



# PARETO BANK

## Financial Results

Third Quarter 2017

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# THIRD QUARTER HIGHLIGHTS

## Key figures Q3-17



PROFIT  
AFTER TAX

**NOK 86.0m**  
(NOK 68.4m)



RETURN ON  
EQUITY \*

**17.5 %**  
(17.4 %)



NET LENDING  
GROWTH

**NOK 326m**  
(NOK 582m)



CET1  
RATIO

**16.6 %**  
(14.5 %)



TOTAL  
ASSETS

**NOK 13.5b**  
(NOK 13.6b)

## Highlights Q3-17

High lending growth on a strong net interest margin.

Continued strong growth within residential property development.

A negative market sentiment and a large housing stock may cause a slowdown in residential property projects.

High sales activity within corporate financing contributes to lending growth.

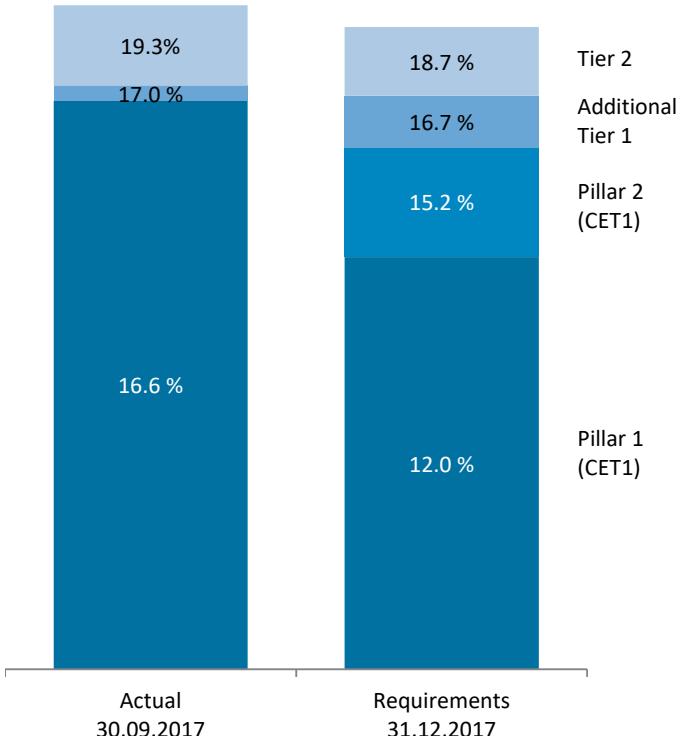
SREP evaluation and pillar 2 requirement of 3.2 % from the NFSA received on 20 October 2017.

CET1 capital ratio well above new requirement of 15.2 %.

The board will set a new capital target given the pillar 2 requirement.

# PILLAR 2 CAPITAL REQUIREMENTS

## Capital ratios

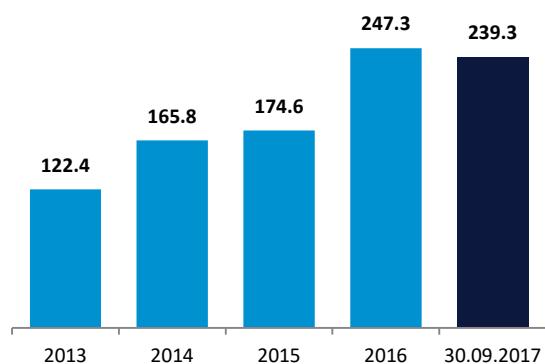


## Key comments on capital

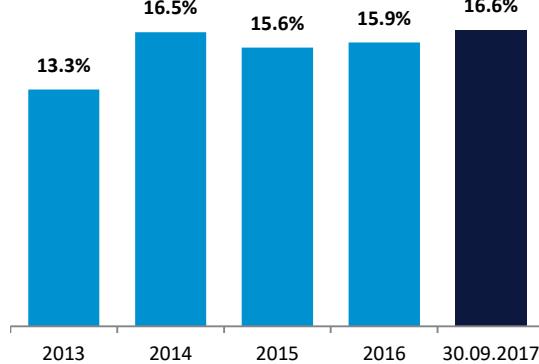
- The NFSA has given the bank a pillar 2 requirement of 3.2 % of risk weighted assets (RWA). This requirement must be fulfilled with core equity (CET1) and is effective as of 31.12.2017.
- Pillar 2 capital covers risks specific to the bank that are not covered or only partly covered by the combined minimum capital and buffer requirements in pillar 1.
- The bank's total CET1 requirement is 15.2 % as of 31.12.2017.
- The bank covers the new CET1 requirement including pillar 2 by a good margin, with a CET1 capital ratio of 16.6 % at the end of the third quarter.
- The board will set a new capital target given the pillar 2 requirement of 3.2 %.

# SOLID FOUNDATION AND STRONG PERFORMANCE

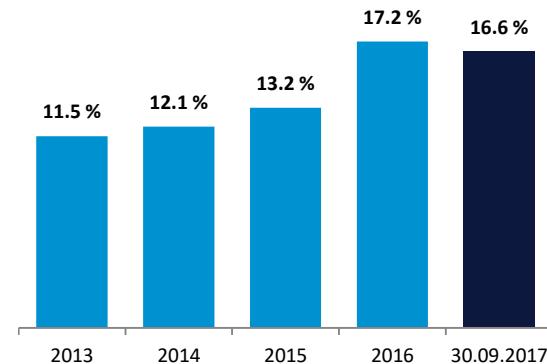
Result after tax (NOKm)



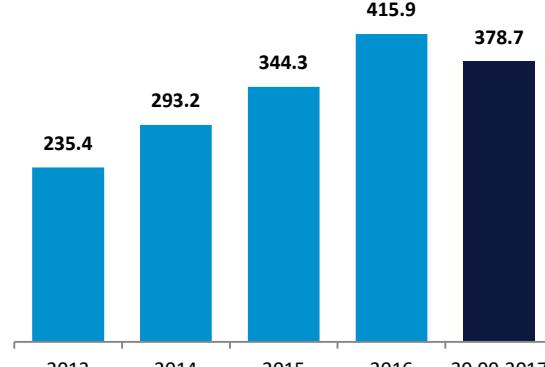
Return on Equity \*



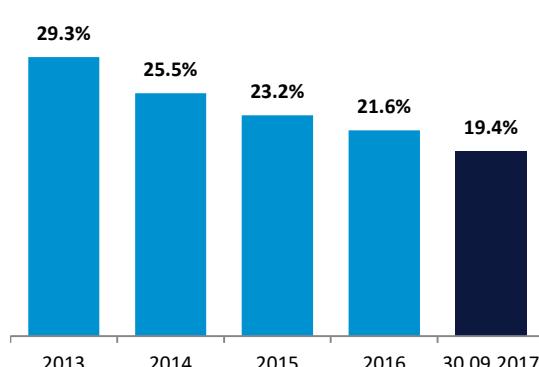
CET1 ratio \*\*



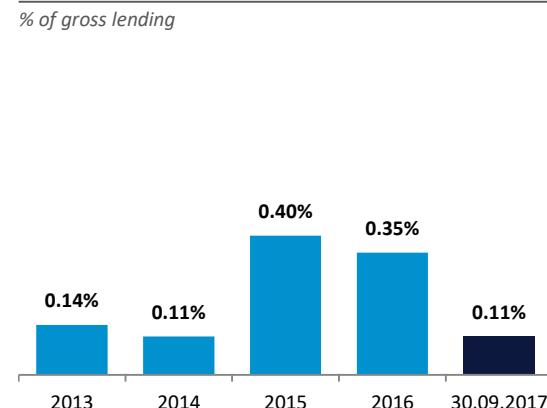
Net interest income (NOKm)



Cost/income ratio



Loss ratio \*\*\*



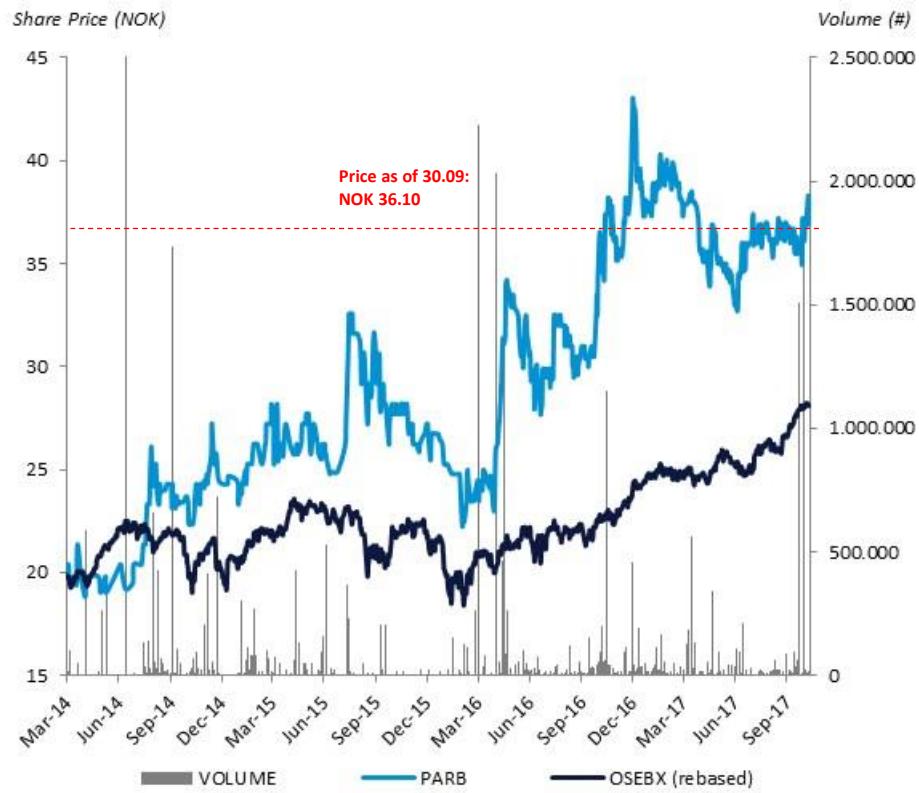
Note(\*): Profit after tax excluding additional tier 1 interest costs after tax divided by average common equity tier 1 capital including retained earnings for the period

Note(\*\*): The calculation of CET1 ratio is based on the standard method and not on the IRB approach

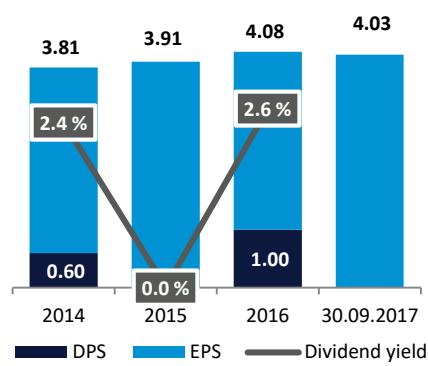
Note(\*\*\*) : The loss ratio is the sum of individual and group losses and write-downs on loans and guarantees in the period as a percentage of gross lending

# THE SHARE

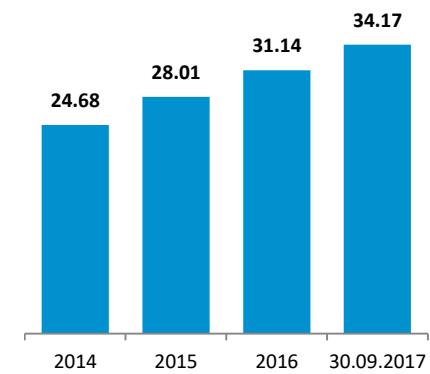
## Share price development since March 2014\*\*



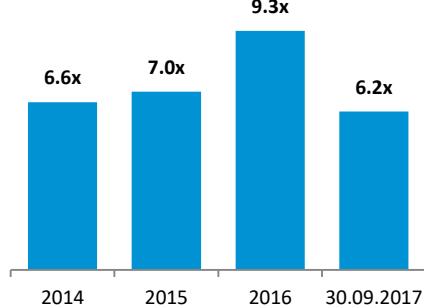
## EPS, DPS (NOK) & Dividend Yield \*



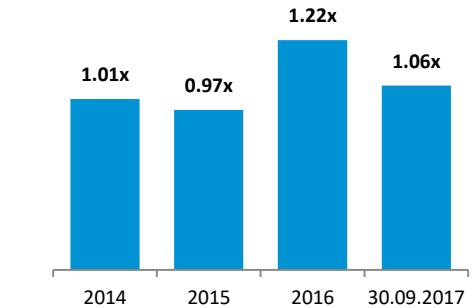
## Book equity per share (NOK) \*



## Price / Earnings \*



## Price / Book \*



# LARGEST SHAREHOLDERS AS OF 11.10.2017

#	Investor	11 October 2017	
		# of shares	% total
1	Pareto AS	8,921,873	15.22%
2	Pecunia Forvaltning AS	5,861,859	10.00%
3	Saga Tankers ASA	5,052,547	8.62%
4	Apollo Capital Management	4,875,998	8.32%
5	Indigo Invest AS	4,382,711	7.48%
6	Perestroika AS	1,808,413	3.08%
7	Verdipapirfondet First Generator	1,762,440	3.01%
8	Verdipapirfondet Landkredit Utbytte	1,350,000	2.30%
9	Kolberg Motors AS	1,276,220	2.18%
10	GH Holding AS	1,002,012	1.71%
11	Artel Holding AS	900,820	1.54%
12	Endre Røsjø	723,731	1.23%
13	Castel AS	689,779	1.18%
14	Uthalden AS	612,451	1.04%
15	Solan Capital AS	590,000	1.01%
16	Ola Rustad AS	585,996	1.00%
17	Tycoon Industrier AS	508,317	0.87%
18	Apollo Asset Limited C/O	500,000	0.85%
19	Svemorka Holding AS	500,000	0.85%
20	Thabo Energy AS	452,486	0.77%
<b>Sum TOP 20</b>		<b>42,357,653</b>	<b>72.26%</b>
<b>Other shareholders</b>		<b>16,262,035</b>	<b>27.74%</b>
<b>Total</b>		<b>58,619,688</b>	

- The Company has 58,619,688 shares outstanding
- One class of shares where each share carries one voting right
- Diversified investor base with 711 shareholders
- The top 10 and 20 investors hold 62 % and 72 % of the shares respectively
- Employees in Pareto Bank own 1.86 %
- Top management in the Pareto Group owns 0.55 %
- All employees are covered by an annual bonus compensation scheme settled in Pareto Bank shares

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# NORWAY'S LEADING PROJECT BANK

## BUSINESS AREAS

## PROJECTS / CREDITS

## AREA EXPOSURE

## AVG. PRINCIPAL

Real  
estate



Property lot financing  
Building construction facilities  
Commercial property financing

**67 %**

**NOKm  
25-50**

Corporate &  
Securities



M&A loans  
Bridge loans  
Investment loans  
Securities financing

**21 %**

**NOKm  
5-30**

Shipping &  
Offshore



Ship owners  
Family offices  
Shipping and offshore projects

**9 %**

**USDm  
5-10**

# PORTFOLIO COMPOSITION | OVERVIEW \*

## MAIN BUSINESS AREAS

### Real estate

*Real estate financing focused on residential property construction in the greater Oslo region*

### Securities & Corporates

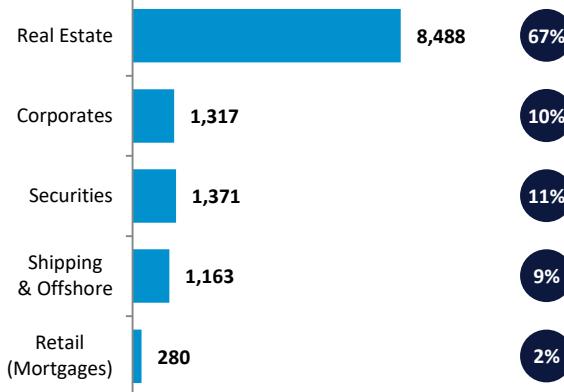
*A full scale provider of securities & corporate financing including investment services*

### Shipping & Offshore

*Focus on Norwegian clients, high quality charterers and liquid tonnage*

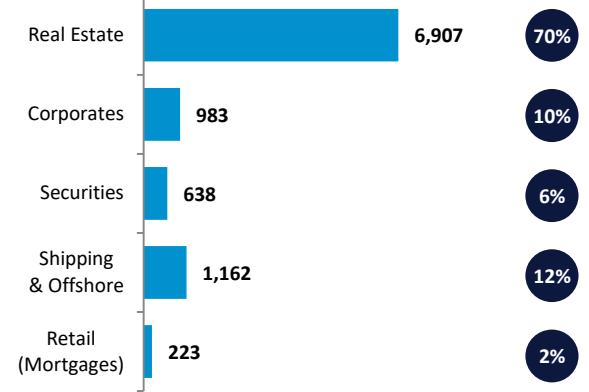
## Gross credit exposure (NOKm)

$\Sigma = \text{NOK } 12,618\text{m}$



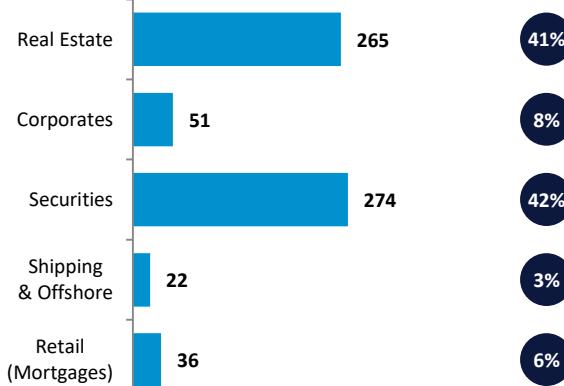
## Gross total lending (NOKm)

$\Sigma = \text{NOK } 9,914\text{m}$



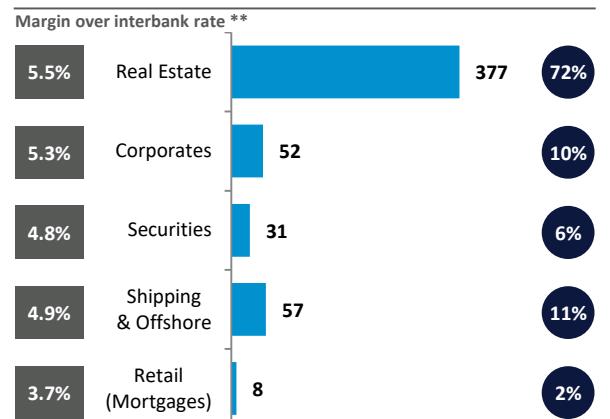
## Number of active clients

$\Sigma = \# 648$

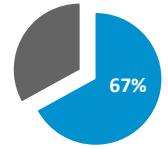


## Interest contribution (NOKm) \*\*

$\Sigma = \text{NOK } 526\text{m}$

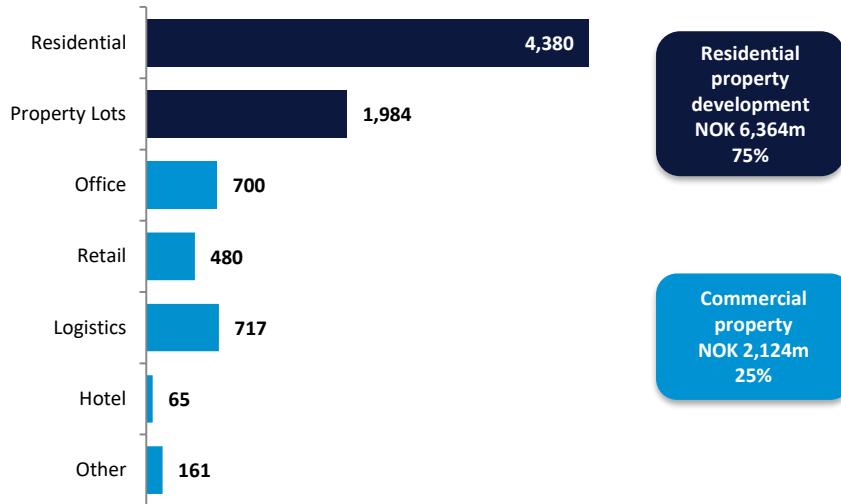


# REAL ESTATE | STRONG MARKET POSITION



## Real Estate credit exposure (NOKm) \*

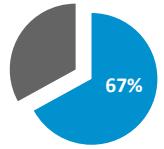
$\Sigma = \text{NOK } 8,488\text{m}^*$



## Description Real Estate credit exposure

- Primarily financing of residential property development
- Financing of regulated lots purchased for development with a clear exit strategy
- Approximately 50 % of the financed property lots are utilized for residential purposes
  
- Financing of renovation and conversion projects
- Financing of commercial property such as office, retail, and logistics
- Particularly strong market position within residential development

# REAL ESTATE | POLICY RESIDENTIAL PROPERTY



## Real Estate portfolio policy

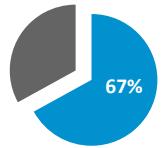
- On average 20 % to 40 % equity to finance a property lot purchase
- Primarily financing of regulated lots in Oslo and other well functioning liquid markets purchased for development with a clear exit strategy
- Market risk is reduced by requiring a high level of presale on building construction facilities
- Presale requirement: if the price of unsold units falls by 50 % compared to presold units, the sales amount must still be sufficient to cover the bank credit
- A more restrictive attitude towards projects with long-term exits and continued focus on a high level of presales, adequate liquidity buffers and 20 % to 40 % equity contribution

## Real Estate portfolio management

- In-house regulatory skills of the housing market is essential for a good credit decision process
- Tight project management from the bank throughout the entire project
- External third-party professional building inspectors work on behalf of the bank to follow up every project on a monthly basis
- Primarily turnkey projects to minimise cost overruns



# REAL ESTATE | RESIDENTIAL PROPERTY EXPOSURE

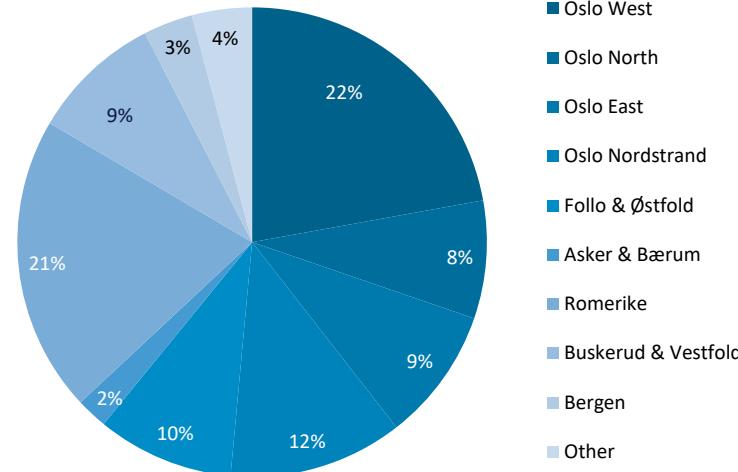


## A diversified portfolio

- The residential property exposure is diversified according to geographic area, neighbourhood, project type, and size
- The portfolio is made up of 157 different addresses with an average project size of NOK 37m \*
- 104 projects are construction of small houses (*småhus*), while the rest are apartment projects
- Apartments vary from large, exclusive units to smaller ones
- Approximately 35 % of the projects have presold all units, exposing the bank to little or no market risk
- The residential property development portfolio is stress-tested by simulating a drop in housing prices
  - The stress test is performed semi-annually
  - Debtors' financial strength is not taken into account
  - The portfolio is robust against a theoretical stress test, but a scenario with a substantial drop in prices and a complete shutdown of the new-build market will have a negative effect on profits and volumes
- In the case of a distressed project, focus will be on completing the project and selling remaining units. The potential loss is normally limited due to the high presale requirement.

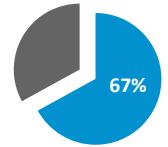
## Geographical residential property exposure (NOKm)

$\Sigma = \text{NOK } 6,364\text{m } **$



### Largest areas:

Oslo	51 %
Akershus & Østfold	32 %
Buskerud & Vestfold	9 %



Source: Dagens Næringsliv, October 2017

## Market observations

- Large variation between regions: prices are falling in Oslo, while they have started to climb again in surrounding regions
- Uncertainty with respect to the supply side and net immigration going forward
- Healthy macro conditions: low interest rates, low unemployment and bottoming out in petroleum investments

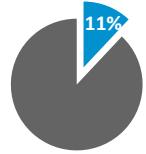
## Market observations Oslo

- A change in market sentiment and an increasingly differentiated market in Oslo. Price growth in 2016 has largely been reversed.
- Some segments are more affected than others: demand for small apartments (50 square meters or less) is lower due to new regulation (*boliglånsforskriften*)
- Continued demand for small houses (*småhus*), supporting the level of sales and prices
- We expect new project sales to be more difficult in the time ahead due to a large housing stock combined with a negative market sentiment
- Risk of a further price decline due to a high level of newbuilds and a large stock of new and second-hand homes

## How is Pareto Bank affected?

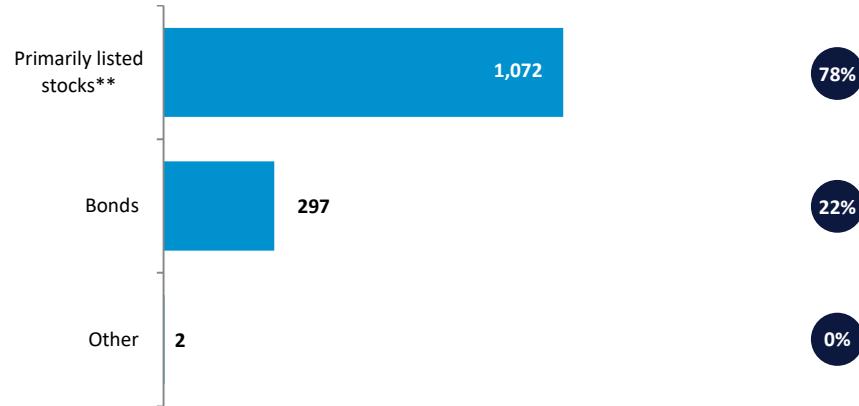
- Pareto Bank has most of its exposure to the small house segment where there is continued demand
- The bank has a more restrictive attitude towards projects with long-term exits and continued focus on a high level of presales, adequate liquidity buffers and 20 % to 40 % equity contribution
- Developers are focusing on project completion rather than on new projects
- A slowdown in presale of residential property projects can affect deal flow negatively in 2018

# SECURITIES | FOCUS ON CUSTOMIZED SOLUTIONS



## Total securities exposure (NOKm) \*

$\Sigma = \text{NOK } 1,371\text{m}$



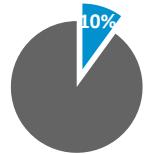
## Products

- A wide range of securities financing products and investment services
- Financing of stocks primarily on Oslo Stock Exchange
- Financing of short trades on Oslo Stock Exchange
- Financing of high yield bonds mainly arranged by Pareto Securities
- Financing of funds (stocks, bonds, etc.)
- Forwards, total return swaps and guarantees in favour of Oslo Stock Exchange for companies in a mandatory offer position

## Status and policy

- Pareto Securities' expansion into standardised securities financing in the Norwegian retail market will have an impact on the bank's exposure, and lending volume is expected to decrease by approximately NOK 200 - 400m in 2017
- Lending volume was down by NOK 294m during the first three quarters of 2017
- The bank will continue its focus on customized financing solutions alone and in cooperation with Pareto Securities
- LTV / Leverage of 0 % to 80 % on exchange listed stocks
- Leverage of high-yield bond portfolios require LTV of about 50 % in addition to certain portfolio requirements
- Securities are followed up in real time, and any breach of LTV limit must be repaired by the end of the next day

# CORPORATES | A MARKET WITH OPPORTUNITIES



## Ambition

Pareto Bank will become a leading provider of tailor-made, transaction-based financing solutions to investors, owners, family offices and small and medium-sized enterprises (SME's).

## Value Proposition: Access to capital and liquidity. Fast.

A professional and dedicated credit team that quickly and efficiently structures tailor-made financing of specific projects and transactions.

## The Market: Large and with limited competition

The larger banks allocate capital to private customers and large corporates and transactions, and the bond market is no real alternative to SME's as the amounts are too small. Transactions are often too large and too complex for local savings banks.

## Status

Total exposure of NOK 1,317m within a variety of industries and 51 customers with credit facilities in the range of NOK 0.2m to NOK 150m.

## Products

### M&A FINANCING

Traditional M&A and LBO financing to Norwegian small and medium-sized enterprises (SME's).

### BRIDGE LOANS

Bridging of liquidity for clients who have both bought and sold assets, but not timed the cash flow.

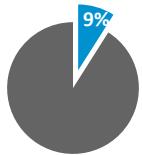
### INVESTMENT LOANS

Financing of equity for a client who backs the investment with a guarantee from a financially solid mother company.

### WORKING CAPITAL FACILITIES

Working capital facilities, but normally short term in combination with a bridge financing.

# SHIPPING & OFFSHORE | DIVERSIFIED PORTFOLIO

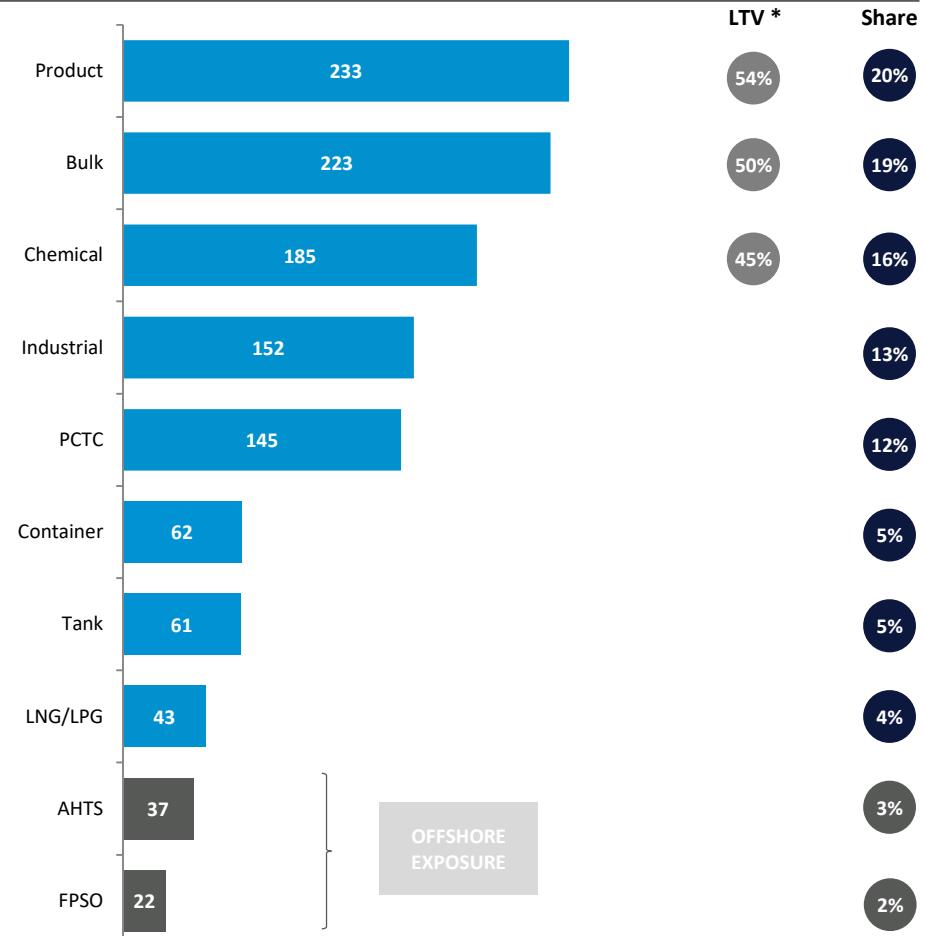


## Status

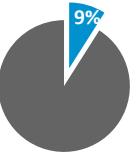
- A diversified portfolio where a single segment will normally not exceed 25% of the total S&O exposure
- The bank has a strong competitive position in markets that are making a gradual recovery
- 22 customers and a total of 34 vessels
- Largest exposure is USD 14.6m and average commitment size is USD 6.5m
- Only 2 commitments towards the offshore sector: approximately 0.5 % of total credit exposure

## Total S&O credit exposure & Loan to value (NOKm) \*

$\Sigma = \text{NOK } 1,163\text{m}$



# SHIPPING & OFFSHORE | POLICY



## S&O portfolio policy

- Careful growth within the strong Norwegian shipping and offshore sector
- Clients should be based in Norway and have extensive experience and expertise in operations and maintenance
- Minimum equity of 45 %
- High quality charterer with transparent books and tonnage with liquid second-hand markets and well-proven designs
- Maximum S&O credit exposure is 15 % of the bank's total credit exposure

## S&O portfolio management

- Equity analysts and specialists in the Pareto Group are information sources
- Use of expertise regarding valuations, marine insurance and technical assessments
- Individual valuations obtained from independent and reputable shipbrokers every third month
- Continuously monitoring vessel values via VesselsValue.com
- Tight covenant setting are essential: Each loan is assessed on a quarterly basis by "loan-to-value" (LTV) and "minimum cash"
- Immediate measures upon breach



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# QUARTERLY INCOME STATEMENT

## P&L (NOKm)

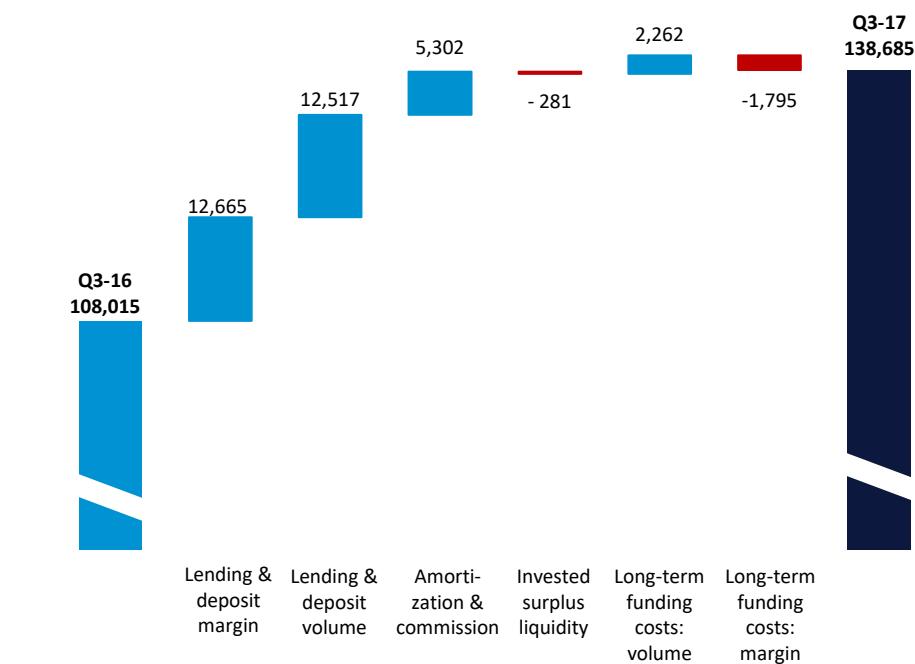
	Q3-17	Q2-17	Q1-17	Q4-16	Q3-16
Net Interest income	138.7	124.6	115.4	117.3	108.0
Total other operating income	3.2	7.8	18.9	9.0	13.3
<b>Total net income</b>	<b>141.9</b>	<b>132.5</b>	<b>134.3</b>	<b>126.4</b>	<b>121.3</b>
<b>Total other operating expenses</b>	<b>24.2</b>	<b>26.8</b>	<b>28.0</b>	<b>26.4</b>	<b>22.7</b>
Operating result before losses / write-downs	117.7	105.6	106.2	100.0	98.6
Losses / write-downs on loans	2.3	6.4	1.8	11.8	7.4
<b>Operating result before tax</b>	<b>115.4</b>	<b>99.2</b>	<b>104.5</b>	<b>88.1</b>	<b>91.2</b>
Tax payable	29.4	24.2	26.1	21.1	22.8
<b>Result after tax</b>	<b>86.0</b>	<b>75.0</b>	<b>78.3</b>	<b>67.1</b>	<b>68.4</b>
<i>Earnings per share (NOK)</i>	1.46	1.27	1.30	1.11	1.31

## Key comments

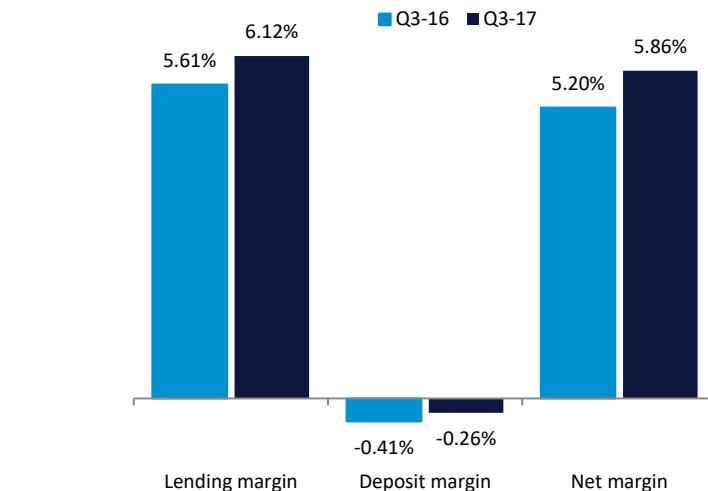
- Lending growth and high margins combined with a lower surplus liquidity lifted net interest income
- Low costs and low losses contributed to profit in the third quarter
- The principle of assessing financial instruments at fair value may cause profits to fluctuate between quarters
- For Q3-17 total net gains were NOK -0.8m (NOK 10.2m)
- NOK 3.8m (NOK 4.2m) was allocated for profit sharing with employees
- Net write-downs totaling NOK 2.3m (NOK 7.4m) in Q3-17
- The bank will publish information in its fourth quarter report concerning asset classification and loss provisioning under IFRS 9

# GROWING NET INTEREST INCOME

Net interest income (NOK 1,000)



Net interest margins (vs. 3M NIBOR) \*

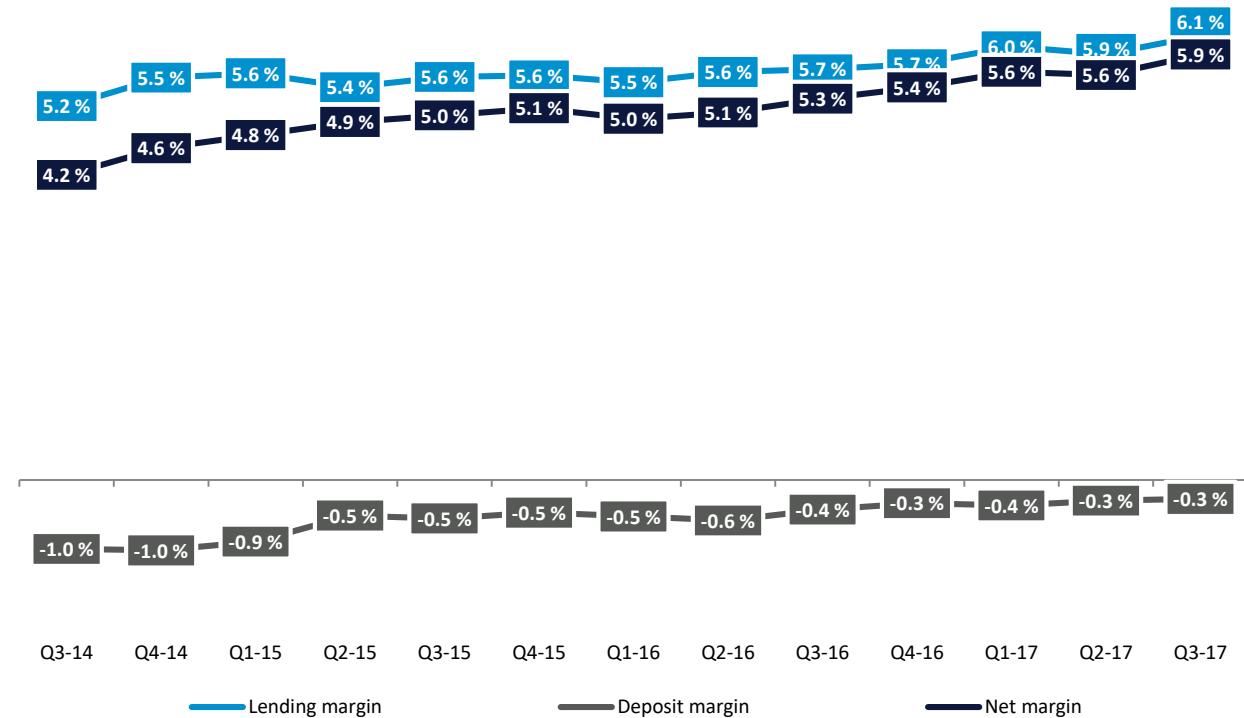


- Increased net interest income primarily due to higher lending volumes and margins
- A reduction in deposit rates and improved market funding rates contributed to better net margins

- Net interest margin improved by 0.66 percentage points, mainly driven by lending margins
- The fee for The Norwegian Banks' Guarantee fund for 2016 was charged wholly in Q1-16. Had it been distributed throughout 2016 the lending margin for Q3-16 would have fallen to 5.55

# STRONG MARGINS

## Continuously improving net interest margins (vs. 3M NIBOR) \*



## Key comments

- Strong growth on an strong net margin
- High fee income driven by high activity in real estate
- Contribution from strong margins in corporate financing
- Reduced interest rates on business deposits
- Lower average interest rates on fixed-rate deposits

# STRONG BALANCE SHEET

## BS (NOKm)

	Q3-17	Q2-17	Q1-17	Q4-16	Q3-16
Loans to credit institutions	165.4	350.2	884.5	804.3	1,093.5
Loans to customers	9,869.5	9,544.0	8,973.4	8,753.8	8,907.5
Bonds and other securities	3,330.8	3,308.8	4,093.9	3,315.1	3,543.3
Shareholdings in associated companies	41.6	40.0	40.3	14.7	-
Other assets	67.6	66.8	58.8	52.9	99.1
<b>Total assets</b>	<b>13,474.8</b>	<b>13,309.7</b>	<b>14,050.9</b>	<b>12,940.8</b>	<b>13,643.3</b>
Deposits	7,693.3	8,163.9	8,832.4	7,650.9	7,759.7
Senior securities issued	3,279.9	2,796.4	2,762.9	2,885.5	3,867.8
Other liabilities	178.3	111.8	292.4	148.9	142.7
Tier 2 subordinated securities issued	270.2	270.2	270.2	270.2	150.2
Additional tier 1 capital	50.0	50.0	50.0	160.0	160.0
Other equity	2,003.0	1,917.5	1,843.0	1,825.2	1,562.9
<b>Total liabilities and equity</b>	<b>13,474.8</b>	<b>13,309.7</b>	<b>14,050.9</b>	<b>12,940.8</b>	<b>13,643.3</b>

## Key comments

- Lending growth of NOK 326m in the third quarter
- High turnover rate: approximately 30 % of the loan portfolio matures within a year
- Reduction of deposits NOK 483m in the third quarter. The reduction was targeted in order to reduce surplus liquidity
- Deposits composed of retail, business and client funds
- The bank will publish information in its fourth quarter report concerning asset classification and loss provisioning under IFRS 9

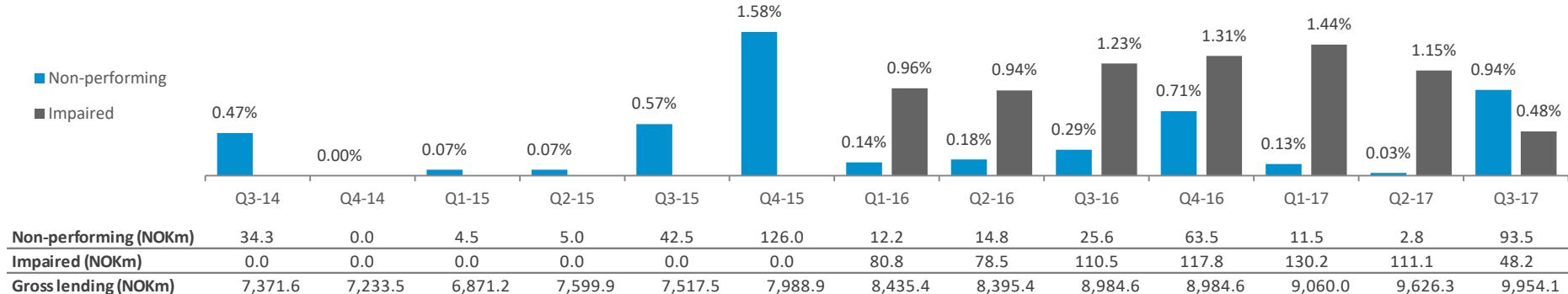
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# LOAN PORTFOLIO QUALITY

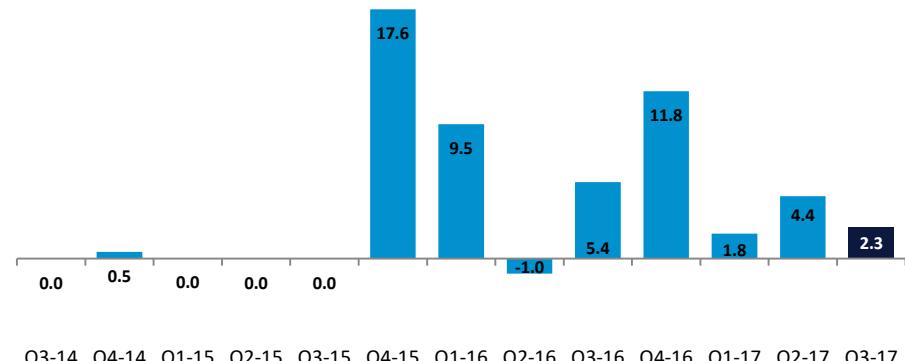
## Net non-performing and impaired loans \*

% of gross lending



## Individual losses, write-downs and reversals on loans & guarantees

Nominal (NOKm)



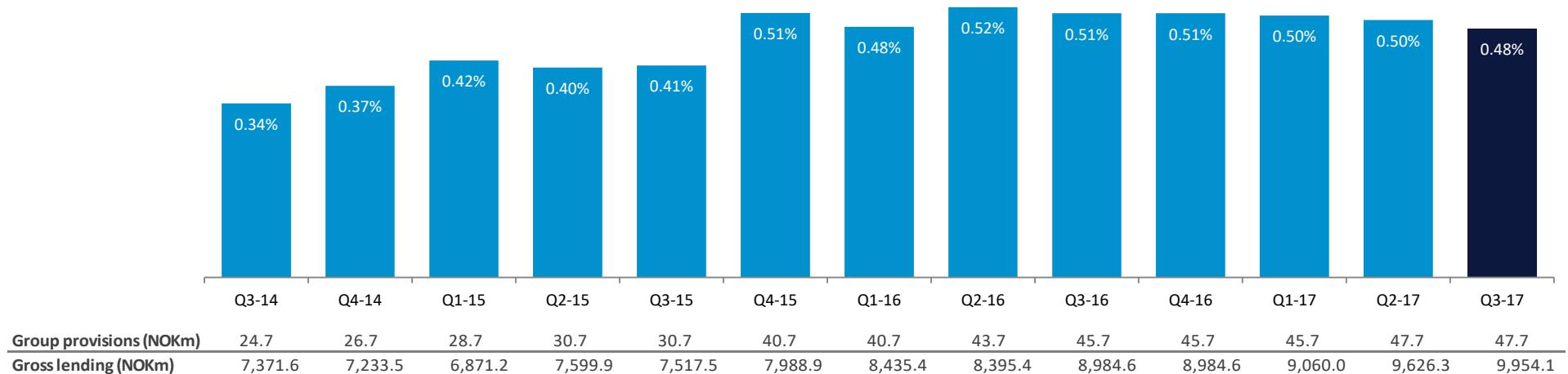
- Net non-performing loans NOK 94m (0.94 %) by the end of Q3-17
- Increase in non-performing loans mainly due to two loans in real estate which are not considered impaired
- Two shipping & offshore loans of net NOK 48m (0.48 %) were impaired by the end of Q3-17
- These loans are performing and they have been written down with in total USD 4.1m/NOK 32.6m

# GROUP PROVISIONS

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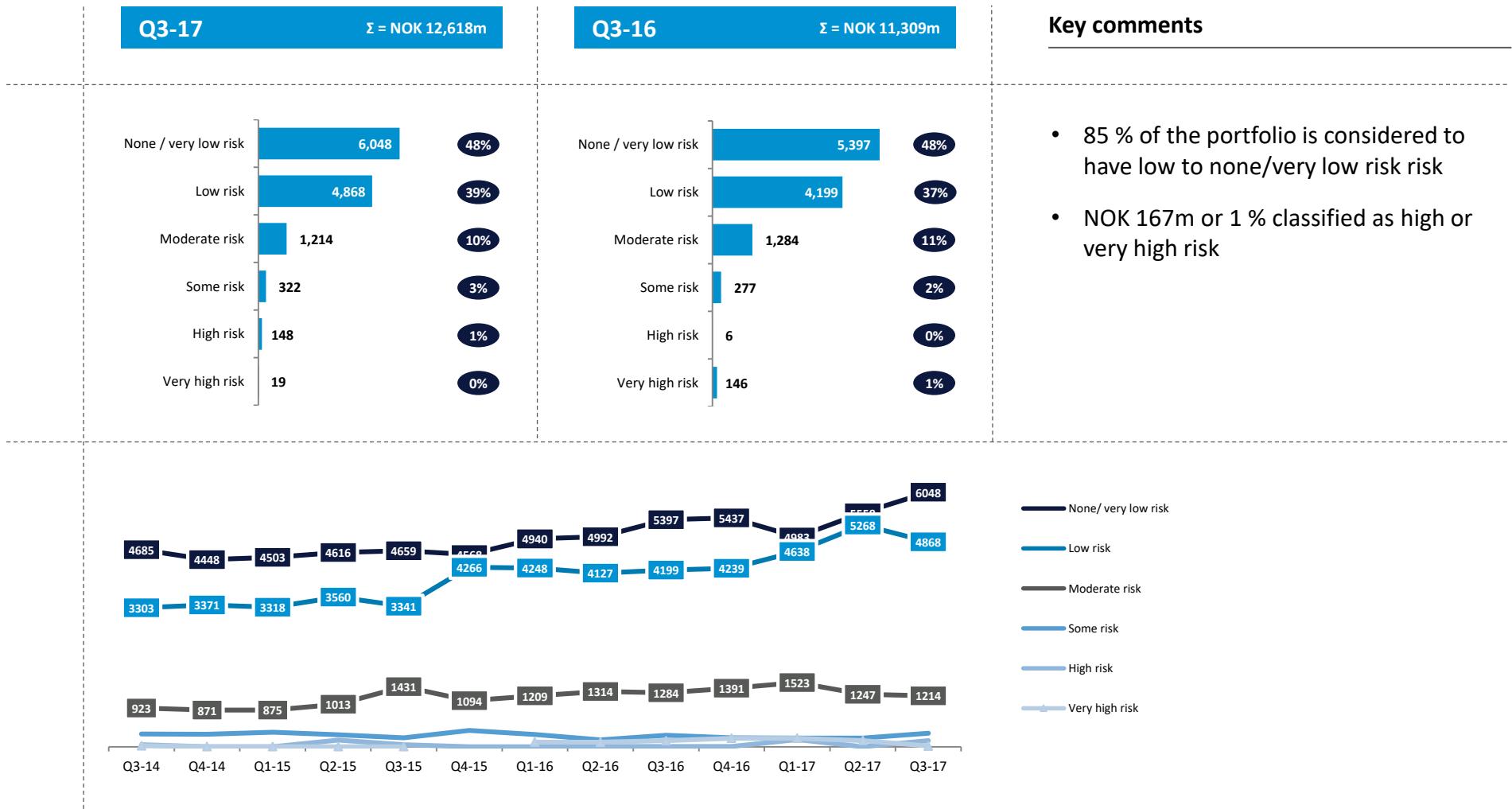
## Cumulative group provisions

% of gross lending



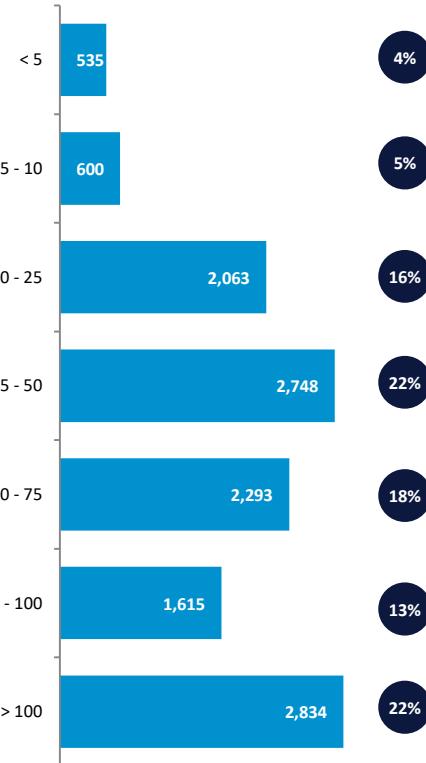
- Group provisions were unchanged in the third quarter at NOK 47.7m or 0.48 % of gross lending
- Group provisions are based on uncertainty in housing prices in Oslo and ship values within certain segments
- The bank's exposure to residential property development increased at the same time as its exposure to shipping and offshore decreased
- Despite a moderate fall in housing prices the bank does not see losses in its residential property development portfolio

# COMMITMENTS BY RISK CLASSIFICATION

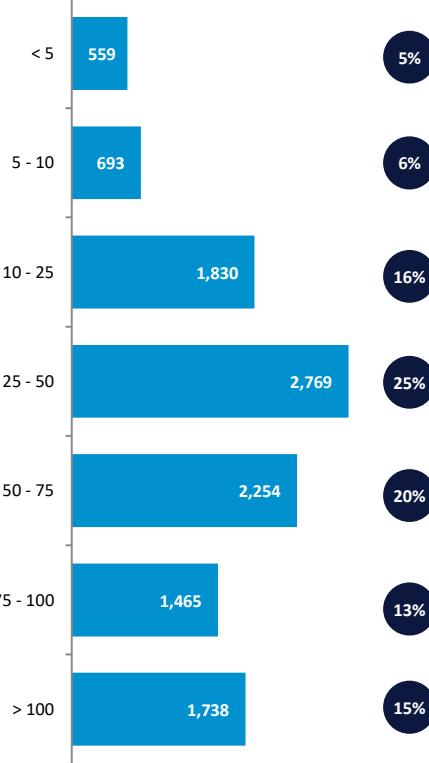


# COMMITMENTS BY SIZE

**Q3-17**       $\Sigma = \text{NOK } 12,618\text{m}$



**Q3-16**       $\Sigma = \text{NOK } 11,309\text{m}$



## Key comments

- A conservative policy with respect to size
- Maximum size on a single customer 10 % of total capital (NOK 222m)
- Maximum size on group / consolidated basis 15 % of total capital (NOK 333m)

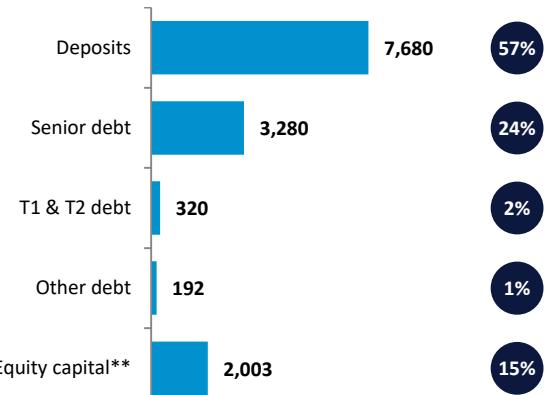
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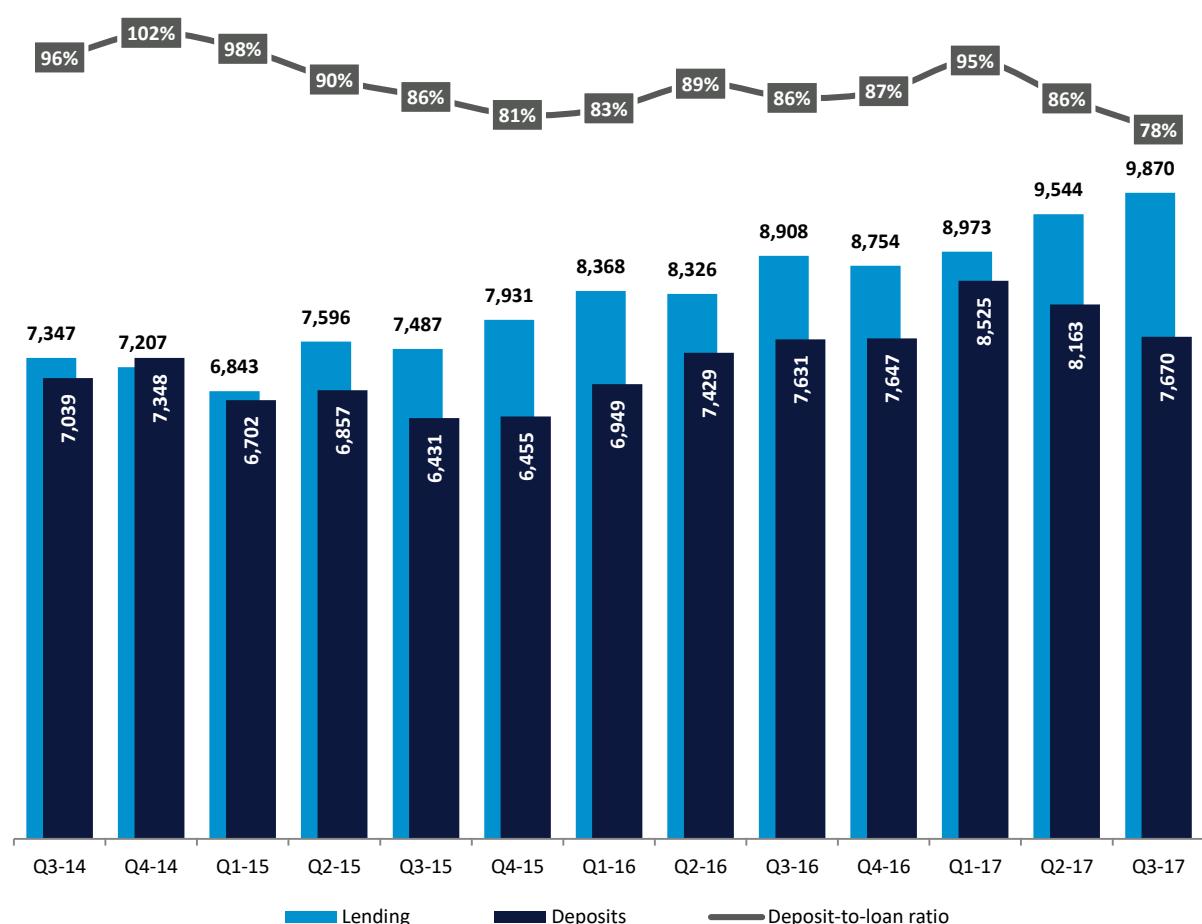
# FUNDING | OVERVIEW \*

## Sources (NOKm)

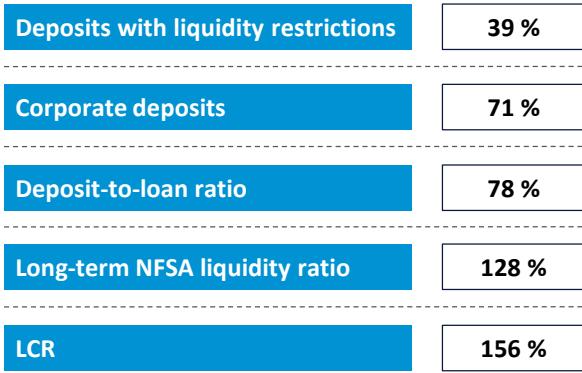
$\Sigma = \text{NOK } 13,310\text{m}$



## Historical development in deposits vs. lending (NOKm)



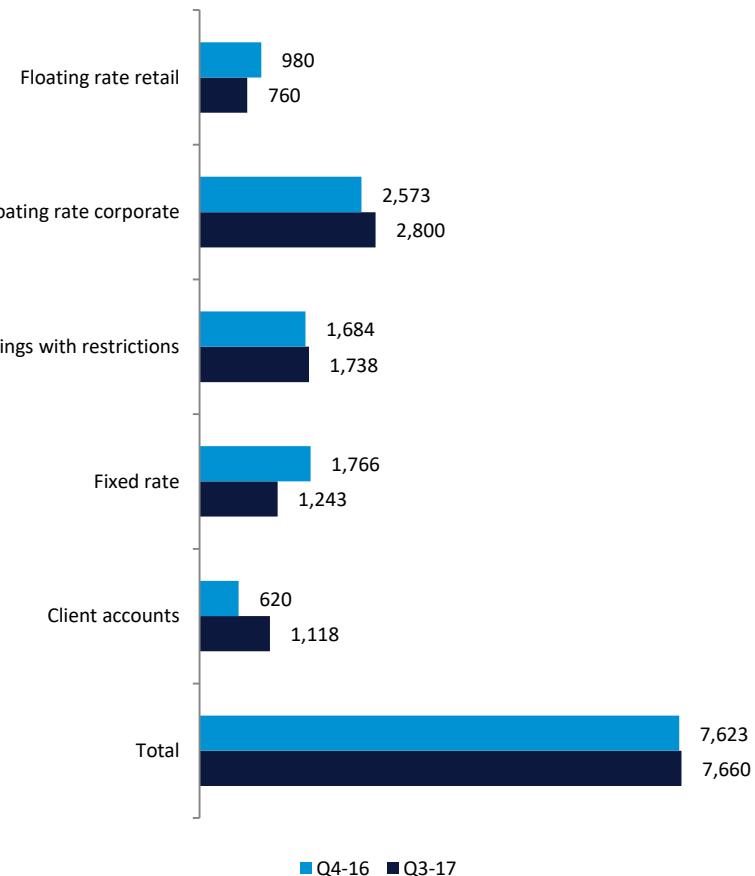
## Key ratios



# FUNDING | CUSTOMER DEPOSITS \*

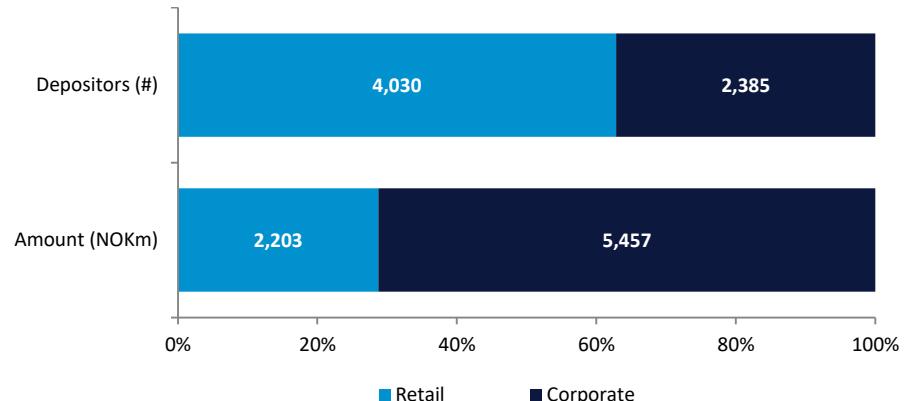
## Deposits by product

$\Sigma = \text{NOK } 7,660\text{m}$



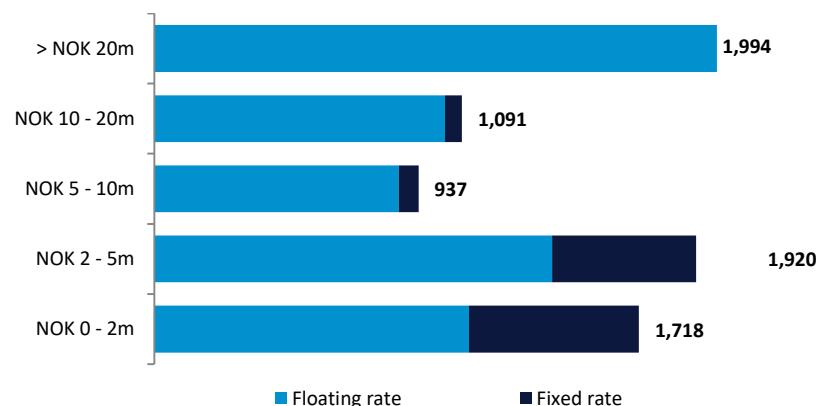
## Deposits by type

$\Sigma = \text{NOK } 7,660\text{m}$



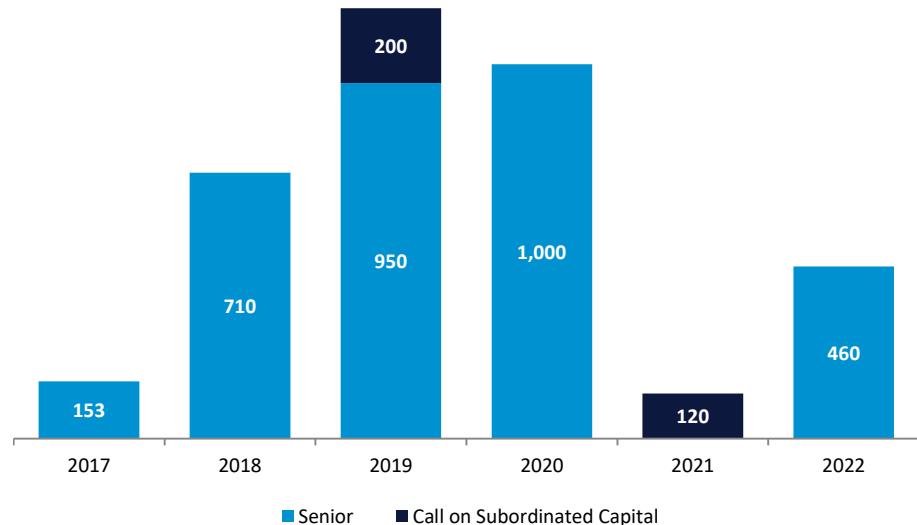
## Deposits by size (NOKm)

$\Sigma = \text{NOK } 7,660\text{m}$

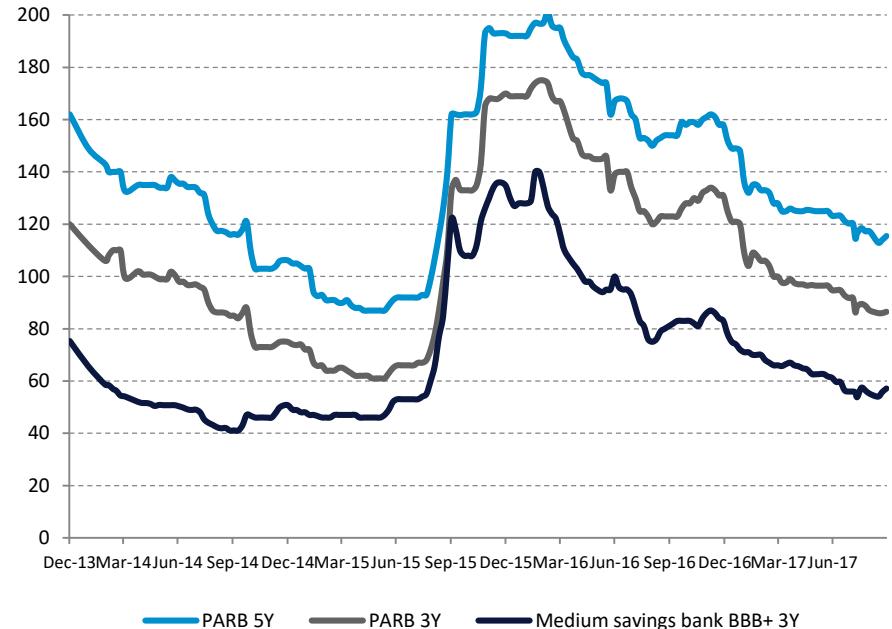


# FUNDING | MARKET FUNDING

Market funding maturities - net of own holdings (NOKm) \*



Credit spreads (bps)



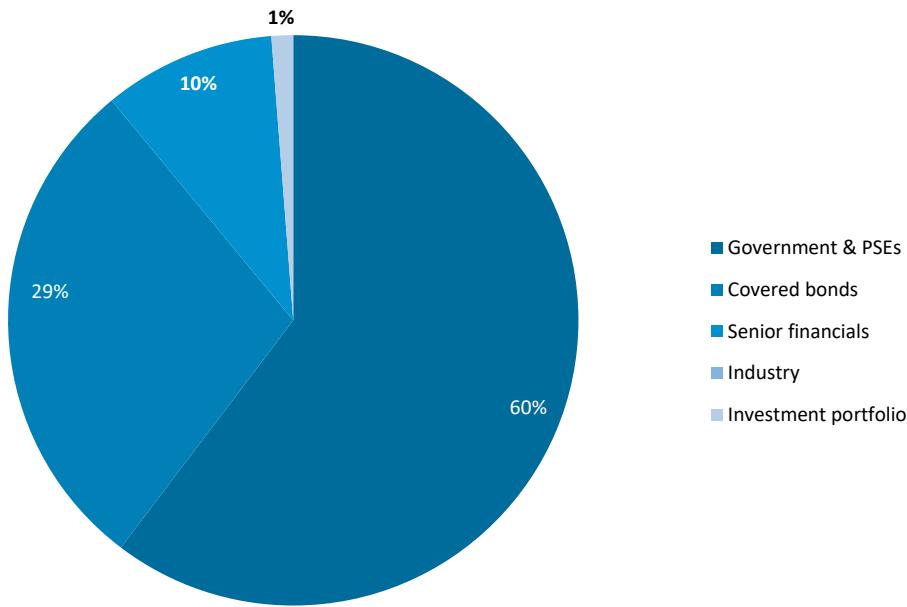
- The bank has eight loans outstanding with maturities up to five years
- The bonds are listed on Nordic ABM and the Oslo Stock Exchange

- The bank sends out target bid/offer spreads to brokers regularly
- Pareto Bank's focus is on continuously improving investor relations through transparent pricing and providing liquidity by market making

# SURPLUS LIQUIDITY

## Bond portfolio (NOKm)

$\Sigma = \text{NOK } 3,331\text{m}$



## Key comments

- The bank's liquidity is comprised of cash and highly liquid bonds
- Liquidity held to meet future bond maturities and short-term lending growth
- The bank has a high LCR due to a high level of deposits in other banks and holdings in government bonds
- High share of government & PSEs to reduce credit spread risk and increase short-term liquidity
- Large share of covered bonds, mainly short to medium maturities
- NOK 40m invested in high-yield bond funds in the investment portfolio (max limit NOK 500m)

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# STATUS FINANCIAL TARGETS 2017

	30.09.2017 STATUS	31.12.2017 TARGET	
LENDING GROWTH	<b>NOK 1,116m</b>	<b>~NOK 1,000m</b>	Continued growth in residential property development. High sales activity within corporate financing.
ROE	<b>16.6 %</b>	<b>&gt; 13.0 % *</b>	Lending growth on high margins and cost efficiency yield high returns.
CAPITAL ADEQUACY	<b>16.6 %</b>	<b>15.2 % **</b>	The board will set a new capital target given the pillar 2 requirement. High earnings and balance sheet management ensure solidity.
DIVIDEND POLICY	<b>30-50 %</b>	<b>30-50 %</b>	The payout ratio will depend on the growth potential within the bank's market

# STATUS PORTFOLIO GOALS 2017

BUSINESS AREAS	MARKET	STATUS 30.09.2017	GROWTH TARGETS 2017
<b>Real estate</b> 	A possible slowdown in presale on new projects due to a large housing stock and a negative market sentiment in Oslo.	Net growth of approximately NOK 1,421m	Net growth of approximately NOK 600m
<b>Securities &amp; Corporates</b> 	A market with opportunities: tailor-made transaction-based financing to SME's.	Net growth of approximately Securities: - NOK 294m Corporates: + NOK 250m	Net growth of approximately Securities: - NOK 300m Corporates: + NOK 500m
<b>Shipping &amp; offshore</b> 	Cautious growth. Several markets making a gradual recovery.	Net growth of approximately - NOK 214m	Net growth of approximately NOK 200m

 Pareto bank