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# **PARETO BANK**

## **Sparebank1 Markets**

### **CMD Nordic Challenger Banks**

Second Quarter 2016

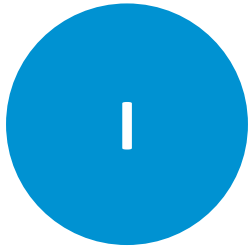
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# NORWAY'S LEADING PROJECT BANK

BUSINESS AREAS	PROJECTS / CREDITS	AREA EXPOSURE	AVG. PRINCIPAL
<p>Real estate</p> 	<ol style="list-style-type: none"> <li>1. Construction financing</li> <li>2. Project financing</li> <li>3. Commercial property financing</li> </ol>	<p><b>57 %</b></p>	<p><b>NOKm 25-50</b></p>
<p>Securities &amp; Corporates</p> 	<ol style="list-style-type: none"> <li>1. Securities financing</li> <li>2. Bridge financing</li> <li>3. M&amp;A financing</li> </ol>	<p><b>27 %</b></p>	<p><b>NOKm 5-30</b></p>
<p>Shipping &amp; Offshore</p> 	<ol style="list-style-type: none"> <li>1. Shipping projects</li> <li>2. Offshore projects</li> <li>3. Medium sized shipowners</li> </ol>	<p><b>13 %</b></p>	<p><b>USDm 5-10</b></p>

# A DIFFERENT BANK

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## FAST MOVER

- Compact organization with 33 employees
- Short decision lines, no bureaucracy and an efficient credit decision process
- Frequent credit committee meetings facilitate fast time to market



## FLEXIBLE

- Solution oriented
- 80% of the employees work with customers on a daily basis
- High level of service: open 24/7



## ENTREPRENEURIAL

- Commercially oriented culture
- Customer profitability is a strategic cornerstone: all loans shall be profitable from day one
- We do not compete on price, we add value through professionalism, efficient decision-making and a solution oriented mind set

# PORTFOLIO COMPOSITION | OVERVIEW\*

## MAIN BUSINESS AREAS

### Real estate

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

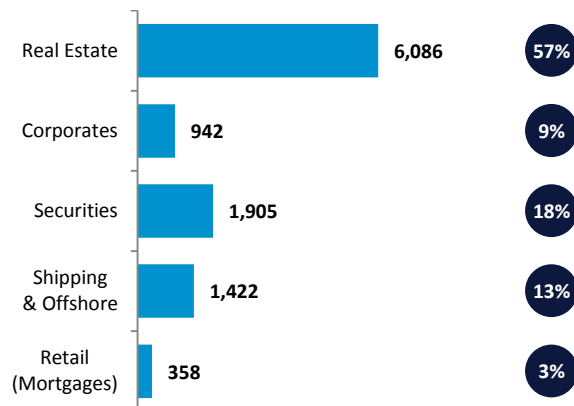
### Securities & Corporates

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

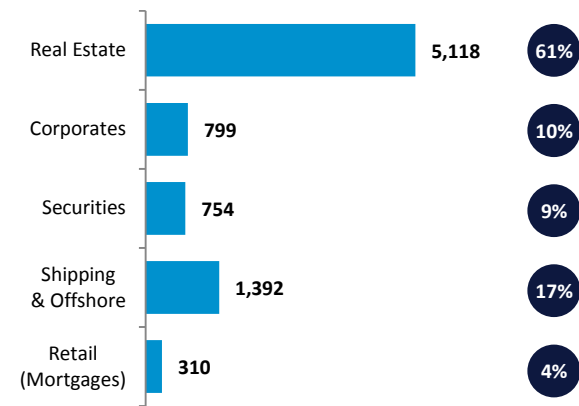
### Shipping & Offshore

*Gradually building a diversified shipping and offshore portfolio*

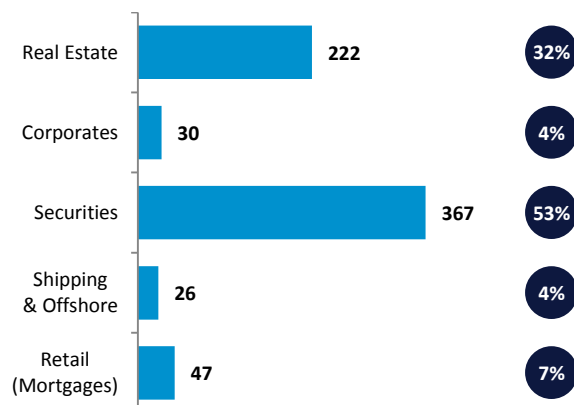
## Gross credit exposure (NOKm) $\Sigma = \text{NOK } 10,714\text{m}$



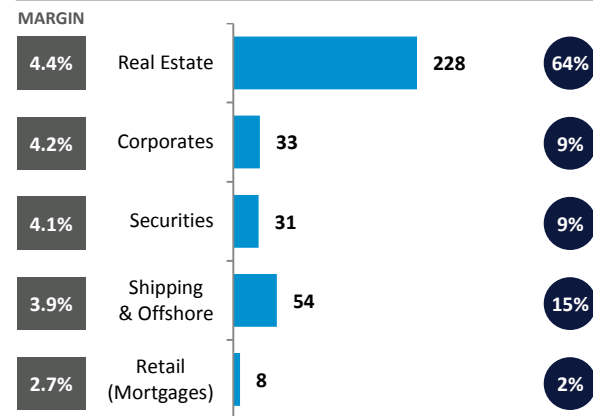
## Gross total lending (NOKm) $\Sigma = \text{NOK } 8,373\text{m}$



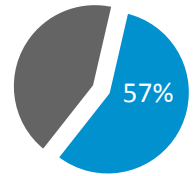
## Number of active clients $\Sigma = \# 692$



## Interest contribution (NOKm) \*\* $\Sigma = \text{NOK } 354\text{m}$

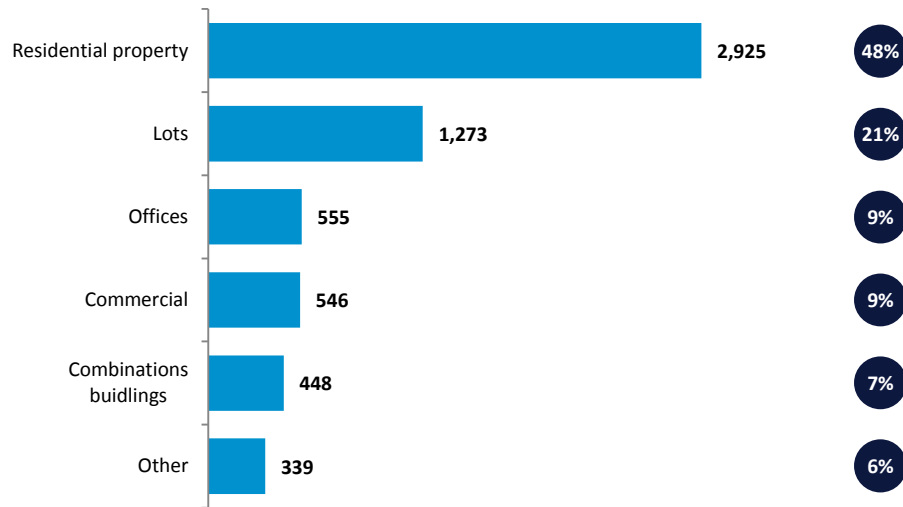


# REAL ESTATE (I) | STRONG MARKET POSITION \*

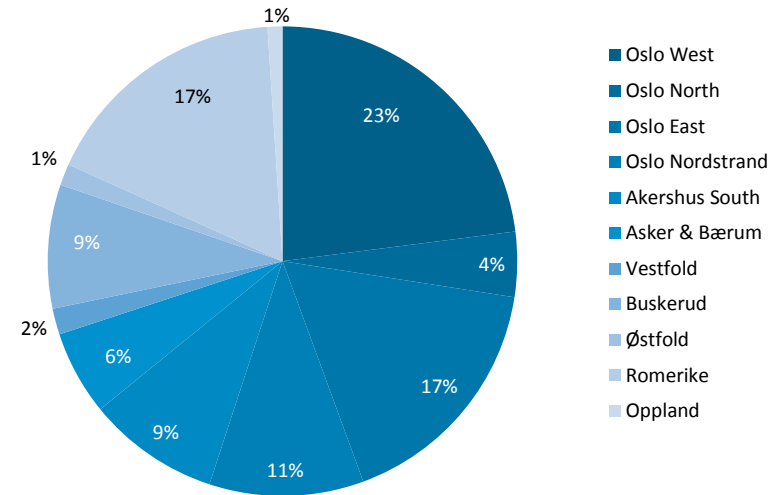


## Real Estate credit exposure (NOKm)

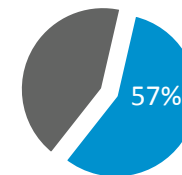
Σ = NOK 6,086m



## Geographical residential property exposure (NOKm) \*\*



- Strong market position within residential property construction in the Oslo region
- Primarily financing of regulated lots with a potential for property development
- A typical project is composed of lot financing and a building construction facility in the range of NOK 10 - 50m for the construction of 4 - 8 homes in the greater Oslo area
- Financing of projects for renovation and conversion of commercial property to residential units

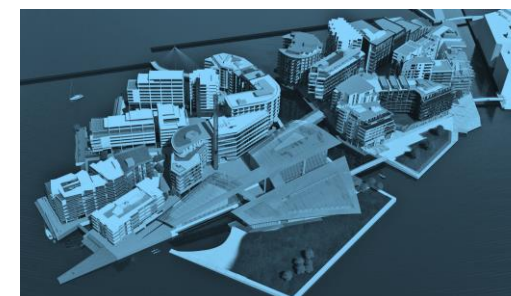


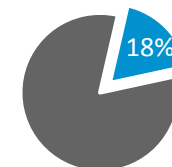
## Real Estate portfolio policy

- Primarily financing of projects in the Oslo region and other well functioning and liquid markets
- On average 20% to 40% equity required to finance a property lot
- Primarily financing of regulated lots purchased for development with a clear exit strategy
- The developer must demonstrate ability and experience in successfully completing projects
- Projects are stress-tested: the bank credit must be covered when the price of unsold units falls by 50%
- Primarily turnkey projects to minimise cost overruns

## Real Estate portfolio strategy

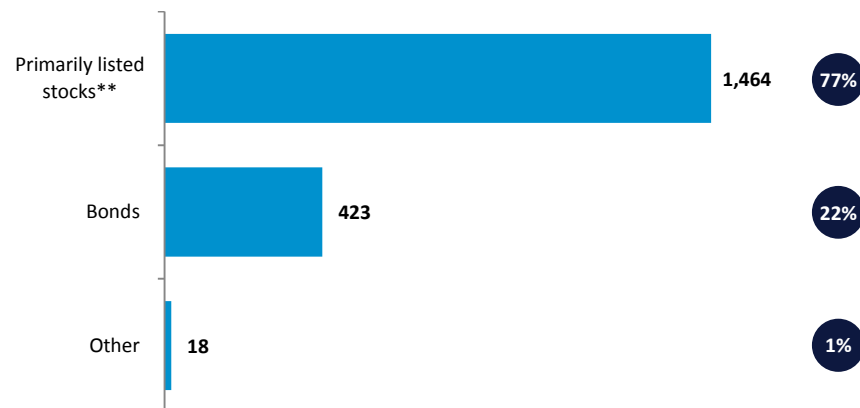
- Expertise and experience within all areas of significance to a developer
- In-house legal and regulatory skills combined with a high level of market knowledge
- Experienced in assessing project risks: several hundred projects are assessed annually
- Tight project management
- External third-party professional building inspectors follow up every project on a monthly basis on behalf of the bank
- The property construction portfolio is stress-tested twice a year





## Total securities exposure (NOKm)

Σ = NOK 1,905m



## Key comments

- A dedicated and highly skilled team of 3 FTE's in addition to the head of securities & corporates
- The main rationale is to take advantage of the opportunities afforded by the bank's link to the Pareto group
- Wide range of securities financing products and investment services
- Customized and flexible financing solutions

## Securities financing

### Overview

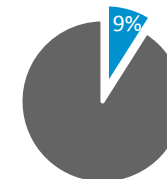
- Total exposure of NOK 1,905m
- 367 customers of which only 47 have a credit facility of above NOK 10m
- Real time follow-up and any breach of margin call / LTV limit must be repaired by the end of next day

### Standard products

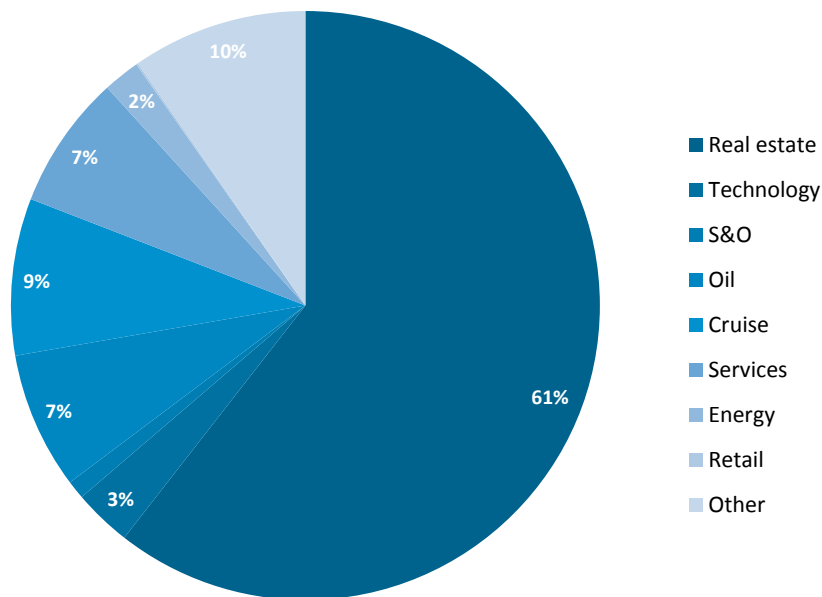
- Financing of stocks primarily on Oslo Stock Exchange with a LTV / Leverage of 0% to 80%
- Financing of short trades on Oslo Stock Exchange
- Financing of high yield bonds mainly arranged by Pareto Securities with a LTV/leverage of around 50%
- Financing of funds (stocks, bonds etc.)

### Specialized products

- Forwards, total return swaps
- Guarantees in favour of Oslo Stock Exchange for companies in a mandatory offer position



## Total corporate finance exposure by industry (NOKm) $\Sigma = \text{NOK } 942\text{m}$



## Corporate financing

### Overview

- Total exposure of NOK 942m
- 30 customers with credit facilities/guarantees in the range of NOK 1m to NOK 200m
- Exposure to a variety of industries

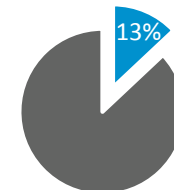
### Products

- Various forms of bridge financing in connection with investments and issues
- M&A financing
- Financing of investments with guarantees from financially sound owners

### Time is everything

- Our value proposition lies in the transaction phase of an investment
- Our clients need a professional and dedicated credit team that can efficiently structure tailor-made financing for a specific project



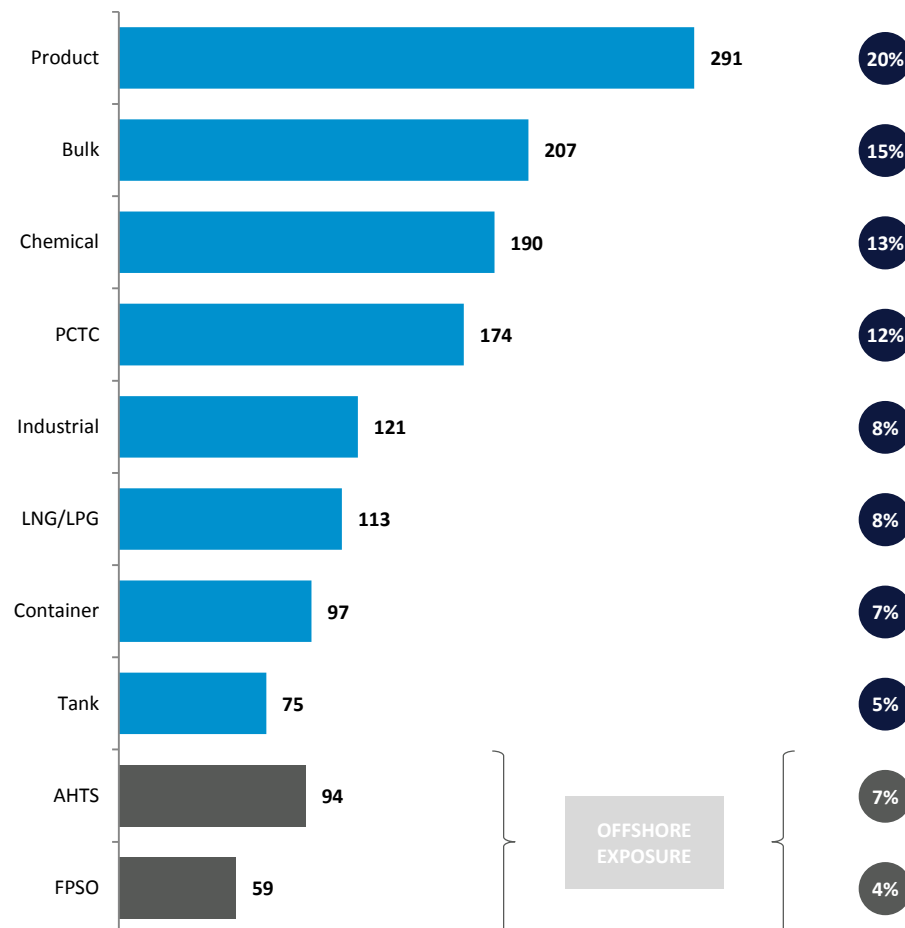


## Key comments

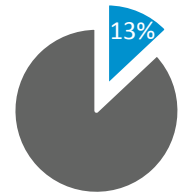
- 24 loans financing a total of 35 vessels
- Largest exposure is USD 13.3m; average size USD 6.7m
- Weighted average loan to value (LTV) is 62%
- At origination only one loan has been approved with a LTV above 60% (albeit with guarantees)
- Currently 10 loans have a LTV above 70% based on updated valuations as of 30.06.2016: including guarantees from owners/additional security/uncalled capital the number of loans above 70% LTV drops to 5
- Only 3 loans and one guarantee towards the offshore sector: approx. 1.7% of total credit exposure
- 2 new projects in 2016
- A dedicated and highly skilled team of 3 FTE's in addition to the head of S&O are responsible for the segment

## Total S&O credit exposure (NOKm)

Σ = NOK 1,422m



# SHIPPING & OFFSHORE (II) | POLICY & STRATEGY



## S&O portfolio policy

- Minimum equity of 30%, but normally in the range of 40% to 50%
- Clients should be based in Norway and have extensive experience and expertise in operations and maintenance
- Projects should have a high quality charterer with transparent books
- Ships built in renowned shipyards, with liquid second-hand markets and well-proven designs
- The portfolio should be diversified and a single segment will normally not exceed 25% of the total S&O exposure over time

## S&O portfolio strategy

- Thorough decision making process: all loans approved by the BoD
- External specialists used as consultants for credit analysis
- Equity analysts and specialists in the Pareto Group are information sources
- Use of expertise from partners regarding valuations, marine insurance and technical assessments
- Individual valuations obtained from independent and reputable shipbrokers every third month
- Continuously monitoring real time vessel values via VesselsValue.com
- Tight covenants are essential: Each loan is assessed on a quarterly basis by "loan-to-value" (LTV) and "minimum cash"
- Immediate measures upon breach

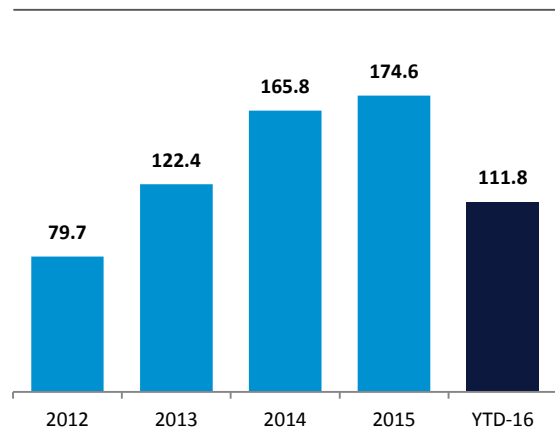


# FINANCIAL TARGETS AND DIVIDEND POLICY

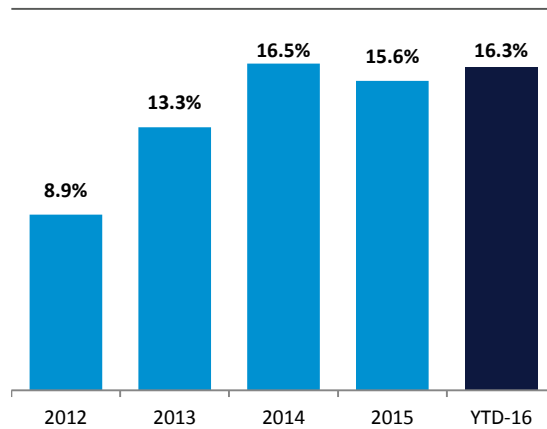
	30.06.2016 STATUS	31.12.2016 TARGET	
ROE	16.3%	> 15.0%	Cost effective and commercially oriented bank
CAPITAL ADEQUACY	15.1%	15.0% *	CET1 capital in line with NFSA requirements
DIVIDEND POLICY	30-50% **	30-50% **	The actual payout ratio will depend on the growth potential within the bank's market
LENDING GROWTH	NOK 394m	NOK 800m	Attractive niche market development with reduced credit supply and improved margins

# SOLID FOUNDATION AND STRONG PERFORMANCE

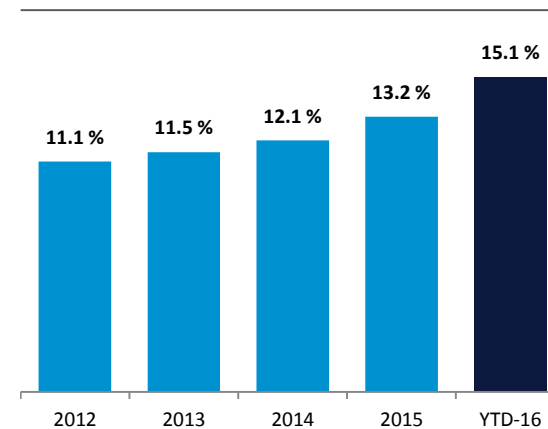
Result after tax (NOKm)



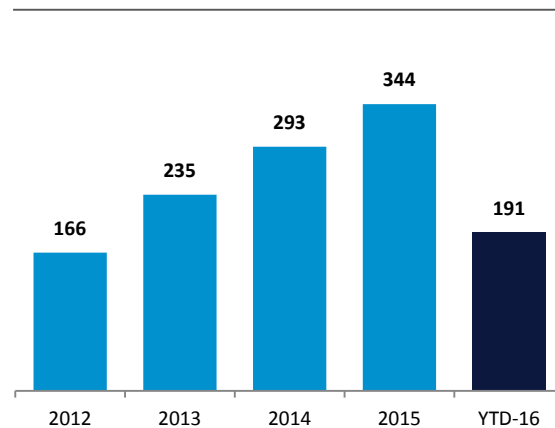
Return on Equity (after tax)



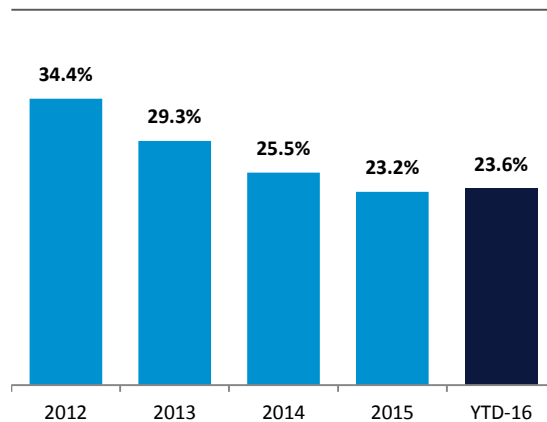
CET1 ratio \*



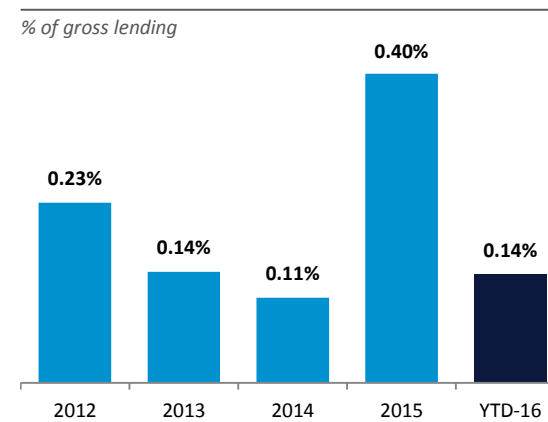
Net interest income (NOKm)



Cost/income ratio



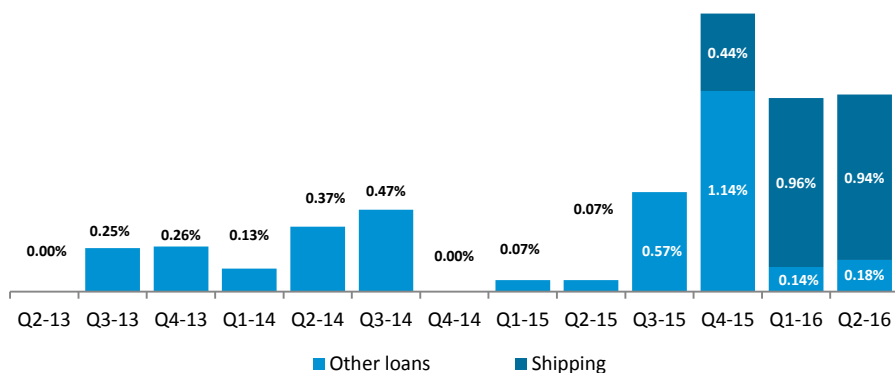
Loss ratio



# LOAN PORTFOLIO QUALITY

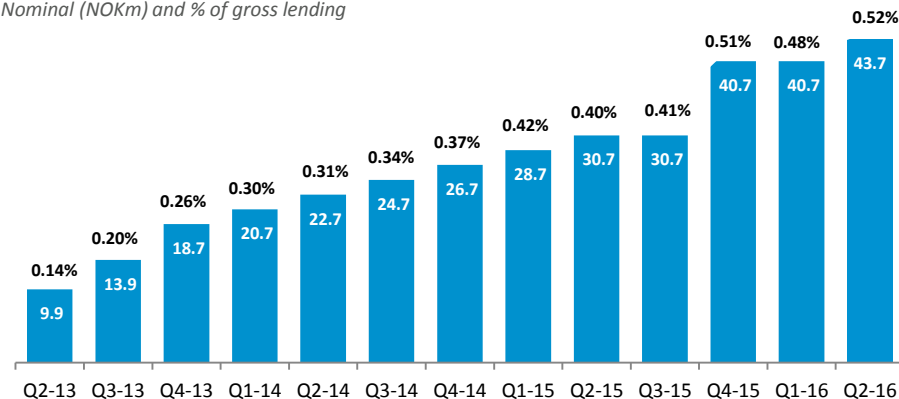
## Net non-performing and impaired loans \*

% of gross lending



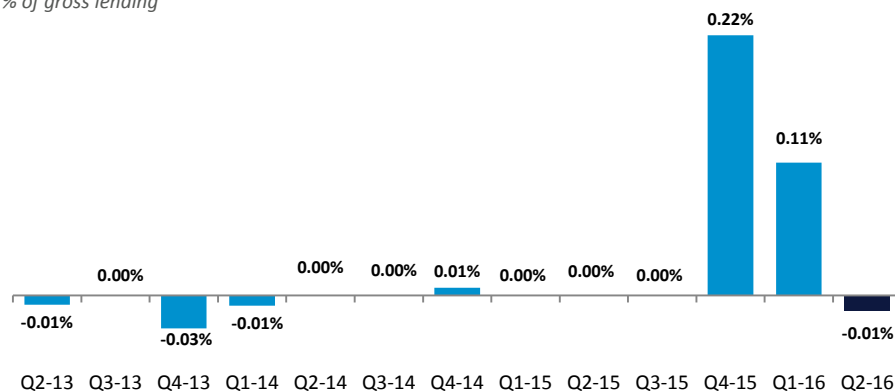
## Cumulative group provisions

Nominal (NOKm) and % of gross lending



## Individual losses/write-downs/reversals on loans & guarantees

% of gross lending

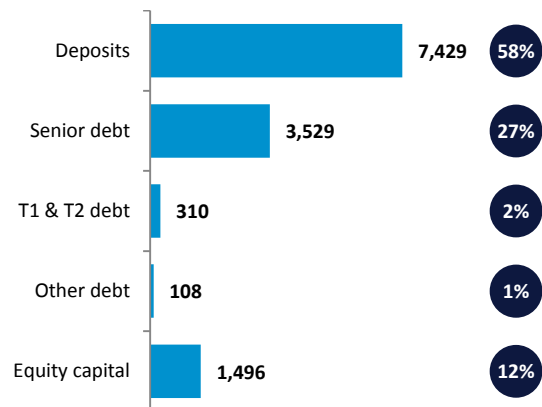


- Net non-performing loans were reduced from NOK 126m (1.58% of gross lending) by the end of Q4-15 to NOK 15m (0.18%) by the end of Q2-16
- Two impaired shipping loans of net NOK 79m (0.94%) by the end of Q2-16
- These two loans are performing loans with total write-downs of USD 3m/NOK 25m (Q4-15 USD 2m, Q1-16 USD 1m)
- Group provisions increased with NOK 3m to NOK 43.7m or 0.52% of gross lending by the end of Q2-16

# FUNDING (I) | OVERVIEW \*

## Sources (NOKm)

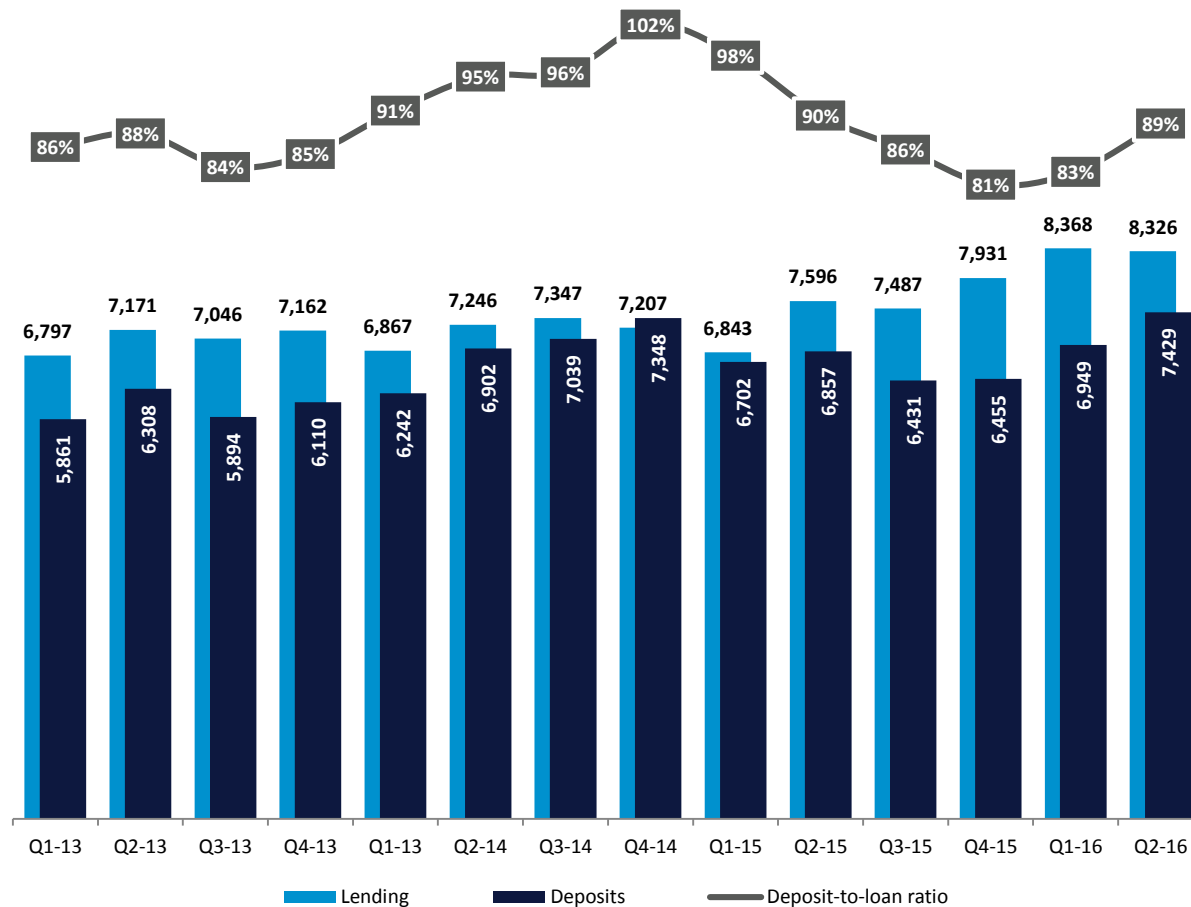
Σ = NOK 12,873m



## Key ratios

Deposits with liquidity restrictions	45%
Corporate deposits	64%
Deposit-to-loan ratio	89%
Long-term NFSA liquidity ratio	139%
LCR	214%

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



# SUCCESSFUL EQUITY ISSUES AND LISTING

1

## PRIVATE PLACEMENT

NOK 150m

2

## REPAIR OFFERING

NOK 47m

3

## EMPLOYEE ISSUE & BONUS SHARE ISSUE

NOK 2m + NOK 4m

4

## EXCHANGE LISTING

Oslo Axess

- The bank successfully raised in total NOK 203m in equity capital through four issues in Q1-2016.
- The objective of the capital increase was to strengthen the bank's CET1 capital in line with the Norwegian FSA requirements and establish a financial platform for continued profitable growth
- New capital allows Pareto Bank to take advantage of significant business opportunities with attractive margins
- Return on Equity on new business significantly above ROE target of >15%
- The bank's shares were listed on Oslo Axess on 27 May 2016

# LARGEST SHAREHOLDERS AS OF 31.08.2016

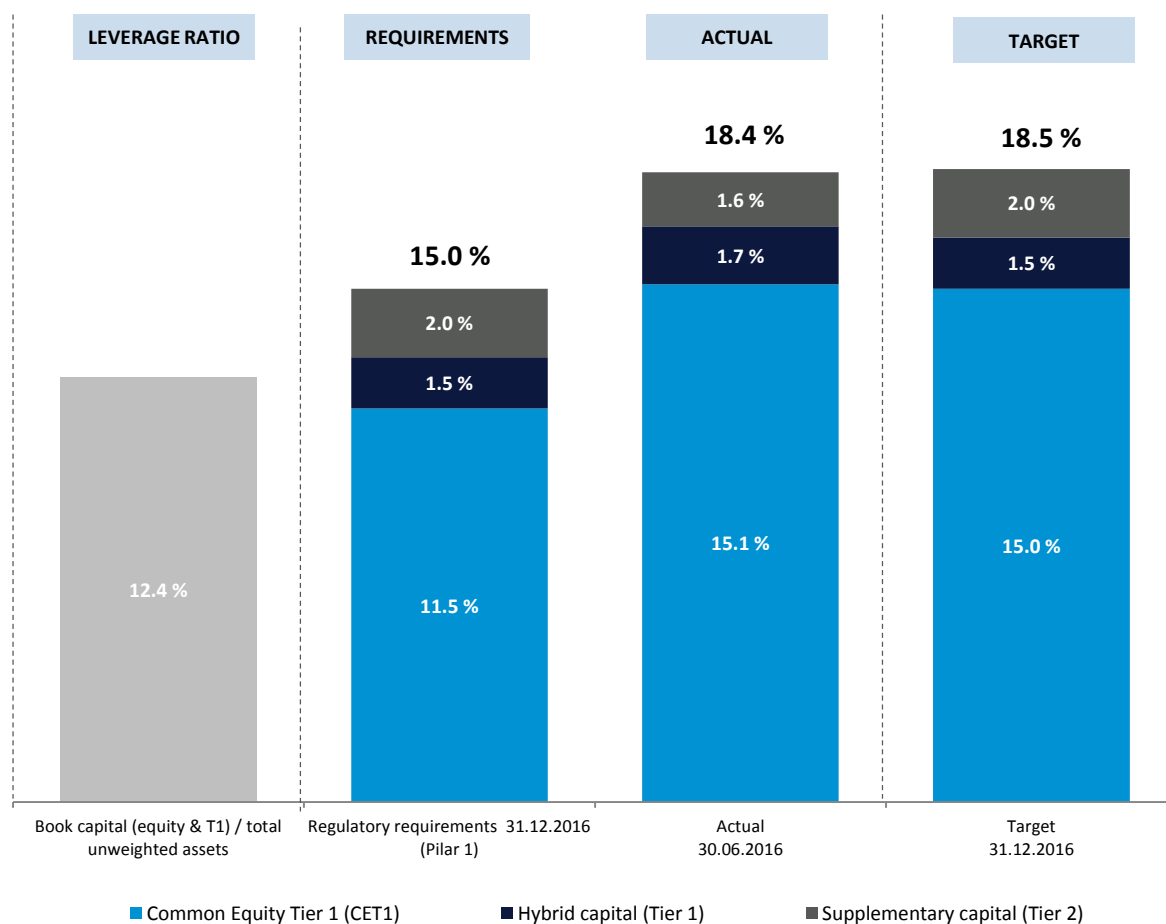
#	Investor	Country	Type	31.08.2016	
				# of shares	% total
1	Pareto AS	NOR	Corporate	7,886,940	15.18%
2	Pecunia Forvaltning AS	NOR	Corporate	5,195,302	10.00%
3	Arne Helge Fredly	LUX	Private	4,000,000	7.70%
4	Indigo Invest AS	NOR	Corporate	3,874,321	7.46%
5	Saga Tankers ASA	NOR	Corporate	3,055,990	5.88%
6	Perestroika AS	NOR	Corporate	2,336,639	4.50%
7	Verdipapirfondet Pareto Investment Fund	NOR	Corporate	1,032,594	1.99%
8	Kolberg Motors AS	NOR	Corporate	1,000,000	1.92%
9	Eiendomsutvikling Kristiansand AS	NOR	Corporate	861,000	1.66%
10	GH Holding AS	NOR	Corporate	805,185	1.55%
11	Artel Holding AS	NOR	Corporate	796,326	1.53%
12	Verdipapirfondet Landkreditt Utbytte	NOR	Corporate	750,000	1.44%
13	Profond AS	NOR	Corporate	727,287	1.40%
14	Castel AS	NOR	Corporate	609,768	1.17%
15	Belvedere AS	NOR	Corporate	574,045	1.10%
16	Centennial AS	NOR	Corporate	538,000	1.04%
17	Uthalden AS	NOR	Corporate	537,667	1.03%
18	Ola Rustad AS	NOR	Corporate	518,023	1.00%
19	Apollo Asset Management Ltd.	CYM	Corporate	500,000	0.96%
20	Apollo Asset Ltd.	GIB	Corporate	459,642	0.88%
<b>Sum TOP 20</b>				<b>36,058,729</b>	<b>69.41%</b>
<b>Other shareholders</b>				<b>15,894,293</b>	<b>30.59%</b>
<b>Total</b>				<b>51,953,022</b>	<b>100.00%</b>

- The Company has 51,953,022 shares outstanding
- One class of shares where one share carries one voting right
- Diversified investor base with 567 shareholders
- ~58% and ~69% of the shares are held by top-10 and top-20 investors, respectively
- Employees & management in Pareto Bank and top management in the Pareto Group own ~2.6% (~NOK 41.1m) \*
- All employees are covered by an annual bonus compensation scheme settled in Pareto Bank shares
- For 2015 the net bonus scheme cost was ~NOK 4.2m (gross ~NOK 10.8m)



# FINANCIAL STRENGTH AND CAPITAL TARGETS

## Pareto Bank capital ratios, requirements and targets \*



## Key comments

- The bank's capital target for CET1 is 15 % by end-of-year 2016
- The bank assessment of its ICAAP requirement including Pillar 2 is 13.9 % as of 30.06.2016
- An additional management buffer covers a possible increased countercyclical buffer requirement, as well as a buffer against changes in the bank's risk weighted assets or capital base
- The bank's Pillar 2 assessment and capital targets have been reviewed by the Norwegian FSA. The bank has not however been through a formal SREP process.

Pareto bank