0	0	0	330	0	0	0
Camilla Wahl, Director	270	0	0	0	270	0	0	0
Per K. Spone, Director	273	0	0	0	273	0	0	0
Carl Erik Steen, Director (1 Jan. - 23 March)	56	0	0	0	56	0	0	0
Espen Lundaas, Director (23 March - 31 Dec.)	193	0	0	0	193	0	0	50 000
Lena Krog, employee-elected Director (1 Jan. – 23 March)	0	1 108	515	13	1 636	80	2 451	45 545
Lars Christian Bjørge, employee-elected Director (23 March – 31 Dec.)	0	1 018	340	102	1 460	69	0	8 037
Trine Charlotte Høgås-Ellingsen, Deputy Director	50	0	0	0	50	0	0	0
Peter Ditlef Knudsen, Deputy Director	30	0	0	0	30	0	0	1 000
Mariann Heggelien employee-elected Deputy Director	0	1 021	410	19	1 450	74	0	27 478
Total, Board of Directors	**1 592**	**3 147**	**1 265**	**134**	**6 139**	**223**	**2 451**	**141 086**

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

Auditor	**31.12.2017**	**31.12.2016**
Statutory audit	925	926
Other assurance engagements	100	48
Tax advice	0	0
Other non-audit services	0	628
Total fee to elected auditor including VAT	**1 025**	**1 602**

Loans to employees and Directors at 31 December 2017 amounted to NOK 23.2 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 2016

(NOK 1,000)	Fixed Salary 31.12.17	Salary paid	Bonus paid	Other remun-eration	**Total remun-eration**	Pension cost	Loans at 31.12.17	No. of shares [1)]
Ledelse:								
Tiril Haug Villum, CEO	2 442	2 633	635	94	3 362	71	2 399	258 817
Ole Tandberg, viseadm. deputy CEO	1 931	2 050	505	37	2 591	69	737	198 008
Sven Erik Klepp, Executive Director, Real Estate	1 920	2 038	505	43	2 586	74	5 294	203 983
Per Ø. Schiong, Executive Director, Credit	2 472	2 602	0	61	2 663	70	0	53 776
Erik Skarbøvik, Executive Director, Securities	1 741	1 835	500	31	2 367	71	65	46 676
Erling Mork, Executive Director, Finance	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 remun-eration	**Total remun-eration**	Pension cost	Loans at 31.12.17	No. of shares [1)]
Board of Directors:								
Finn Øystein Bergh, Chairman (1 Jan - 17 March)	32	0	0	0	32	0	0	0
Åsmund Skår, Chairman (17 March - 31 Dec.)	276	0	0	0	276	0	0	9 026
Brita Eilertsen, Deputy Chair	304	0	0	0	304	0	0	0
Camilla Wahl, Director	269	0	0	0	269	0	0	0
Carl Erik Steen, Director	269	0	0	0	269	0	0	0
Lena Krog, employee-elected Director	0	1 083	370	15	1 468	64	2 354	38 467
Per K. Spone, Deputy Director	23	0	0	0	23	0	0	0
Kristin Ekvold, Deputy Director (1 Jan. – 17 March)	8	0	0	0	8	0	0	0
Trine Charlotte Høgås-Ellingsen, Deputy Director (17 March – 31 Dec.)	38	0	0	0	38	0	0	0
Mariann Heggelien, employee-elected Deputy Director (17 March – 31 Dec.)	0	959	260	12	1 231	57	0	21 764
Svein Jansen, employee-elected Deputy Director (1 Jan. – 17 March)	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**	**75 544**

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

NOTE 38: SHAREHOLDERS

Name	Shareholding 31.12.2017	Percentage stake
Pareto AS	8 921 873	15.22 %
Pecunia Forvaltning AS	5 861 859	10.00 %
Saga Tankers ASA	5 052 547	8.62 %
Apollo Capital Management	4 875 998	8.32 %
Indigo Invest AS	4 382 711	7.48 %
Datum AS	1 493 996	2.55 %
Kolberg Motors AS	1 360 000	2.32 %
Verdipapirfondet Landkreditt Utbytte	1 350 000	2.30 %
Verdipapirfondet First Generator	1 240 907	2.12 %
Perestroika AS	950 413	1.62 %
Artel AS	900 820	1.54 %
Endre Røsjø	723 731	1.23 %
Nye Castel AS	689 779	1.18 %
Tycoon Industrier AS	683 317	1.17 %
Apollo Asset Limited C/O	675 000	1.15 %
Uthalden AS	612 451	1.04 %
Solan Capital AS	590 000	1.01 %
Svemorka Holding AS	500 000	0.85 %
Thabo Energy AS	452 486	0.77 %
AS Clipper	433 845	0.74 %
Other shareholders	16 867 955	28.78 %
Total	**58 619 688**	**100.00 %**

At 31 December 2017, 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 839 shareholders at that date. All shares carry equal voting rights.

Senior employees of the Pareto Group owned 324,050 shares, equivalent to 0.55 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 633,655 shares, equivalent to 1.08 per cent of the shares, directly or via limited companies in which the persons in question had a controlling interest.

NOTE 38: SHAREHOLDERS, CONTINUED...

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 %
Other shareholders	16 156 422	27.56 %
Total	**58 619 688**	**100.00 %**

NOTE 39: EVENTS AFTER BALANCE SHEET DATE AND CONTINGENT OUTCOMES

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

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

Pareto bank

NOTE 40: SUMMARY OF KEY ACCOUNTING POLICIES FOR FINANCIAL INSTRUMENTS (FROM 1 JANUARY 2018)

40.1 Changes in accounting policies

Pareto Bank applied IFRS 9 and IFRS 7R, which are effective for annual periods beginning on or after 1 January 2018, for the first time in 2018.

As permitted in the transitional provisions of IFRS 9, the bank chose not to restate comparative figures. For this reason, the comparative figures for 2017 reported in accordance with IAS 39 are not comparable with the information presented for 2018. Differences occurring as a consequence of the transition to IFRS 9 have been charged directly to other equity as at 1 January 2018.

40.1.1 Amendements to classification and measurement

The classification and measurement of financial assets in accordance with IFRS 9, with the exception of equity instruments and derivatives, are assessed on the basis of a combination of the business model of the unit for managing the assets and the contractual cash flow characteristics of the instrument.

The categories of measurement of financial assets provided for in IAS 39 (fair value through profit or loss, available for sale, held to maturity and amortised cost) are replaced by:

• Debt instruments at amortised cost
• Debt instruments at fair value through other comprehensive income, with gains or losses recycled to profit or loss on derecognition
• Equity instruments at fair value through other comprehensive income, without recycling gains or losses on derecognition
• Financial assets at fair value through profit or loss

The classification and measurement of financial liabilities remains largely unchanged, except that in the case of liabilities designated for reporting at fair value changes in fair value attributable to own credit risk must be reported as other comprehensive income without recycling.

40.1.1 Changes to the impairment model

Under the current rules (IAS 39), provision must be made for losses on the basis of an incurred loss model, that is to say loss provisions are conditional upon the existence of objective evidence of the occurrence of a fall in value at balance sheet date, whereas under IFRS 9 provision must be made for expected losses. The new policies apply in the case of financial assets that are debt instruments and that are measured at amortised cost or at fair value through other comprehensive income. Loan commitments, financial guarantee contracts and lease receivables are also included. The measurement of impairment for expected losses is dependent 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, or where the credit risk of the instrument is low at balance sheet date, impairment is based on 12-month expected credit losses ("Stage 1"). Where the credit risk has increased significantly since initial recognition (it is assumed that the credit risk has not increased significantly if the credit risk of the instrument is low at the reporting date), but no objective evidence exists of loss, impairment must be based on expected losses over the full lifetime of the instrument ("Stage 2"). Accumulated expected losses in "Stage 1" and "Stage 2" replace the current collective impairments. The individual loss provisions under IAS 39 will not change significantly with the transition to IFRS 9 ("Stage 3").

Information on the effects of the transition to IFRS 9 is provided in notes 40.1.3 to 40.1.6 below. Note 40.2 Summary of key accounting policies relating to financial instruments describes the accounting policies governing financial instruments effective as at 1 January 2018 (as well as previously-applicable IAS 39 accounting policies for financial instruments in the comparative period).

40.1.3 Classification and measurement of financial instruments in accordance with IAS 39 and IFRS 9

The bank has performed an assessment of the business model for managing financial assets and an analysis of their cash flow characteristics.

Reference is made to note 40.2 for detailed information on the new classification requirements contained in IFRS 9.

The following table reconciles the balance sheet values for financial assets as provided for in the former measurement categories in accordance with IAS 39, with the new measurement categories applicable upon transition to IFRS 9 effective from 1 January 2018:

(NOK '000)	IAS 39 Measurement category	IAS 39 Book value	Measure-ment change	IFRS 9 Book value	IFRS 9 Measurement category
Financial assets					
Cash and deposits with central banks	Amortised cost (loans and receivables)	61 014	0	61 014	Amortised cost
Due from credit institutions	Amortised cost (loans and receivables)	295 533	-92	295 441	Amortised cost
Loans to customers	Amortised cost (loans and receivables)	9 447 670	3993	9 451 664	Amortised cost
Certificates and bonds	Fair value through profit or loss (designated)	3 173 886	0	3 173 886	FVTPL (designated)
Financial derivatives	Fair value through profit or loss (mandatory)	11 611	0	11 611	FVTPL (mandatory)
Shares, fund units and other securities	Fair value through profit or loss (mandatory)	41 192	0	41 192	FVTPL (mandatory)
Financial liabilities					
Due to credit instutiutions	Amortised cost	200 245	0	200 245	Amortised cost
Deposits from customers at locked-in rate of interest	Fair value through profit or loss (designated)	1 125 835	0	1 125 835	FVTPL (designated)
Deposits from customers at variable rate of interest	Amortised cost	5 958 097	0	5 958 097	Amortised cost
Securities debt	Amortised cost	3 250 201	0	3 250 201	Amortised cost
Financial derivatives	Fair value through profit or loss (mandatory)	45 981	0	45 981	FVTPL (mandatory)
Subordinated loan capital	Amortised cost	270 246	0	270 246	Amortised cost

40.1.4 Reconciliation of loss allowances, IAS 39 to IFRS 9

The following table shows a reconciliation of loss allowances measured according to the incurred loss model in IAS 39 vs. the expected loss model in IFRS 9 at 1 January 2018:

(NOK '000)	IAS 39 Book value at 31.12.2017	Reclassification	Measurement change	IFRS 9 Book value at 01.01.2018
Amortised cost				
Cash and deposits with central banks	0	0	0	0
Due from credit institutions	0	0	92	92
Loans to customers	85 553	0	-3 993	81 560
Total financial assets - amortised cost	**85 553**	**0**	**-3 901**	**81 652**
Fair value through profit or loss				
Certificates and bonds	0	0	3 035	3 035
Financial derivatives	0	0	968	968
Shares, fund units and other securities				
Total financial assets - fair value through profit or loss	**0**	**0**	**4 003**	**4 003**

40.1.5 Distribution of loss allowance by stages

(NOK ´000)	STAGE 1	Stage 2	Stage 3
Description	Classification on initial recognition and new loans	Significant increase in credit risk since initial recognition	Significant increase in credit risk since initial recognition and objective evidence of loss
Loss allowance	12-month expected credit losses	Expected losses over full lifetime of instrument	Expected losses over full lifetime of instrument
Cash and deposits with central banks	0	0	0
Due from credit institutions	92	0	0
Loans to customers	17 026	26 070	38 464
Loan commitments	1 823	1 212	0
Financial guarantees	310	658	0
TOTAL	**19 251**	**27 940**	**38 464**

40.1.6 Effect on equity capital of transition to IFRS

(NOK 1,000)	
Other equity	**936 454**
Closing balance sheet under IAS 39 (31.12.2017)	**936 454**
Change in loss allowances under IFRS 9 vs. IAS 39	-102
Tax effect of change in loss allowance	26
Opening balance sheet under IFRS 9 (1.1.2018)	**936 378**

40.2 Summary of key accounting policies relating to financial instruments

The following sections describe the main accounting policies relating to financial instruments that will be applied with effect from 1 January 2018.

40.2.1 Recognition and derecognition

Financial assets and liabilities are recognised at the time at which Pareto Bank becomes a party to the contractual provisions governing the instrument. Normal purchases and sales of investments are recorded at the time of agreement. Financial assets are removed from the balance sheet when the rights to receive cash flows from the investment cease or when these rights have been transferred and Pareto Bank has largely transferred the risk and the entire profit potential of ownership of the instrument. Financial liabilities are derecognised at the point in time at which the rights to the contractual terms have been fulfilled, cancelled or expired.

40.2.2 Classification and subsequent measurement

Financial assets – policy in force from 1 January 2018

On initial recognition, financial assets are classified into one of the following measurement categories:
• Amortised cost
• Fair value through profit or loss

A financial asset is measured at amortised cost if the following criteria are met and the financial asset has not been designated at fair value through profit or loss (“the fair value option”):

• The financial asset is held in a business model where the objective is achieved by collecting contractual cash flows (“the business model test”), and

• the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (“the cash flow characteristics test”).

The business model test

The bank assesses the objective of a business model where an asset is held at portfolio level because this best reflects the way in which the business is managed, and the information is passed on to the management. The information assessed in this process includes:

• stated guidelines and objectives of the portfolio and the application of these guidelines in practice. In particular whether the strategy and objective of the management is to hold the asset to collect contractual cash flows, maintain a specific interest rate profile, matching of duration between financial assets and corresponding financial liabilities used to finance these assets or realise cash flows through sales of the assets;

• the way in which the return on the portfolio is valued and reported to the management of the bank;

• the risks that impact on the performance of the business model (and the financial assets held within this business model) and the way in which these risks are managed;

• how the managers are compensated – for example whether compensation is based on the fair value of the managed assets or the contractual cash flows as a whole; and

• the frequency, volume and timing of sales in previous periods, the reasons for such sales and the expectations regarding future sales activities. However, information on sales activity is not assessed in isolation, but rather as part of an overall evaluation of the way in which the stated goals of the company in managing the financial assets are achieved and how cash flows are realised.

The valuation of the business model is based on scenarios that might reasonably be expected without regard to worst-case or stress case scenarios. If, after initial recognition, cash flows are realised in a way that departs from the original expectations of the company, the classification of the remaining financial assets in the business model in question will not be amended, but this information will be incorporated when assessing newly issued or newly acquired financial assets in the future.

The cash flow characteristics test

Where the business model is to hold assets for the collection of contractual cash flows the bank assesses whether the cash flows of the financial instruments solely represent payments of principal and interest on the principal amount (the SPPI test). In this assessment the bank considers only the time value of money, credit risk, other fundamental lending risk and profit margins consistent with a basic lending arrangement.

All other financial assets are measured at fair value through profit or loss, i.e.

• assets with contractual cash flows that do not meet the cash flow test, that is to say the contract provisions contain exposure to risk or volatility inconsistent with a basic lending arrangement; and/or

• assets held in a business model that does not involve holding assets for the recovery of contractual cash flows; or

• assets designated at fair value through profit or loss (the “fair value option”).

The bank may designate a debt instrument that meets the criteria for measurement at amortised cost at fair value through profit or loss if this eliminates or significantly reduces accounting mismatches. This option is also available under IAS 39.

Pareto bank

Financial assets – policies applied prior to 1 January 2018
On initial recognition financial assets are classified into one of the following categories:
- Financial assets at fair value through profit or loss.
- Loans and receivables recorded at amortised cost.

Financial assets at fair value through profit or loss:
Within this category, it may be mandatory for attribution to be, or the bank may designate that measurement should be, at fair value through profit or loss. The first category encompasses the financial derivatives of the bank, unless they form part of a hedge, as well as shares and mutual fund units. The second category comprises financial assets designated as fair value through profit or loss ("the fair value option").

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.

Financial liabilities
Under both IAS 39 and IFRS 9 financial liabilities are classified as subsequently measured at amortised cost, with the exception of:

- financial liabilities at fair value through profit or loss: this classification applies to derivatives and financial liabilities designated as such on initial recognition. The company has designated certain liabilities as fair value through profit or loss because this serves to reduce or eliminate accounting mismatches.

- Financial guarantees and pledges

Other financial liabilities recorded at amortised cost:
This category comprises deposits from customers and credit institutions without locked-in interest rate and other financial liabilities not designated as liabilities valued as measured at fair value through profit or loss

Presentation, classification and measurement in the balance sheet and income statement
The table below shows and compares the presentation, classification and subsequent measurement of balance sheet items in accordance with IAS 39 (prior to 1 January 2018) and in accordance with IFRS 9 (post-1 January 2018):

	IAS 39 Measurement category	**IFRS 9** Measurement category
Financial assets		
Cash and deposits with central banks	Amortised cost (loans and receivables)	Amortised cost
Due from credit institutions	Amortised cost (loans and receivables)	Amortised cost
Loans to customers	Amortised cost (loans and receivables)	Amortised cost
Certificates and bonds	Fair value through profit or loss (designated)	Fair value through profit or loss (designated)
Financial derivatives	Fair value through profit or loss (mandatory)	Fair value through profit or loss (mandatory)
Shares, fund units and other securities	Fair value through profit or loss (mandatory)	Fair value through profit or loss (mandatory)
Financial liabilities		
Due to credit institutions	Amortised cost	Amortised cost
Deposits from customers at locked-in rate of interest	Fair value through profit or loss (designated)	Fair value through profit or loss (designated). *
Deposits from customers at variable rate of interest	Amortised cost	Amortised cost
Securities debt	Amortised cost	Amortised cost
Financial derivatives	Fair value through profit or loss (mandatory)	Fair value through profit or loss (mandatory)
Subordinated loan capital	Amortised cost	Amortised cost

* Changes in fair value due to own credit risk are recognised through other comprehensive income.

As seen from the table, there are no changes in the presentation, classification and measurement of financial assets or financial liabilities, except that fixed-rate deposits designated for recognition at fair value where IFRS 9 requires the presentation of changes in fair value attributable to own credit risk as other comprehensive income. Moreover, it follows from the table that the bank has exercised the fair value option in the case of certificates and bonds, as well as deposits from customers at fixed rates of interest (fixed-rate deposits). The bank has classified these financial assets in this category with a view to substantially eliminate accounting mismatches. The 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.

Pareto bank

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

Financial assets and liabilities recognised at fair value through profit or loss are recognised on 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.

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 an allowance for the credit risk of 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 at 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.

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

Gains and losses on financial instruments at fair value include fair value gains and losses from:
• Derivatives (“dirty value”)
• Certificates and bonds (“clean value”)
• Shares and mutual fund units
• Deposits from customers – fixed-rate (“clean value”)

Gains and losses on financial instruments at fair value are recorded under “Net gains/(losses) on financial instruments at fair value”. Effective from 1 January 2018, gains or losses as a consequence of an enterprise’s own credit risk on debt designated as fair value through profit or loss (in other words, fixed-rate deposits) will be presented as “Other income and expense” without subsequent reclassification in the income statement. Interest income and interest expense on interest-bearing financial assets and financial liabilities measured at fair value through profit or loss will be recorded under “Interest income and similar income” and “Interest expense and similar expense” in the income statement based on contractual interest rates.

Financial assets and liabilities measured at amortised cost

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 at fair value less transaction costs.

Interest income and interest expense are recorded in the income statement under “Interest income and similar income” and “Interest expense and similar expense”, respectively. According to both IFRS 9 and IAS 39, interest income and interest expense is calculated using the effective interest method (internal rate of return) for all financial instruments measured at amortised cost. The internal rate of return is determined by discounting contractual cash flows through the expected life of the instrument. Cash flows include arrangement fees and direct transaction costs not payable by the customer. Amortised cost is the present value of these cash flows discounted at the internal rate of return.

IAS 39 specifies that when a financial asset or group of corresponding financial assets has been written down as a consequence of impairment, interest is recorded using the rate of interest applied in discounting future cash flows to measure the decrease in value.

According to IFRS 9 interest income for financial assets in “Stage 1” and “Stage 2” is calculated by means of the effective interest method on the basis of the gross carrying value of the financial asset, while interest income for financial assets in “Stage 3” is calculated on the basis of the amortised cost of the financial asset.

Impairment of financial assets – policy applicable after 1 January 2018

The bank calculates allowances for expected losses based on a three-stage model for the following financial instruments:

• Cash and deposits with central banks
• Amounts due from credit institutions
• Loans to customers
• Contingent liabilities (contract and payment guarantees)
• Undrawn credit lines

The measurement of the allowance for expected loss 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, or where the credit risk of the instrument is low at the reporting date, a loss allowance must be made for 12-month expected credit losses (“Stage 1”). The 12-month expected loss 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. In the case of undrawn credit, 12-month expected credit losses will be based on the proportion that the bank is expecting to see drawn in the next 12 months. The proportion of lifetime expected credit losses is largely calculated on the basis of the remaining term of the loan.

If the credit risk has increased significantly since initial recognition (unless the credit risk of instrument is low at the reporting date), but there is no objective evidence of loss, a loss allowance is made for expected losses over the full lifetime of the instrument ("Stage 2"). If the credit risk has increased significantly and there is objective evidence of impairment, a lifetime expected credit loss allowance is recorded ("Stage 3").

Loans to customers, guarantees and undrawn credit lines

The bank's risk classification model is applied in determining the probability of default (PD) and loss given default (LGD). The risk classification model forms the basis for an overarching assessment of risk taken on by the bank in connection with credits and guarantees. Risk classification is performed in two dimensions: the credit customer dimension and the security dimension. In the credit customer dimension, the credit customer's ability to repay is assessed, i.e. the cash flow and quality of this cash flow and the financial strength of the customer. In the security dimension, the bank assesses the quality of the security furnished, its liquidity and its ability to withstand fluctuations in market value over time.

Classification ranges from A a to E in each of the dimensions. This entails that the bank uses a risk matrix based on possible combinations of classifications in the two dimensions:

W	DEBTOR					
	A	B	C	D	E	SECURITY
A	AA	BA	CA	DA	EA	
B	AB	BB	CB	DB	EB	
C	AC	BC	CC	DC	EC	
D	AD	BD	CD	DD	ED	
E	AE	BE	CE	DE	EE	

Under the risk classification procedures of the bank, new credits are normally required to have a minimum classification in accordance with the above table of between white and light green (inclusive).

The risk classification model provides the foundations for the bank's customer profitability model, this latter model being designed to ensure the correct pricing of risk and to provide a uniform frame of reference for the granting of credit. The factors taken into account in the model include a risk premium reflecting the applicable risk classification. This risk premium takes account of the customer's risk and collateral, thereby representing the bank's estimate of probability of default and loss given default (i.e. PD x LGD) over the term of the loan. In the judgement of the bank, the risk premium takes account of the discount rate.

In order to take account of the various risk profiles of the products/ security classes in the portfolio, the bank applies a product-specific risk weight to each individual product area. The true loss ratio is accordingly: PD x LGD x product-specific risk weight.

The loans of the bank have relatively short time horizons, typically from one to a maximum of three to four years. It could be argued that the probability of default (PD) increases over the course of the term of the loan. Nevertheless, for the bank this will be marginal and it has therefore opted to ignore this fact. This approach also accords with the bank's risk classification model.
Based on the above, the bank has calculated the probability of default and loss given default (PDxLGD) ("loss ratio") for the individual product area (see below).
The bank assesses its loans according to type of loan and risk classification (see above). The following loans have characteristics in common and are assessed on the basis of an overarching evaluation.

- Securities financing
- Corporate financing
- Real estate financing
  - o Property lots with housing
  - o Property lots without houses
  - o Building facilities
  - o Commercial residential
  - o Commercial property
- Ship financing
- Offshore financing
- Other private/mortgages

Guarantees and undrawn credit lines

The rules on impairments in IFRS 9 also apply to guarantees and loan commitments from the point at which the bank incurs a commitment.
In the case of guarantees, expected credit loss on expected payments is calculated, less the amount receivable by the company. In most instances, the assessment of the bank is that there is less likelihood of disbursements on guarantees than of losses on loans. Accordingly, a factor of 50 per cent is applied for the recognition of guarantees relative to the recognition of expected credit loss in relation to the risk classification model.
In the case of undrawn credit, expected credit loss must be calculated on the share of the credit that the bank is expecting customers to draw during the term of the credit. There will be major variations between the various credit areas and in the case of construction credits, for example, the figure is expected to be close to 100 per cent. The figure may be substantially lower in the case of other types of loans. For this reason a factor is used for recognising undrawn credit for recognising expected credit losses in relation to the risk classification model.

The bank uses the same model for calculating expected credit losses on undrawn credits and guarantees as for loans to customers.

Significant increase in credit risk

As well as applying the standard presumption that financial assets with cash flows that are past due by more than 30 days are exposed to a significantly increased credit risk, in assessing what constitutes a significant increase in credit risk the bank has applied qualitative and quantitative indicators. The primary quantitative indicator applied by the bank with respect to whether a significant increase has occurred in credit risk is determined by comparing the original probability of default and loss given default (“PDxLGD”) with the probability of default and loss given default (“PDxLGD”) at the reporting date. Based on this metric, the bank has defined that a doubling of the probability of default and loss given default or an absolute change of one per cent constitutes a significant increase in credit risk. As regards qualitative indicators, the Watch List of the bank provides an important tool for determining whether the credit risk has increased significantly since initial recognition. The bank monitors the Watch List on a continuous basis and in any situation in which it is suspected that circumstances detrimental to a commitment/customer have occurred, the inclusion of the commitment/customer on the Watch List will be considered. Indicators that a commitment/customer should be included on the Watch List are both internal and external in nature.

Default

In assessing what constitutes a default the bank has applied the presumption that a default has occurred if contractual cash flows are more than 90 days past due and/or in the case of customers in respect of which there are objective indications of value impairment as a consequence of one or more events occurring since initial recognition of the asset (a “loss event”) and the loss event(s) has(have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reliably. It may be that it is not possible to identify an individual, separate event as a cause of the impairment in value. Instead, the overall effect of multiple events may have been the cause of the value impairment. Objective indications of the reduction in value of the financial asset or group of financial assets include observable information of which the bank becomes aware concerning loss events (not exhaustive):

- significant financial difficulties on the part of the issuer or debtor,
- breaches of contract, for example payment defaults or non-payment of past due interest or past due principal,
- when the bank, for economic or legal reasons relating to the financial difficulties of the borrower, grants the borrower a concession that the lender would not otherwise have considered,
- when it becomes likely that the borrower will be declared bankrupt or exposed to some other form of financial reorganisation.

Macroeconomic scenarios

In its calculation of expected losses in “Stage 1” and “Stage 2”, the bank take account of forward-looking information (macroeconomic scenarios). The bank’s view of macroeconomic developments is assessed with the aid of a probability-weighted macroeconomic factor for the various product areas, see the comments above, and must be viewed in the context of the probability of loss in the risk classification model. The factor will then be an expression of whether the bank, based on the macroeconomic situation in the product area, is expecting higher or lower losses than the risk premium would indicate. A factor of over 1 means increased losses over and above what the risk premium would indicate, and vice versa.

The probability-weighted macroeconomic factor is made up of three elements:

- Scenarios
- Factor
- Probability

The bank has applied a model with three scenarios for each product area. The variables included in the model will depend on the product area, but may for example include housing prices, share indexes, Norwegian mainland GDP, global GDP or the price of oil. Scenario 1 will always be a basic scenario based on a normal market in which the losses of the bank are calculated by applying probability of default and loss given default (PDxLGD) and the risk weighting for the product area. This factor will accordingly be 1.

Scenarios 2 and 3 will depend on the product area, but may involve the bank losing more or less than indicated in the basic scenario.

The probability-weighted macroeconomic factor determines the proportionate variants in the probability of default and loss given default (PDxLGD) in the product area on the basis of the risk classification model. For example, if a loan has a probability of default of 1 per cent according to the risk classification model and a probability-weighted macroeconomic factor of 1.2, the assessment of the bank with regard to the true probability of default will be 1.2 per cent.

Probability determines the weighting of the various scenarios and will always add up to 100 per cent.

The point of departure for the assessments will be loans, guarantees and undrawn credit for commitments in stages 1 and 2. In Stage 3, exposed individual credit commitments are identified and the losses are quantified and will accordingly not be the subject of macroeconomic assessments.

Cash and deposits with central banks

Cash and deposits with central banks consist entirely of claims on

Norges Bank. Norges Bank is rated Aaa by Moody's AAA/A-1+ by S&P, thus fulfilling the low credit risk presumption of the standard. Norges Bank has a 12-month PD of 0 per cent, and the bank therefore makes no loss allowance for this balance sheet item.

Due from credit institutions

Amounts "Due from credit institutions" are receivables exclusively payable by banks with credit ratings and that fulfil the low credit risk presumption of the standard. The bank has estimated expected losses on the basis of historical 12-month PD based on rating, and an LGD of 70 per cent. The discount rate is fixed at 2 per cent.

The parameters for calculating losses will be updated quarterly. The updated impairment model is reviewed by the Credit Committee of the bank and approved by the Board of Directors of the bank. Parameters incorporated in the model are monitored and back testing is performed regularly in accordance with the bank's guidelines in order to safeguard the applicability of the parameters that are applied.

Impairment of financial assets – policies applied before 1 January 2018

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 recognised 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 embark on debt restructuring negotiations or where other material circumstances have occurred. Impairment 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.

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.

KEY FIGURES

	Ref.	2017	2016
PROFITABILITY			
Cost ratio	1	20.9 %	21.6 %
Return on equity after taxes	2	15.9 %	15.9 %
SHARES			
Earnings per share, ordinary and diluted		5.28	4.08
Price/Book		1.12	1.22
Paid-in capital and retained earnings per share		35.41	31.14
Equity as % of total assets		16.2 %	15.3 %
BALANCE SHEET			
Total assets at reporting date		13 103 969	12 940 761
Average total assets during period	3	13 682 592	12 690 235
Growth in lending (gross) last 12 months		7.9 %	10.4 %
Growth in deposits last 12 months		-7.4 %	18.5 %
Deposits as % of lending		75.0 %	87.4 %
Liquidity coverage ratio (LCR)	4	135 %	260 %
LOSSES AND DEFAULTS			
Loss as % of gross loans	5	0.13 %	0.37 %
Defaulted commitments as % of gross loans		1.10 %	0.72 %
Other exposed commitments as % gross loans		0.51 %	1.33 %
FINANCIAL STRENGTH			
Capital adequacy ratio		20.56 %	21.46 %
Tier 1 capital ratio		18.11 %	18.79 %
Common equity Tier 1 capital ratio		17.66 %	17.21 %
Total Tier 1 capital		1 998 260	1 897 667
Total subordinated capital		2 268 260	2 167 667
PERSONNEL			
Number of full-time equivalents (FTE)		36.2	33.3

References
1. Total operating expenses before impairments and losses as a percentage of total operating income
2. Annualised earnings for the period less interest expense after tax on perpetual Tier 1 bond loans relative to average paid-in capital and retained earnings in period
3. Based on monthly total assets
4. Liquid assets relative to net liquidity outcome in a 30-day serious stress scenario
5. Annualised net losses as a percentage of average gross loans

Pareto bank

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

To the best of the knowledge of the Board of Directors and the Chief Executive Officer, the financial statements for 2017 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 2017.

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 2017/28 February 2018
The Board of Directors ASA

Åsmund Skår Chairman	**Brita Eilertsen** Deputy Chair	**Espen Lundaas**
Camilla Wahl	**Per Kristian Spone**	**Lars Christian Bjørge**

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 2017, 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 2017, 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 2017. 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.

Virksomheten i banken har i hovedsak vært uendret sammenlignet med fjoråret. Det har ikke vært regulatoriske endringer, transaksjoner eller hendelser av vesentlig betydning for årsregnskapet 2017. I lys av dette har fokusområdene i revisjonen vært de samme i 2017 som i fjoråret.

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	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

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Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

 Pareto bank

nedskrivningsbehov samt vurderingen av disse utlånene er sentrale. Bruken av skjønn kan påvirke årets regnskapsmessige resultat og ha betydning for overholdelse av 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. Se note 2 og note 40 for beskrivelse av forventede effekter av implementeringen av IFRS 9.

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 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.

Banken har siden 2017 jobbet med modellverk og tilpasninger til det nye regelverket IFRS 9. Arbeidet, som vil bli ferdigstilt i 2018, har foreløpig ledet til en konklusjon om at det ikke forventes vesentlige effekter knyttet til overgangen til IFRS 9. Vi har gjennomført vurderinger av informasjonen som gis om implementeringen. De foreløpige konklusjonene ledelsen har trukket virker 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

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 avhengige manuelle kontroller kan medføre problemer knyttet til den løpende driften av IT-systemene og risiko for feil.

betalingsformidlingssystemene 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 viste at vi kunne 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, Nøkkeltall og Erklæring fra styrets medlemmer og administrerende direktør i henhold til verdipapirhandelloven § 5-5, 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.

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

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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 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.

Uavhengig revisors beretning - Pareto Bank ASA

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 28. februar 2018
PricewaterhouseCoopers AS

Erik Andersen
Statsautorisert revisor

Pareto bank