
PARETO BANK

Financial Results

First Quarter 2018

Pareto bank
Projektbanken

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FIRST QUARTER 2018 HIGHLIGHTS

- 1 Profit after tax NOK 79.2m (NOK 78.3m).
- 2 Return on equity 15.2 % (16.7 %).
- 3 Strong net interest income of NOK 129.1m (NOK 115.4m).
- 4 Net lending growth of NOK 618.2m (NOK 219.7m), primarily within Real Estate financing and Corporate financing.
- 5 Real Estate activity holding up. Housing prices in Oslo and the surrounding regions have levelled out and increased in the first quarter.
- 6 Strong deal flow in Corporate financing is materializing.
- 7 Launching a new digital solution to provide working capital for SMEs.

CORPORATES | LAUNCH OF NEW PRODUCT FOR NORWEGIAN SMEs

New product

- “Fleksibel driftskreditt” is a credit facility based on receivables (factoring) as collateral
- Easy to use, flexible and with transparent pricing
- The product complements the bank’s corporate finance product portfolio while diversifying its risk
- A first step towards a wider range of services for Norwegian SMEs
- Pilot period with first customers in Q2-18

New digital approach

- Full integration with leading cloud based accounting systems
- Credit rating model based on public data and real time accounting information
- Superior risk management due to real time accounting information
- 100 % digital application and on-boarding process with short response time



1. Vi utfører en kredittsjekk



2. Vi kobler oss på ditt regnskapssystem



3. Du signerer avtaledokumenter med BankID



4. Kreditten din er klar til bruk

INCOME STATEMENT

P&L (NOKm)

	Q1-18	Q1-17	2017
Net Interest income	129.1	115.4	507.0
Total other operating income	4.9	18.9	32.0
Total net income	134.0	134.3	539.0
Total other operating expenses	31.0	28.0	112.6
Operating result before losses / write-downs	103.0	106.2	426.4
Losses / write-downs on loans	-2.7	1.8	11.4
Operating result before tax	105.6	104.5	415.0
Tax payable	26.4	26.1	102.4
Profit for the period	79.2	78.3	312.6
<i>Earnings per share (NOK)</i>	1.34	1.30	5.28
<i>Return on equity</i>	15.2%	16.7%	15.9%
<i>Cost income ratio</i>	23.1%	20.9%	20.9%

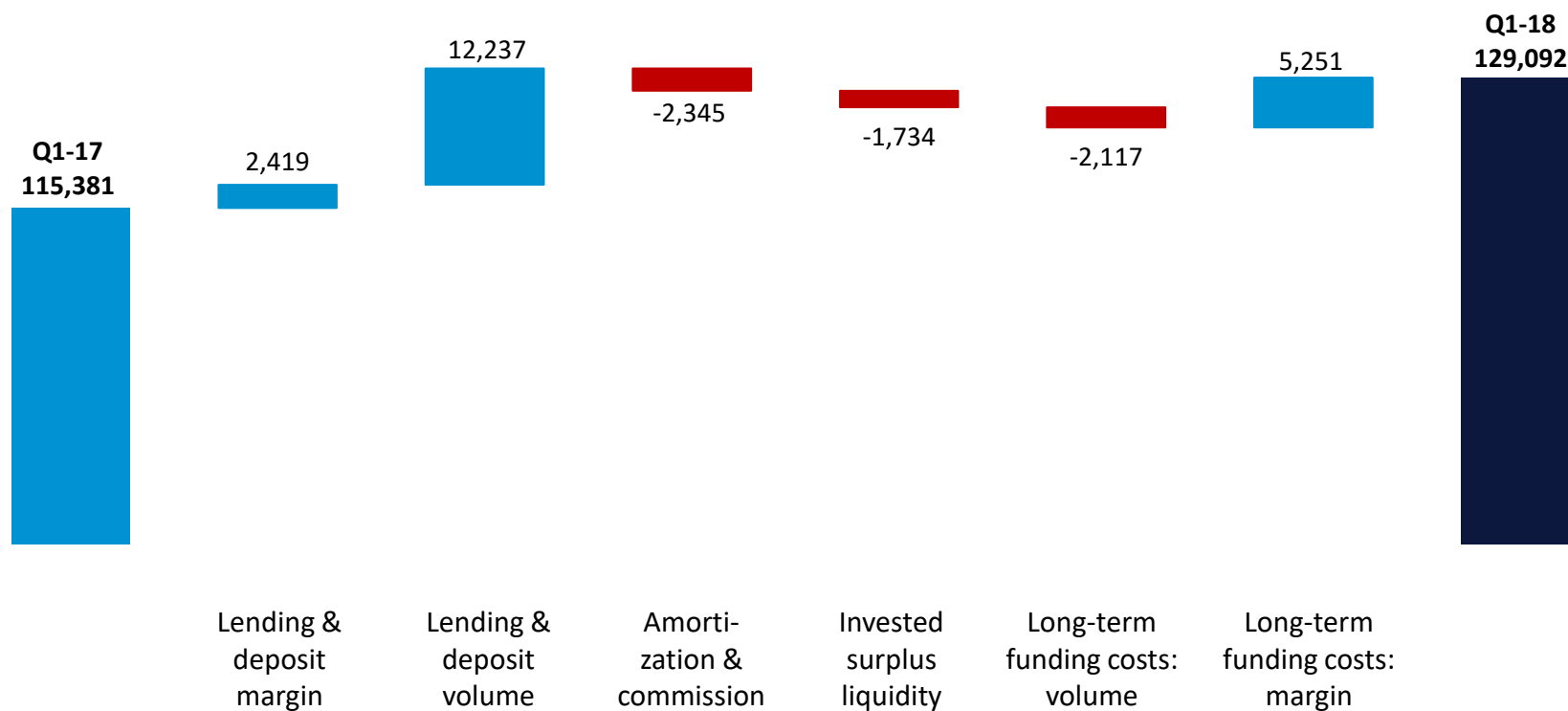
Continued good net interest income due to lending growth. High fee income due to short loan maturity and natural turnover.

Other income in Q1-17 was high by comparison due to extraordinarily high gains on the bank's bond portfolio in 2017.

Reversal of write-downs under IFRS 9 due to a lower level of impaired loans.

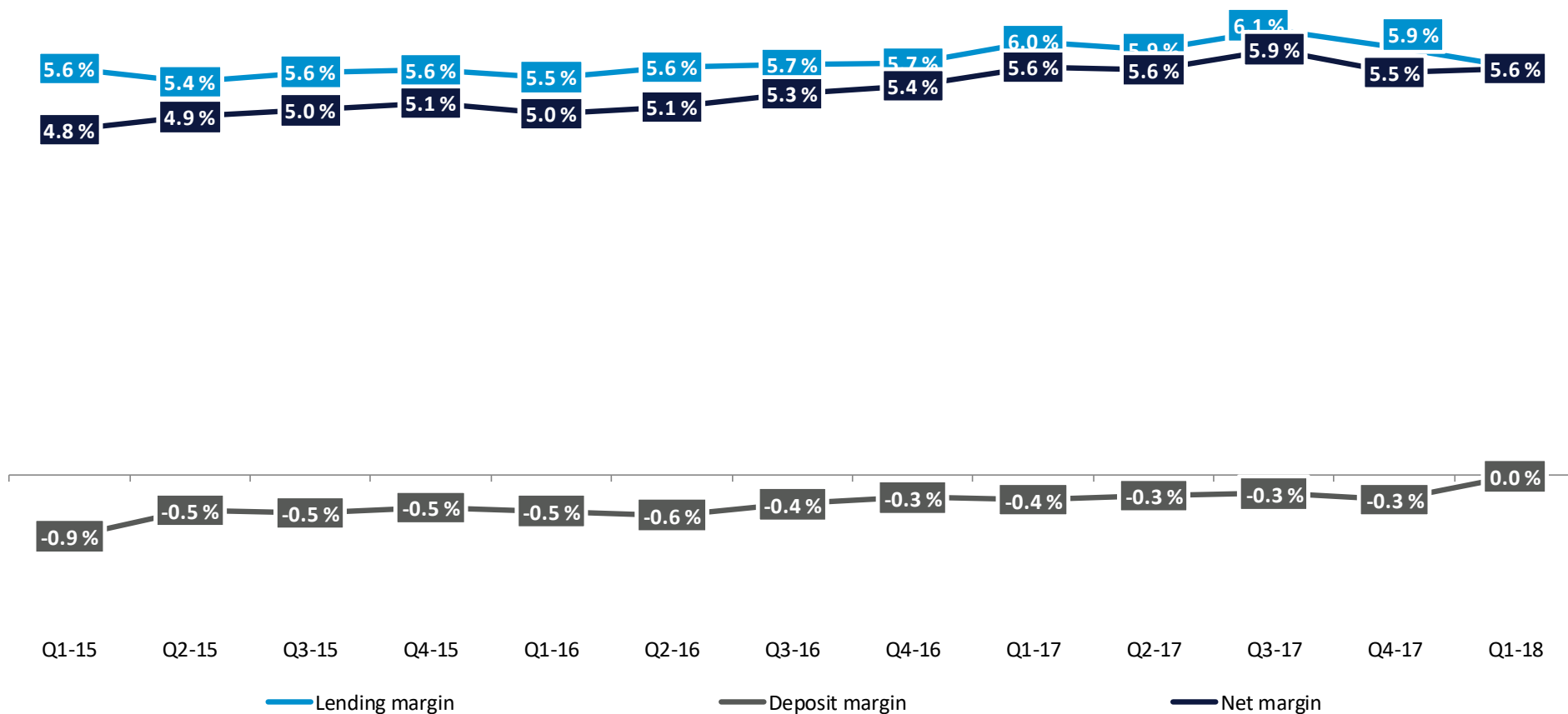
GROWING NET INTEREST INCOME

Net interest income (NOK 1,000)



STRONG MARGINS

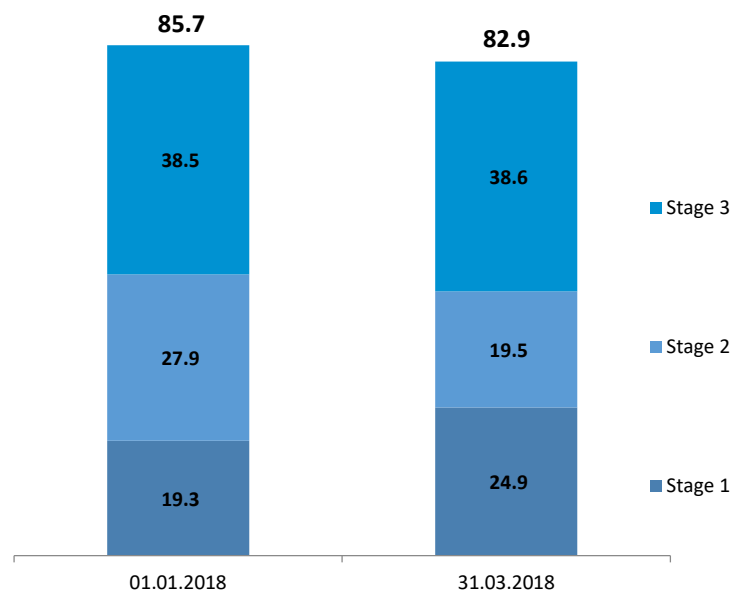
Continuously improving net interest margins (vs. 3M NIBOR) *



LOAN PORTFOLIO QUALITY

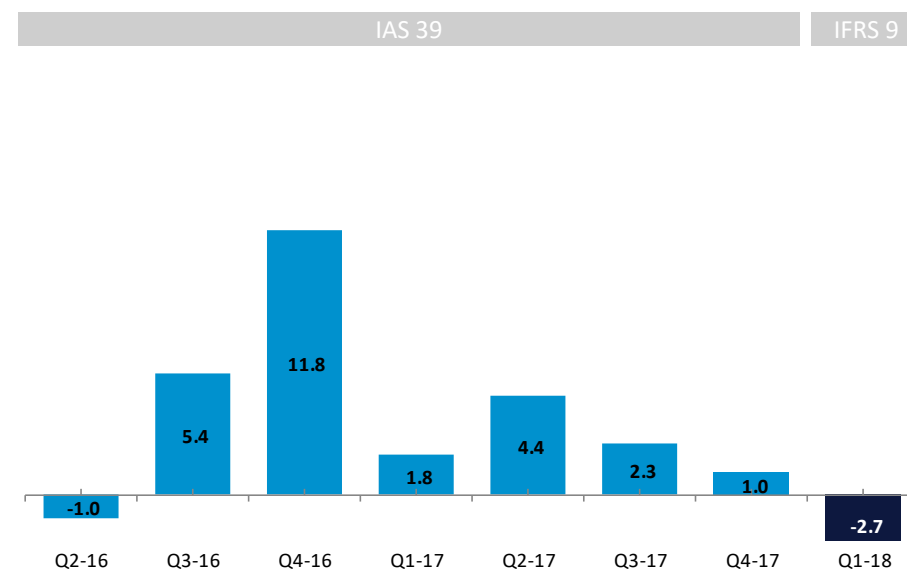
Loss allowances according to IFRS 9

Nominal (NOKm)



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

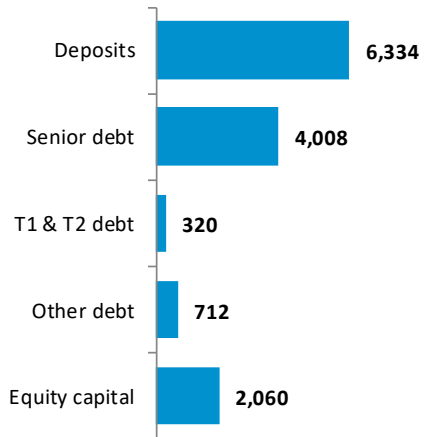
Nominal (NOKm)



FUNDING | OVERVIEW

Sources (NOKm)

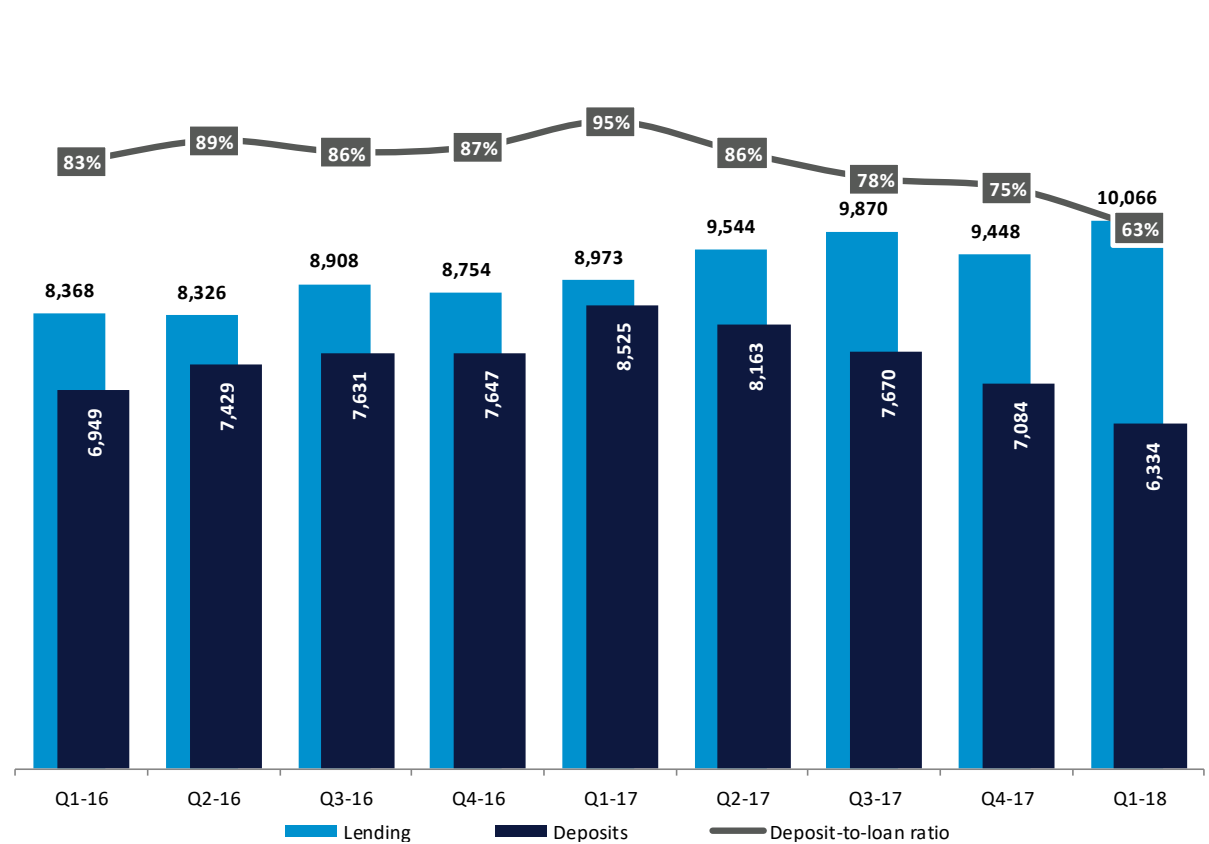
Σ = NOK 13,434m



Key ratios

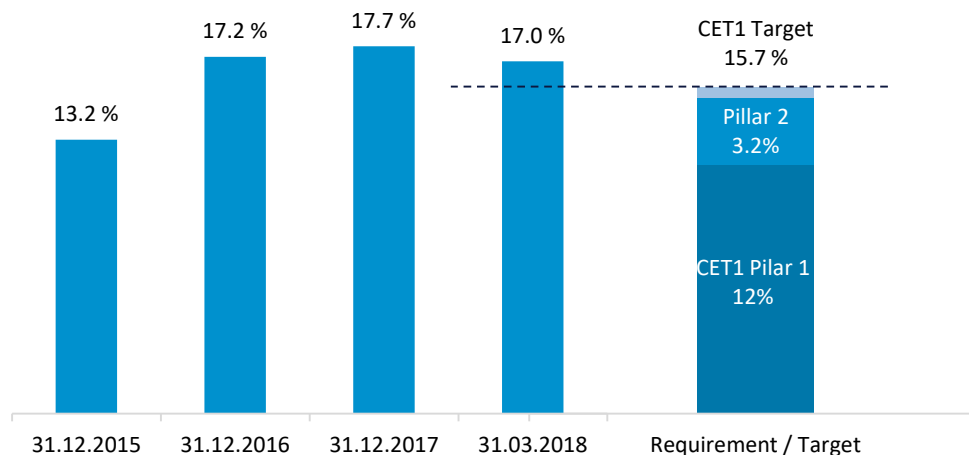
Deposits with liquidity restrictions	40 %
Corporate deposits	68 %
Deposit-to-loan ratio	63 %
Long-term NFSA liquidity ratio	127 %
LCR	140 %

Historical development in deposits vs. lending (NOKm)



CAPITAL REQUIREMENTS

Core equity tier 1 ratio (CET1 ratio)



Key comments on capital

- The bank's minimum CET1 ratio requirement is 15.2 %.
- The board has set a CET1 ratio target of 15.7 % as of 31.12.2018.
- The bank has the ability to manage its balance sheet to meet capital targets.
- The bank has a strong leverage ratio.

Leverage ratio

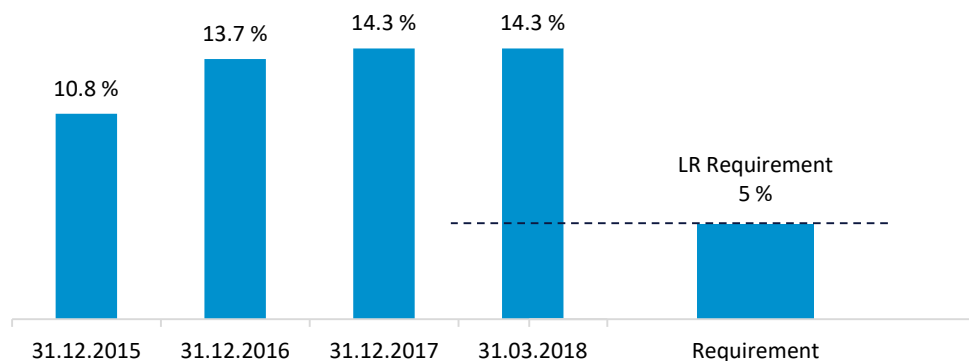


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1 HIGHLIGHTS AND FINANCIALS

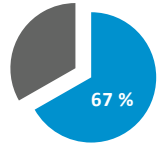
2 BUSINESS AREAS

3 AMBITIONS FOR 2018

NORWAY'S LEADING PROJECT BANK

BUSINESS AREAS	PROJECTS / CREDITS	EXPOSURE	AVG. PRINCIPAL
Real estate	Property lot financing Building construction facilities Commercial property financing	NOKm 8,415 67 %	NOKm 30
Corporates	M&A loans Bridge loans Investment loans Working capital facilities	NOKm 1,744 14 %	NOKm 30
Securities	Securities financing	NOKm 1,254 10 %	NOKm 5
Shipping & offshore	Ship owners Family offices Shipping and offshore projects	NOKm 1,006 8 %	USDm 5-15

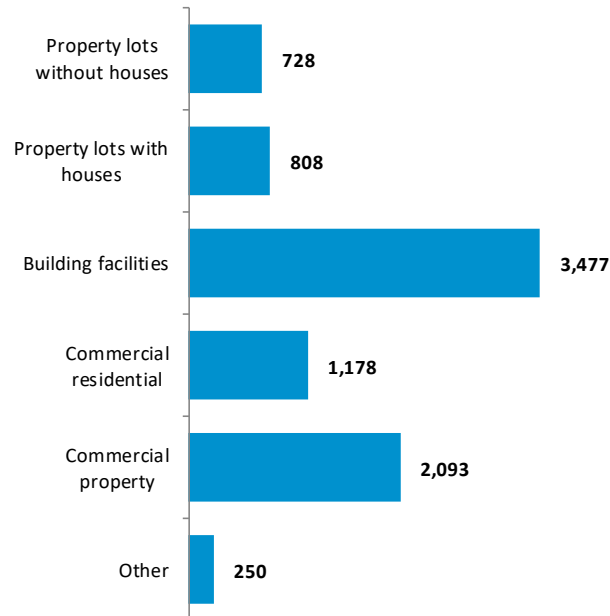
REAL ESTATE | ACTIVITY IS HOLDING UP



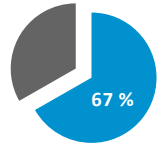
Real estate credit exposure (NOKm)

$\Sigma = \text{NOK } 8,535\text{m}$

Key comments

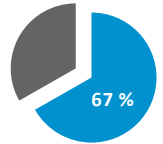


- Continued strong deal flow has resulted in real estate credit exposure growth of NOK 626m in Q1-18
- Most of the growth took place within residential property development where the exposure increased by NOK 431m in Q1-18
- Slower sale of new housing projects combined with a high natural turnover rate on loans can hamper deal flow and growth in last half of 2018



- ✓ Focus on presale, liquidity buffers and adequate equity contribution
- ✓ Presale requirement: if the price of unsold units falls by 50 % compared to the price of presold units, the sales amount must still be sufficient to cover the bank credit
- ✓ Presale quality: end-users are assessed and qualified
- ✓ Tight covenant setting with respect to working capital, liquidity buffers, liquidity reporting
- ✓ 20 % to 40 % equity contribution to finance a property lot purchase
- ✓ Restrictive attitude towards financing of projects with long-term exits
- ✓ Approximately 50 % of the financed property lots are with rental income as they are utilized for residential purposes.
- ✓ Approximately 50 % of project exposure is in the small house segment (94 out of 150 projects)
- ✓ A high natural turnover rate on loans is in general risk mitigating

REAL ESTATE | RESIDENTIAL PROPERTY EXPOSURE



A diversified portfolio *

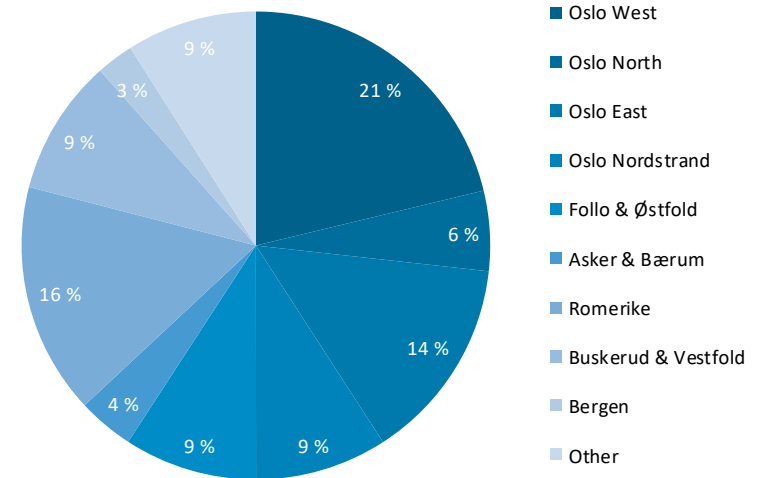
- The residential property exposure is diversified by geographic area, project type and size
- The portfolio is made up of 150 different addresses with an average project size of NOK 41m
- 94 projects are construction of small houses (*småhus*), while the rest are apartment projects. Exposure to small house projects amounts to approximately 50 %
- Apartments vary from large, exclusive units to smaller units.

Market observations

- A differentiated market in Oslo: demand for small apartments (50 square meters or less) is low due to regulation (*boliglånsforskriften*) and high supply
- Continued demand for small houses (*småhus*)
- Housing prices in Oslo and the surrounding regions have levelled out and have increased in the first quarter

Geographical residential property exposure (NOKm)

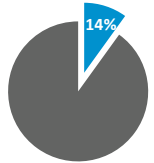
Σ = NOK 6,444m



Largest areas:

Oslo	50 %
Akershus & Østfold	29 %
Buskerud & Vestfold	9 %

CORPORATES | STRONG DEAL FLOW



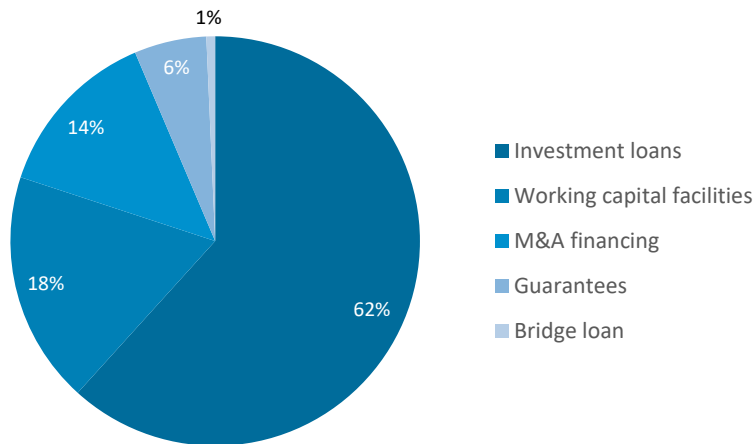
Status

Total exposure of NOK 1,744m within a variety of industries. 61 customers with credit facilities in the range of NOK 0.1m to NOK 150m.

Total exposure increased by NOK 283m in Q1 2017.

Investment loans comprise 62 % of total exposure.

More M&A financing is expected going forward.



Products

INVESTMENT LOANS

Financing of investments for a client who backs the investment with a financially solid parent company.

M&A FINANCING

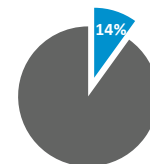
Traditional M&A and LBO financing to Norwegian small and medium-sized enterprises (SMEs).

BRIDGE LOANS

Bridging of liquidity for clients who have both bought and sold assets, but not timed the cash flow. Short term financing until a more permanent funding source is in place.

WORKING CAPITAL FACILITIES

Normally given in combination with other loans. Client pays a commitment fee for access to a credit line that can be drawn to meet short-term borrowing needs.



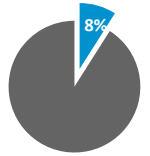
Market observations

- Limited competition within corporate financing for small and medium-sized Norwegian enterprises (SMEs)
- Large banks allocate capital to private customers, large corporates and large transactions
- The bond market is no real alternative for SMEs as the amounts are too small
- Transactions are often too large or complex for local savings banks

Strategy

- Main focus on corporate transactions (M&A, MBO, LBO)
- Focus on SMEs with revenue between NOK 20m to NOK 500m
- Tailor-made solutions to fit client needs
- Thorough fundamental credit analyses of all companies
- Focus on business model, financials, corporate governance and management and no specific sector or industry criteria
- A conservative approach to leverage and strict financial covenants
- Tenor varies depending on product. Within M&A financing an average tenor of 3 to 5 years

SHIPPING & OFFSHORE | DIVERSIFIED PORTFOLIO

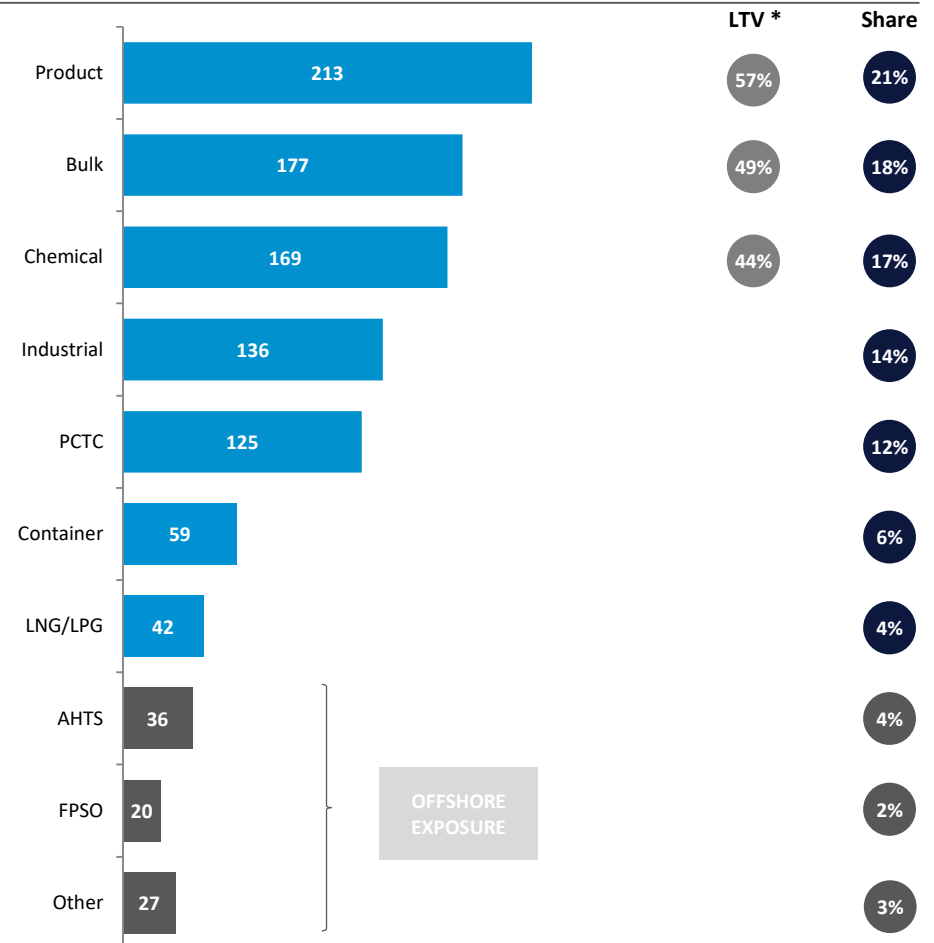


Status

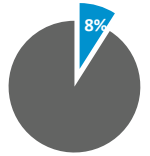
- 21 customers and a total of 32 vessels
- Largest exposure is USD 13.4m and average commitment size is USD 5.9m
- Two commitments towards the offshore sector equalling approximately 0.4 % of total credit exposure
- A diversified portfolio where a single segment will normally not exceed 25 % of the total S&O exposure
- Maximum S&O credit exposure is 15 % of the bank's total credit exposure

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

Σ = NOK 1,005m



SHIPPING & OFFSHORE | MARKET AND STRATEGY



Market observations

- Right time to increase profitability
- Few banks are currently supporting clients and offering financing in Pareto Bank's targeted segment
- Several shipping markets look promising
- Growth ambition in 2018 is subject to attractive opportunities

Strategy

- Target higher profitability
- Target LTV of 50 %
- Norwegian ship owners, majority shareholders and family offices
- Owners with strong balance sheets and high-quality counterparties
- Tonnage with liquid second-hand markets and well-proven designs
- Higher loan amounts on average to fund modern tonnage and multiple vessels
- Tight covenant setting with respect to minimum value clauses and working capital
- Strategy is revised annually to reflect market development and ensure dynamic risk management



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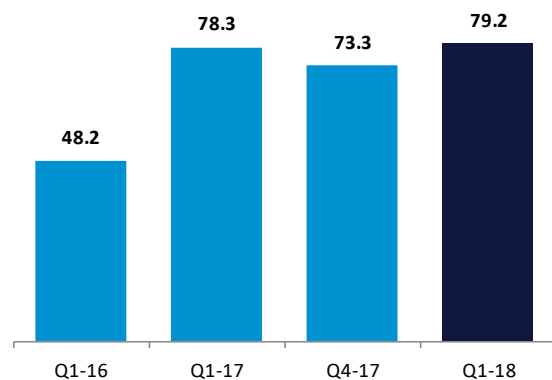
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2 BUSINESS AREAS

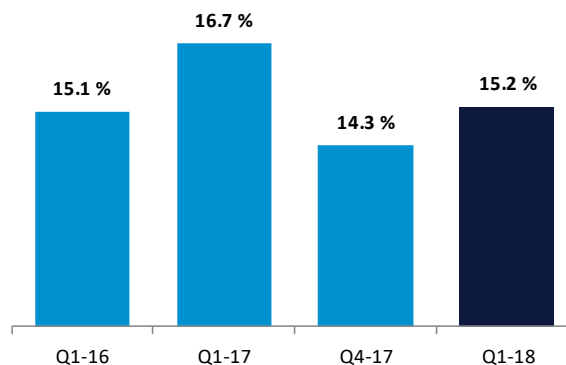
3 AMBITIONS FOR 2018

SOLID FOUNDATION AND STRONG PERFORMANCE

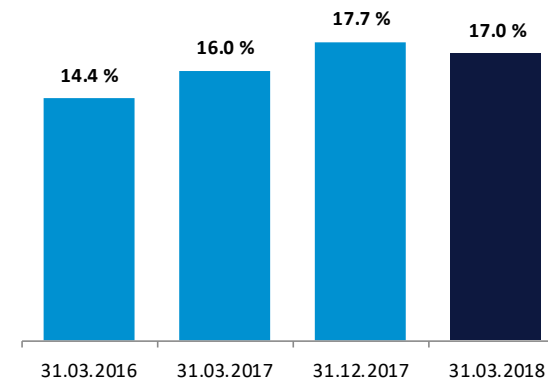
Result after tax (NOKm)



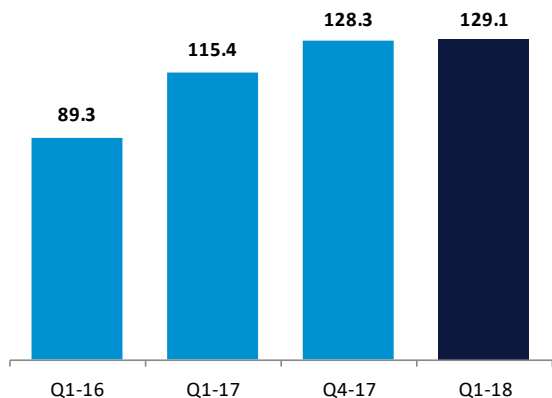
Return on Equity *



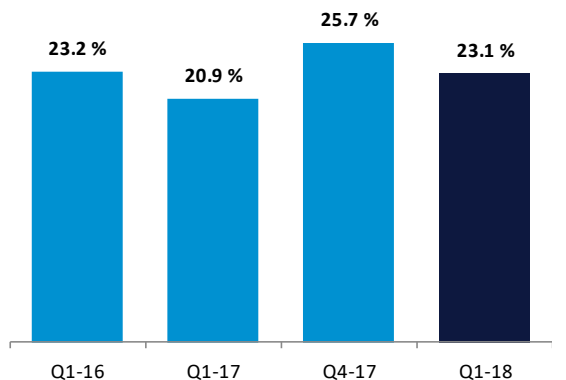
CET1 ratio **



Net interest income (NOKm)

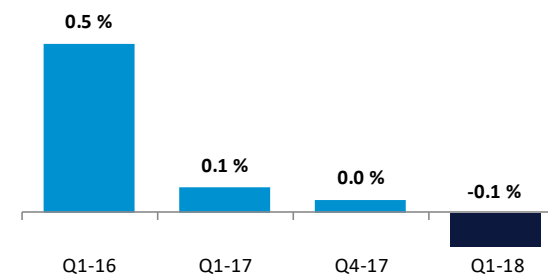


Cost/income ratio



Loss ratio ***

% of average gross lending



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 annualized sum of losses and write-downs on loans and guarantees in the period as a percentage of average gross lending

REVISED FINANCIAL TARGETS

	31.03.2018 STATUS	31.12.2018 TARGET	
LENDING GROWTH	NOK 618m	~NOK 1,000m	Activity holding up and continued growth in residential property. High activity materializing in increased corporate lending.
ROE	15.2 %	> 14.0 % *	Growth on high margins with cost efficiency increases profitability.
CAPITAL ADEQUACY	17.0 %	15.7 % **	Solid capital base for long-term growth. High loan turnover can cause volumes to vary throughout the year.
DIVIDEND POLICY	30 %	30-50 %	The payout ratio depends on the growth potential within the bank's markets.

WELL POSITIONED WITH GROWTH ON STABLE MARGINS

STRONG LENDING GROWTH

- Net lending growth NOK 618m on a stable, high net interest margin of 5.6 %
- Real estate activity holding up with net growth of NOK 626m
- Strong deal flow in corporate finance and lending growth of NOK 138m

STABLE HIGH PROFITABILITY

- Return on equity 15.2 %
- Cost efficient with a C/I ratio of 23.1 %
- High portfolio quality and reduction in non-performing loans

STRONG CAPITAL POSITION

- CET1 ratio 17.0 % and leverage ratio 14.3 %
- Dynamic balance sheet management
- High natural turn-over rate on loans

APPENDIX

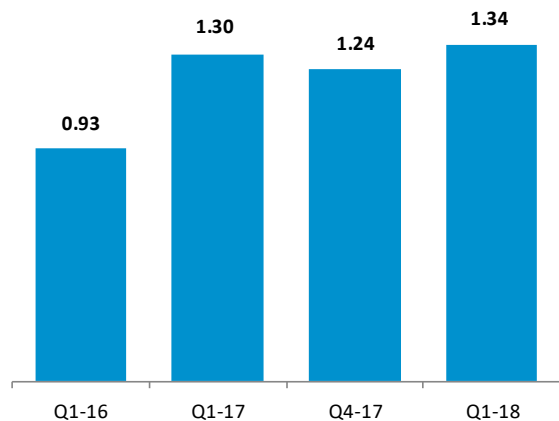
LARGEST SHAREHOLDERS AS OF 09.04.2018

#	Investor	09 April 2018	
		# of shares	% total
1	Pareto AS	8,921,873	15.22 %
2	Pecunia Forvaltning AS	8,013,650	13.67 %
3	Apollo Capital Management	5,545,998	9.46 %
4	Saga Tankers ASA	5,052,547	8.62 %
5	Indigo Invest AS	4,382,711	7.48 %
6	Verdipapirfondet First Generator	2,157,907	3.68 %
7	Verdipapirfondet Landkreditt Utbytte	1,500,000	2.56 %
8	Kolberg Motors AS	1,360,000	2.32 %
9	Artel AS	900,820	1.54 %
10	Castel AS	689,779	1.18 %
11	Uthalden AS	612,451	1.04 %
12	Solan Capital AS	590,000	1.01 %
13	Svemorka Holding AS	500,000	0.85 %
14	Dragesund Invest AS	471,214	0.80 %
15	Thabo Energy AS	452,486	0.77 %
16	AS Clipper	433,845	0.74 %
17	Profond AS	409,597	0.70 %
18	Stenberg Holding AS	381,217	0.65 %
19	Belvedere AS	374,999	0.64 %
20	Oscar Finans AS	368,820	0.63 %
Sum TOP 20		43,119,914	73.56 %
Other shareholders		15,499,774	26.44 %
Total		58,619,688	100 %

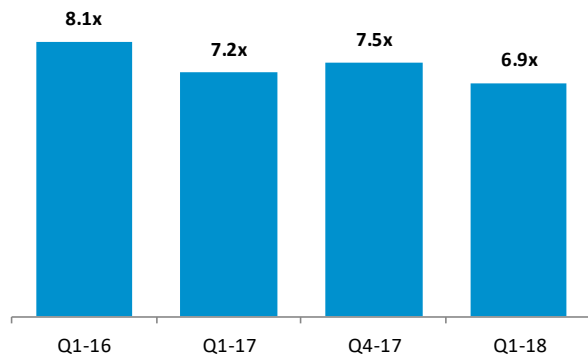
- The Company has 58,619,688 shares outstanding
- One class of shares where each share carries one voting right
- Diversified investor base with 868 shareholders
- The top 10 and 20 investors hold 65.7 % and 73.5 % of the shares respectively
- Employees in Pareto Bank own 2.1 %
- Top management in the Pareto Group owns 2.3 %
- All employees are covered by an annual bonus compensation scheme settled in Pareto Bank shares

THE SHARE

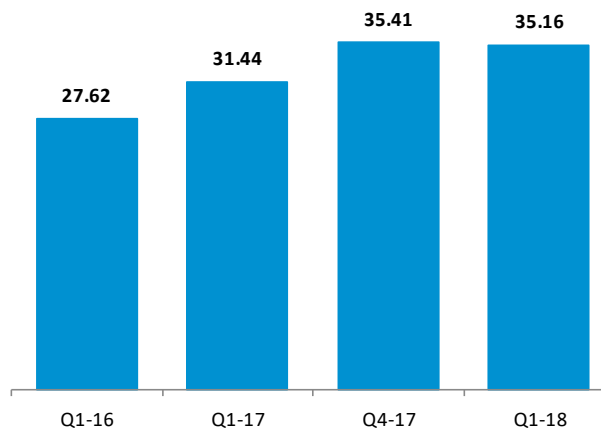
Earnings per share (NOK)



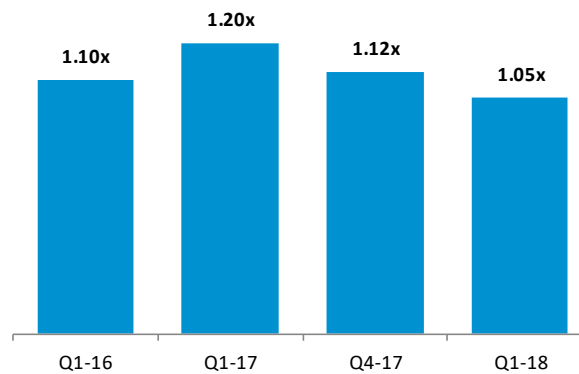
Price / Earnings



Book equity per share (NOK)



Price / Book



QUARTERLY INCOME STATEMENT

P&L (NOKm)

	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17
Net Interest income	129.1	128.3	138.7	124.6	115.4
Total other operating income	4.9	2.1	3.2	7.8	18.9
Total net income	134.0	130.3	141.9	132.5	134.3
Total other operating expenses	31.0	33.5	24.2	26.8	28.0
Operating result before losses / write-downs	103.0	96.8	117.7	105.6	106.2
Losses / write-downs on loans	(2.7)	1.0	2.3	6.4	1.8
Operating result before tax	105.6	95.9	115.4	99.2	104.5
Tax payable	26.4	22.6	29.4	24.2	26.1
Profit for the period	79.2	73.3	86.0	75.0	78.3
<i>Earnings per share (NOK)</i>	<i>1.34</i>	<i>1.24</i>	<i>1.46</i>	<i>1.27</i>	<i>1.30</i>

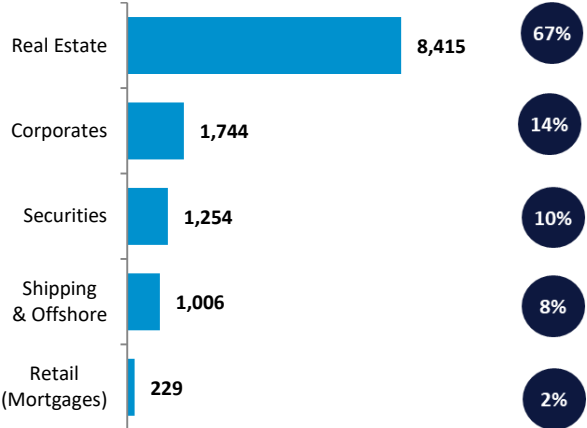
QUARTERLY BALANCE SHEET

BS (NOKm)

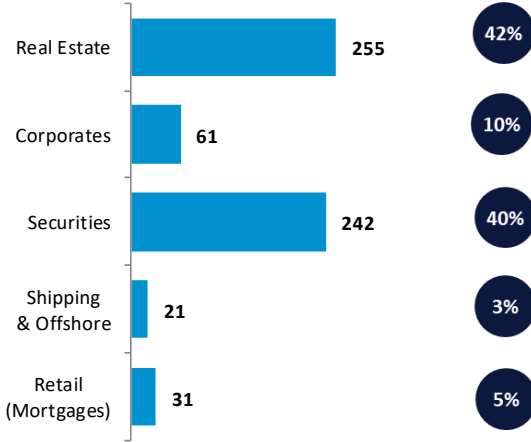
	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17
Loans to credit institutions	405	357	165	350	884
Loans to customers	10,066	9,448	9,870	9,544	8,973
Bonds and other securities	2,802	3,174	3,331	3,309	4,094
Shareholdings in associated companies	37	36	42	40	40
Other assets	124	90	68	67	59
Total assets	13,434	13,104	13,475	13,310	14,051
Deposits	6,334	7,084	7,693	8,164	8,832
Senior securities issued	4,008	3,250	3,280	2,796	2,763
Other liabilities	711	374	178	112	292
Tier 2 subordinated securities issued	270	270	270	270	270
Additional tier 1 capital	50	50	50	50	50
Other equity	2,061	2,076	2,003	1,917	1,843
Total liabilities and equity	13,434	13,104	13,475	13,310	14,051

OVERVIEW PORTFOLIO COMPOSITION

Gross credit exposure (NOKm) $\Sigma = \text{NOK } 12,605\text{m}$

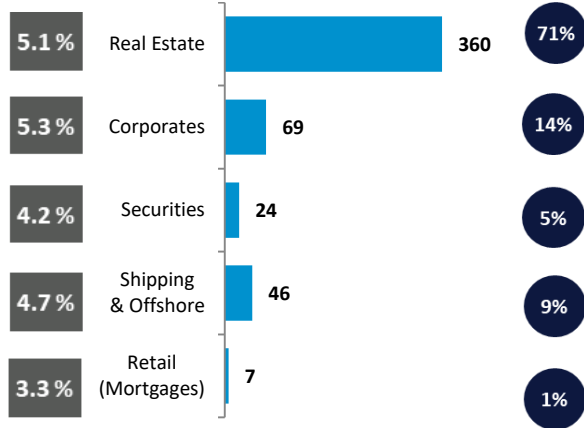


Number of active clients $\Sigma = \# 610$



Interest contribution (NOKm) * $\Sigma = \text{NOK } 506\text{m}$

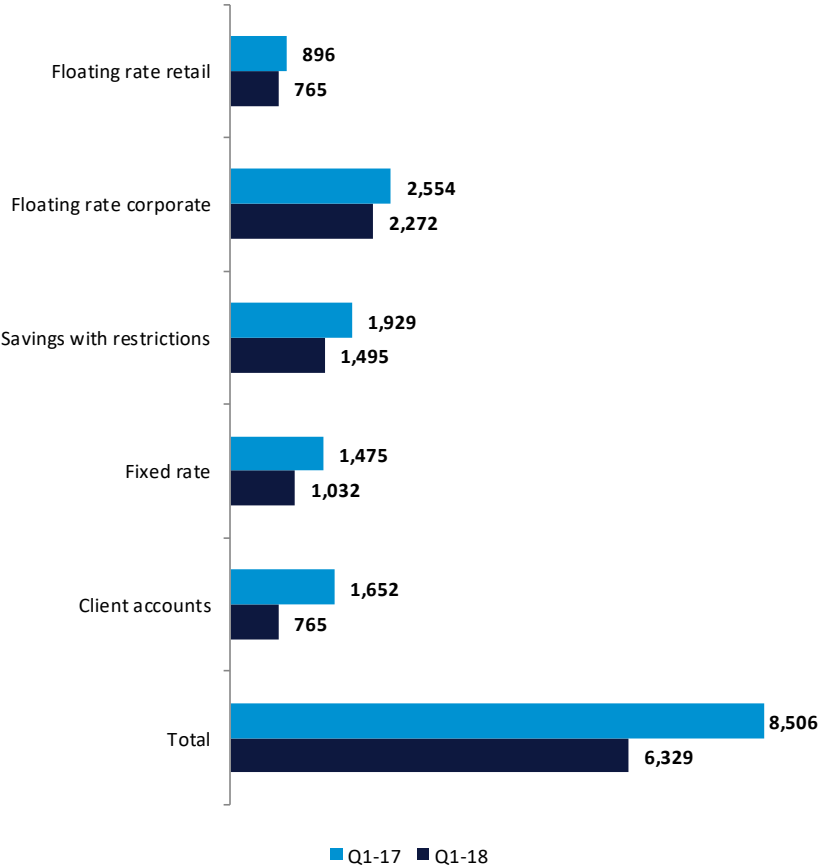
Margin over interbank rate **



FUNDING | CUSTOMER DEPOSITS

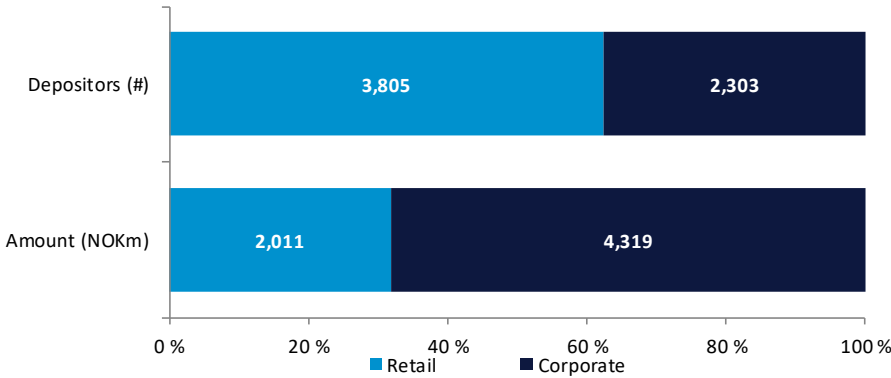
Deposits by product

Σ = NOK 6,329m



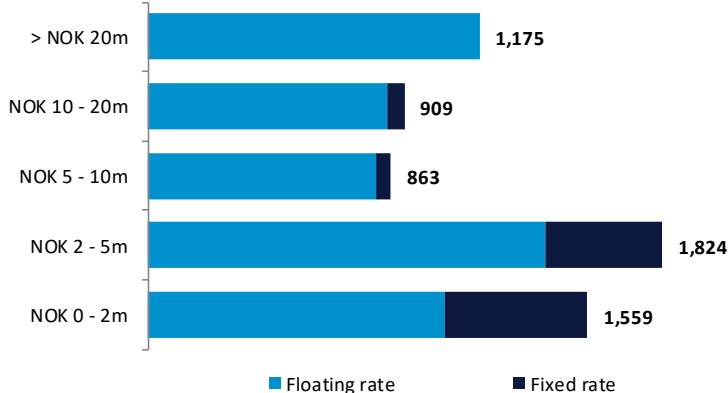
Deposits by type

Σ = NOK 6,329m



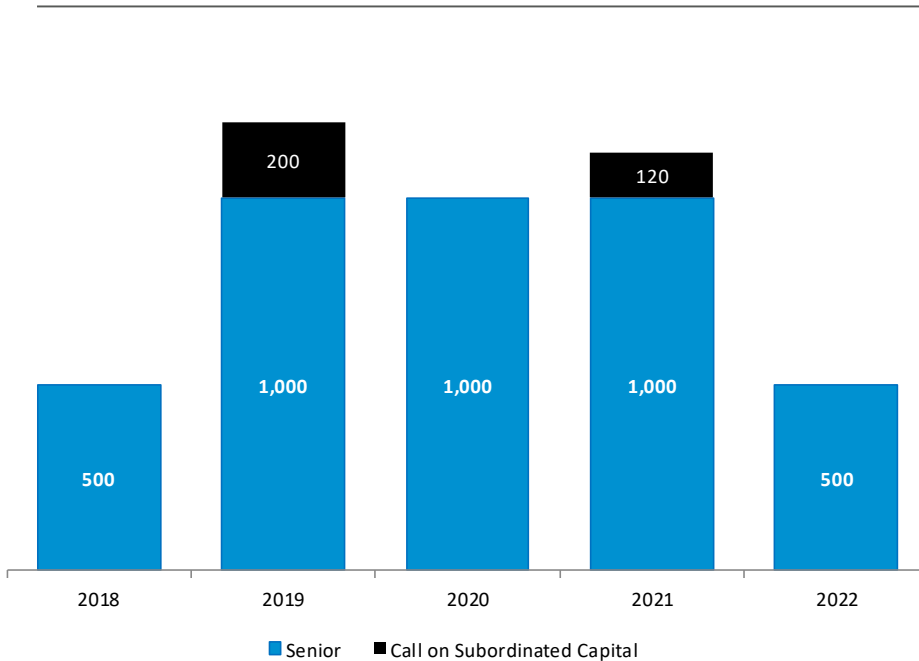
Deposits by size (NOKm)

Σ = NOK 6,329m



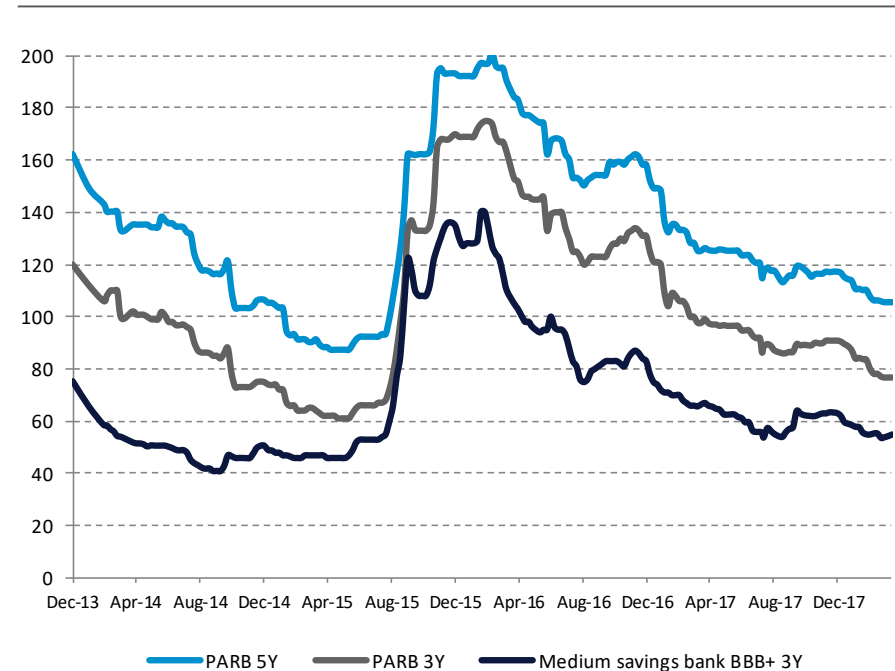
FUNDING | MARKET FUNDING

Market funding maturities - net of own holdings (NOKm)



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

Credit spreads (bps)

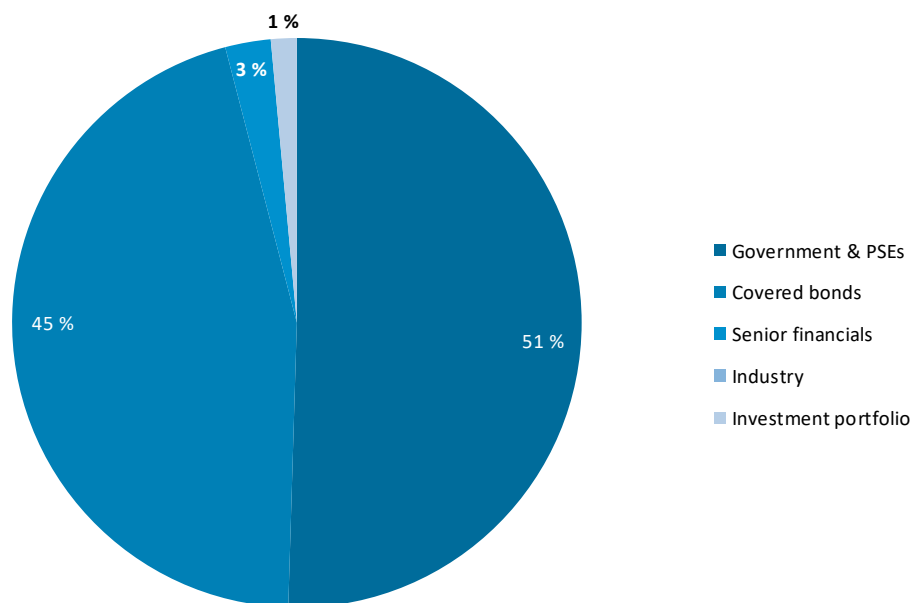


- The bank sends out target bid/offer spreads to brokers regularly
- Pareto Bank's focus is on continuously improving investor relations through transparent pricing and providing liquidity by market making

SURPLUS LIQUIDITY

Bond portfolio (NOKm)

Σ = NOK 2,844m



Key comments

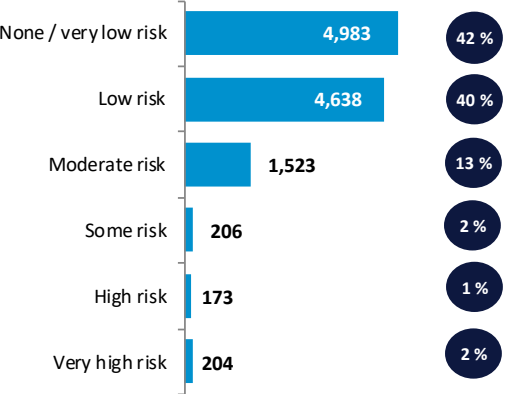
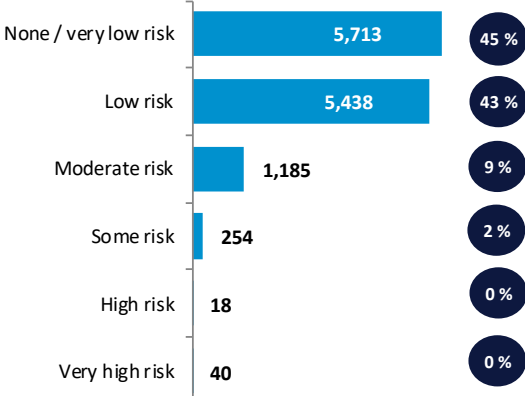
- The bank's liquidity is comprised of cash and highly liquid bonds
- High share of government & PSEs to reduce credit spread risk and increase short-term liquidity
- Large share of covered bonds, mainly short to medium maturities
- NOK 42m invested in high-yield bond funds in the investment portfolio (max limit NOK 500m)

COMMITMENTS BY RISK CLASSIFICATION

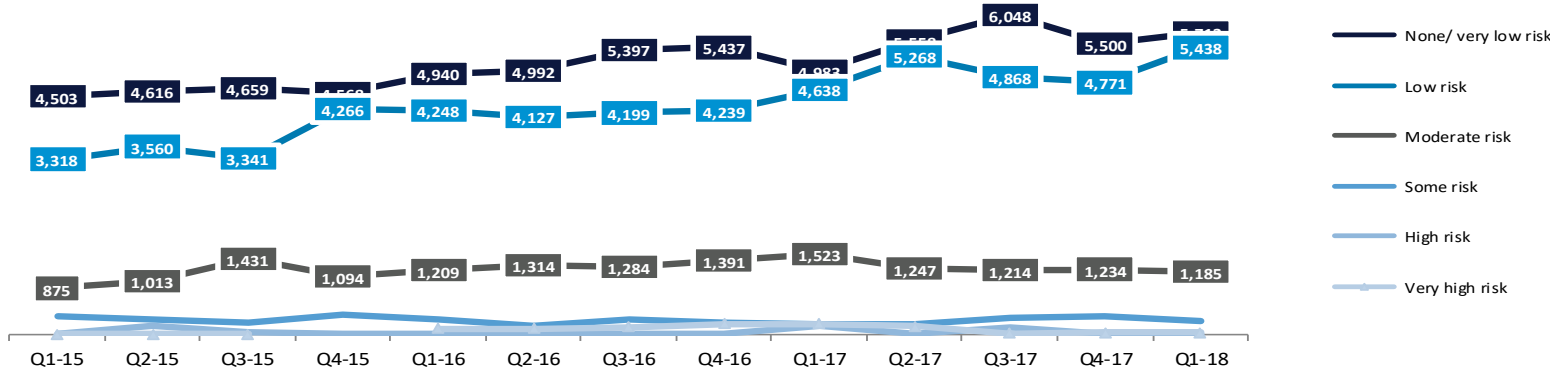
Q1-18 $\Sigma = \text{NOK } 12,648\text{m}$

Q1-17 $\Sigma = \text{NOK } 11,728\text{m}$

Key comments

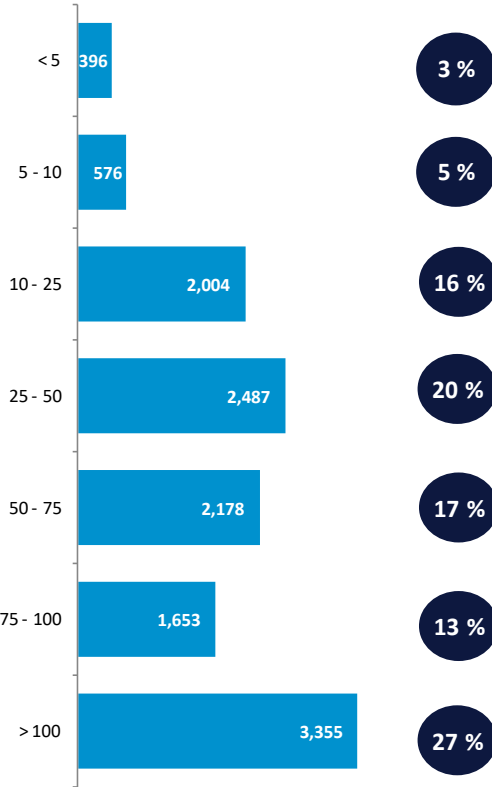


- 88 % of the portfolio is considered to have low to none/very low risk risk
- NOK 58m classified as high or very high risk

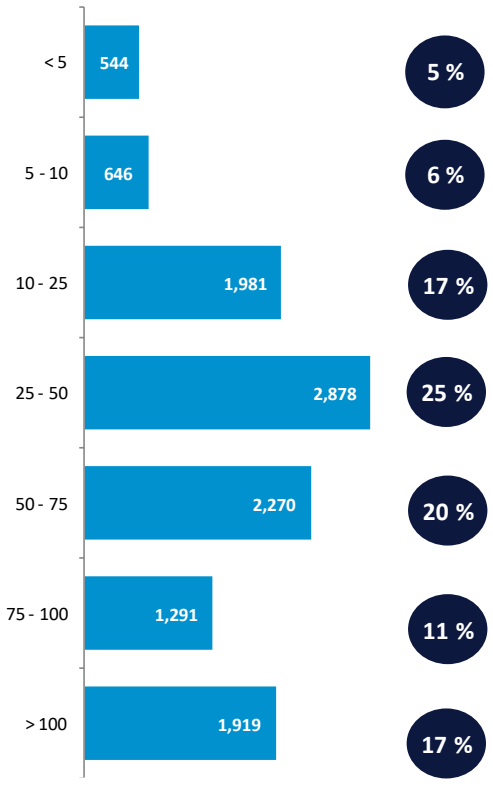


COMMITMENTS BY SIZE

Q1-18 $\Sigma = \text{NOK } 12,648\text{m}$



Q1-17 $\Sigma = \text{NOK } 11,728\text{m}$



Key comments

- Maximum size on a single customer 10 % of total capital (NOK 232m)
- Maximum size on group / consolidated basis 15 % of total capital (NOK 348m)

Pareto bank