ANNUAL REPORT PARETO BANK

2018

Pareto bank

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NORWAY'S LEADING
PROJECT BANK

Pareto bank

Pareto Bank's core business is financing of real estate projects. We have an experienced team with a good understanding of risk and expertise in areas that are important to developers. We are a significant player in Oslo and in large parts of Eastern Norway. We also finance commercial property for transaction-oriented customers and customers with a longer-term perspective through a partnership with Eiendomskreditt.

In the area of corporate finance, we offer various financing solutions to medium-sized enterprises that need to raise capital in connection with acquisitions or other transactions. We also offer a variety of financing solutions to investors and business owners. In order to meet enterprises' day-to-day financing needs, we offer both customised solutions and a digital solution that gives the enterprise a flexible credit line. The latter solution is directly integrated with the customer's accounting system, enabling the customer itself to manage withdrawals and only pay interest on credit drawn. Establishing a customer relationship is a simple, digital process; the enterprise does not have to swap banks and our pricing is easy to understand.

Shipping and offshore financing has been one of our core areas since 2011. Companies in the shipping and offshore segments constitute a maritime cluster that are significant for value creation in Norway. Pareto Bank wishes to contribute to the further development of this industry by providing customised financing solutions. We emphasise a Norwegian foundation and focus on modern, effective quality tonnage in our granting of credit in this area.

2018 IN SUMMARY

Pareto Bank's profit after tax for 2018 came to NOK 331 million. This corresponds to a net return on equity of 15.0 per cent. This is once again the best annual result in the bank's history. The bank has an excellent starting point for delivering profitable growth in its three core areas in 2019.

The year 2018 saw record growth in lending. The bank is well positioned in real estate financing, particularly in the area of residential property developments. Stable house prices in Oslo and in Eastern Norway have helped to ensure a high level of activity in this area. Growth in the financing of commercial property in the fourth quarter helped to diversify the bank's real estate exposure and extend the duration of the lending portfolio. In 2018, the bank acquired a small shareholding in Eiendomskreditt AS. The partnership with Eiendomskreditt increases the bank's competitiveness in commercial property.

Pareto Bank offers financing of corporate transactions to medium-sized enterprises in different industries. Corporate financing has grown steadily throughout 2018. There has been a high level of activity, and active efforts have been made to increase awareness of the bank's product range. This work will continue in 2019. The bank expanded its range of products in 2018 with a new digital solution for financing of working capital. The solution is aimed at medium-sized corporate customers who want easy and quick access to working capital through loans secured by accounts receivable.

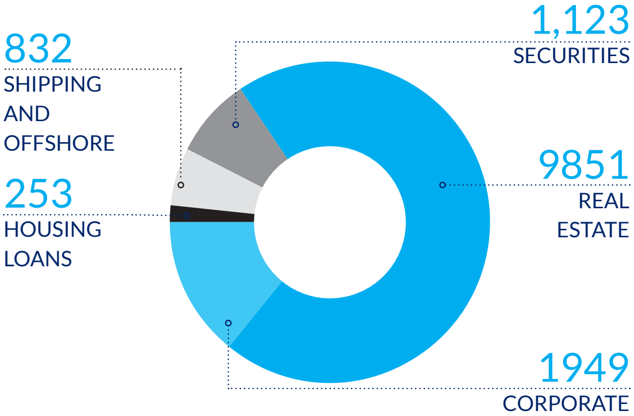
Pareto Bank's third focus area is shipping and offshore. The bank's new, dedicated team work actively in the market to promote the bank's products to Norwegian companies and business owners. The portfolio is being built up gradually with profitable projects.

A STRONG MARKET POSITION AND CLEAR COMPETITIVE ADVANTAGES

Pareto Bank has a strong position and clear competitive advantages in its markets. We are quick, have short decision-making paths and an efficient credit-decision process. We work closely with our customers and understand their world. This enables us to be predictable and offer customised financing solutions. We also cultivate a commercial culture in which both the bank's and our customers' profitability are a key focus. We value team players who take responsibility and ownership of everything they do. This enables Pareto Bank to generate profitability by financing medium-sized enterprises and good projects.

TOTAL CREDIT EXPOSURE: NOK 14,008 MILLION

Breakdown *(all figures in NOK million)*



Pareto bank

BOARD OF DIRECTORS' REPORT

THE BUSINESS IN 2018

Pareto Bank recorded a profit after tax of NOK 330.8 million in 2018 (NOK 312.6 mill. in 2017). The profit corresponded to a net return on equity of 15.0 per cent (16.0 per cent), which is in line with the bank's target.

Strong lending growth contributed to an increase in the bank's net interest income. Commission income and income from associated companies come in addition to this. Together with slightly negative gains on the bank's portfolio of financial instruments, total net income amounted to NOK 563.2 million (NOK 539.0 mill.).

In 2018, the bank recognised NOK 4.6 million in impairments and losses. Impairments in 2018 were calculated under the principles of IFRS 9 and are therefore not directly comparable with collective and individual impairments in 2017, which amounted to NOK 11.4 million. Impairments and losses amounted to 0.04 per cent of net lending at the turn of the year.

The bank's total assets at year-end 2018 amounted to NOK 15.6 billion (NOK 13.1 billion). There was strong growth in lending to customers in 2018. The growth amounted to NOK 2.2 billion (NOK 0.7 billion), and was primarily in the real estate segment. There was strong growth in property development financing in the first half-year, while the growth in the fourth quarter primarily came from financing of commercial property. There was steady growth in corporate financing throughout the year. The overall growth exceeded the bank's target for lending growth in 2018.

Deposits increased from NOK 7.1 billion to NOK 7.6 billion. The bank has financed this lending growth through a combination of deposits growth and new securities loans.

The common equity Tier 1 (CET1) capital ratio at the turn of the year was 16.1 per cent (17.7 per cent), compared with the bank's capital target of 15.7 per cent. Pareto Bank has a minimum CET1 ratio requirement, including the Pillar 2 add-on, of 15.2 per cent. Total equity amounted to NOK 2,508 million (NOK 2,126 mill.), of which paid-up and retained earnings amounted to NOK 2,308 million (NOK 2,076 mill.). As a result of the increase in the counter-cyclical capital buffer and following an overall assessment, the Board has adopted a CET1 capital ratio target level of 16.2 per cent with effect from the end of 2019.

One of Pareto Bank's goals is to give its shareholders an overall competitive return on invested capital in the form of dividend and price gains. Pareto Bank's long-term goal is to pay shareholders from 0 to 50 per cent of the bank's profit after tax in dividend. The Board will propose a dividend for 2018 of NOK 0.70 per share, or 12.6 per cent of the profit after tax. The bank expects good access to business in its markets going forward, as reflected in the goals for 2019. The bank's capital requirements have also been slightly upwardly adjusted in line with the increase in the counter-cyclical capital buffer. These factors explain why a dividend has been proposed at the lower end of the distribution interval.

Definitions and grounds for the bank's various key figures and alternative performance measures are available on the bank's website www.paretobank.no/investor/rapporter/.

STATEMENT CONCERNING THE ANNUAL ACCOUNTS

Net interest income
Net interest income amounted to NOK 554.4 million (NOK 507.0 mill.). The increase can be ascribed to growth in lending. The interest margin between lending and deposits was 5.5 per cent in 2018, compared with 5.7 per cent in 2017. The lending margin came under slight pressure towards the end of the year as a result of the rising interest rate level.

A fee of NOK 5.9 million (NOK 5.7 mill.) to the Norwegian Banks' Guarantee Fund was charged to net interest income in 2018. The fee was accrued during the year.

The Board expects growth in the bank's net interest income in 2019 as a result of growth in lending. Interest rate hikes may put pressure on lending margins going forward.

Other income
Other income amounted to NOK 8.8 million in 2018 (NOK 32.0 mill.).

Net commission income and income from banking services amounted to NOK 10.2 million (NOK 10.8 mill.), of which guarantee commissions came to NOK 10.0 million (NOK 8.6 mill.).

Income from shareholdings in associated companies (Sem & Johnsen Eiendomsmegling and Sem & Johnsen Prosjektmegling) amounted to NOK 4.4 million (NOK 3.0 mill.).

Net gains on the bank's portfolio of financial instruments were negative in the amount of NOK 5.9 million (positive at NOK 18.2 mill.), mainly as a result of higher credit spreads on bonds. The principle of valuing financial instruments at fair value means that the bank's performance can vary considerably between periods.

Operating expenses
Total operating expenses in 2018 amounted to NOK 119.9 million (NOK 112.6 mill.). This gave a cost ratio of 21.3 per cent (20.9 per cent) in 2018.

Payroll and other personnel expenses made up most of the bank's total operating expenses, amounting to NOK 74.6 million (NOK 76.6 mill.). The provision for profit sharing with employees amounted to NOK 19.5 million (NOK 19.7 mill.). This scheme is performance-based, and the variable remuneration is generally paid in the form of shares in Pareto Bank.

Administrative expenses amounted to NOK 23.4 million (NOK 19.3 mill.) and consisted mainly of IT and marketing costs. Other operating expenses amounted to NOK 14.4 million (NOK 12.5 mill.). Ordinary depreciation amounted to NOK 7.6 million (NOK 4.2 mill.).

The Board expects slightly increased cost growth in 2019 as result of appointments and higher IT and project costs.

LOSSES AND DEFAULTS

The bank calculates losses in accordance with IFRS 9, see Note 12. Stage 1 comprises healthy loans, and Stage 2 comprises loans that are more than 30 days in default, have been added to the watch list or where the likelihood of a loss has increased considerably.

Impairments in Stage 1 amounted to NOK 28.9 million and impairments in Stage 2 to NOK 5.8 million at year-end. The bank made some changes to the loss model and macroeconomic scenarios in 2018.

Stage 3 comprises credit commitments in default by more than 90 days, and impaired commitments. Total impairments in Stage 3 amounted to NOK 25 million. The impairments were mainly due to individual impairments in real estate.

Gross non-performing credit commitments amounted to NOK 144.8 million (NOK 105.3 mill.) at the end of 2018, largely comprising six credit commitments.

Net non-performing credit commitments amounted to NOK 123.5 million (NOK 104.6 mill.) at the turn of the year, corresponding to 1.06 per cent of gross lending (1.10 per cent).

Net impaired credit commitments amounted to NOK 0 million (NOK 48.6 mill.) at the end of 2018, corresponding to 0 per cent of gross lending (0.51 per cent).

Impairments and losses on loans and guarantees amounted to NOK 4.6 million in 2018. Impairments in 2018 are not directly comparable with collective and individual impairments in 2017, which amounted to NOK 11.4 million.

PROFIT FOR THE YEAR

The pre-tax profit for 2018 amounted to NOK 438.7 million (NOK 415.0 mill.). The profit after tax amounted to NOK 330.8 million (NOK 312.6 mill.).

The tax expense in 2018 came to NOK 108.0 million (NOK 102.4 mill.), while tax payable amounted to NOK 110.3 million (NOK 92.0 mill.). The bank has negative temporary differences in the amount of NOK 30.3 million (NOK 11.1 mill.), and the deferred tax asset came to NOK 7.6 million (NOK 2.8 mill.). The negative temporary differences are mainly related to a net gain/(loss) on the bank's holdings of derivatives and securities.

BALANCE SHEET

At the end of 2018, the bank had total assets amounting to NOK 15,607 mill. (NOK 13,104 mill.).

Net lending to customers increased to NOK 11,653 million (NOK 9,448 mill.) following a substantial increase in lending of NOK 2,206 million (NOK 694 mill.). Loans corresponding to NOK 629 million were syndicated in the fourth quarter 2017.

Lending growth was primarily in the real estate segment, which, in isolation, increased by NOK 2,415 million in 2018. The growth breaks down into NOK 1,469 million in project financing and NOK 945 million in long-term real estate financing. Corporate growth contributed a growth of NOK 143 million. The volume of shipping and offshore financing decreased by NOK 314 million, mainly as a result of payments of principal and amortization.

Undrawn credit lines and guarantees amounted to NOK 2,351 million (NOK 2,403 mill.). The credit portfolio has a high proportion of short-term credit, which means that the lending portfolio's redemption rate is high. The activity level has been good, and credit lines totalling NOK 11,035 million (NOK 10,874 mill.) were granted in 2018.

At the end of the year, gross lending, undrawn credit lines and guarantees broke down as 70.3 per cent (65.1 per cent) for real estate financing, 13.9 per cent (12.3 per cent) for corporate financing including flexible operating credit, 8.0 per cent (11.3 per cent) for securities financing, 5.9 per cent (9.6 per cent) for shipping and offshore financing, and 1.8 per cent (2.0 per cent) for housing loans.

Deposits from customers amounted to NOK 7,623 million (NOK 7,084 mill.) at the end of 2018, corresponding to an increase of NOK 539 million from 2017.

The proportion of fixed-rate deposits amounted to 35.4 per cent (15.7 per cent) of total deposits, while 16.0 per cent (24.9 per cent) were deposits in fixed-term investment accounts. The bank attracted deposits through the marketing of fixed-rate deposit accounts in 2018. The deposit-to-loan ratio was 65 per cent (75 per cent) at the end of 2018. The bank's target going forward is a deposit-to-loan ratio of between 60 and 70 per cent.

Net outstanding securities debt amounted to NOK 5,011 million (NOK 3,250 mill.) at the turn of the year. In total in 2018, the bank issued and extended loans in the gross amount of NOK 2,600 million and redeemed loans in the amount of NOK 1,000 million. The bank had nine senior securities loans outstanding at the turn of the year, with terms to maturity of up to five years. 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 3,804 million (NOK 3,530 mill.). Surplus liquidity is largely invested in interest-bearing securities, or in the form of deposits with larger banks and Norges Bank. Securities investments are in sovereign and municipal bonds, supranational institutions, covered bonds and investment grade banks.

The bank can make investments in fixed-income funds and individual bonds below investment grade and with a minimum B rating. At year-end 2018, the bank had invested NOK 42.4 million (NOK 41.2 mill.) in such fixed-income funds.

ASSOCIATED COMPANIES

The bank has a 24.5 per cent ownership interest in Verdun Holding AS, the holding company of Sem & Johnsen Eiendomsmegling, and a 35.0 per cent ownership interest in NyeBoliger AS (Sem & Johnsen Prosjektmegling). Sem & Johnsen Prosjektmegling specialises in the sale of housing under construction and is market leader in its field in Oslo and Akershus, selling around 1,500 units a year. Verdun Holding AS's profit after tax amounted to NOK 2.1 million (NOK 2.5 mill.), while NyeBoliger AS recorded a profit after tax of NOK 10.1 million (NOK 7.2 mill.).

ALLOCATIONS

The Board will propose a dividend of NOK 0.70 per share for 2018. This corresponds to a payout ratio of 12.6 per cent. The payout ratio must be seen in light of the bank's ability to achieve profitable growth in lending, and the increase in the counter-cyclical buffer.

Pareto Bank's long-term goal is to give its shareholders an overall competitive return on invested capital in the form of dividend and share price rises. The dividend level has been set at an interval of between 0 and 50 per cent. A broad interval gives the bank the flexibility to seize profitable growth opportunities and meet capital requirements.

Since its start-up in 2008, the bank has paid out total dividends per share of NOK 5.74.

The profit for the year was NOK 330.8 million. The reserve for unrealised gains was reduced by NOK 3.1 million, while the remaining amount will be transferred to other equity.

The bank's total equity amounted to NOK 2,507.8 million at year-end, of which shareholders' equity amounted to NOK 2,307.8 million.

SHAREHOLDERS

The bank's share was listed on Oslo Axess on 27 May 2016 and on the Oslo Børs Benchmark Index on 12 December 2016.

During 2018, the share was traded at prices of between NOK 33.20 and NOK 40.80.

(NOK)	**2018**	**2017**
Profit attributable to shareholders per share	5.55	5.28
Dividend per share	0.70	1.60
Shareholders' equity per share	39.37	35.41
P/E	**6.09**	**7.49**
P/BV	**0.86**	**1.12**
Share price	33.80	39.50
No of shares	58 619 688	58 619 688

At year-end, the bank had 891 shareholders. The share capital amounted to NOK 703.4 million divided between 58,619,688 shares, each with a nominal value of NOK 12.00.

Executive employees of Pareto Bank own 620,263 shares – or 1.06 per cent of all shares in the company – directly or through limited companies in which they have a controlling interest.

FINANCIAL STRENGTH AND CAPITAL REQUIREMENTS

At year-end, CET1 capital, Tier 1 capital and own funds amounted to NOK 2,228 million (NOK 1,948 mill.), NOK 2,428 million (NOK 1,998 mill.) and NOK 2,698 million (NOK 2,268 mill.), respectively. This made for a CET1 capital ratio of 16.1 per cent (17.7 per cent), a Tier 1 capital ratio of 17.6 per cent (18.1 per cent) and a capital adequacy ratio of 19.5 per cent (20.6 per cent), calculated according to the standard approach. The bank's CET1 target at 31 December 2018 was 15.7 per cent.

Total equity amounted to NOK 2,508 million (NOK 2,126 million), of which paid-up and retained earnings amounted to NOK 2,308 million. (NOK 2,076 mill.). On 30 May 2018, the bank issued a subordinated bond of NOK 150 million. The bank's leverage ratio ended at 14.6 per cent (14.3 per cent).

The Ministry of Finance has decided to increase the counter-cyclical buffer by 0.5 percentage points to 2.5 per cent, with effect from 31 December 2019. This will give the bank a minimum CET1 requirement of 15.7 per cent. Following an overall assessment of the bank's capital needs (ICAAP), the Board has set a CET1 target level of 16.2 per cent for Pareto Bank, with effect from the end of 2019.

RISK

Pareto Bank takes a proactive approach to the management, control and monitoring of the bank's overall risk. The Board notes that there were no material deviations, losses or events in the bank in 2018, and considers the bank's risk management and internal control procedures to be satisfactory. The Board of Directors reviews the bank's guidelines, governing documents, 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 important risk managed by Pareto Bank. Credit risk is the risk of default on a loan or guarantee and of a customer failing to meet their commitments to the bank. The bank's credit risk is affected by general developments in the economy and by the bank's competence in granting and following up commitments.

Pareto Bank takes a proactive approach to the diversification of its lending portfolio in terms of sectors, collateral and the size of individual commitments. The bank endeavours to diversify between the various sectors and to avoid risk in industries in which it lacks the necessary expertise or is uncertain about the future general level of risk.

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

The bank has developed a risk classification system to be able to manage credit risk 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 pledged for the commitment and the applicable capital requirements. Risk classification under IFRS 9 is used to calculate expected losses.

Liquidity risk: Liquidity risk measures the bank's ability to meet short-term obligations and to secure long-term financing of the bank's assets. Pareto Bank's goal is to maintain a low to moderate level of liquidity risk, in both the short and the long term. It is also a goal for the bank to ensure that it has a good liquidity buffer in place at all times, which is determined by the bank's development and balance sheet structure. The bank's deposit mix and ability to issue securities may vary more than for an average Norwegian bank. This means that Pareto Bank needs to maintain a somewhat higher level of surplus liquidity than the average Norwegian bank.

The Board has defined limits and principles for managing the bank's liquidity risk. Stress tests are performed and a contingency plan has been developed for potential liquidity crises, which are tested annually.

The bank's liquidity policy and liquidity limits are evaluated by the Board at least once a year.

Market risk: Market risk is risk related to changes in market prices, such as interest rates, exchange rates and securities prices. Pareto Bank shall not trade for its own account in the interest rate and currency markets and shall, to the greatest extent possible, continuously manage any exposure that occurs. Exposure to interest rate and currency risk is continuously hedged or identified. The level of exposures shall lie within the limits and powers granted by the Board.

The bank has internal limits in place for the overall interest rate risk in Norwegian kroner and foreign currencies, and measures this risk within defined maturity bands, using the sum of pairs of adjacent maturity bands. 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 bank's net position 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 into Norwegian kroner. The bank stress tests the currency positions by analysing the impact on profits 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 portfolios of bonds, certificates and mutual funds as a consequence of general changes in credit spreads. The bank uses an approach based on the methodology in the Solvency II Directive to monitor and manage the credit spread risk. The bank's risk shall be moderately diversified. Limits 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 portfolios must be moderate and market liquidity must be high. Most of the portfolio must be highly liquid and be able to be used as collateral for loans from Norges Bank.

Operational risk: The bank's operational risk arises as a result of failed systems or control processes that prevent the bank's management from monitoring or controlling other risks or that prevent normal transaction processing. The bank reduces operational risk by means of efficient management and control 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 the changes and requirements it faces that may affect developments in profits and the balance sheet.

CORPORATE SOCIAL RESPONSIBILITY

The Board has established a policy governing ethics, corporate social responsibility and conflicts of interest. The document summarises the bank's overarching values and lays the foundations for the operational procedures governing this work in the bank. The bank has also prepared a description of Pareto Bank's objective that will serve as a guide for the bank's work on corporate social responsibility going forward.

The bank also makes continuous efforts to update and develop procedures and guidelines to ensure the bank is aware of its role in society.

Further information is available on the bank's website at www.paretobank.no.

HUMAN RIGHTS

Pareto Bank conducts its business in Norway and 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.

LABOUR RIGHTS AND SOCIAL CONDITIONS

The bank's employees are its most important resource. Job satisfaction helps individual members of staff to do their best. Through targeted HSE measures and programmes to build expertise and corporate culture, the bank seeks to develop its personnel and to help to ensure that it continues to be a fulfilling and attractive place to work.

Developments in the financial services industry are placing increasingly tougher demands on expertise and competence. The bank therefore focuses on continuing education and competence-building measures.

NATURAL ENVIRONMENT

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

CORRUPTION

The bank's policy governing ethics, corporate social responsibility and conflicts of interest regulates matters that aim to strengthen the bank's independence and integrity. The bank also has guidelines in place to counteract corruption, money laundering and measures against businesses that do not operate in accordance with generally accepted business practice.

ORGANISATION

Pareto Bank is a Norwegian commercial bank whose head office is in Dronning Mauds gt. 3 in Oslo, from where it conducts its banking operations.

Pareto Bank is a good workplace with high ethical standards and an atmosphere of mutual respect among its employees. The bank has prepared its own ethical guidelines that apply to all employees and officers, covering issues such as the duty of confidentiality, disqualification, gifts and favours, and trading in financial instruments. The bank also has a culture code, describing typical features of Pareto Bank and what distinguishes it from other workplaces.

Pareto Bank is a workplace where there is equality between men and women. At year-end, the bank had 37 permanent employees: 28 men and 9 women. In the Board's view, gender equality in the bank is satisfactory and it does not therefore need to implement special measures. The bank has an HSE officer.

The working environment is considered to be good. Absence due to illness in 2018 was low, totalling 120 days, equivalent to 1.4 per cent. No accidents or injuries were registered in 2018.

The bank has established incentive schemes for its employees. These include a share purchase scheme under which employees may receive a subsidy of up to NOK 3,000 per employee per year. In 2018, 25 employees chose to take advantage of this scheme.

Pareto Bank has a profit-sharing scheme based on the 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 threshold set annually by the bank's Board of Directors. For 2018, the Board set the threshold at 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 decided to allocate NOK 19.5 million, including employer's National Insurance contributions and holiday pay, to cover this commitment in 2018. Parts of the provision are contingent on developments in the bank's profit performance in the period 2019 to 2022, and may be reversed. The Board emphasises employee performance in the form of high goal attainment, quality and hard work. Eighty per cent of the benefit will be paid out in the form of shares, while 20 per cent will be in the form of a cash payment.

The bank has a Remunerations Committee made up of members of the Board of Directors. The Committee is tasked with ensuring that the bank promotes and incentivises good management and control of the undertaking's risk, to counteract excessive risk-taking and to avoid conflicts of interest.

The Board of Directors wishes to thank the bank's employees for their outstanding efforts in 2018.

COMPOSITION OF THE BOARD OF DIRECTORS

The Board of Directors consists of Åsmund Skår (Chair), Brita Eilertsen (Deputy Chair), Camilla Wahl, Espen Lundaas, Per Kristian Spone and Petter Hellstrand Tinholt (employee-elected member). The Board is composed of four men and two women. More information about the Board of Directors is available at www.paretobank.no/kontakt/.

The Board of Directors held 15 meetings in 2018, two of which were extraordinary board meetings called to consider large credit commitments and to consider issues of significance to the bank's strategy. 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 bank's financial development.

CORPORATE GOVERNANCE

The Board of Directors follows the Norwegian Code of Practice for Corporate Governance issued by the Norwegian Corporate Governance Board (NUES). The Board has adopted corporate governance guidelines aimed at promoting efficient management of the bank to the benefit of the company's shareholders and stakeholders over time. These guidelines clarify the division of roles between shareholders, the Board and the management of the bank. They supplement applicable legislation and form the basis for how the bank's goals are defined, attained and monitored. The Board also conducts an annual review of its own work and working methods.

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

GOING CONCERN ASSUMPTION

The annual financial statements for 2018 have been prepared on the basis of the going concern assumption. The Board confirms that the requirements for the going concern assumption are met. In the Board's opinion, the submitted financial statements, comprising the income statement, balance sheet and pertaining notes, provide a full picture of the company's operations and position at year-end. No significant events have taken place that affect the profit and the valuations performed other than those reflected in the financial statements. Nor have any matters arisen after the end of the financial year that are of significance to the assessment of the company.

OUTLOOK

Pareto Bank delivered the bank's best ever result in 2018. Profitability is high, with a return on equity after tax of 15.0 per cent. The bank has an excellent starting point for delivering profitable growth within its core areas going forward.

The market rate NIBOR rose in December. This will lead to higher rates on the bank's securities debt in the first quarter. Norges Bank is expected to raise the key interest rate up to twice during 2019, with the first increase probably in March. The bank will continuously assess the need to adjust the interest rate on its loans and deposits.

The bank actively sells its products in the shipping and offshore market, focusing on Norwegian companies and business owners, modern tonnage and low loan-to-asset value ratios. There is still a high level of activity in corporate financing, and growth in lending is expected to increase going forward. Work continues on increasing medium-sized Norwegian enterprises' knowledge of the banks' products. The bank offers a wide range of financing solutions to this segment, including a digital solution that gives enterprises quick and easy access to working capital.

There is still good access to real estate projects. The housing market appears to have levelled out, with stable prices in the Oslo area. The bank has orders on its books comprising credit in process and granted credit that indicate a growth in lending in the coming quarter. Access to credit in commercial property is increasing, and the partnership with Eiendomskreditt AS increases the bank's competitiveness. This business is concentrated in the Eastern Norway area. This type of lending has a slightly longer duration than loans for property development, which helps to diversify the bank's property exposure.

There was strong growth in lending in the fourth quarter 2018. The level of customer activity was high at the start of the new year, and this is expected to continue, particularly in the area of real estate. The bank's lending forecast shows good access to profitable business, and the bank has the capital and capacity it requires for further growth. It is difficult to estimate the precise scope of lending growth in property development. Growth in lending and total lending may vary from quarter to quarter given Pareto Bank's role as a project bank. The bank aims for growth in lending of between NOK 1.0 and 2.0 billion in 2019, and a return on equity of around 15 per cent.

Oslo, 31 Dec. 2018 / 27 Feb. 2019
The Board of Directors of Pareto Bank ASA

Sign. ***Åsmund Skår*** *Chair*	*Sign.* ***Brita Eilertsen*** *Deputy Chair*	*Sign.* ***Espen Lundaas*** *board member*
Sign. ***Camilla Wahl*** *board member*	*Sign.* ***Trine Høgås-Ellingsen*** *deputy member*	*Sign.* ***Petter Hellestrand Tinholt*** *board member*

Pareto bank

INCOME STATEMENT

(NOK 1,000)	Notes	2018	2017
Interest income calculated pursuant to the effective interest rate method		708 720	634 729
Other similar income		44 062	45 618
Interest expenses and similar expenses		198 408	173 382
Net interest income	5	**554 374**	**506 966**
Commission income and income from banking services		11 790	11 648
Commission expenses and expenses relating to banking services		1 580	871
Income from shareholdings in associated companies	18	4 360	2 995
Net gain/(loss) on financial instruments at fair value	3,6,7	-5 917	18 152
Other operating income		131	76
Net other operating income	6	**8 784**	**32 000**
Total net income		**563 158**	**538 966**
Payroll and other personnel expenses	8,9,10,35	74 562	76 621
Administrative expenses		23 368	19 310
Ordinary depreciation	19,20	7 568	4 154
Other operating expenses		14 367	12 491
Total operating expenses before impairments and losses	8	**119 866**	**112 576**
Operating profit before impairments and losses		**443 292**	**426 390**
Impairments and losses on loans and guarantees	3,12	4 553	11 421
Pre-tax operating profit		**438 739**	**414 968**
Tax expense	11	107 959	102 381
Profit for the year		**330 779**	**312 587**
Items not reclassified to profit or loss			
Change in value of financial liabilities that can be attributed to own credit risk		0	0
Tax		0	0
Comprehensive income for the year		**0**	**0**
Total profit for the year		**330 779**	**312 587**
Earnings per share after tax (NOK), ordinary and diluted		5.55	5.28

BALANCE SHEET

(NOK 1,000)	Note	31 Dec. 2018	31 Dec. 2017
Cash and receivables from central banks	14	68 065	61 014
Loans to and receivables from credit institutions	14,16,29,31	251 526	295 533
Loans to customers	12,13,14,16,29	11 652 698	9 447 670
Certificates and bonds	14,15,16,17,29	3 484 630	3 173 886
Financial derivatives	14,15,25,26	13 684	11 611
Shares, units and other securities	14,15,17	52 413	41 192
Shareholdings in associated companies	18	37 459	35 970
Intangible assets	19	35 107	30 202
Deferred tax asset	11	7 574	2 782
Tangible fixed assets	20	3 144	3 200
Other assets		313	346
Prepaid expenses and earned income		337	563
Assets		**15 606 952**	**13 103 969**

(NOK 1,000)		31 Dec. 2018	31 Dec. 2017
Deposits from credit institutions	14,16	150	200 245
Deposits from customers	14,15,16,21	7 622 723	7 083 931
Securitised debt	14,15,16,22	5 011 109	3 250 201
Financial derivatives	14,15,25,26	46 970	45 981
Tax payable	11	110 342	92 029
Other liabilities	24	5 080	6 328
Accrued expenses and prepaid income	24	32 339	29 097
Subordinated loan capital	14,16,23	270 432	270 246
Liabilities		**13 099 145**	**10 978 059**
Share capital	36	703 436	703 436
Share premium reserve		424 615	424 615
Reserve for unrealised gains		8 313	11 405
Other equity		1 171 443	936 454
Subordinated bonds		200 000	50 000
Equity	28	**2 507 807**	**2 125 910**
Equity and liabilities		**15 606 952**	**13 103 969**
Contingent commitments	29	**257 102**	**348 789**

Oslo, 31 Dec. 2018 / 27 Feb. 2019
The Board of Directors of Pareto Bank ASA

Sign. ***Åsmund Skår*** *Chair*	*Sign.* ***Brita Eilertsen*** *Deputy Chair*	*Sign.* ***Espen Lundaas*** *board member*
Sign. ***Camilla Wahl*** *board member*	*Sign.* ***Trine Høgås-Ellingsen*** *deputy board member*	*Sign.* ***Petter Hellestrand Tinholt*** *board member*

CHANGE IN EQUITY

(NOK 1,000)	Share capital	Share premium	Reserve for unrealised gains	Other equity	**Shareholders' capital**	Subordinated bonds	**Equity**
Equity at 1 Jan. 2017	**703 436**	**424 615**	**7 746**	**689 365**	**1 825 162**	**160 000**	**1 985 162**
Profit for the year			3 658	308 929	**312 587**		**312 587**
Comprehensive income for the year							
Total profit/loss for the year			3 658	308 929	**312 587**		**312 587**
Interest paid on subordinated bonds				-4 294	**-4 294**		**-4 294**
Tax saved on interest on subordinated bonds				1 073	**1 073**		**1 073**
Dividend paid				-58 620	**-58 620**		**-58 620**
Redeemed subordinated bonds						-110 000	**-110 000**
Equity at 31 Dec. 2017	**703 436**	**424 615**	**11 404**	**936 454**	**2 075 909**	**50 000**	**2 125 909**
Implementation effect, IFRS 9 (after tax)				-76	**-76**		**-76**
Equity at 1 Jan. 2018	703 436	424 615	11 404	936 378	**2 075 833**	50 000	**2 125 833**
Profit/loss for the year			-3 091	333 870	**330 779**		**330 779**
Comprehensive income for the year							
Total profit/loss for the year			-3 091	333 870	**330 779**		**330 779**
Interest paid on subordinated bonds				-6 685	**-6 685**		**-6 685**
Tax saved on interest on subordinated bonds				1 671	**1 671**		**1 671**
Dividend paid				-93 792	**-93 792**		**-93 792**
New subordinated bond issue					**0**	150 000	**150 000**
Equity at 31 Dec. 2018	**703 436**	**424 615**	**8 313**	**1 171 443**	**2 307 807**	**200 000**	**2 507 807**

CASH FLOW STATEMENT

(NOK 1,000)	2018	2017
Interest received from central banks and credit institutions.	4 804	3 019
Payments made/received on customer deposits	524 092	-552 617
Interest paid on customer deposits	-73 947	-103 230
Payments made/received on loans to customers	-2 192 853	-680 645
Interest received on loans to customers	683 809	611 990
Payments made/received on deposits from credit institutions	-200 095	196 112
Interest paid on deposits from credit institutions	-926	824
Payments made/received on certificates and bonds	-318 235	144 620
Interest received on certificates and bonds	50 084	42 167
Payments made/received on financial derivatives	-7 001	9 442
Commission received	11 921	11 719
Commission paid	-1 580	-871
Payments relating to operations	-111 365	-114 036
Tax paid	-92 850	-63 172
Net cash flow from operating activities	**-1 724 144**	**-494 677**
Payments made on purchases of tangible fixed assets	-892	-2 987
Payments made on purchases of intangible assets	-11 527	-8 920
Payments made/received on shares, units and other securities	-8 349	-59 762
Net cash flow from investment activities	**-20 769**	**-71 669**
Payments made in repayment of subordinated bonds	0	-109 464
Issue of subordinated bonds	149 756	0
Payments received from issues/sales of securities	1 758 670	367 309
Interest paid on securities debt	-91 323	-67 297
Interest paid on subordinated loan capital	-9 143	-9 090
Interest paid on subordinated bonds	-6 211	-4 294
Dividend paid	-93 792	-58 620
Net cash flow from financing activities	**1 707 956**	**118 544**
Net change in cash and cash equivalents	-36 956	-447 802
Cash and cash equivalents at 1 Jan.	356 547	804 349
Cash and cash equivalents*	**319 591**	**356 547**

* Cash and cash equivalents are defined as receivables from credit institutions and central banks without an agreed term to maturity or period of notice.

NOTE 1: GENERAL INFORMATION

Pareto Bank ASA is a Norwegian commercial bank whose head office is in Dronning Mauds gt. 3 in Oslo. The annual financial statements were approved by the Board of Directors on 27 February 2019.

NOTE 2: SUMMARY OF KEY ACCOUNTING PRINCIPLES

The following contains a description of the key accounting principles used in the preparation of the financial statements. These principles have been used consistently for all the periods presented, unless 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 EU and in force at 31 December 2018, as well as additional information requirements that follow from the provisions of the Norwegian Accounting Act, including the Regulations on annual accounts for banks, financial undertakings etc.

The accounts were prepared on the basis of the historical cost principle, subject to the following modifications:

- Financial derivatives, which are recognised at fair value through profit or loss
- Certificates and bonds, which are recognised at fair value through profit or loss
- Shares and units in funds, which are recognised at fair value through profit or loss
- Fixed-rate deposits, which are recognised at fair value

The preparation of annual accounts under IFRS requires the use of estimates. Moreover, the application of the company's accounting principles also requires the management to exercise discretion. Areas that involve a high degree of discretionary assessment, a high degree of complexity, or areas in which assumptions and estimates have a material bearing on the accounts, are described in Note 3.

2.2 New and amended standards applied by the bank in 2018 / Changes to accounting principles and information

The bank applied the following standards and amended standards with effect from 1 January 2018.

IFRS 9 – Financial instruments

The bank has applied IFRS 9 and IFRS 7R, which apply to reporting periods starting on 1 January 2018, for the first time.

The bank has decided not to convert comparable figures, as permitted by the transitional provisions under IFRS 9. The comparable figures for 2017, reported in accordance with IAS 39, are therefore not comparable with the information presented for 2018. Differences that arise in connection with the transition to IFRS 9 are entered directly against equity at 1 January 2018.

Changes in classification and measurement

Classification and measurement of financial assets under IFRS 9, with the exception of equity instruments and derivatives, are valued on the basis of a combination of the unit's business model for managing assets and the instrument's contractual cash flow characteristics.

The measurement categories for financial assets in IAS 39 (fair value through profit or loss, available for sale, held to maturity and amortised cost) have been 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 recognition of financial liabilities remains largely unchanged, except in the case of liabilities designated for reporting at fair value, for which changes in fair value attributable to own credit risk shall be recognised through other comprehensive income without recycling. This applies to the bank's fixed-rate deposits.

The rules on recognition and derecognition remain unchanged.

Changes to the impairment model

The impairment rules under IAS 39 were based on an 'incurred loss' model, which means that loss provision is conditional on the existence of objective evidence of a fall in value on the balance sheet date, whereas under IFRS 9, provision must be made for expected losses. The new principles apply to 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 the provision for expected losses 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, the loss provision shall be based on 12-month expected losses ('Stage 1'). If the credit risk has increased significantly since initial recognition, but there is no objective evidence of a fall in value, the loss provision is based on lifetime expected losses ('Stage 2'). If there is objective evidence of a fall in value, the provision is also based on lifetime expected losses ('Stage 3'). However, while interest income for financial assets in Stage 1 and Stage 2 is calculated using the effective interest rate method on the financial asset's gross carrying value, interest income for financial assets in Stage 3 is calculated based on the financial asset's amortised cost.

Irrespective of this, the credit risk can be assumed not to have increased significantly since initial recognition if the financial instrument is deemed to have a low credit risk on the reporting date. The bank has used the low credit risk exemption for the balance sheet items 'Cash and receivables from central banks' and 'Loans to and receivables from credit institutions'.

Accumulated expected losses in 'Stage 1' and 'Stage 2' replace the current collective impairments. The individual loss provisions under IAS 39 have not changed as a result of the transition to IFRS 9 ('Stage 3').

Information about the effects of the transition to IFRS 9 is provided in Note 38.

IFRS 15 Revenues from contracts with customers concerns revenue recognition. The standard requires contracts with customers to be broken down into individual performance obligations. Performance obligations may take the form of goods or services. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. The transition to IFRS 15 has not had a material impact on the bank's financial statements.

2. 3 Standards, amendments and interpretations of existing standards that have not entered into force and where the bank has not chosen early application

A number of new standards, amendments to standards and interpretations are mandatory for future annual financial statements. The most significant of those where the bank has not chosen early adoption are discussed below.

IFRS 16 – Leases
IFRS 16 Leases enters into force on 1 January 2019 and replaces the current IAS 17 Leases. The standard eliminates the existing distinction between operating and financial leases, which means that more leases than previously will be recognised in the balance sheet. Under this standard, the right to use a leased object becomes an asset and the obligation to pay rent becomes a liability that must be recognised in the balance sheet. Exemptions are short-term leases and low-value leases.

The standard will not entail significant changes to the lessor's accounting. The bank has analysed all leases to ensure they meet the criteria under IFRS 16, and only one lease for an office building falls under the new standard. The bank has also selected a modified retrospective approach and includes the full effect of the transition in the opening balance on 1 January 2019.

The bank's lease will terminate without notice on 13 July 2020. The bank has calculated the effect of IFRS 16 on the opening balance at I January 2019 as insignificant.

No other standards or interpretations that have yet to enter into force are expected to have a material impact on the bank's financial statements.

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

2.5 Repurchase agreements
The purchase of securities subject to a repurchase agreement is classified as loans to and receivables from customers. The difference between the purchase and sales price is accrued as interest income.

2.6 Financial instruments

2.6.1 Recognition and derecognition
Financial assets and liabilities are recognised in the balance sheet when Pareto Bank becomes a party to the instrument's contractual terms. Regular purchases and sales of investments are recognised in the income statement 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 potential reward associated with ownership. Financial liabilities are derecognised when the rights to the contractual conditions have been fulfilled, cancelled or have expired.

2.6.2 Classification and subsequent measurement

Financial assets – principle applicable from 1 January 2018

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

- Amortised cost
- Fair value through profit or loss

A financial asset is measured at amortised cost if both of the following criteria are met and the financial asset is not designated at fair value through profit or loss ('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 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 management's strategy and objective is to hold the asset to collect contractual cash flows, maintain a specific interest rate profile, match the duration of financial assets and corresponding financial liabilities used to finance these assets, or to realise cash flows through sales of the assets;
- the way the return on the portfolio is valued and reported to the management of the bank;
- the risks that affect the performance of the business model (and the financial assets held under this business model) and the way these risks are managed;
- how 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 expectations regarding future sales activities. Information about sales activity is not assessed in isolation, however, but rather as part of an overall assessment of the way the company's goals for managing the financial assets are achieved and how cash flows are realised.

The valuation of the business model is based on scenarios that can 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 company's original expectations, the classification of the remaining financial assets in the business model in question will not be changed, but the information will be incorporated when assessing newly issued or newly acquired financial assets in the future.

The cash flow characteristics test
In this test, the principal is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as compensation for the time value of money and credit risk linked solely to the principal amount outstanding in a given time period and for other fundamental lending risks and expenses (e.g. liquidity risk and administrative expenses), and the profit margin.

In the assessment of whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding, the bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual clause that can change the timing or size of contractual cash flows so that it does not fulfil this condition. During the assessment, the company considers:

- contingent events that would change the amount and timing of cash flows;
- influence functions;
- advance payments and extension terms
- terms that limit the company's entitlement to cash flows from specific assets (e.g. periodic reset of interest rates;
- terms that change the assessment of the time value of money e.g. periodic reset of interest rates.

The bank has assessed all instruments measured at amortised cost in relation to the rules above and believes that the instruments satisfy the criteria.

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 criterion; and/or
- assets held in a business model that does not involve holding assets for the collection 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 was also available under IAS 39.

Impairment model
Under IFRS 9, loss provisions shall be based on expected credit loss (ECL). The general model for impairment of financial assets under IFRS 9 applies to financial assets measured at amortised cost or at fair value through other comprehensive income and for which no losses had occurred on initial recognition. Loan commitments, financial guarantee contracts not measured at fair value through profit or loss and lease receivables are also covered by the model.

The measurement of the provision for expected losses under 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, the provision shall be based on 12-month expected losses ('Stage 1'). Twelve-month expected losses are losses expected to occur during the instrument's life, but that can be linked to events occurring in the next 12 months. If the credit risk has increased significantly since initial recognition, but there is no objective evidence of a loss, the provision is based on lifetime expected losses ('Stage 2'). If the credit risk has increased significantly and there is objective evidence of a fall in value (default), a provision is made for lifetime expected losses ('Stage 3')

Irrespective of this, it can be assumed that the credit risk has not increased significantly since initial recognition if the financial instrument is deemed to have a low credit risk on the reporting date. The bank has used the low credit risk exemption for the balance sheet items 'Cash and receivables from central banks' and 'Loans to and receivables from credit institutions'.

In its assessment of what constitutes a significant increase in credit risk, the bank has, as well as applying the presumption that financial assets with cash flows that are overdue by more than 30 days are exposed to significantly increased credit risk, used qualitative and quantitative indicators.

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 overdue, and/or in the case of customers where there are objective indications of a fall in value as a consequence of one or more events occurring since initial recognition of the asset (a 'loss event') and the loss event (or events) impacts on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reliably.

A commitment migrates to a lower stage when the terms for the original migration no longer exist.

Forward-looking information (macroeconomic scenarios) have been taken into account in the bank's calculation of expected losses.

The impairment model is described in more detail in Note 12: Losses on loans and guarantees.

Write-off of losses
A loss is written off (derecognition of balance sheet value) when the bank can no longer reasonably expect to recover a commitment in full or in part. The criteria for this include:

- Finalisation of winding up of limited liability companies
- Voluntary arrangements/debt settlement proceedings
- Winding up of other companies with limited liability
- Winding up of a deceased's estate
- Legally enforceable judgments
- Realisation of collateral

The commitment will normally be subject to long-term monitoring in the event that the debtor again becomes eligible to apply for a loan.

Modification
When the contractual cash flows from a financial asset are renegotiated or otherwise modified, and the renegotiation or modification does not lead to derecognition of the financial asset, the financial asset's gross carrying value is recalculated and a modification gain or loss recognised in the income statement. The gross carrying value is recalculated as the present value of the renegotiated or modified contractual cash flows, discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the modified financial asset's carrying value and are written down over the asset's remaining life.

Financial assets – principle applicable from 1 January 2018

Financial assets
On initial recognition, financial assets 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 assets at fair value through profit or loss
Classification in this category may be mandatory or assets may be designated for recognition at fair value through profit or loss. The first category encompasses the bank's financial derivatives unless they form part of a hedge, as well as shares and units. The second category comprises financial assets designated as fair value through profit or loss ('the fair value option').

Loans and receivables recognised at amortised cost:
Loans and receivables are financial assets that are not derivatives, that have fixed or determinable payments, and that are not traded in an active market.

Impairment model for assets measured at amortised cost
If there is objective evidence of impairment, 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 at the asset's internal rate of return. The internal rate of return applied is the asset's internal rate of return before objective evidence of impairment is identified. Objective evidence of impairment includes significant financial problems on the part of a debtor, default of payment or other material breaches of contract, cases where it is considered likely

that the debtor will initiate debt proceedings or where other material circumstances have occurred. A write-down reduces the balance sheet value of the loan, and the changes in estimated value during the period are recognised in the income statement under 'Losses on loans and guarantees'. Interest calculated using the internal rate of return method is included under 'Net interest income'.

Loans are also valued collectively. If there is objective evidence of impairment on a group of loans, a write-down must be carried out.

Financial liabilities

Pursuant to both IAS 39 and IFRS 9, financial liabilities are classified as subsequently measured at amortised cost, apart from.

- 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 at fair value through profit or loss, because it reduces or eliminates accounting mismatches.
- Financial guarantees and loan commitments

Other financial liabilities recognised at amortised cost:
This category encompasses deposits from customers and credit institutions without fixed-term interest rates and other financial liabilities not designated as liabilities valued at fair value through profit or loss.

Issued financial guarantees
Contracts under which the bank is required to compensate a loss to the holder as a consequence of failure of a specific debtor to pay in accordance with the terms associated with a debt instrument are classified as issued financial guarantees. Commission income is recognised over the term of the guarantee under 'Commission income and income from banking services'. Changes in value as a consequence of credit commitments that have been written down are recognised under 'Impairments and losses on loans and guarantees'. Expected losses calculated pursuant to IFRS 9 are included under 'Provision for liabilities' in the balance sheet.

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 under IAS 39 (before 1 January 2018) and under IFRS 9 (after 1 January 2018):

	IAS 39	IFRS 9
	Measurement category	**Measurement category**
Financial assets		
Cash and receivables from central banks	Amortised cost (loans and receivables)	Amortised cost
Loans to and receivables 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 and units in funds	Fair value through profit or loss (mandatory)	Fair value through profit or loss (mandatory)
Financial liabilities		
Deposits from credit institutions	Amortised cost	Amortised cost
Fixed-rate customer deposits	Fair value through profit or loss (designated)	Fair value through profit or loss (designated)*
Floating-rate customer deposits	Amortised cost	Amortised cost
Securitised 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 in the table above, there are no changes in the presentation, classification and measurement of financial assets or financial liabilities, except fixed-rate deposits designated for recognition at fair value, where IFRS 9 requires changes in fair value attributable to own credit risk to be recognised through other comprehensive income. Moreover, it follows from the table that the bank has exercised the fair value option for 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 reducing accounting mismatches. The main reason that an accounting mismatch might otherwise occur is that all financial derivatives must be measured at fair value and that these are extensively used in the financial hedging of market risk.

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 settled, in a transaction between independent parties. The going concern assumption is applied in the calculation, and a provision for the instrument's credit risk is included in the valuation.

In the case of financial instruments where a corresponding market risk can be shown to be present to a sufficient degree of probability, middle rates on the balance sheet date are applied. Other financial assets and liabilities are valued at purchase and sales prices, respectively. In the case of financial instruments where it is possible to obtain externally observable prices, rates or volatilities and where these prices represent actual and frequent market transactions, the listed price obtained from either a stock exchange or a broker will be applied. Insofar as no listed 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, interest rate swaps and certificates and bonds.

In the case of other financial instruments such as fixed-rate deposits from customers, contractual cash flows are calculated, discounted at the market rate including a credit risk margin on the balance sheet 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 units
- Deposits from customers – fixed-rate (‘clean value’)

Gains and losses on financial instruments at fair value are included under ‘Net gains/(losses) on financial instruments at fair value’. 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 in ‘Other comprehensive income’ without subsequent reclassification in the income statement.

Interest income and interest expenses on interest-bearing financial assets and financial liabilities measured at fair value through profit or loss will be included under ‘Interest income and similar income’ and ‘Interest expenses and similar expenses’ 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 minus transaction costs.

Interest income and expenses are recognised in the income statement under ‘Interest income calculated pursuant to the effective interest rate method’ and ‘Interest expenses and similar expenses’, respectively. Pursuant to both IFRS 9 and IAS 39, interest income and interest expenses are calculated using the effective interest rate method (EIR) for all financial instruments measured at amortised cost. The internal rate of return is determined by discounting contractual cash flows during the expected term to maturity. Cash flows include front-end 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 recognised using the interest rate used to discount future cash flows to measure the fall in value.

Under IFRS 9, interest income for financial assets in ‘Stage 1’ and ‘Stage 2’ is calculated using the effective interest rate method on the basis of the financial asset’s gross carrying value, while interest income for financial assets in ‘Stage 3’ is calculated on the basis of the financial asset’s amortised cost.

2.7 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 to offset exists and the intention is settle net or to realise the asset and settle the liability simultaneously.

2 .8 Tangible fixed assets
Material assets are classified as tangible fixed assets and valued at acquisition cost minus accumulated depreciation and impairments. Acquisition cost includes expenses directly related 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 value and useful lives of the assets are assessed annually 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 expenses required to prepare the software for use. These assets are depreciated in line with the duration of the contracts and their expected useful life. Software development is recognised in the balance sheet and, if the value is deemed to be material and the asset is expected to have lasting value, it is depreciated over the asset's expected useful life. The residual value and useful lives of the assets are assessed annually 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 insurance company.
The bank pays an annual contribution to individual employees' group pension savings scheme. In 2018, the contribution was 6 per cent for salaries of between 1 and 7.1 G (G = the National Insurance basic amount) and 9 per cent for salaries of between 7.1 and 12 G. From 2019, the payment rates have increased to 7 per cent for 0 G to 7.1 G and 15 per cent for 7.1 G to 12 G. The bank has no further commitments over and above the payment of the annual contribution. Premium including employer's National Insurance contributions is expensed directly.

2.11 Tax
The year's tax expense comprises tax payable for the financial year as well as changes in deferred tax on temporary differences. Temporary differences are differences between the accounting and tax value of balance sheet items. Deferred tax is determined using the tax rates and tax regulations applicable on the reporting date, which are assumed to apply when the deferred tax asset is realised or the deferred tax is to be settled. The deferred tax asset is recognised in the balance sheet insofar as it is probable that it can be charged to future taxable income.

2.12 Dividend
The proposed dividend is classified as part of equity until a decision has been adopted by the General Meeting. Proposed dividend is not included in the calculation of capital adequacy.

2.13 Lease agreements
Lease agreements where a significant portion of the risk and return relating to ownership remains with the lessor are classified as operating leases. Pareto Bank holds operating leases only. Lease expenses are expensed on a straight-line basis over the lease period.

2.14 Associated companies
Associated companies are companies in which the bank has considerable influence, but not a controlling interest. Considerable influence is deemed to exist when the group owns between 20 and 50 per cent of the voting capital. Investments in associated companies are recognised using the equity method. Investments are recognised at the time of purchase at acquisition cost, and the bank's share of profit/loss in subsequent periods is taken to income or expense. The carrying amount includes any implicit goodwill identified at the time of purchase.

2.15 Subordinated bonds
Perpetual subordinated bonds where the issuer has an unconditional right not to pay interest are classified as equity. Net interest paid is classified as a reduction in shareholders' equity.

2.16 Cash flow statement
The cash flow statement has been prepared using the direct approach.

2.17 Post balance sheet events
Information that emerges after the balance sheet date about the company's financial position on the balance sheet date will form part of the basis for assessing the accounting estimates in the financial statements and will thus be taken into account in the annual financial statements. Events that do not affect the company's financial position on the balance sheet date, but that will affect the financial position in the future, are disclosed where significant. The bank's financial statements 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 on the balance sheet date. The accounting estimates will rarely be in full accordance with the final outcome, and represent a risk of material future changes in the balance sheet value of financial instruments.

NOTE 3: ACCOUNTING ESTIMATES AND DISCRETIONARY ASSESSMENTS

The use of estimates
The presentation of the bank's financial statements 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 on the balance sheet date. The accounting estimates will rarely be in full accordance with the final outcome, and represent a risk of material future changes in the carrying value of financial instruments and intangible assets.

Fair value measurement
Fair value is the amount for which an asset can be exchanged, or a liability settled, in a transaction between independent parties. The fair value of financial instruments not traded in an active market is determined by the use of valuation techniques.

The bank values and applies methods and assumptions that, as far as possible, are based on the market conditions prevailing on the balance sheet date. This applies to the bank's holdings of certificates and bonds, financial derivatives and fixed-rate deposits and loans. The methods and assumptions applied in the calculation of fair value are also described in the bank's accounting principles and in Note 15 to the annual financial statements.

The impairment of financial assets

Pursuant to IFRS 9, expected credit losses are to be measured in a way that reflects an objective probability-weighted amount that is determined by assessing a range of potential outcomes, the time value of money and reasonable and documentable information linked to past, present and future financial conditions.

The method for measuring expected credit losses depends on whether the credit risk has increased significantly since initial recognition, as this will be decisive for whether the loss provision is based on 12-month expected losses or lifetime expected losses.

This means that the calculations will be based on discretion linked, among other things, to how a significant increase in credit risk is defined and how forward-looking information is taken into account. The model for calculating expected losses is described in Note 12, where the bank has also performed sensitivity calculations linked to the effect of forward-looking information.

The lending portfolio has historically had low losses, and generally good collateral.

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

Other circumstances

The bank is not involved in any legal disputes.

NOTE 4: MARKET SEGMENTS

Based on the bank's size and areas of business, 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 INCOME

(NOK 1,000)	**2018**	**2017**
Interest income and similar income from cash and receivables from central banks, amortised cost	375	293
Interest income and similar income from loans to and receivables from credit institutions, amortised cost	5 485	2 901
Interest income and similar income from loans to and receivables from customers, amortised cost	702 860	631 536
Interest income calculated pursuant to the effective interest rate method	**708 720**	**634 729**
Interest income and similar income from certificates and bonds, fair value	44 062	45 606
Other interest income and similar income	0	12
Other similar income	**44 062**	**45 618**
Interest expenses and similar expenses on debt to financial institutions, amortised cost	926	824
Interest expenses and similar expenses on deposits from customers, fair value	36 393	26 977
Interest expenses and similar expenses on deposits from customers, amortised cost	52 253	66 002
Interest expenses and similar expenses on securities debt, fair value	446	446
Interest expenses and similar expenses on securities debt, amortised cost	93 115	64 198
Interest expenses and similar expenses on subordinated loan capital, amortised cost	9 329	9 115
Fee to the Norwegian Banks' Guarantee Fund	5 861	5 705
Other interest expenses and similar expenses	84	115
Interest expenses and similar expenses	**198 408**	**173 382**
Net interest income	**554 374**	**461 347**

NOTE 6: NET OTHER OPERATING INCOME

(NOK 1,000)	2018	2017
Commission income from payment transfers	451	622
Commission income, guarantees	9 991	8 565
Commission, investment services	803	1 634
Interbank commission	12	32
Commission income from other banking services	533	796
Commission income and income from banking services	**11 790**	**11 648**
Commission expenses on payment transfers	1 168	866
Interbank commission	412	5
Commission expenses and expenses relating to banking services	**1 580**	**871**
Income from shareholdings in associated companies	**4 360**	**2 995**
Net gain/loss on financial instruments at fair value	**-5 917**	**18 152**
Other operating income	131	76
Other operating income	**131**	**76**
Net other operating income	**8 784**	**32 000**

NOTE 7: NET GAIN/(LOSS) ON FINANCIAL INSTRUMENTS AT FAIR VALUE

(NOK 1,000)	2018	2017
Net gain/(loss) on foreign currency	13 702	-9 907
Net gain/(loss) on currency derivatives	-13 868	13 051
Net gain/(loss) on interest rate derivatives	3 829	-8 919
Net gain/(loss) on certificates and bonds	-9 313	26 023
Net gain/(loss) on shares and units	1 221	1 182
Net gain/(loss) on securities debt	-2 232	-5 373
Net gain/(loss) on deposits from customers	744	2 094
Net gain/(loss) on financial instruments at fair value	**-5 917**	**18 152**

NOTE 8: OPERATING EXPENSES

(NOK 1,000)	2018	2017
Ordinary payroll expenses	40 074	40 397
Provision for profit sharing	19 516	19 680
Fees, elected officers	938	1 742
Pension expenses	2 793	2 737
Employer's National Insurance contributions	8 068	8 953
Other payroll expenses	3 173	3 112
Payroll and other personnel expenses	**74 562**	**76 621**
IT expenses	14 349	13 979
Office supplies, postage etc.	1 276	1 078
Sales, hospitality and marketing	6 476	2 672
Other administrative expenses	1 268	1 581
Administrative expenses	**23 368**	**19 310**
Rent and other operating expenses, leased premises	4 377	3 909
Fees auditing, consultancy and legal advice	7 743	6 616
Membership fees	1 365	1 183
Insurance premiums	671	544
Miscellaneous operating expenses	211	239
Other operating expenses	**14 367**	**12 491**
Depreciation etc. of tangible fixed assets and intangible assets	**7 568**	**4 154**
Total operating expenses before impairments and losses	**119 866**	**112 576**

NOTE 9: PENSION EXPENSES

Pareto Bank is required to have an occupational pension scheme pursuant to the Act relating to Mandatory Occupational Pensions and has a scheme in place that meets the requirements of the Act. The bank has a defined contribution pension scheme for all employees, which is managed by the life insurance company Storebrand Livsforsikring AS. The pension benefits provided are retirement, disability, spouse and child cover. The scheme covers exemption from contributions in the event of disability, 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 contributions of 6 per cent for salaries of between 0 G and 7.1 G and of 9 per cent for salaries of between 7.1 G and 12 G (G being the National Insurance basic amount) From 2019, the payment rates have increased to 7 per cent for 0 G to 7.1 G and 15 per cent for 7.1 G to 12 G. The retirement age is 67.

Employees may be eligible for annual disability cover if the percentage they work of a full-time position is reduced by at least 20 per cent due to illness or injury. Annual disability cover that constitutes 3 per cent of salaries of up to 12 G, an addition of 25 per cent of G, a maximum of 6 per cent of the salary basis, and 66 per cent of the salary basis.

Disability cover has also been taken out in the form of a group disability annuity for salaries exceeding 12 G. The pensionable income is salaries in excess of 12 G. The scheme covers an exemption from contributions in the event of disability. Thirty 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 obligations over and above the payment of annual premiums on the above-mentioned schemes.

(NOK 1,000)	2018	2017
Pension expense, defined contribution scheme	2 403	2 504
Pension expense, annuity	390	233
Pension expense	**2 793**	**2 737**

NOTE 10: NUMBER OF EMPLOYEES/FULL-TIME EQUIVALENTS

	2018	2017
Number of employees at 31 Dec.	37.0	40.0
Number of full-time equivalents at 31 Dec.	36.4	39.4
Average number of employees	38.3	37.0
Average number of full-time equivalents	37.7	36.2

NOTE 11: TAX

(NOK 1,000)

Temporary differences	**2018**	**2017**
Tangible fixed assets	-529	60
Intangible assets	3 300	2 680
Financial instruments	-31 162	-11 321
Transitional effect, IFRS 9	-102	
Deposits from customers	-1 803	-2 546
Basis for deferred tax in balance sheet	**-30 295**	**-11 128**
Deferred tax/deferred tax asset	**-7 574**	**-2 782**

Basis for tax, change in deferred tax and tax payable	**2018**	**2017**
Pre-tax profit	438 739	414 968
Permanent differences	-10 460	-9 907
Basis for tax expense for the year	428 279	405 062
Change in differences included in basis for deferred tax	13 088	-36 947
Basis for tax payable in the income statement	441 367	368 115
Taxable income (basis for tax payable in the balance sheet)	441 367	368 115

Breakdown of tax expense	**2018**	**2017**
Tax payable (25% of basis for tax payable in the income statement)	110 342	92 029
Change in deferred tax/tax asset	-3 297	9 237
Items entered directly against equity	1 697	1 115
Excess/insufficient provision for tax preceding year	-781	0
Tax expense (25% of basis for tax expense for the year)	**107 959**	**102 381**

Tax payable in the balance sheet	**2018**	**2017**
Tax payable on profit for the year	110 342	92 029
Tax payable in the balance sheet	**110 342**	**92 029**

NOTE 12: LOSSES ON LOANS AND GUARANTEES ETC.

The table below shows total provision for credit losses at 31 Dec. 2018 and 31 Dec. 2017 allocated to different balance-sheet and off-balance-sheet items. Provision for losses related to undrawn credit and financial guarantees are presented as 'Other liabilities'.

	31 Dec. 2018			31 Dec. 2017		
Loss provision	**Gross value**	**Loss provision**	**Book value**	**Gross value**	**Loss provision**	**Book value**
Cash and receivables from central banks	68 065	-	68 065	61 014		61 014
Loans to and receivables from credit institutions	251 526	-	251 526	295 533		295 533
Loans to customers	11 708 038	55 340	11 652 698	9 533 223	85 553	9 447 670
Undrawn credit		**2 536**	**-2 536**			
Financial guarantees		1 829	-1 829			
Total	**12 027 629**	**59 705**	**11 967 924**	**9 889 770**	**85 553**	**9 804 217**

For the balance sheet items 'Receivables from central banks' and 'Loans to and receivables from credit institutions', the bank has applied the low credit risk exception. Cash and receivables from central banks consist entirely of claims against Norges Bank. Norges Bank is rated Aaa by Moody's and AAA/A-1+ by S&P, thus fulfilling the standard's low credit risk presumption. Norges Bank has a 12-month PD of 0 per cent, and the bank therefore makes no loss provision for this balance sheet item.

The item 'Loans to and receivables from credit institutions' exclusively concerns banks with a credit rating and that meet the standard's low credit risk presumption, and the bank has considered that this in conjunction with LGD and low exposure will require insignificant provision for losses. The bank has thus not made any provision for losses linked to this balance sheet item.

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

- Loans to customers
- Contingent liabilities (contract and payment guarantees)
- Undrawn credit lines

The measurement of the expected loss provision 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, the provision shall be based on 12-month expected losses ('Stage 1'). Twelve-month expected losses are the losses expected to occur during the instrument's life, but that can be linked to events occurring in the next 12 months. In the case of undrawn credit, 12-month expected credit losses will be based on the proportion of credit the bank expects 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, but there is no objective evidence of a loss, the provision will be based on lifetime expected losses ('Stage 2'). If the credit risk has increased significantly and there is objective evidence of impairment, a provision is made for lifetime expected losses ('Stage 3').

Preconditions and input to the model
The bank has been in operation for almost ten years. During this period, the bank has recorded limited losses, mainly linked to individual commitments due to operational conditions. The bank therefore has very limited historical data on which to base calculations of future expected credit losses. The bank therefore uses a model that is partly based on discretionary parameters and assessments. The bank's model for calculating expected credit losses will be subject to constant review and development.

The bank has a risk classification model that forms the basis for uniform assessment of the risk the bank takes in connection with credit and guarantees, and which forms the basis for determining the probability of default (PD) and loss given default (LGD). Risk classification is performed along two dimensions: the credit customer dimension and the collateral dimension. In the credit customer dimension, the credit customer's repayment ability is assessed, i.e. the customer's cash flow 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 along each of the dimensions. This means that the bank has a risk matrix based on possible combinations of the classifications along the two dimensions:

	DEBITOR				
	A	B	C	D	E
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

NOTE 12: LOSSES ON LOANS AND GUARANTEES, CONTD.

In accordance with the bank's risk classification procedure, new loans shall normally be assigned a minimum classification, as outlined in the table from and including the white to the light green fields.

The risk classification model forms the basis for the bank's customer profitability model, which aims to ensure correct pricing of risk and to be a uniform framework for granting credit. This model takes into account the risk mark-up/premium, among other things, based on the risk classification. This risk mark-up takes into account the customer's risk and collateral and is thus the bank's estimate for the probability of default and loss given default, i.e. PD x LGD over the lifetime of the loan. The bank also considers discounting to be taken into account in this risk mark-up.

In order to take different risk profiles for product/collateral classes in the portfolio into consideration, the bank has applied a product-specific risk weight for each product area. The actual loss ratio is therefore PD x LGD x product-specific risk weight.

The bank's loans have a relatively short time horizon, typically from one to a maximum of three to four years. It can be argued that the probability of default (PD) increases during the term of the loan. This will nonetheless be marginal for the bank, and the bank has therefore opted to ignore this fact. This is also in accordance with the bank's risk classification model.

The bank has, on this basis, calculated the probability of default and loss given default (PD x LGD) ('loss ratio') for each product area (see below).

The bank assesses its loans based on the type of loan and risk classification (see above). The following loans share common characteristics and will be assessed on the basis of an overall assessment:

- Securities financing
- Corporate financing
- Real estate financing – project development
    - o Land without houses
    - o Land with houses
    - o Building facilities
- Real estate financing – commercial
    - o Commercial property
    - o Commercial residential
- Shipping financing
- Offshore financing
- Other private/housing loans

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, minus the amount receivable by the company. In most cases, the bank's assessment is that there is a lower probability of disbursements on guarantees than of losses on loans. A factor of 50 per cent for the recognition of guarantees is therefore used for 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 proportion of the credit that the bank expects customers to draw during the term of the credit. There will be major variations between the various credit areas. In the case of building facilities, for example, the figure is expected to be close to 100 per cent. The figure may be much lower for other types of loans. A factor for the recognition of undrawn credit is therefore used for the recognition of expected credit losses in relation to the risk classification model.

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

Significant increase in credit risk
In its assessment of what constitutes a significant increase in credit risk, the bank has, as well as applying the presumption that financial assets with cash flows that are overdue by more than 30 days are exposed to significantly increased credit risk, also used qualitative and quantitative indicators. The most important quantitative indicator applied by the bank with respect to 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') on the reporting date. Based on this metric, the bank has defined that commitments downgraded to risk class C or lower in the debtor dimension constitute a significant increase in credit risk. This means an increase in PDxLGD of 1 per cent. As regards qualitative indicators, the bank's watch list is 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 where it is suspected that circumstances detrimental to a commitment/customer have occurred, it will consider whether to include this commitment/customer on the watch list. Indicators for inclusion 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 overdue, and/or in the case of customers where there are objective indications of a fall in value as a consequence of one or more events occurring since initial recognition of the asset (a 'loss event') and the loss event (or events) impacts on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reliably. It may not be possible to identify an individual, separate event that caused the impairment in value. Instead, it may have been caused by the overall effect of multiple events. Objective indications of impairment for a financial asset or group of financial assets include observable information of which the bank becomes aware concerning the following loss events (not exhaustive):

- significant financial difficulties on the part of the issuer or debtor,
- breaches of contract, for example payment default or non-payment of due interest or due principal,
- when the bank, for financial or legal reasons relating to the borrower's financial difficulties, 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 subject to some other form of financial reorganisation.

Macroeconomic scenarios
The bank takes account of forward-looking information (macroeconomic scenarios) in its calculation of expected losses in 'Stage 1' and 'Stage 2'. The bank's view of macroeconomic developments is assessed using 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 from 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 more than 1 means higher losses than 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 to four 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 oil prices. Scenario 1 will always be a basic scenario based on a normal market in which the bank's losses are calculated by applying probability of default and loss given default (PDxLGD) and the risk weighting for the product area. This factor will therefore be 1.

Scenarios 2 to 4 will depend on the product area, and may involve the bank losing more or less than the basic scenario would indicate.

The probability-weighted macroeconomic factor determines the proportionate variation in the probability of default and loss given default (PDxLGD) in the product area on the basis of the risk classification model.

The point of departure for the assessments will be loans, guarantees and undrawn credit for commitments in Stages 1 and 2. In Stage 3, impaired individual credit commitments are identified and the losses quantified and will therefore not be subject to macroeconomic assessments. For these commitments, the bank calculates a collective expected loss based on the probability weight of different realisation strategies.

The parameters for calculating losses will be updated quarterly. The updated impairment model is reviewed by the bank's Credit Committee and approved by the Board of Directors. Parameters included 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 used.

The table below shows the effect of macroeconomic scenarios on calculated expected credit losses:

	Loss provision on loans in Stage 1 and Stage 2	**Basic scenario**	**Effect of scenarios**
Change in loss provision under IFRS 9	34 658	32 461	2 197

The table below shows the change in loss provision for loans to customers not included in the balance sheet (undrawn credit lines and financial guarantees). Reconciliation items in the reconciliation constitute:

- Transfers between Stage 1 and Stage 2 or Stage 3 due to a significant increase (or reduction) in credit risk or impaired credit during the period. Transfers are assumed to occur prior to the subsequent measurement of expected credit losses.
- Change in measurement as a result of transfers between Stage 1 (12-month ECL) and Stage 2 or Stage 3 (Lifetime ECL).
- Calculation of expected credit losses linked to new financial instruments issued during the period.
- Reduction in expected credit losses linked to deduction/repayment of financial instruments during the period.
- Changes in expected credit losses related to changes to the model, methodology or assumptions.
- Changes in expected credit losses related to the unwind of discount in Stage 3, as expected credit losses are recognised on a current value basis.
- Exchange rate effects
- Write-off of losses on financial instruments that have previously been written down.

	Stage 1	**Stage 2**	**Stage 3**	Total
Impairments at 1 Jan. 2018	19 251	27 940	38 464	85 655
Transfers:				
Transferred to Stage 1	16 888	-16 888	0	0
Transferred to Stage 2	-371	371	0	0
Transferred to Stage 3	-286	-112	398	-0
Change in measurement of ECL linked to transfers between stages during the period	-3 548	673	34 798	31 923
Unwind of discount				0
Newly issued or acquired loans	14 450	1 502	-10 870	5 082
Loans derecognised during the period	-7 478	-6 923	-7 548	-21 949
Written off losses			-30 349	-30 349
Exchange rate effects			154	154
Changes to model/risk parameters	-10 055	-757		-10 812
Impairments and losses at 31 Dec. 2018	**28 852**	**5 806**	**25 047**	**59 705**
Of which impairments on undrawn credit lines and guarantees	2 735	1 630	0	4 365
Impairments and losses on loans and guarantees this year	**9 601**	**-22 134**	**17 086**	**4 553**

The bank has no outstanding contractual amounts on financial assets that have been written down during the year, but that are still subject to enforcement activities.

The tables below shows the change in gross loans to customers and undrawn credit lines and financial guarantees.

NOTE 12: LOSSES ON LOANS AND GUARANTEES, CONTD.

Loans to customers	Stage 1	Stage 2	Stage 3	Total
Gross carrying value at 1 Jan. 2018	8 992 013	266 261	238 561	9 496 836
Transfers:				
Transfers to Stage 1	509 158	-509 158		-
Transfers to Stage 2	-237 712	237 712		-
Transfers to Stage 3	-144 600	-33 000	177 600	-
New loans issued	5 430 720	423 217	14 305	5 868 242
Loans derecognised during the period	-3 444 999	-38 087	-181 187	-3 664 273
Written off losses			-38 087	-38 087
Exchange rate effects			154	154
Gross carrying value at 31 Dec. 2018	**11 104 580**	**346 945**	**211 346**	**11 662 872**

Undrawn credit lines and guarantees	Stage 1	Stage 2	Stage 3	Total
Gross carrying value at 1 Jan. 2018	**2 365 833**	**30 009**	**6 565**	**2 402 407**
Transfers:				
Transfers to Stage 1	27 686	-27 686		-
Transfers to Stage 2	-1 916	1 916		-
Transfers to Stage 3	-2 500		2 500	-
New loans issued	976 392	10 656		987 048
Loans derecognised during the period	-1 038 019	-	-6 565	-1 044 584
Written off losses				-
Exchange rate effects				-
Gross carrying value at 31 Dec. 2018	**2 327 476**	**14 895**	**2 500**	**2 344 872**

The table below shows impairments per stage broken down between different customer groups.

	Loans at amortised cost				**Total**
	Gross value	Impairments			
(NOK 1,000)		Stage 1	Stage 2	Stage 3	
Securities financing	522 316	-329	0	-705	**521 282**
Corporate financing	1 362 918	-3 600	-2 600	0	**1 356 718**
Real estate financing	8 975 652	-18 355	-1 576	-24 342	**8 931 379**
Shipping and offshore financing	794 683	-3 833	0	0	**790 850**
Accrued interest and amortisation	52 470				**52 470**
Loans to customers	**11 708 039**	**-26 117**	**-4 176**	**-25 047**	**11 652 698**

Impairments and losses 2017:

Loss cost for the period (NOK 1,000)	2017
Change in individual impairments	-1 393
Change in collective impairments	2 000
Written off losses charged to previous impairment	10 727
Written off losses without previous impairment	87
Impairments and losses on loans and guarantees	**11 421**

Individual impairments (NOK 1,000)	
Individual impairments at 1 Jan.	39 150
- Written off losses charged to previous impairment	10 727
+ Increased individual impairments	20 052
- Reversed impairments	10 622
Individual impairments at 31 Dec.	**37 853**

Collective impairments (NOK 1,000)	
Collective impairments 1 Jan.	45 700
+ Change in collective impairments during the period	2 000
Collective impairments at 31 Dec.	**47 700**

NOTE 13: NON-PERFORMING AND IMPAIRED COMMITMENTS

Non-performing commitments

(NOK 1,000)	31 Dec. 2018	31 Dec. 2017
Gross non-performing commitments	144 845	105 257
Individual impairments	21 317	633
Net non-performing commitments	123 528	104 624
Provision ratio	14.72%	0.60%
Non-performing commitments as % of gross lending	1.06%	1.10%

Non-performing 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

(NOK 1,000)	31 Dec. 2018	31 Dec. 2017
Other impaired commitments	3 730	85 764
Individual impairments	3 730	37 220
Net impaired commitments	0	48 544
Provision ratio	100.00%	43.40%
Other impaired commitments as % of gross lending	**0.00%**	**0.51%**

Other impaired commitments are other non-performing commitments where there is objective evidence of loss.

Overdue loans, excluding loans that have been impaired

(NOK 1,000)	31 Dec. 2018	31 Dec. 2017
6–30 days	217 637	112 477
31–60 days	33 660	51 057
61–90 days	0	32
> 90 days	62 771	86 763
Total	**314 068**	**250 328**

NOTE 14: CLASSIFICATION OF FINANCIAL INSTRUMENTS

At 31 Dec. 2018 (NOK 1,000)	Financial instruments at fair value through profit or loss	Financial instruments valued at amortised cost	**Financial instruments**
Cash and receivables from central banks	0	68 065	**68 065**
Loans to and receivables from credit institutions	0	251 526	**251 526**
Loans to customers	0	11 652 698	**11 652 698**
Certificates and bonds	3 484 630	0	**3 484 630**
Financial derivatives	13 684	0	**13 684**
Shares, units and other securities	52 413		**52 413**
Other assets	0	313	**313**
Prepaid expenses and earned income	0	337	**337**
Assets	**3 498 314**	**11 972 940**	**15 523 667**
Deposits from credit institutions	0	150	**150**
Deposits from and debt to customers	2 689 536	4 933 187	**7 622 723**
Securitised debt	0	5 011 109	**5 011 109**
Financial derivatives	46 970	0	**46 970**
Other liabilities	0	5 080	**5 080**
Accrued expenses and prepaid income	0	32 339	**32 339**
Subordinated loan capital	0	270 432	**270 432**
Liabilities	**2 736 505**	**10 252 298**	**12 718 371**

At 31 Dec. 2017 (NOK 1,000)	Financial instruments at fair value through profit or loss	Financial instruments valued at amortised cost	**Financial instruments**
Cash and receivables from central banks	0	61 014	**61 014**
Loans to and receivables 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, units and other securities	41 192	0	**41 192**
Financial derivatives	11 611	0	**11 611**
Other assets	0	346	**346**
Prepaid expenses and earned income	0	563	**563**
Assets	**3 226 690**	**9 805 126**	**13 031 816**
Deposits from credit institutions	0	200 245	**200 245**
Deposits from and debt to customers	1 125 835	5 958 097	**7 083 931**
Securitised debt	0	3 250 201	**3 250 201**
Financial derivatives	45 981	0	**45 981**
Other liabilities	0	6 328	**6 328**
Accrued expenses and prepaid income	0	29 097	**29 097**
Subordinated loan capital	0	270 246	**270 246**
Liabilities	**1 171 816**	**9 714 214**	**10 615 784**

NOTE 15: FINANCIAL INSTRUMENTS AT FAIR VALUE

Classification of valuation based on the reliability of the information used

At 31 Dec. 2018 (NOK 1,000)	Level 1	Level 2	Level 3	Financial instruments
Certificates and bonds	0	3 484 630	0	3 484 630
Shares and units in funds	0	0	52 413	52 413
Financial derivatives	0	13 684	0	13 684
Assets	**0**	**3 498 314**	**52 413**	**3 550 728**
Deposits from customers	0	0	2 719 635	**2 719 635**
Financial derivatives	0	46 970	0	**46 970**
Liabilities	**0**	**46 970**	**2 719 635**	**2 766 605**

Classification of valuation based on the reliability of the information used

At 31 Dec. 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 funds	0	0	41 192	41 192
Financial derivatives	0	11 611	0	11 611
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**

NOTE 15: FINANCIAL INSTRUMENTS AT FAIR VALUE, CONTD.

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) listed in an active market for identical assets or liabilities.

Level 2: Market price that is not listed, but that is directly observable for assets or liabilities (for example in the form of prices).

Level 3: Information that is not based on observable market data.

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

Certificates, bonds and securitised debt
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 funds
The bank obtains the market value of fund units from individual fund managers.

Deposits from customers and financial institutions
The bank calculates contractual cash flows discounted at the market rate with the addition of the bank's estimated credit spreads in the deposits market on the balance sheet date.

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

See also the description provided in Note 2: Accounting principles.

NOTE 15: FINANCIAL INSTRUMENTS AT FAIR VALUE, CONTD.

Changes in financial instruments Level 3 **At 31 Dec. 2018** (NOK 1,000)	**Loans to and receivables from customers**	**Shares and units in funds**	**Total assets**	**Deposits from and debt to customers**	**Total liabilities**
Balance sheet at 1 Jan. 2018	0	41 192	**41 192**	1 125 835	**1 125 835**
Gain/(loss) entered under Net gain/loss on financial instruments at fair value	0	1 221	**1 221**	744	**744**
Reclassification associated companies	0	0	**0**	0	**0**
Payments to and from counterparties	0	10 000	**10 000**	1 593 057	**1 593 057**
Balance sheet at 31 Dec. 2018	**0**	**52 413**	**52 413**	**2 719 635**	**2 719 635**
Total gain/loss for the period for financial instruments retained on the balance sheet date are entered under Net gain/loss on financial instruments at fair value	0	1 221	**1 221**	744	**744**

Changes in financial instruments Level 3 **At 31 Dec. 2017** (NOK 1,000)	**Loans to and receivables from customers**	**Shares and units in funds**	**Total assets**	**Deposits from and debt to customers**	**Total liabilities**
Balance sheet at 1 Jan. 2017	0	10	**10**	1 789 370	**1 789 370**
Gain/(loss) entered in income statement under Net gain/loss on financial instruments at fair value	0	1 182	**1 182**	2 094	**2 094**
Payments to and from counterparties	0	40 000	**40 000**	-665 630	**-665 630**
Balance sheet at 31 Dec. 2017	**0**	**41 192**	**41 192**	**1 125 835**	**1 125 835**
Total gain/loss for the period for financial instruments retained on the balance sheet date are entered under Net gain/loss on financial instruments at fair value	0	1 182	**1 182**	2 094	**2 094**

Sensitivity analysis, Level 3

	Balance sheet value at 31 Dec. 2018	Effect of assumptions
Deposits from and debt to customers	2 719 635	1 608

	Balance sheet value at 31 Dec. 2017	Effect of assumptions
Deposits from and debt to customers	1 125 835	806

To show the sensitivity of deposits from and debt to customers, a change of 10 basis points has been applied to the credit spread/discount rate.

NOTE 16: FAIR VALUE OF FINANCIAL INSTRUMENTS AT AMORTISED COST

	31 Dec. 2018		31 Dec. 2017	
(NOK 1,000)	**Balance sheet value**	**Fair value**	**Balance sheet value**	**Fair value**
Securitised debt	5 011 109	5 013 381	3 250 201	3 261 603
Subordinated loan capital	270 432	272 116	270 246	324 147
Liabilities	**5 281 541**	**5 285 497**	**3 520 447**	**3 585 750**

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

Valuation is performed on the basis of the instruments' properties and value on the balance sheet date. The values are calculated on the basis of prices listed in active markets where such information is available, internal models that calculate the theoretical value when there are no active markets, or by comparing the prices of instruments in the portfolio with the latest available transaction prices. Valuation is performed on the basis of the instruments' properties and value on the balance sheet date.

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

Securitised debt
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 trading and estimates from independent brokers in major financial institutions.

Securitised debt and subordinated loan capital valued at amortised cost are classified as Level 2 financial instruments.

For the balance sheet items Cash and receivables from central banks, Loans to and receivables from credit institutions, Loans to customers, Deposits from credit institutions, Deposits from customers, the carrying value is virtually the same as the fair value.

NOTE 17: CERTIFICATES AND BONDS

(NOK 1,000)	31 Dec. 2018	31 Dec. 2017
Certificates (cost price), listed	0	450 000
Accrued interest and amortisation	0	0
Adjustment to fair value	0	-333
Certificates at fair value	**0**	**449 667**
Average duration of credit	0.00	0.22
Average effective interest rate	0.00.%	0.36%
Bonds (cost price), listed	3 446 862	2 678 627
Accrued interest and amortisation	23 585	31 758
Adjustment to fair value	14 184	13 834
Bonds at fair value	**3 484 630**	**2 724 219**
Average duration of credit	3.29	3.49
Average effective interest rate	1.08%	0.90%
Total certificates and bonds	**3 484 630**	**3 173 886**

NOTE 18: OWNERSHIP INTERESTS IN ASSOCIATED COMPANIES

At 31 December 2018, the bank had ownership interests in the following associated companies:

(NOK 1,000)	Country	Assets	Liabilities	Income	Share of profit	Holding	Book value
Verdun Holding AS	Norway	67 575	32 013	115 185	504	24.5%	13 946
NyeBoliger AS	Norway	20 836	9 621	43 423	3 856	35.0%	23 513
Total, associated companies		88 411	41 634	158 608	4 360		**37 459**

Balance sheet value of associated companies:	31 Dec. 2018
Balance sheet value at 1 Jan.	**35 970**
Dividend paid	-2 871
Share of profit*	4 360
Balance sheet value at 31 Dec.	**37 459**

*The share of profit is estimated based on the accounts at 30 Nov. 2018, which are the most recent available accounts on the reporting date.

Reconciliation, accounts of Verdun Holding AS:	31 Dec. 2018
Net assets	35 562
Holding (24.5%)	8 713
Goodwill	5 233
Balance sheet value at 31 Dec.	**13 946**

Verdun Holding AS is the holding company for Eiendomsmegler Sem & Johnsen, whose head office is at Klingenberggata 7 in Oslo.

Reconciliation with the accounts of NyeBoligerAS:	31 Dec. 2018
Net assets	11 215
Holding (35.0%)	3 925
Goodwill	19 588
Balance sheet value at 31 Dec.	**23 513**

NyeBoliger AS (Sem & Johnsen Prosjektmegling) specialises in sales of housing under construction, and is based at Klingenberggata 7 in Oslo.

NOTE 19: OTHER INTANGIBLE ASSETS

(NOK 1,000)	**31 Dec. 2018**	**31 Dec. 2017**
Acquisition cost 1 Jan.	42 690	54 618
Additions during the year	10 825	8 920
Disposals during the year	-5 088	-20 847
Acquisition cost 31 Dec.	48 427	42 690
Accumulated depreciation 1 Jan.	-12 488	-29 704
Retirement of assets during the year	5 088	20 847
Depreciation for the year	-5 919	-3 631
Accumulated depreciation 31 Dec.	-13 319	-12 488
Book value 31 Dec.	**35 107**	**30 202**
Useful life	1–5 years	1–5 years
Depreciation plan	Straight-line	Straight-line

Other intangible assets consist of software licences and the fee paid to Finance Norway for access to the banks' infrastructure for payment transfers. The fee of NOK 15.5 million for access to the banks' infrastructure is not depreciated.

NOTE 20: TANGIBLE FIXED ASSETS

(NOK 1,000)	**31 Dec. 2018**	**31 Dec. 2017**
Acquisition cost 1 Jan.	4 569	4 010
Additions during the year	1 594	2 987
Disposals during the year	-701	-2 428
Acquisition cost 31 Dec.	5 462	4 569
Accumulated depreciation 1 Jan.	-1 370	-3 275
Retirement of assets during the year	701	2 428
Depreciation during the year	-1 649	-522
Accumulated depreciation 31 Dec.	-2 317	-1 370
Book value 31 Dec.	**3 144**	**3 200**
Useful life	3 years	3 years
Depreciation plan	Straight-line	Straight-line

The bank's tangible fixed assets comprise fixtures and fittings and office equipment. The bank has not pledged or accepted other restrictions on its right to dispose of its operating assets.

NOTE 21: DEPOSITS FROM CUSTOMERS

(NOK 1,000)	31 Dec. 2018	31 Dec. 2017
Deposits broken down by customer groups		
Private customers	2 853 531	2 060 788
Agriculture, forestry and fisheries	43 755	51 472
Mining and quarrying	62 958	1 353
Industry	20 026	63 364
Electricity, gas and steam	91 581	44 810
Building and construction	225 519	208 907
Wholesale and retail trade, repair of motor vehicles	97 746	102 670
Transport and storage	129 148	244 358
Accommodation and food service activities	33 199	18 641
Information and communication	137 071	102 031
Financial and insurance activities	1 250 549	1 283 622
Real estate activities	1 638 547	1 960 809
Professional, scientific and technical activities	466 925	422 174
Administrative and support service activities	131 294	122 686
Public administration and defence, and compulsory social security	10 015	21 208
Education	27 651	28 175
Health and social work	62 824	49 933
Other service activities	310 284	280 786
Total customers, principal	7 592 623	7 067 787
Accrued interest	28 297	13 598
Adjustment to fair value	1 803	2 546
Deposits from customers	**7 622 723**	**7 083 931**

The above breakdown is based on Statistics Norway’s sector and industry categories using the customers' primary business.

Customer deposits broken down by geographical area

(NOK 1,000)	31 Dec. 2018	31 Dec. 2017
Eastern Norway	2 249 165	1 902 893
Oslo	4 000 270	4 085 245
Southern Norway	477 843	351 605
Western Norway	413 055	284 860
Northern Norway and Central Norway	331 565	186 193
Outside Norway	120 726	256 992
Total customers, principal	7 592 623	7 067 787
Accrued interest	28 297	13 598
Adjustment to fair value	1 803	2 546
Deposits from customers	**7 622 723**	**7 083 931**

Pareto bank

NOTE 22: SECURITISED DEBT

(NOK 1,000)	31 Dec. 2018	31 Dec. 2017
Bond debt, nominal value	5 100 000	3 500 000
- Own non-amortised bonds, nominal value	-100 000	-259 000
Accrued interest	8 597	6 359
Adjustment to fair value	2 512	2 842
Total bond debt	**5 011 109**	**3 250 201**
Securitised debt	**5 011 109**	**3 250 201**

The bank issues securities to finance its operations.

Loans issued 31 Dec. 2018

(NOK 1,000)	Currency	Nom. value	Term	Interest rate
NO0010758352 Pareto Bank ASA 16/19 FRN	NOK	500 000	01.03.16–01.03.19	3 mnth NIBOR + 1.75 perc. points
NO0010722804 Pareto Bank ASA 14/19 FRN	NOK	500 000	04.11.14–04.11.19	3 mnth NIBOR + 1.00 perc. points
NO0010768260 Pareto Bank ASA 16/20 FRN	NOK	700 000	23.06.16–23.06.20	3 mnth NIBOR + 1.40 perc. points
NO0010805989 Pareto Bank ASA 17/20 FRN	NOK	700 000	21.09.17–21.09.20	3 mnth NIBOR + 0.85 perc. points
NO0010815467 Pareto Bank ASA 18/21 FRN	NOK	750 000	02.02.18–02.02.21	3 mnth NIBOR + 0.83 perc. points
NO0010818214 Pareto Bank ASA 18/21 FRN	NOK	750 000	02.03.18–02.09.21	3 mnth NIBOR + 0.85 perc. points
NO0010831134 Pareto Bank ASA 18/22 FRN	NOK	500 000	28.08.18–28.02.22	3 mnth NIBOR + 0.78 perc. points
NO0010805997 Pareto Bank ASA 17/22 FRN	NOK	400 000	21.09.17–21.09.22	3 mnth NIBOR + 1.12 perc. points
NO0010831126 Pareto Bank ASA 18/23 FRN	NOK	300 000	30.08.18–30.08.23	3 mnth NIBOR + 0.98 perc. points

Reconciliation of opening and closing balances for financial liabilities as a result of financing activities, including changes as a consequence of cash flows and non-cash changes.

	Securitised debt	Subordinated loan capital
Balance sheet 1 Jan. 2018	3 250 201	270 246
Payments made on issue/sale of own	2 758 670	
Payments received on maturity/repayment	1 000 000	-
Payment of interest	91 323	9 143
Change in cash flow from financing activities	1 667 347	-9 143
Interest expenses	93 561	9 329
Non-cash changes	93 561	9 329
Balance sheet 31 Dec. 2018	5 011 109	270 432

NOTE 23: SUBORDINATED LOAN CAPITAL

(NOK 1.000)	31 Dec. 2018	31 Dec. 2017
Subordinated bonds		
Subordinated bonds, nominal value	270 000	270 000
Accrued interest	606	517
Amortisation	-173	-271
Total subordinated bonds	**270 432**	**270 246**

The bank has issued two subordinated bonds in the total amount of NOK 270 million. One of the bonds was issued on 3 September 2014 with an interest rate of 3-month NIBOR + 195 bp. The second bond was issued on 19 December 2016 with an interest rate of 3-month NIBOR + 290 bp. The bonds have terms of 10 years with a right of redemption 5 years after the date of issue.

The issuer is also entitled to redeem the bonds if public regulations introduce changes that impact the extent to which this type of capital is considered core capital or supplementary capital.

Subordinated bonds
The bank has issued two subordinated bonds totalling a nominal value of NOK 200 million. The first bond was issued on 3 September 2014 in the amount of NOK 50 million with an interest rate of 3-month NIBOR + 370 bp. The second bond was issued on 20 May 2018 in the amount of NOK 150 million with an interest rate of 3-month NIBOR + 400 bp. Both bonds are perpetual with a right of redemption 5 years after the date of issue, with no incentive to repay.

The issuer is also entitled to redeem the bonds if public regulations introduce changes that impact the extent to which this type of capital is considered core capital or supplementary capital.
The perpetual subordinated bonds are classified as equity in the balance sheet. Please also see Note 2.

NOTE 24: OTHER LIABILITIES AND ACCRUED EXPENSES

(NOK 1,000)	31 Dec. 2018	31 Dec. 2017
Payment transfers	2 036	1 510
Trade creditors	607	1 679
Tax withholdings	2 282	2 530
VAT payable	10	110
Other liabilities	144	499
Other liabilities	**5 080**	**6 328**
Holiday pay, employer's Nat. Ins. contributions and payroll	7 566	27 529
Other accrued expenses	24 773	1 568
Accrued expenses	**32 339**	**29 097**

NOTE 25: FINANCIAL DERIVATIVES

Pareto Bank uses derivatives in order to reduce the interest rate and currency risk that arises in connection with the bank's ordinary business operations. This applies in particular to interest rate risk associated with long-term borrowing, lending and investments. These derivatives take the form of swaps, FRAs and forward exchange contracts, as well as combinations thereof.

Interest swap agreements: Agreements whereby two parties swap cash flows for an agreed amount over an agreed period of time. The bank thus switches from a fixed to a floating interest rate or vice versa. 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 financial derivatives' nominal value broken down by type of derivative, as well as positive and negative market values. Positive market values are recognised as assets in the balance sheet, while negative market values are recognised as liabilities. For a more detailed description of the valuation of financial derivatives, see Note 3 and Note 15.

At 31 Dec. 2018

(NOK 1,000)	Nominal values	Positive market values	Negative market values
Interest rate-related contracts			
Interest rate swaps	4 109 862	13 353	14 480
Total interest rate-related contracts	**4 109 862**	**13 353**	**14 480**
Currency related contracts			
Forward exchange contracts	1 415 316	331	32 490
Total currency-related contracts	**1 415 316**	**331**	**32 490**
Financial derivatives	**5 525 178**	**13 684**	**46 970**

At 31 Dec. 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 contracts	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**

NOTE 26: NET SETTLEMENT FINANCIAL INSTRUMENTS

At 31 Dec. 2018

Assets (NOK 1,000)	Gross financial assets in balance sheet	Gross liabilities presented net	Net financial assets in balance sheet	Related amounts not presented net: Financial instruments	Related amounts not presented net: Collateral in cash (received)	Net amount
Derivatives	13 687	0	13 687	-13 687	0	0
Total	**13 687**	**0**	**13 687**	**-13 687**	**0**	**0**

Commitments (NOK 1,000)	Gross financial commitments in balance sheet	Gross liabilities presented net	Net financial commitments in balance sheet	Related amounts not presented net: Financial instruments	Related amounts not presented net: Collateral in cash (pledged)	Net amount
Derivatives	46 967	0	46 967	-16 842	-51 276	-21 151
Total	**46 967**	**0**	**46 967**	**-16 842**	**-51 276**	**-21 151**

At 31 Dec. 2017

Assets (NOK 1,000)	Gross financial assets in balance sheet	Gross liabilities presented net	Net financial assets in balance sheet	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**

Commitments (NOK 1,000)	Gross financial commitments in balance sheet	Gross liabilities presented net	Net financial commitments in balance sheet	Related amounts not presented net: Financial instruments	Related amounts not presented net: Collateral in cash (pledged)	Net amount
Derivatives	45 981	0	45 981	-10 267	-35 714	0
Total	**45 981**	**0**	**45 981**	**-10 267**	**-35 714**	**0**

NOTE 27: FINANCIAL GUARANTEES AND PLEDGES ETC.

(NOK 1,000)	31 Dec. 2018	31 Dec. 2017
Guarantees		
Contract guarantees	69 354	112 091
Payment guarantees	187 748	236 698
Total guarantee liability	**257 102**	**348 789**
Pledges		
Securities pledged to Norges Bank, nominal principal	205 000	205 000
Total pledges	**205 000**	**205 000**

NOTE 28: RISK MANAGEMENT AND CAPITAL ADEQUACY

The bank's overarching objective is that risk and risk tolerance should be moderate and concentrated around the bank's primary business areas on the credit side. Risk in the short and medium term relating to other business activities derives largely from the bank's credit activities, including its borrowing activities. In addition to credit risk, this is related to limits on interest rate, currency and liquidity exposure. In these areas, the bank seeks to have 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 needs and supervisory review. Pillar 3 addresses the financial disclosure requirements that apply to the bank.

Pillar 1 – Minimum own funds requirements:
The minimum requirement includes requirements of the composition of own funds, requirements of the calculation basis for credit risk and explicit capital requirements for operational risk, counterparty risk and market risk.

Pareto Bank has chosen the standard approach for calculating the capital requirement for credit risk, the standardised approach for calculating the capital requirement for counterparty risk for derivatives and the basic approach for calculating the capital requirement for operational risk. The bank does not have a trading portfolio or exposure that means the bank is currently subject to the capital requirement for market risk.

Credit risk:
Credit risk is the most important risk managed by Pareto Bank. Credit risk is the risk of a loan or guarantee commitment defaulting, and of customers failing to meet their obligations to the bank. Under Pillar 1, these are divided into commitment categories and the capital requirement is calculated using standardised risk weightings based on the size of the amount, type of collateral/amount and the status of the commitment/counterparty.

Operational risk:
The bank's operational risk arises as result of failed systems or control processes that prevent the management from monitoring or controlling other risks or that prevent normal transaction processing. This also includes the risk of incorrect financial reporting that may provide an inaccurate basis for making decisions both within the bank and externally. 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 past three years.

Counterparty risk:
The bank has chosen the standardised approach for calculating the capital requirement for counterparty risk for derivatives. The bank has netting and margining agreements with all derivative counterparties and calculates and exchanges cash collateral for exposure on a daily basis.

Market risk:
The bank's market risk is modest and is calculated using the standard approach under Pillar 1.

NOTE 28: RISK MANAGEMENT AND CAPITAL ADEQUACY CONTD.

Pillar 1 capital adequacy

(NOK 1,000)	31 Dec. 2018	31 Dec. 2017
Own funds		
Paid-up and retained earnings	2 307 807	2 075 910
Dividends payable	-41 034	-93 792
Minus 0.1% of absolute value of financial instruments at fair value	-3 557	-3 657
Minus intangible assets	-35 107	-30 202
Total CET1	**2 228 109**	**1 948 260**
Subordinated loan capital (Tier 1)	200 000	50 000
Total Tier 1 capital	**2 428 109**	**1 998 260**
Subordinated loan capital (Tier 2)	270 000	270 000
Total own funds	**2 698 109**	**2 268 260**
Minimum requirement, own funds		
Local and regional authorities (incl. municipalities)	3 940	2 446
Institutions	10 932	6 674
Enterprises	663 291	533 808
Commitments secured by mortgages on property	307 553	250 245
Commitments that have fallen due	26 686	12 408
Covered bonds	17 584	9 562
Units in securities funds	3 392	3 295
Other commitments	8 740	15 684
Capital requirements, credit risk, standard approach (SA)	1 042 118	834 122
Capital requirements, operational risk	67 402	55 461
Deduction for impairments of groups of loans	-4 465	-6 844
Minimum requirement, own funds	**1 105 056**	**882 739**
Surplus of own funds	**1 593 054**	**1 385 521**
Capital adequacy ratio	**19.53%**	**20.56%**
Tier 1 capital ratio	**17.58%**	**18.11%**
CET1 capital ratio	**16.13%**	**17.66%**
Calculation basis	**13 813 195**	**11 034 232**

NOTE 28: RISK MANAGEMENT AND CAPITAL ADEQUACY CONTD.

Pillar 2 – Assessment of overall capital needs and supervisory review
Under Pillar 2, the bank is required to perform an annual internal process (ICAAP) to assess whether the risk level corresponds to the bank's capital needs. This involves assessing the size and composition of the overall capital the bank considers it needs in relation to its risk profile. The capital need must also be assessed in relation to the Pillar 2 requirement and the level of actual own funds. A strategy and capital plan shall be prepared to maintain the bank's financial strength and to describe how it intends to adapt its capital level going forward.

The Financial Supervisory Authority of Norway has completed its assessment of Pareto Bank's risks, capital needs and liquidity needs (Supervisory Review and Evaluation Process). The assessment carried out in 2017 resulted in a decision requiring the bank to have 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 CET1 capital.

The CET1 capital ratio, Tier 1 capital ratio and capital adequacy requirements applicable to the bank at year-end 2018 were thus 15.2 per cent, 16.7 per cent and 18.7 per cent, respectively. The bank meets these requirements by a good margin. The Ministry of Finance decided to increase the counter-cyclical capital buffer by 0.5 percentage points to 2.5 per cent, applicable from 31 December 2019. This will give the bank a minimum CET1 requirement of 15.7 per cent. Following an overall assessment of the bank's capital needs, the Board has stipulated a CET1 target level of 16.2 per cent for Pareto Bank from 31 December 2019.

The bank's business model provides plenty of room for manoeuvre. The bank's lending portfolio has short average terms to maturity. This reduces risk due to shorter exposure, while also giving the bank the flexibility to reduce or make changes to its exposure in certain areas. However, it can also lead to a drop in earnings if the volume decreases.

The Board has expanded the dividend interval in 2018 from 30–50 per cent to 0–50 per cent. This gives the bank greater flexibility during periods of lending growth. The bank's high leverage ratio puts it in a good position to absorb losses. The bank's operations are also profitable, and its earnings constitute a good first line of defence for absorbing losses. This makes the bank attractive in the capital markets, which means it can maintain the business under difficult conditions. The counter-cyclical capital buffer is set at the maximum level of 2.5 per cent in accordance with the Financial Undertakings Act Section 14-3(4). The bank does not expect further increases of this buffer, apart from in exceptional cases.

The bank performs several stress tests linked to a serious economic setback, where the bank experiences large losses in all of its business areas, loss of profitability and withdrawal of funding. At the same time, the bank shall maintain normal lending growth.

Good profitability, a high leverage ratio and the bank's freedom of manoeuvre with respect to the size of the lending portfolio, together with an analysis of the capital need and the result of the stress test, form the basis for the Board's CET1 capital target.

Pillar 3 – Financial disclosure requirements
Pillar 3 is a supplement to the minimum requirements set out in Pillar 1 and the supervisory review under Pillar 2. Pillar 3 contributes to increased market discipline by making requirements of the disclosure of financial information to ensure different market participants can assess the bank's risk level, the bank's risk management and control and its capitalisation. The bank discloses how it calculates the capital requirement – including a specification of the risk-weighted calculation basis and own funds – and describes its management and control procedures. A description is also provided of the methods the bank uses to assess its capital needs and the control and management procedures for the different risks. The Pillar 3 report is available on the bank's website under www.paretobank.no/investor (in Norwegian).

Management control and interventions
All areas of risk are regularly reviewed by the bank's Board of Directors. The Board receives 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 team meets regularly to analyse and discuss market perspectives, activities and risk levels. The management also receives regular reports on payment irregularities, defaults and other breaches of loan terms. The bank's Credit Committee meets twice a week and otherwise as required. The bank's management team receives daily reports on market risk and liquidity risk. As a part of the bank's risk management and internal control, all material non-conformities in the bank are reported to the management on an ongoing basis, with proposals for how to prevent the recurrence of such events/ non-conformities.

Pareto Bank has a risk management function that safeguards the bank's fulfilment of its obligations under the applicable framework regulations and the bank's Articles of Association. In the Board's assessment, the risk management function is well suited to the bank's size and business and is equipped with sufficient capacity and the right expertise. The bank has exercised good management and follow-up since 2008, without material non-conformities, errors or major losses.

Pareto bank

NOTE 29: CREDIT RISK

Management of credit risk
Credit risk is the most significant type of risk Pareto Bank is exposed to. Credit risk is the risk of a loan or guarantee commitment defaulting and of customers failing to meet their obligations to the bank. The bank's credit risk is affected by general developments in the economy and by the bank's competence in granting and following up commitments.

The bank takes a proactive approach to the risk it undertakes at all times. The risk associated with credit must be calculated and comprehensible, and it must be possible to calculate the bank's exposure as a specific amount. Risk management systems/procedures have been established to monitor/define the risk undertaken by the bank.

Pareto Bank takes a proactive approach to the diversification of its lending portfolio in terms of sectors, collateral and the size of individual commitments. The bank endeavours to diversify between the various segments and to avoid risk in sectors where it lacks the necessary expertise or is uncertain about the future general level of risk.

The Credit Handbook, including the Credit Policy and the Credit Management Memo, sets out guidelines and limits with respect to all granting of credit/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 at least once a year. Under the bank's credit policy, all commitments must be secured in full by mortgages on property, securities or another 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, but they are generally somewhat larger than those of other banks. For this reason, the bank is considered to be more exposed to large individual losses than losses resulting from 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 a basis for a uniform assessment of the risk undertaken by the bank in its lending, credit and guarantee business and its own investments in securities. The model also forms the basis for the pricing of 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 value of the collateral.

Risk classification is performed along two dimensions: the debtor dimension and the collateral dimension. In the debtor dimension, the customer's repayment ability is assessed, i.e. the customer's cash flow 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 along each of the dimensions. This provides a risk matrix comprising up to 25 risk classes, which in turn are grouped as follows:

Risk classes

None/very low risk	AA, AB, BA
Low 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 29: CREDIT RISK CONTD.

The tables below present the bank's credit commitments, loans to credit institutions and investments in certificates and bonds categorised by risk class and by the primary collateral furnished. The tables also show maximum credit exposure. Maximum credit exposure on financial derivatives is discussed in Note 25. Reference is made to Note 28 and the capital needed in relation to the bank's credit risk.

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

(NOK 1,000)	Loans	Guarantees	Undrawn credit lines	Total credit exposure 31 Dec. 2018	Total credit exposure 31 Dec. 2017
Shares and units	1 499 866	2 050	917 263	2 419 178	2 031 046
Bonds	181 009	0	72 664	253 673	281 628
Commercial property – Offices	280 139	2 840	24 761	307 740	74 000
Commercial property – Storage/multipurpose	1 321 037	2 800	27 204	1 351 041	1 214 136
Commercial property – Business premises	347 232	4 307	592	352 132	332 797
Commercial property – Housing	3 079 537	77 312	782 658	3 939 507	3 680 919
Commercial property – Land	2 722 308	5 000	174 260	2 901 568	1 960 901
Commercial property – Other	1 028 969	0	7 742	1 036 711	416 419
Maritime sector	801 001	115 157	0	916 158	1 225 206
Housing loans/credit	208 810	0	26 629	235 440	258 713
Cash deposits	6 455	28 317	10	34 782	60 734
Unsecured	0	0	0	0	0
Other	179 360	19 318	59 994	258 672	359 489
Changes in value, accrued interest, impairments and amortisation	-3 025	0	0	-3 025	-45 641
Loans to and receivables from customers, principal	**11 652 698**	**257 102**	**2 093 775**	**14 003 574**	**11 850 346**

1) With the exception of standard housing loans/credit, the collateral structure of most commitments will normally consist of several elements. These might comprise various types of collateral security, such as property, securities, sureties and cash deposits etc.

Loans to customers broken down by internal rating

(NOK 1,000)	31 Dec. 2018 Stage 1	Stage 2	Stage 3	Total	31 Dec. 2017 Total
None/very low risk	4 573 145	63 012	30 016	4 666 174	4 232 231
Low risk	5 150 044	138 047	42 600	5 330 691	3 875 787
Moderate risk	1 162 234	96 134	-	1 258 368	1 005 229
Some risk	173 434	49 751	65 000	288 185	320 903
High risk	45 724	-	70 000	115 724	17 487
Very high risk	-	-	-	-	38 087
Impaired	-	-	3 730	3 730	3 587
Gross carrying value	**11 104 580**	**346 945**	**211 347**	**11 662 872**	**9 493 311**
Loss provision	26 117	4 176	25 047	55 340	45 641
Loans to customers	11 078 463	342 769	186 299	11 607 532	9 447 670

The figures are presented exclusive of accrued interest.

Undrawn credit broken down by internal rating

(NOK 1,000)	Stage 1	Stage 2	31 Dec. 2018 Stage 3	Total	31 Dec. 2017 Total
None/very low risk	1 163 155	-	-	1 163 155	1 202 696
Low risk	813 837	1 246	-	815 083	712 807
Moderate risk	80 031	1 309	-	81 340	136 720
Some risk	9 616	5 000	-	14 616	1 000
High risk	13 576	-	-	13 576	664
Very high risk	-	-	-	-	-
Impaired	-	-	-	-	-
Gross carrying value	**2 080 215**	**7 556**	**-**	**2 087 770**	**2 053 887**
Loss provision	2 344	192	-	2 536	-
Loans to and receivables from credit institutions	2 077 871	7 364	-	2 085 235	2 053 887

Financial guarantees broken down by internal rating

(NOK 1,000)	Stage 1	Stage 2	31 Dec. 2018 Stage 3	Total	31 Dec. 2017 Total
None/very low risk	22 424	-	-	22 424	64 765
Low risk	200 004	-	2 500	202 504	186 027
Moderate risk	15 725	300	-	16 025	92 286
Some risk	4 170	-	-	4 170	5 711
High risk	4 939	-	-	4 939	-
Very high risk	-	7 040	-	7 040	-
Impaired	-	-	-	-	-
Gross carrying value	**247 262**	**7 340**	**2 500**	**257 102**	**348 789**
Loss provision	391	1 438	-	1 829	-
Loans to and receivables from credit institutions	246 871	5 902	2 500	255 272	348 789

(NOK 1,000)	**Loans**	**Guarantees**	**Undrawn credit lines**	**Total credit exposure 31 Dec. 2018**	**31 Dec. 2017**
None/very low risk	4 660 169	22 424	1 169 159	5 851 752	5 499 691
Low risk	5 329 547	202 504	815 083	6 347 135	4 774 622
Moderate risk	1 258 368	16 025	81 340	1 355 733	1 234 235
Slight risk	288 185	4 170	14 616	306 971	327 614
High risk	115 724	4 939	13 576	134 239	18 151
Very high risk	0	7 040	0	7 040	38 087
Impaired	3 730	0	0	3 730	3 587
Changes in value, accrued interest, impairments and amortisation	-3 025	0	0	-3 025	-45 641
Loans to and receivables from customers, principal	**11 652 698**	**257 102**	**2 093 775**	**14 003 574**	**11 850 346**

NOTE 29: CREDIT RISK CONTD.

Loans to customers broken down by customer groups

(NOK 1,000)	Loans at amortised cost 31 Dec. 2018	Loans at amortised cost 31 Dec. 2017
Securities financing	522 316	626 810
Corporate financing	1 362 918	1 121 236
Real estate financing	8 975 653	6 636 895
Shipping and offshore financing	794 683	1 108 370
Accrued interest and amortisation	52 470	39 911
Impairments Stages 1 and 2*	-30 293	-47 700
Impairments Stage 3**	-25 047	-37 853
Total	**11 652 698**	**9 447 670**

* Comparable figures for ‘Impairments Stages 1 and 2' constitute collective impairments under IAS 39.
** Comparable figures for ‘Impairments Stage 3’ constitute individual impairments under IAS 39.

Credit exposure broken down by industry/sector

	Loans		Guarantees		Undrawn credit lines	
(NOK 1,000)	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Private customers	416 408	385 203	2 773	3 793	220 419	242 128
Agriculture, forestry and fisheries	79 699	0	0	0	5 832	6 000
Mining and quarrying	40 000	40 000	0	0	0	0
Industry	16 321	17 206	600	600	871	14 936
Electricity, gas and steam	0	0	0	0	0	0
Water supply, sewerage and waste	0	0	0	0	0	0
Building and construction	3 600 433	2 858 194	34 633	132 116	343 383	579 402
Wholesale and retail	49 636	19 526	1 170	1 170	22 164	7 774
Transport and storage	495 665	847 703	7 040	500	40 412	35 761
Accommodation and food service activities	8 000	40 000	3 000	2 000	15 011	0
Information and communication	12 155	9 825	2 506	1 656	2 500	1 542
Financial and insurance activities	1 703 137	1 271 159	119 070	122 053	422 190	330 669
Real estate activities	4 298 239	3 360 825	68 601	61 830	862 043	640 381
Professional, scientific and technical activities	582 592	444 375	8 238	14 909	93 366	130 559
Administrative and support service activities	211 252	176 106	2 050	2 050	47 073	41 423
Education	20 884	0	0	0	0	2 500
Health, social work and entertainment	121 301	23 188	7 422	6 112	18 511	20 812
Total customers, principal	11 655 723	9 493 311	257 102	348 789	2 093 775	2 053 887
Accrued interest and amortisation	52 315	39 912	0	0	0	0
Impairments	-55 340	-85 553	0	0	0	0
Adjustment to fair value	0	0	0	0	0	0
Total customers	**11 652 698**	**9 447 670**	**257 102**	**348 789**	**2 093 775**	**2 053 887**
Credit institutions, principal	246 445	291 508	0	0	0	0
Accrued interest and amortisation	5 081	4 025	0	0	0	0
Adjustment to fair value	0	0	0	0	0	0
Total credit institutions	**251 526**	**295 533**	**0**	**0**	**0**	**0**
Total customers and credit institutions	**11 904 224**	**9 743 203**	**257 102**	**348 789**	**2 093 775**	**2 053 887**

Pareto bank

Credit commitments broken down by geographical area

(NOK 1,000)	Loans 31 Dec. 2018	Loans 31 Dec. 2017	Guarantees 31 Dec. 2018	Guarantees 31 Dec. 2017	Undrawn credit lines 31 Dec. 2018	Undrawn credit lines 31 Dec. 2017
Eastern Norway	3 014 060	2 407 915	71 775	64 848	831 888	742 382
Oslo	6 480 678	5 450 622	68 312	110 543	941 724	916 068
Southern Norway	373 269	292 297	238	238	69 235	92 673
Western Norway	460 061	276 377	1 620	2 120	107 819	116 308
Northern Norway and Central Norway	886 444	439 404	0	61 846	42 885	135 963
Outside Norway	441 211	626 697	115 157	109 195	100 224	50 493
Total customers, principal	11 655 723	9 493 311	257 102	348 789	2 093 775	2 053 887
Accrued interest and amortisation	52 315	39 912	0	0	0	0
Impairments	-55 340	-85 553	0	0	0	0
Adjustment to fair value	0	0	0	0	0	0
Total customers	11 652 698	9 447 670	257 102	348 789	2 093 775	2 053 887
Credit institutions, principal	246 445	291 508	0	0	0	0
Accrued interest and amortisation	5 081	4 025	0	0	0	0
Adjustment to fair value	0	0	0	0	0	0
Total credit institutions	**251 526**	**295 533**	**0**	**0**	**0**	**0**
Total customers and credit institutions	**11 904 224**	**9 743 203**	**257 102**	**348 789**	**2 093 775**	**2 053 887**

Loans to and receivables from credit institutions, broken down by external rating

(NOK 1,000)	31 Dec. 2018	31 Dec. 2017
External rating S&P, AA- /A-1+	14 362	26 960
External rating S&P, A+ /A-1+	222 382	261 882
External rating S&P, A /A-1	14 782	6 691
Loans to and receivables from credit institutions	**251 526**	**295 533**

Certificates and bonds: Classification of issuers by sector

(NOK 1,000)	31 Dec. 2018	31 Dec. 2017
Sovereign	986 337	1 518 439
Municipal	226 935	366 638
Credit institutions	2 197 840	1 195 163
Banks	73 519	93 647
Certificates and bonds	**3 484 630**	**3 173 886**

Certificates and bonds: Classification of issuers by rating

(NOK 1,000)	31 Dec. 2018	31 Dec. 2017
AAA	3 200 069	2 917 002
AA-/AA/AA+	211 043	163 237
BBB-/BBB/BBB+	73 519	93 647
Certificates and bonds	**3 484 631**	**3 173 886**

Where issuers have no official rating, an automated credit score provided by DNB and Nordea is applied.

NOTE 30: INTEREST RATE RISK

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

The bank measures interest rate risk as the overall financial 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 as a result of the interest rate change. The financial consequences are calculated for a specific number of different maturities in order to illustrate the interest rates the bank is exposed to.

The bank also measures the sum of interest rate risk for pairs of adjacent maturity bands. Limits are set for each individual maturity band to limit the possibility of yield-curve risk. In addition to the methodical calculation of interest rate risk, interest rate positions are also stress tested for parallel shifts in the yield curves.

The bank has internal limits in place for the overall interest rate risk in Norwegian kroner and foreign currencies, and measures this risk within defined maturity bands, using the sum of pairs of adjacent maturity bands. The limit is in force on a continuous basis and encompasses all maturities, all financial instruments and all currencies.

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

The calculation below was performed on the basis of positions and market rates at 31 December. All financial instruments with fixed interest rates are valued at fair value, and the table shows accounting changes in pre-tax profit by the items' agreed interest rates, broken down by currency type, in the event of a one percentage point parallel shift in market rates. The effect will be the same in the event of a corresponding negative parallel shift, but the value will be negative.

At 31 Dec. 2018

(NOK 1,000)	Up to 3 mnths	From 3 mnths up to 6 mnths	From 6 mnths up to 9 mnths	From 9 mnths up to 12 mnths	More than 12 mnths	Total
NOK	3 921	1 500	788	426	619	7 253
USD	-2 183	0	0	0	0	-2 183
SEK	-31	0	0	0	0	-31
EUR	-374	-29	0	0	0	-403
DKK	7	0	0	0	0	7
Total	**1 340**	**1 471**	**788**	**426**	**619**	**4 644**

At 31 Dec. 2017

(NOK 1,000)	Up to 3 mnths	From 3 mnths up to 6 mnths	From 6 mnths up to 9 mnths	From 9 mnths up to 12 mnths	More than 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
Total	**-1 301**	**-337**	**335**	**-906**	**1 788**	**-421**

NOTE 31: CURRENCY RISK

Management of currency risk
Currency risk is the risk of potential losses in the form of reduced market value as a result of changes in foreign exchange rates.

Pareto Bank shall not take positions of its own in the foreign exchange market and shall to the greatest extent possible identify any risk exposure that occurs on a continuous basis. All items on and off the balance sheet and the associated income and expense items are identified. This means that the bank's exposure in the foreign exchange market will generally be limited. The level of exposure shall lie within the limits and powers granted by the Board.

Currency risk is measured as the bank's net position in an individual currency. In addition, the bank measures the sum of its net positions in each currency as a gross value, without netting between currencies. The net positions are converted into 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 both the largest permitted net position in an individual currency and the aggregated net position for all currencies.

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

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

(NOK 1,000)	Assets	Liabilities	Financial derivatives	Net currency exposure	Effect on profits of 10% change
Currency risk at 31 Dec. 2018					
USD	937 251	-178 885	-753 761	4 605	461
EUR	555 154	-23 804	-348 963	182 387	18 239
SEK	160 621	-12 802	-147 127	692	69
GBP	8 154	-7 962	0	193	19
DKK	14 795	-3 031	-11 321	443	44
Total	**1 675 976**	**-226 484**	**-1 261 172**	**188 320**	**18 832**
‘					
Currency risk at 31 Dec. 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
GBP	713	-519	0	193	19
DKK	18 046	-7 462	-9 923	661	66
Total	**2 060 409**	**-294 571**	**-1 744 651**	**21 187**	**2 119**

NOTE 32: LIQUIDITY RISK

Management of 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. The bank's business areas and customer composition mean that the bank's deposit mix will differ from that of an average Norwegian savings bank. This means that a greater proportion of deposits will be made by the bank's corporate customers and that they will on average be higher. The bank's ability to issue securities will vary more than that of an average Norwegian savings bank. On the other hand, the bank has a lending portfolio with a high turnover rate, which gives the bank flexibility in its long-term liquidity management. The bank's target levels are therefore slightly higher than the minimum requirements.

The bank shall at all times maintain enough surplus liquidity to ensure it has an expedient liquidity buffer. The size of the liquidity buffer is determined by the risk of funding being withdrawn and payments being made to the bank's credit customers. The liquidity buffer consists of investments in other banks and securities with equivalent investment grade ratings. The size of the liquidity buffer is a function of expected growth in lending and the structure of the balance sheet.

The quantitative assessment of the bank's liquidity risk level in the short-term is performed by calculating the bank's liquidity gap and the liquidity coverage ratio (LCR) on a daily basis. The liquidity gap is the difference between the bank's surplus liquidity and an estimated liquidity requirement. A forecast is calculated for the liquidity gap and the LCR for the coming 12 months, which constitutes the survival horizon.

Liquidity risk in the long term is measured by calculating the Financial Supervisory Authority'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 affect the bank's liquidity risk level.

At 31 December 2018, the bank's positive liquidity gap was NOK 1,951 million (NOK 1,326 mill.). The LCR was 186 per cent (135 per cent). The Financial Supervisory Authority's liquidity indicator 1 was 124 per cent (127 per cent) and liquidity indicator 2 was 132 per cent (134 per cent). The NSFR was 127 per cent (127 per cent).

The deposit-to-loan ratio was 65.4 per cent (75 per cent) at 31 December 2018.

The bank's liquidity management is based on guidelines adopted by the Board of Directors. These in turn are based on recommendations issued by the Financial Supervisory Authority. The bank has drawn up limits and principles for managing liquidity risk. In addition, forecasts and contingency plans have been prepared for possible liquidity crises. The bank's liquidity situation is reported daily to the management and monthly to the Board of Directors.

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

(NOK 1,000)

Liquidity items due at 31 Dec. 2018	Undefined	Up to 1 mnth	From 1 to 3 mnths	From 3 to 12 mnths	More than 1 year	More than 5 years	TOTAL
Cash and receivables from central banks	0	68 065	0	0	0	0	**68 065**
Loans to and receivables from credit institutions	0	251 526	0	0	0	0	**251 526**
Loans to customers	0	2 246 020	1 889 510	4 260 902	3 253 997	2 270	**11 652 698**
Certificates and bonds	0	3 804	16 700	489 643	2 491 363	664 037	**3 665 547**
Shares, units and other securities	89 872	0	0	0	0	0	**89 872**
Total assets	**89 872**	**2 569 415**	**1 906 210**	**4 750 545**	**5 745 360**	**666 306**	**15 727 708**
Deposits from credit institutions	0	150	0	0	0	0	**150**
Deposits from and debt to customers	0	5 054 545	444 514	1 768 626	355 038	0	**7 622 723**
Securitised debt	0	0	81 588	576 307	4 197 694	0	**4 855 590**
Subordinated loan capital	0	0	2 482	156 266	130 192	0	**288 940**
Total liabilities	**0**	**5 054 695**	**528 584**	**2 501 199**	**4 682 924**	**0**	**12 767 403**
Total financial derivatives, net settlement	**0**	**-8 858**	**-7 558**	**-8 323**	**-110**	**8 312**	**-16 537**
Total liquidity items due	**89 872**	**-2 494 138**	**1 370 068**	**2 241 022**	**1 062 326**	**674 618**	**2 943 768**

NOTE 32: LIQUIDITY RISK, CONTD.

(NOK 1,000)

Liquidity items due at 31 Dec. 2017	Undefined	Up to 1 mnth	From 1 to 3 mnths	From 3 to 12 mnths	More than 1 year	More than 5 years	TOTAL
Cash and receivables from central banks	0	61 014	0	0	0	0	**61 014**
Loans to and receivables 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, 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**
Deposits from credit institutions	0	200 245	0	0	0	0	**200 245**
Deposits from and debt to customers	0	6 151 963	286 153	384 547	302 525	0	**7 125 188**
Securitised debt	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 liquidity items due	**77 162**	**-4 063 741**	**1 124 533**	**3 637 035**	**1 140 395**	**699 463**	**2 614 848**

The residual time to maturity for assets and liabilities shows the remaining term of fixed-income assets and liabilities, including stipulated interest. Subordinated loan capital is classified in accordance with the issuer's first right of redemption.

NOTE 33: OTHER RISK FACTORS

Management of commercial and strategic risk
Competition, products and customer expectations will vary over time and are difficult to value and estimate. This will both provide opportunities and pose threats in relation to the plans that have been laid, and budgets/forecasts will naturally contain an element of inherent uncertainty.

Sensitivity analyses have been performed in order to assess capital needs over and above Pillar 1 for the factors that will have the greatest impact on the development of the bank's profits and the main changes in terms of borrowing costs, changes in interest rate margins on loans 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 similar.

Management of operational risk
The bank's operational risk arises as result of failed systems or control processes that prevent the management from monitoring or controlling other risks or that prevent normal transaction processing. This also includes the risk of incorrect financial reporting that may provide an inaccurate basis for making decisions both within the bank and externally. This type of risk also encompasses administrative risk, i.e. that the bank's day-to-day operations do not function satisfactorily.

The bank seeks to reduce operational risk through prudent management and control by establishing efficient control procedures, a well-established set of procedures, a compliance and risk function, as well as insurance cover against attempts at fraud.

The bank's business is relatively limited. The business is run from an office, has few employees, few customers/accounts, no cash handling and a very limited transaction volume. Most of the bank's customers use other banks as their main bank. The scope of events has been relatively limited.

Management of other identified forms of risk
Other risk includes changes in operating conditions, new regulations that might affect the bank's costs and revenues, including changes to capital and liquidity requirements, tax rules etc. and the competitive situation. Another risk is reputational risk linked to customers, counterparties, partners and/or the authorities. Moreover, other factors that the bank is not presently aware of or that may arise in the future may also come into play.

NOTE 34: OTHER COMMITMENTS

Pareto AS
Pareto Bank has an agreement with Dronning Mauds gt. 1–3 to lease premises at Dronning Mauds gt. 3. The agreement is in force until 2020 and the rent payable is currently NOK 2.8 million per year. 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 portfolio of solutions, including bank office equipment, online banking, anti-money laundering and payment transfer services. Evry ASA also provides operating services. The amount payable under the contract is between NOK 30 and 40 million, depending on the bank's development over the term of the contract.

NOTE 35: REMUNERATION ETC.

The Board of Directors submits the following statement concerning the stipulation of pay and other remuneration to executive personnel etc. in accordance with the provisions of Section 6-16a of the Public Limited Liability Companies Act:

Remuneration paid to the CEO
At a meeting on 20 June 2018, the Board of Directors set the CEO's salary to NOK 2,580,000. Individual remuneration arrangements etc. paid in 2018 are specified below.

Advisory guidelines for the forthcoming financial year
Pareto Bank's guidelines for determining the remuneration of the CEO and other executive personnel underpin the bank's strategy. The Board's Remunerations Committee comprises members of the full board at all times. The Remunerations Committee makes recommendations to the Board on matters concerning remuneration in accordance with the Regulations relating to Remuneration Arrangements in Financial Institutions etc.

The Board shall ensure that the CEO's salary and other terms are at a competitive level. The remuneration and terms must not be likely to harm Pareto Bank's reputation.

The CEO stipulates the remuneration payable to executive personnel in consultation with the Chair of the Board. Pareto Bank is a niche bank that makes high requirements of its employees' specialist expertise. Salaries must therefore be set at a competitive level in terms of the bank's main focus areas. The salaries paid shall ensure that Pareto Bank is able to attract and retain executive personnel with the requisite expertise and experience.

Payments in kind may be offered to executive personnel insofar as the benefits in question are relevant to the employee's function in the bank or reflect general practice in the market. The benefits must not be disproportionate in relation to the employee's basic salary.

Variable remuneration may be paid to executive personnel in accordance with the Regulations relating to Remuneration Arrangements in Financial Institutions etc. based on their specific performance and a discretionary assessment. The arrangement must be performance-based without being a risk driver and must not be likely to harm Pareto Bank's reputation.

Pareto Bank has a profit-sharing scheme based on the reported net 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 threshold set annually by the bank's Board of Directors. For 2018, the Board set the threshold at 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 seen in conjunction with other remuneration paid. Pension schemes and severance pay arrangements must not in their individual components or as a whole be likely to harm Pareto Bank's reputation. Executive personnel are members of the general pension scheme for employees of Pareto Bank ASA. The retirement age is 67 years.

Guidelines governing shares, subscription rights, options etc. in the forthcoming financial year
It is desirable that the CEO, executive personnel and other employees own shares in the bank. The CEO and executive personnel are eligible to participate in a share-purchase programme for employees in the same way as other employees. A profit-sharing scheme also applies to all employees for 2018. The scheme is performance-based and the remuneration paid out is variable, generally taking the form of shares in Pareto Bank. The decision to pay remuneration is discretionary and not performance-based for employees with control responsibility.

The terms of the Chair of the Board
The Chair of the Board of Pareto Bank, Åsmund Skår, received total remuneration of NOK 380,000 in 2018.

NOTE 35: REMUNERATION ETC., CONTD.

Remuneration etc. in 2018

(NOK 1,000)	Fixed salary 31 Dec. 2018	Salary paid	Bonus paid	Other remuneration	**Total remuneration**	Pension cost	Loans at 31 Dec. 2018	No of shares [1]
Management								
Tiril Haug Villum, CEO	2 580	2 694	1 129	113	3 936	89	3 245	288 136
Sven Erik Klepp, Executive Director, Real Estate	2 155	2 190	894	67	3 151	93	5 466	182 952
Per Ø. Schiong, Executive Director, Credit	2 500	2 483	150	53	2 685	88		54 546
Erik Skarbøvik, Executive Director, Securities	2 075	2 571	858	72	3 501	89		45 037
Erling Mork, Executive Director, Finance	1 870	1 873	768	65	2 706	87		49 592
Total, Management	**11 180**	**11 811**	**3 799**	**369**	**15 979**	**446**	**8 711**	**620 263**

(NOK 1,000)	Fee paid	Salary paid	Bonus paid	Other remuneration	**Total remuneration**	Pension cost	Loans at 31 Dec. 2018	No of shares [1]
Board of Directors								
Åsmund Skår,Chair	380	0	0	0	380	0	0	16 526
Brita Eilertsen, Deputy Chair	300	0	0	0	300	0	0	0
Camilla Wahl, member	250	0	0	0	250	0	0	0
Per K. Spone, member	250	0	0	0	250	0	0	0
Espen Lundaas, member	250	0	0	0	250	0	0	50 000
Trine Charlotte Høgås-Ellingsen, deputy member	50	0	0	0	50	0	0	0
Peter Ditlef Knudsen,deputy member	90	0	0	0	90	0	0	1 000
Petter Tinholt, employee member	0	650	300	71	1 021	39	0	4 177
Trine B. Ludvigsen, deputy employee member	0	746	300	11	1 058	46	6 291	6 910
Total, Board	**1 570**	**1 396**	**600**	**83**	**3 648**	**85**	**6 291**	**78 613**

[1] Shares owned directly or through limited companies in which they have a controlling interest.

Auditor	**31 Dec. 2018**	**31 Dec. 2017**
Statutory audit	1 027	925
Other attestation services	0	100
Tax advice	0	0
Other non-audit services	88	0
Total remuneration of elected auditor including VAT	**1 114**	**1 025**

Loans to employees and board members at 31 December 2018 amounted to NOK 18.9 million. Loans are furnished to employees within the limits and terms to maturity applicable to ordinary customer relationships, and collateral has been furnished for these loans in accordance with the requirements provided for in Section 2-15 of the Financial Institutions Act. The interest rate payable on the loans has been the standard rate for taxation of loans granted in employment relationships applicable at all times.

NOTE 35: REMUNERATION ETC., CONTD.

Remuneration etc. in 2017

(NOK 1,000)	Fixed salary 31 Dec. 2017	Salary paid	Bonus paid	Other remuneration	**Total remuneration**	Pension cost	Loans at 31 Dec. 2017	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		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**	**11 106**	**3 430**	**360**	**14 986**	**494**	**8 784**	**633 655**

(NOK 1,000)	Fee paid	Salary paid	Bonus paid	Other remuneration	**Total remuneration**	Pension cost	Loans at 31 Dec. 2017	No of shares [1]
Board of Directors								
Åsmund Skår,Chair	390	0	0	0	390	0	0	9 026
Brita Eilertsen, Deputy Chair	330	0	0	0	330	0	0	0
Camilla Wahl, member	270	0	0	0	270	0	0	0
Per K. Spone, member	273	0	0	0	273	0	0	0
Carl Erik Steen, member (1 Jan. –23 March)	56	0	0	0	56	0	0	0
Espen Lundaas, member (23 March–31 Dec.)	193	0	0	-	193	0	0	50 000
Lena Krog, employee member (1 Jan. –23 March)	0	1 108	515	13	1 636	80	2 451	45 545
Lars Christian Bjørge, employee member (23 March–31 Dec.)	0	1 108	340	102	1 460	69	0	0
Trine Charlotte Høgås-Ellingsen, deputy member	50	0	0	0	50	0	0	0
Peter Ditlef Knudsen,deputy member	30	0	0	-	30	0	0	1 000
Mariann Heggelien, employee deputy member	0	1 021	410	19	1 450	74	0	22 100
Total, Board	**1 592**	**3 147**	**1 265**	**134**	**6 139**	**223**	**2 451**	**127 671**

[1] Shares owned directly or through limited companies in which they have a controlling interest.

NOTE 36: SHAREHOLDERS

Name	Holding 31 Dec. 2018	Stake
Pareto AS	9 675 873	16.51%
Pecunia Forvaltning AS	6 500 000	11.09%
AF Capital Management AS	5 045 998	8.61%
K11 Investor AS	2 191 356	3.74%
Rune Bentsen AS	2 191 355	3.74%
Verdipapirfondet Landkreditt Utbytte	2 000 000	3.41%
Hjellegjerde Invest AS	1 503 000	2.56%
Verdipapirfondet First Generator	1 477 539	2.52%
Kolberg Motors AS	1 360 000	2.32%
Dragesund Invest AS	1 067 231	1.82%
Svemorka Holding AS	1 060 056	1.81%
Artel AS	900 820	1.54%
Apollo Asset Limited	815 970	1.39%
Verdipapirfondet Holdberg Norge	800 000	1.36%
Verdipapirfondet Fondsfinans Norge	795 000	1.36%
Pactum AS	775 000	1.32%
Castel AS	689 779	1.18%
Hausta Investor AS	600 000	1.02%
Wenaasgruppen AS	500 000	0.85%
Bergen Kommunale Pensjonskasse	500 000	0.85%
Other shareholders	18 170 711	31.00%
Total	**58 619 688**	**100.00%**

At 31 December 2018, Pareto Bank ASA's share capital totalled NOK 703,436,256 divided between 58,619,688 shares, each with a nominal value of NOK 12. The bank had 891 shareholders at that date. All shares carry equal voting rights.

Executive employees of the Pareto Group owned 1,919,362 shares, equivalent to 3.27 per cent of the total number of shares, directly or via limited companies in which they have a controlling interest.

Executive employees of Pareto Bank ASA owned 620,263 shares, equivalent to 1.06 per cent of the total number of shares, directly or via limited companies in which they have a controlling interest.

NOTE 36 SHAREHOLDERS, CONTD.

Name	Holding 31 Dec. 2017	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%**

NOTE 37 POST BALANCE SHEET EVENTS AND CONTINGENT OUTCOMES

Post balance sheet events
No significant events have taken place that affect the profit and the valuations performed other than those reflected in the financial statements. Nor have any matters arisen after the end of the financial year that are of significance to the assessment of the company.

Contingent outcomes
Pareto Bank is not a party in any legal proceedings and is not aware of any ongoing legal action.

NOTE 38: TRANSITIONAL INFORMATION RELATED TO IFRS 9

38.1 Classification and measurement of financial instruments under IAS 39 and IFRS 9

The following table reconciles the carrying amount of financial assets from previous measurement categories under IAS 39 with the new measurement categories that apply on the transition to IFRS 9 at 1 January 2018:

	IAS 39			IFRS 9	
(NOK 1,000)	Measurement category	Book value	Change in measurement	Book value	Measurement category
Financial assets					
Cash and receivables from central banks	Amortised cost (loans and receivables)	61 014	-	61 014	Amortised cost
Loans to and receivables 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	3 993	9 451 664	Amortised cost
Certificates and bonds	Fair value through profit or loss (designated)	3 173 886	-	3 173 886	Fair value through profit or loss (designated)
Financial derivatives	Fair value through profit or loss (mandatory)	11 611	-	11 611	Fair value through profit or loss (mandatory)
Shares and units in funds	Fair value through profit or loss (mandatory)	41 192	-	41 192	Fair value through profit or loss (mandatory)
Financial liabilities				-	
Deposits from credit institutions	Amortised cost	200 245	-	200 245	Amortised cost
Fixed-rate customer deposits	Fair value through profit or loss (designated)	1 125 835	-	1 125 835	Fair value through profit or loss (designated).*
Fixed-rate customer deposits	Amortised cost	5 958 097	-	5 958 097	Amortised cost
Securitised debt	Amortised cost	3 250 201	-	3 250 201	Amortised cost
Financial derivatives	Fair value through profit or loss (mandatory)	45 981	-	45 981	Fair value through profit or loss (mandatory)
Subordinated loan capital	Amortised cost	270 246		270 246	Amortised cost

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

There are no changes in the classification or measurement of liabilities, except for liabilities designated for recognition at fair value. This applies to fixed-interest deposits where the changes in fair value that are due to own credit risk are recognised through other comprehensive income.

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38.2 RECONCILIATION OF LOSS PROVISION BETWEEN IAS 39 AND IFRS 9

The following table shows a reconciliation between the loss provision measured under the 'incurred loss' model in IAS 39 compared with the expected loss model under IFRS 9 at 1 January 2018:

(NOK 1,000)	Provision for losses on loans and guarantees (IAS 39/IAS 37)	Reclassification	Change in measurement	Provision for losses on loans and guarantees (IFRS 9)
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Cash and receivables from central banks	0	0	0	0
Loans to and receivables from credit institutions	0	0	92	92
Loans to customers	85 553	-	-3 993	81 560
Total	**85 553**	-	**-3 901**	**81 652**
				0
Loan commitments and guarantees				0
Loan commitments	0	0	3 035	3 035
Financial guarantees	0	0	968	968
Total	**0**	0	**4 003**	**4 003**

The loss provision for loan commitments and financial guarantees are presented as other liabilities in the balance sheet.

38.3 BREAKDOWN OF LOSS PROVISION BY STAGE (1 JANUARY 2018)

The table below shows the breakdown of loss provision into the different stages in connection with the transition to IFRS 9:

	Stage 1	**Stage 2**	**Stage 3**
Description	Classification on initial recognition and healthy loans	Significant increase in credit risk since initial recognition	Significant increase in credit risk since initial recognition and objective evidence of loss
Loss provision	12-month expected loss	Lifetime expected loss	Lifetime expected loss
Cash and receivables from central banks	-	-	0
Loans to and receivables from credit institutions	92	-	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**

38.4 EFFECT ON EQUITY OF TRANSITION TO IFRS

The table below shows a reconciliation of other equity in the closing balance under IAS 39 compared with other equity in the opening balance under IFRS 9:

(NOK 1,000)	
Other equity	**936 454**
Closing balance under IAS 39 (31 Dec. 2017)	**936 454**
Change in loss provision under IFRS 9 comp. with IAS 39	-102
Tax effect of change in loss provision	26
Opening balance under IFRS 9 (1 Jan. 2018)	**936 378**

Pareto bank

KEY FIGURES

	Ref.	2018	2017
Return/profitability			
Cost ratio	1	21.3%	20.9%
Return on equity after tax	2	15.0%	16.0%
Losses and defaults			
Loss percentage, lending	3	0.04%	0.13%
Share			
Profit attributable to shareholders per share		5.55	5.28
Price/book equity		0.86	1.12
Shareholders' equity per share		39.37	35.41
Equity as % of total assets		16.1%	16.2%
Balance sheet accounts			
Total assets on balance sheet date		15 606 952	13 103 969
Average total assets during the period	4	14 941 768	13 682 592
Lending growth, past 12 months		23.3%	7.9%
Deposit growth, past 12 months		7.6%	-7.4%
Deposits as % of loans		65.4%	75.0%
Liquidity coverage ratio (LCR)	5	186%	135%
Financial strength			
Capital adequacy ratio		19.53%	20.56%
Tier 1 capital ratio		17.58%	18.11%
CET1 capital ratio		16.13%	17.66%
Total Tier 1 capital		2 428 109	1 998 260
Total own funds		2 698 109	2 268 260
Personnel			
Average number of full-time equivalents		37.7	36.2

References:

1. Total operating expenses before impairments and losses as a percentage of total operating income
2. Earnings for the period minus interest expense after tax on subordinated bonds relative to the quarterly average paid-up and retained earnings in the period. The return on equity has been converted for 2017 as it was previously calculated as the annual average equity in the period.
3. Net losses as a percentage of average loans in the period.
4. Based on monthly total assets
5. Liquid assets relative to net liquidity outflow in a 30-day serious stress scenario.

Definitions and grounds for the bank's various key figures and alternative performance measures are available on the bank's website www.paretobank.no/investor/rapporter/.

DECLARATION FROM THE BOARD OF DIRECTORS AND THE CEO PURSUANT TO SECTION 5-5 OF THE SECURITIES TRADING ACT

The Board of Directors and the CEO have today considered and approved the financial statements for 2018 for Pareto Bank ASA.

To the best of our knowledge, the accounts for 2018 have been prepared in accordance with applicable accounting standards, and the information in the accounts provides a true and fair picture of the bank's assets, liabilities, financial position and overall performance at 31 December 2018.

To the best of our knowledge, the annual report also provides a true and fair view of the bank's development, profits and position as well as a description of the most important risks and uncertainties facing the bank.

Oslo, 31 Dec. 2018 / 27 Feb. 2019
The Board of Directors of Pareto Bank ASA

Sign.
Åsmund Skår
Chair

Sign.
Brita Eilertsen
Deputy Chair

Sign.
Espen Lundaas
board member

Sign.
Camilla Wahl
board member

Sign.
Trine Høgås-Ellingsen
deputy member

Sign.
Petter Hellestrand Tinholt
board member

Sign.
Tiril Haug Villum
CEO

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 2018, resultatregnskap, endring i egenkapitalen 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 2018, 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 2018. 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 2018. Implementeringen av IFRS 9 har ledet til endringer i vår revisjon av verdien av utlån til kunder, men våre fokusområdene har vært de samme i 2018 som i fjoråret.

Sentrale forhold ved revisjonen	Hvordan vi i vår revisjon håndterte sentrale forhold ved revisjonen
Verdien av utlån til kunder	
Utlån utgjør en betydelig andel av verdien av eiendelene i balansen. Vurdering av nedskrivninger er basert på et modellbasert rammeverk med elementer som krever at ledelsen bruker skjønn. Rammeverket er komplekst og omfatter store mengder data og skjønnsmessige parametere. Vi fokuserte på verdsettelsen av utlån på grunn av betydningen nedskrivningsvurderingene har for verdien, og det faktum at bruk av skjønn	Ved vår revisjon av forventede tapsavsetninger vurderte og testet vi utformingen og effektiviteten av kontroller for kvalitetssikring av anvendte forutsetninger og beregningsmetoder. Videre testet vi detaljer både i avsetningene beregnet ved bruk av modellen og i avsetningene som er beregnet individuelt. Vi opparbeidet oss en detaljert forståelse av prosessen og testet relevante kontroller rettet mot å sikre: • kalkulasjoner og metode som ble benyttet; • at modellen som ble benyttet, var i henhold til

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har en potensiell virkning på resultatet for perioden. I tillegg er det en iboende risiko for feil på grunn av kompleksiteten og mengden data som benyttes i modellen.

IFRS 9 ble implementert med virkning fra 1. januar 2018. Den største endringen dette medfører sammenlignet med det tidligere regimet er at nedskrivningsmodellen nå skal reflektere forventet kredittap mot tidligere ble beregnet nedskrivninger basert på inntruffet kredittap.

Bruk av modeller for å beregne forventet kredittap omfatter bruk av skjønn. Vi har særlig fokusert på:

- klassifisering av porteføljene etter risiko og type segment;
- identifisering av lån hvor det har vært en vesentlig økning i kredittrisiko,
- hvordan lånene blir kategorisert i ulike trinn;
- ulike parametere som tapsgrad og bruk av scenarioer.

Bankens utlån er i hovedsak til knyttet finansiering av eiendomsprosjekter. I tillegg tilbys selskapsfinansiering innenfor SMB markedet, shipping-og offshorefinansiering samt finansiering av kjøp av aksjer og obligasjoner. Modellene som er utviklet skal estimere tapsavsetninger til de ulike segmentene.

I tillegg foretas individuelle avsetninger for utlån hvor det foreligger objektive indikasjoner på verdifall. Denne vurderingen krever også at ledelsen bruker skjønn.

rammeverket og at modellen virket som den skulle;

- påliteligheten og nøyaktigheten av data som blir benyttet i modellen.

Vår testing av kontrollene ga ingen indikasjoner på vesentlige feil i modellen eller avvik fra IFRS 9.

Vi testet spesielt om modellen klassifiserte utlån i riktig trinn, herunder om lån hadde hatt en vesentlig økning i kredittrisiko. Vi vurderte videre rimeligheten av tapsavsetningene i trinn 1 og 2 ved å sammenligne nivået med andre banker.

For alle utlån hvor det forelå objektive indikasjoner på verdifall og hvor nedskrivningsbeløpet var individuelt beregnet vurderte vi forutsetningene og beregningene ledelsen hadde lagt til grunn for å underbygge nedskrivningsbeløpet. Vi sammenlignet forutsetningene med ekstern dokumentasjon der dette var tilgjengelig. Resultatet av denne testingen av de individuelle nedskrivningene viste at ledelsen hadde benyttet rimelige forutsetninger i beregningen av nedskrivningsbeløpene.

Avvik som ble funnet i vår testing var uten vesentlig betydning.

Note 2.1, note 3 og note 12 til regnskapet er relevante for beskrivelsen av selskapets tapsmodell og for hvordan selskapet estimerer sine tapsavsetninger etter IFRS 9. Vi har lest notene og fant at informasjonen knyttet til tapsmodell, ulike parametere og skjønnsmessige vurderinger var tilstrekkelige og dekkende.

IT systemer som støtter finansiell rapportering

Vi har fokusert på dette området fordi bankens finansielle rapporteringssystemer og virksomhet er avhengig av komplekse IT-systemer. Eventuelle svakheter i automatiserte prosesser og tilhørende IT avhengige manuelle kontroller kan medføre problemer knyttet til den løpende driften av IT-systemene og risiko for feil.

Banken benytter eksterne serviceleverandører for å drifte enkelte sentrale IT-systemer. Revisor hos de relevante serviceorganisasjonene er benyttet til å evaluere design og effektivitet av og teste etablerte kontroller som skal sikre integriteten av IT- og 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 viser at vi kan bygge på bankens systemer for IT og betalingsformidling i vår revisjon.

Verdsettelse av 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 2.6, 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 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 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 omfatter informasjon i årsrapporten bortsett fra årsregnskapet og den tilhørende 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 internkontroll som den finner nødvendig for å kunne utarbeide et regnskap som ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil.

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

Revisors oppgaver og plikter ved revisjonen av årsregnskapet

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

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

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

Konklusjon om registrering og dokumentasjon

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

Oslo, 27. februar 2019

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