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# **PARETO BANK**

## **Financial Results**

**Second Quarter 2018**

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**Pareto bank**  
Projektbanken

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**1 HIGHLIGHTS AND FINANCIALS**

**2 BUSINESS AREAS**

**3 AMBITIONS FOR 2018**

# SECOND QUARTER 2018 HIGHLIGHTS

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- 1 Profit after tax NOK 93.2m (NOK 75.0m)
- 2 Return on equity 17.5 % (15.9 %)
- 3 Strong net interest income of NOK 139.4m (NOK 124.6m)
- 4 Quarterly lending growth of NOK 423.4m (NOK 570.5m)
- 5 Lending growth within both real estate and corporate financing

# RAISED PROFITABILITY AND GROWTH AMBITIONS

## RETURN ON EQUITY > 15 %

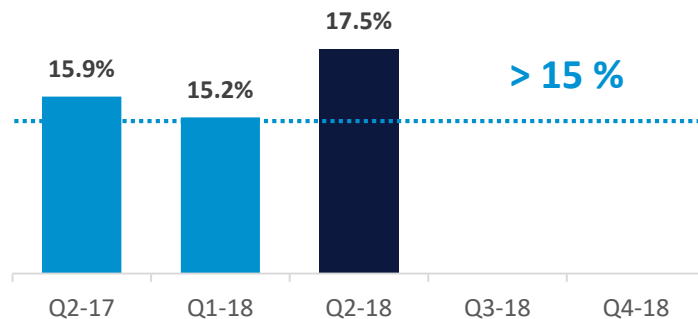
- Profitability ambition lifted to > 15 %
- Stable lending margins
- High lending activity means increased income from provisions and fees
- Continued high credit quality

## LENDING GROWTH NOK 1,000 – 1,500m

- Lending growth ambition lifted to NOK 1,000m to 1,500m for 2018
- Continued lending growth in 2018 within real estate and corporate financing

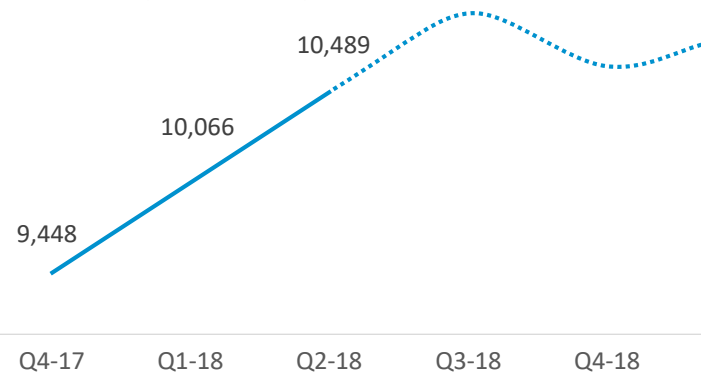
### Return on Equity

Excluding AT1 capital and interest



### Lending

NOKm, Estimate for illustration only



# INCOME STATEMENT

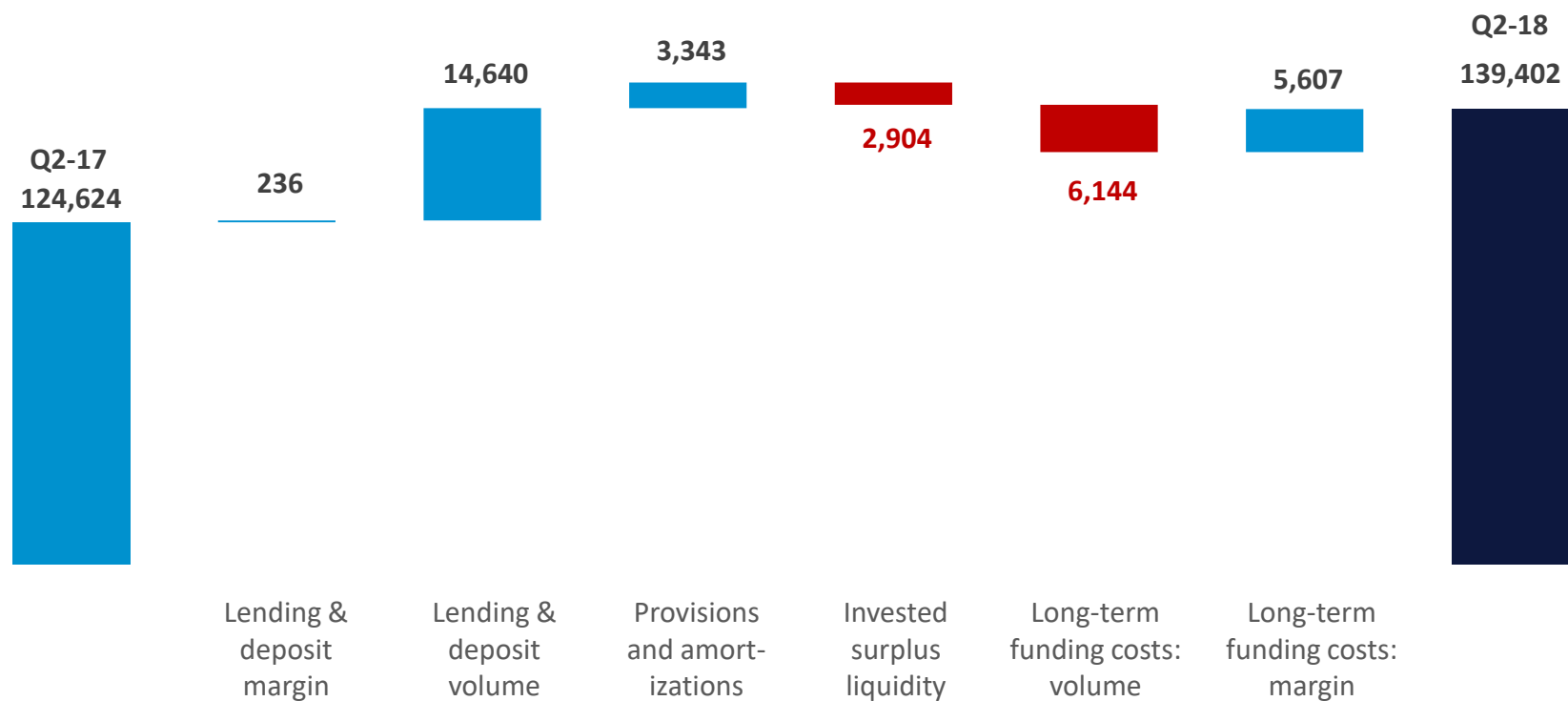
## P&L (NOKm)

	Q2-18	Q2-17	H1-18	H1-17	
Net Interest income	139.4	124.6	268.5	240.0	Strong interest income due to lending growth in the second quarter
Total other operating income	8.6	7.8	13.5	26.7	
<b>Total net income</b>	<b>148.0</b>	<b>132.5</b>	<b>281.9</b>	<b>266.7</b>	
<b>Total other operating expenses</b>	<b>29.6</b>	<b>26.8</b>	<b>60.6</b>	<b>54.9</b>	NOK 10.0m set off for employee bonus program
Operating result before losses / write-downs	118.4	105.6	221.3	211.9	
Losses / write-downs on loans	-5.9	6.4	-8.5	-8.2	Reversal of write-downs under IFRS 9 due to model revisions and high credit quality.
<b>Operating result before tax</b>	<b>124.2</b>	<b>99.2</b>	<b>229.9</b>	<b>203.7</b>	
Tax payable	31.1	24.2	57.5	50.3	
<b>Profit for the period</b>	<b>93.2</b>	<b>75.0</b>	<b>172.4</b>	<b>153.3</b>	
<i>Earnings per share (NOK)</i>	<i>1.57</i>	<i>1.27</i>	<i>2.92</i>	<i>2.57</i>	
<i>Return on equity</i>	<i>17.5%</i>	<i>15.9%</i>	<i>16.2%</i>	<i>16.2%</i>	
<i>Cost income ratio</i>	<i>20.0%</i>	<i>20.3%</i>	<i>21.5%</i>	<i>20.6%</i>	

# GROWING NET INTEREST INCOME

## Net interest income

NOK 1,000



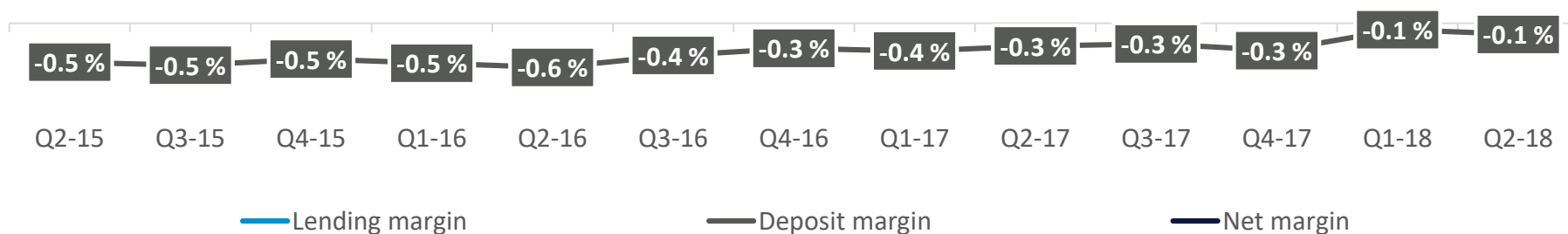
# STABLE MARGINS

## Net interest margins

Percent interest income including amortizations and fees over 3M Nibor;  
Cost of deposits of average volumes over 3M Nibor (average of end-of-month fixings)



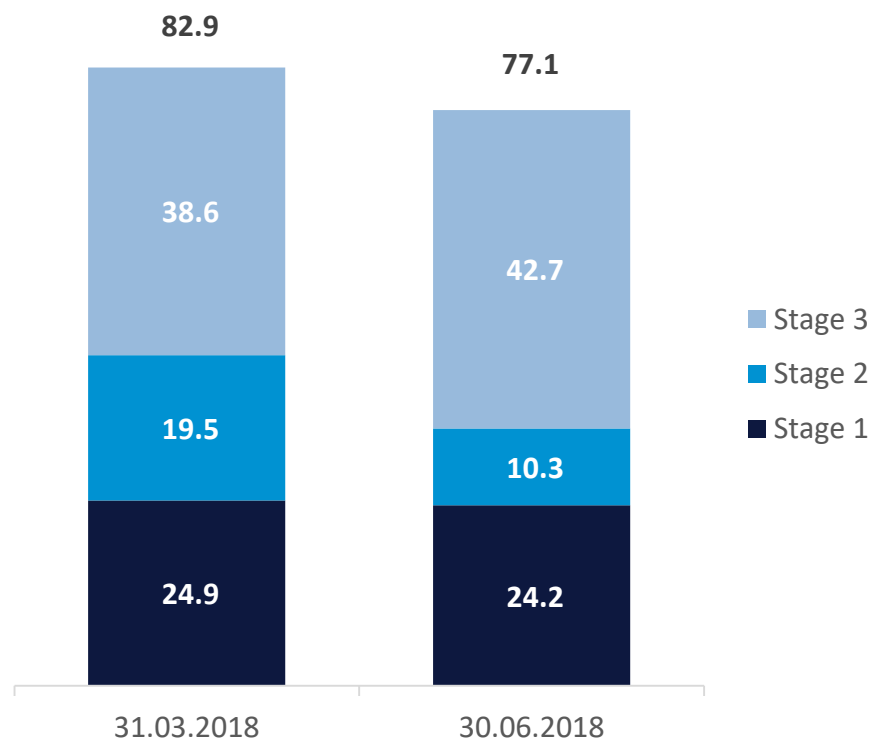
- Short duration allows continuous repricing
- Individual pricing of all loans
- 12 % of exposure fixes on money market rates
- Margins can be repriced on ~90 % of exposure
- Fee income independent of rate changes
- 77 % of deposits can be repriced



# HIGH QUALITY LOAN PORTFOLIO

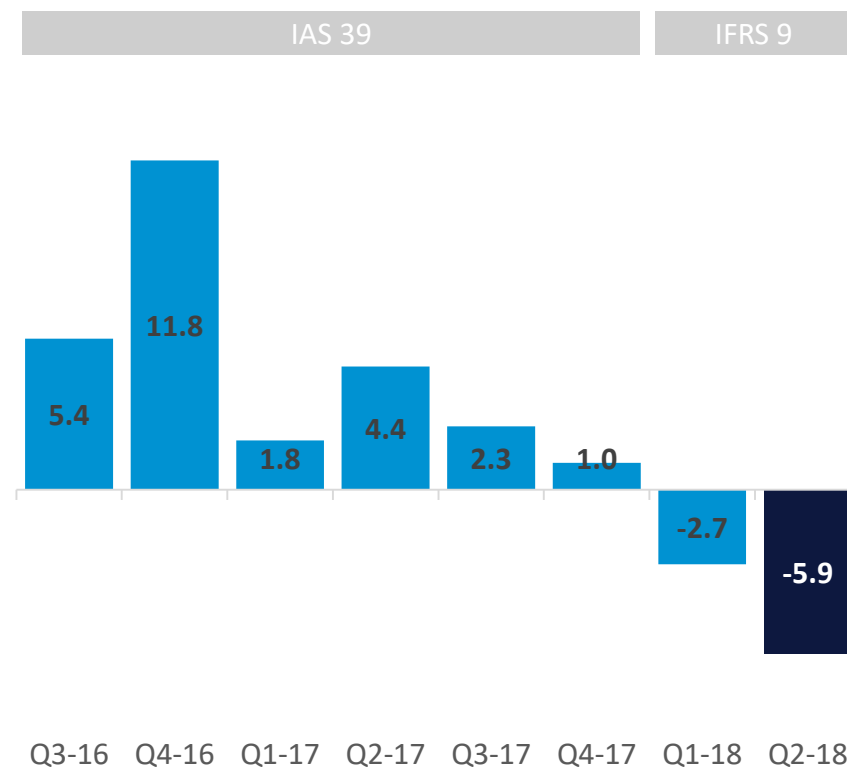
## Loss allowances according to IFRS 9

NOKm



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

NOKm

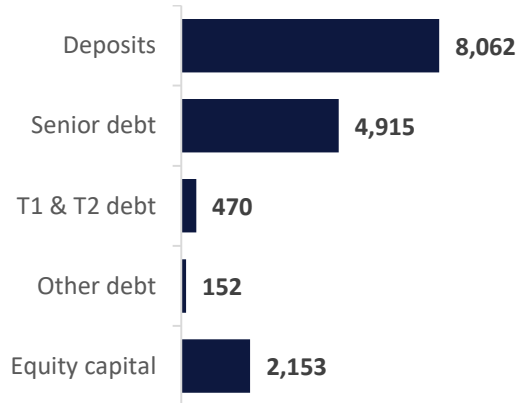




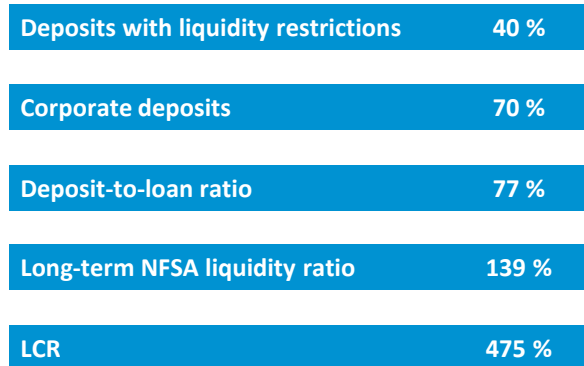
# FUNDING

## Sources

NOKm

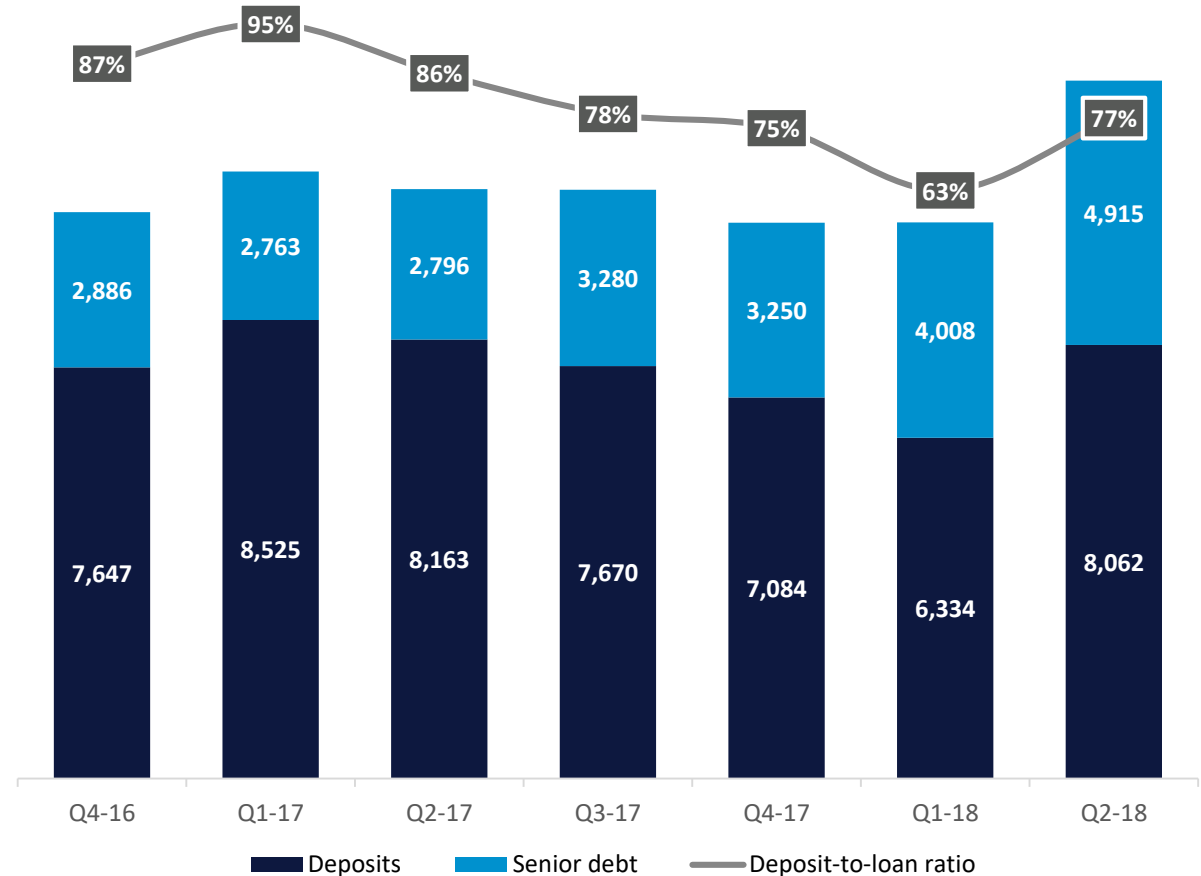


## Key ratios



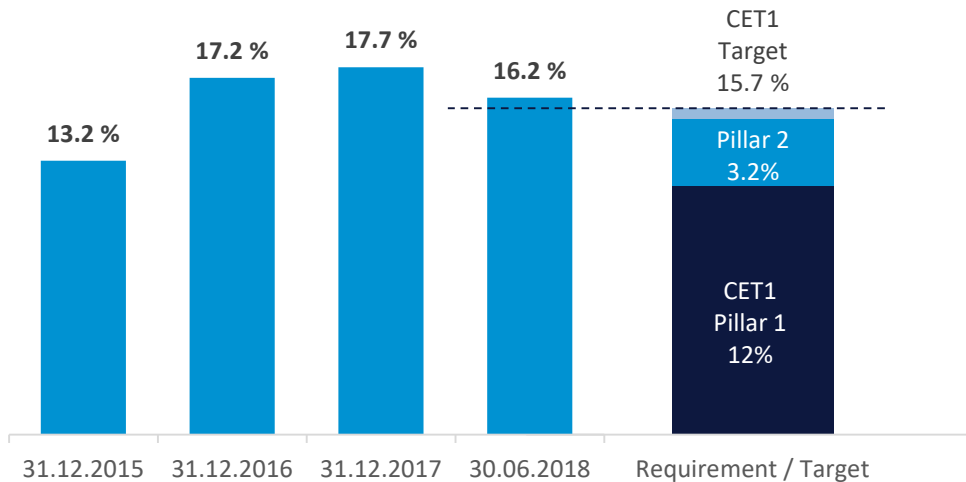
## Deposits & senior debt

NOKm / Percent customer deposits of net lending to customers



# CAPITAL

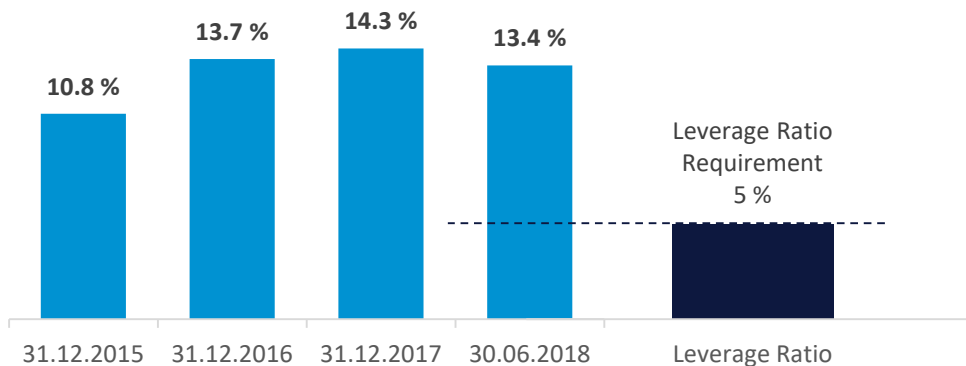
## Core equity tier 1 ratio (CET1 ratio)



## 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
- As a project bank, Pareto Bank will have variation in lending volumes and capital ratios from period to period
- The bank issued an additional Tier 1 loan in May to strengthen its growth capacity
- The bank has a strong leverage ratio

## Leverage ratio



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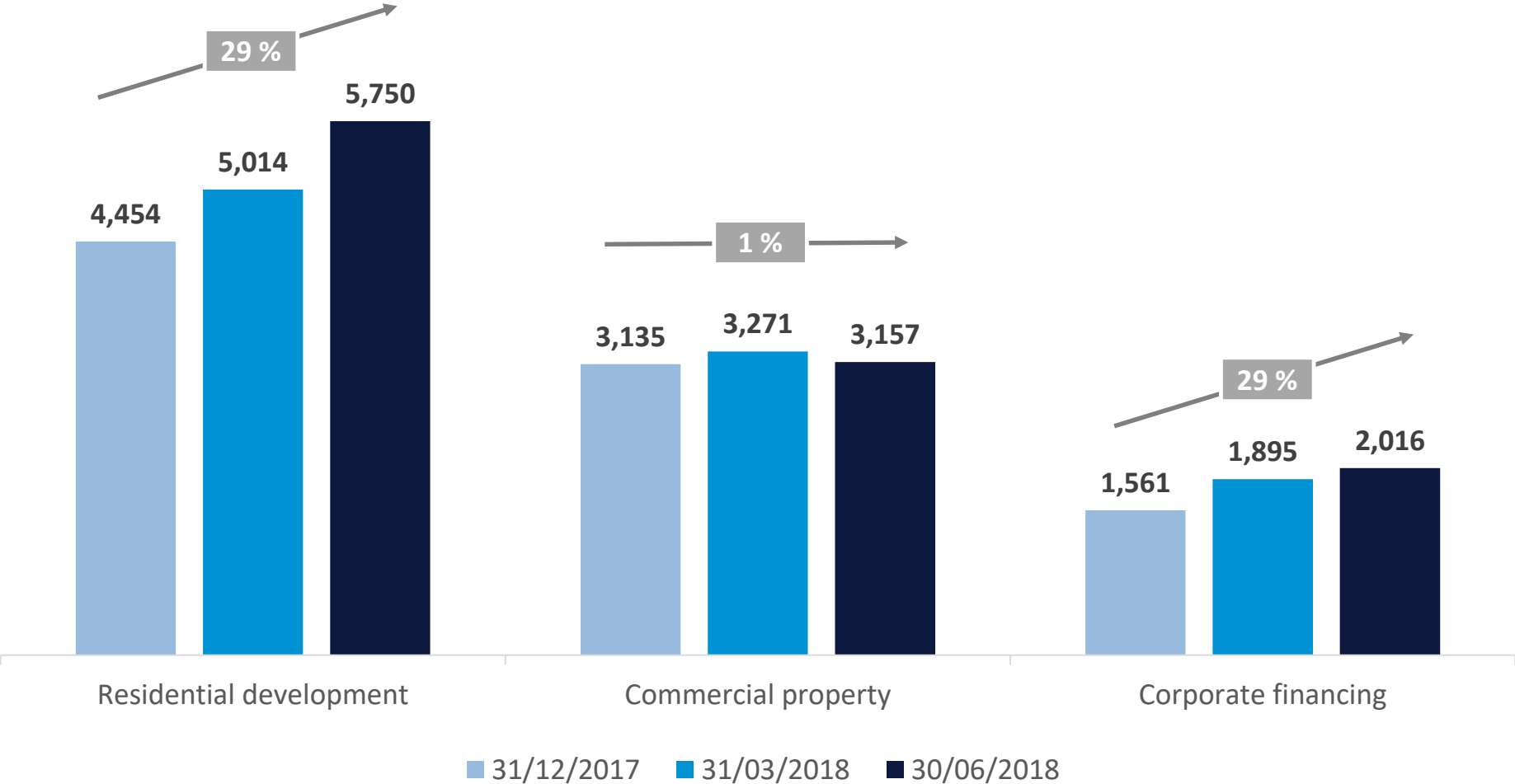
**3 AMBITIONS FOR 2018**

# NORWAY'S LEADING PROJECT BANK

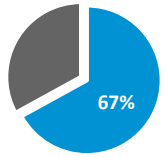
BUSINESS AREAS	PROJECTS / CREDITS	EXPOSURE	AVG. PRINCIPAL
<b>Real estate</b>	Property lot financing Building construction facilities Commercial property financing	<b>NOKm 8,907</b> <b>67 %</b>	<b>NOKm</b> <b>40</b>
<b>Corporates</b>	M&A loans Bridge loans Investment loans Working capital facilities	<b>NOKm 2,016</b> <b>15 %</b>	<b>NOKm</b> <b>30</b>
<b>Securities</b>	Securities financing	<b>NOKm 1,149</b> <b>9 %</b>	<b>NOKm</b> <b>5</b>
<b>Shipping &amp; offshore</b>	Ship owners Family offices Shipping and offshore projects	<b>NOKm 1,019</b> <b>8 %</b>	<b>USDm</b> <b>6</b>

# GROWTH IN REAL ESTATE & CORPORATE

NOKm of gross exposure

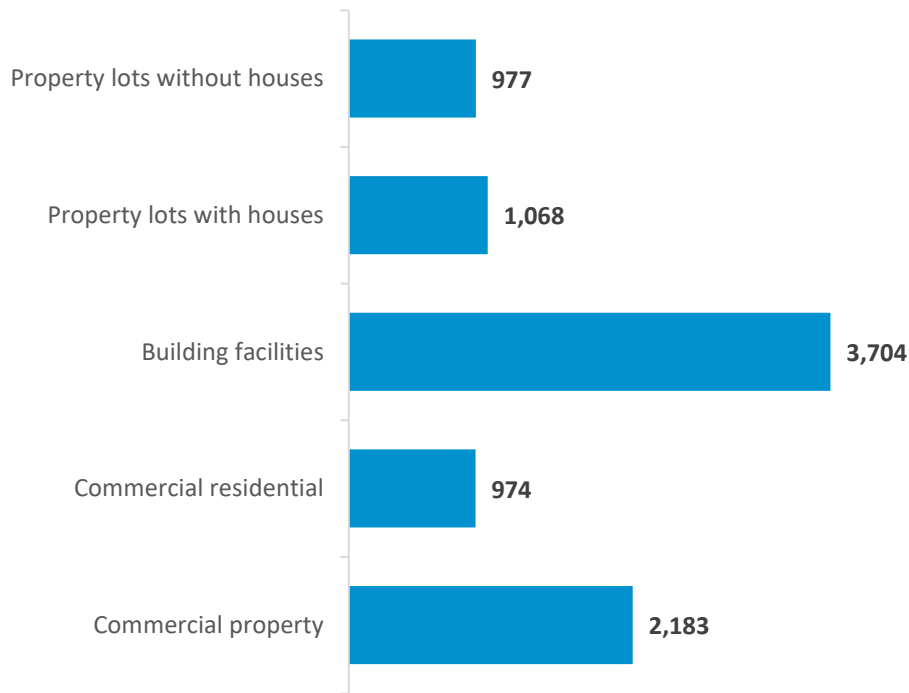


# REAL ESTATE | CONTINUED HIGH ACTIVITY



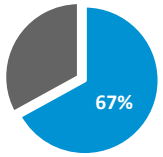
## Real estate credit exposure

NOKm of gross exposure

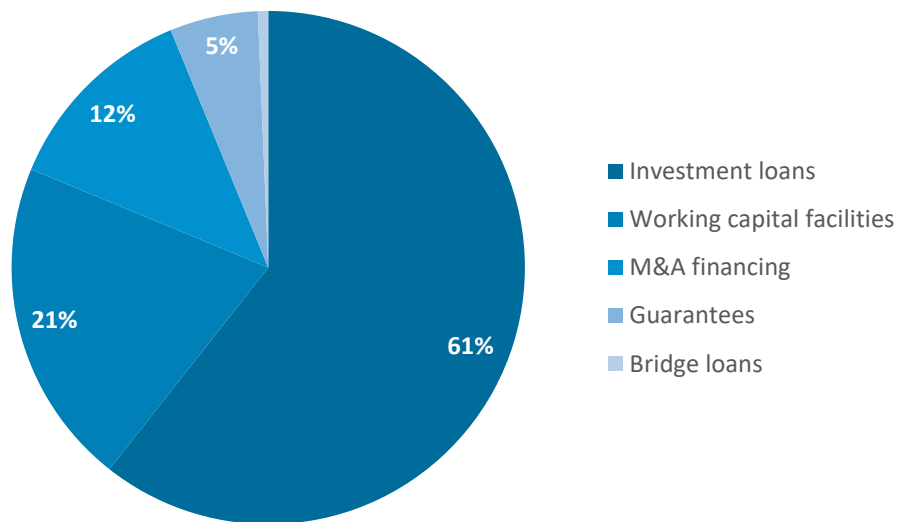
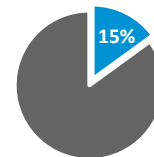


## Key comments

- Continued strong deal flow has resulted in real estate credit exposure growth of NOK 622m in Q2-18
- Growth mainly within residential property development
- Increased lending to property lots and exposure to building facilities as new projects start up
- High level of redemptions in real estate development as projects are completed
- The bank sees activity holding strong throughout 2018



- ✓ Housing market correction has bottomed out more quickly than expected
- ✓ Pareto Bank maintains its focus on presale, liquidity buffers and 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
- ✓ Liquidity: Tight covenant setting with respect to working capital, liquidity buffers, liquidity reporting
- ✓ Equity: 20 % to 40 % equity contribution to finance a property lot purchase
- ✓ Restrictive attitude towards financing of projects with long-term exits
- ✓ A high natural turnover rate on loans is in general risk mitigating



Total exposure NOK 2,016m within a variety of industries

71 customers with credit facilities in the range of NOK 0.1m to NOK 150m

## Strategy

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



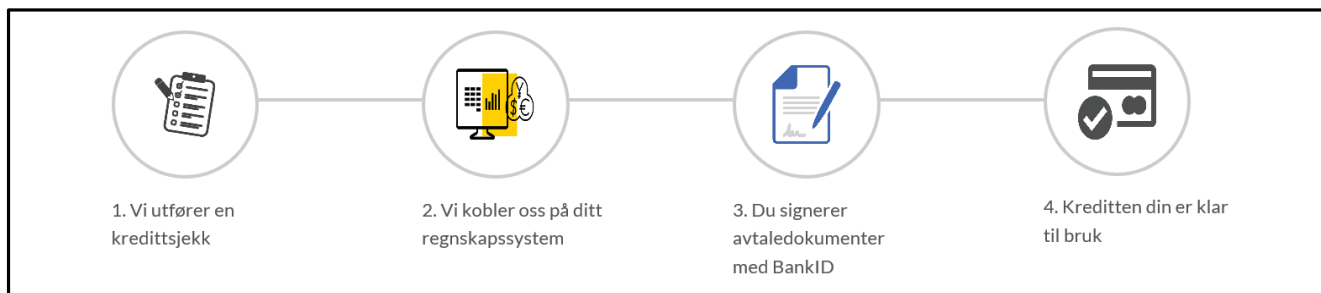
# CORPORATES | SME PRODUCT PILOT

## New digital approach

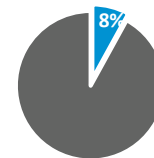
- “Fleksibel Driftskreditt” is a credit facility based on receivables as collateral
- Easy to use, flexible and with transparent pricing
- 100 % digital application and on-boarding process with short response time
- Integration with leading cloud based accounting systems in place
- Credit rating model based on public data and real time accounting information
- Superior risk management due to real time accounting information

## Status

- Automatic and digital factoring pledge in place
- Product pilot testing on customers has started
- Focus going forward is pilot testing and feedback
- Prospect list of 2,195 SMEs in place
- Increased marketing in H2-18
- New manager for area recruited



# SHIPPING & OFFSHORE | DIVERSIFIED PORTFOLIO



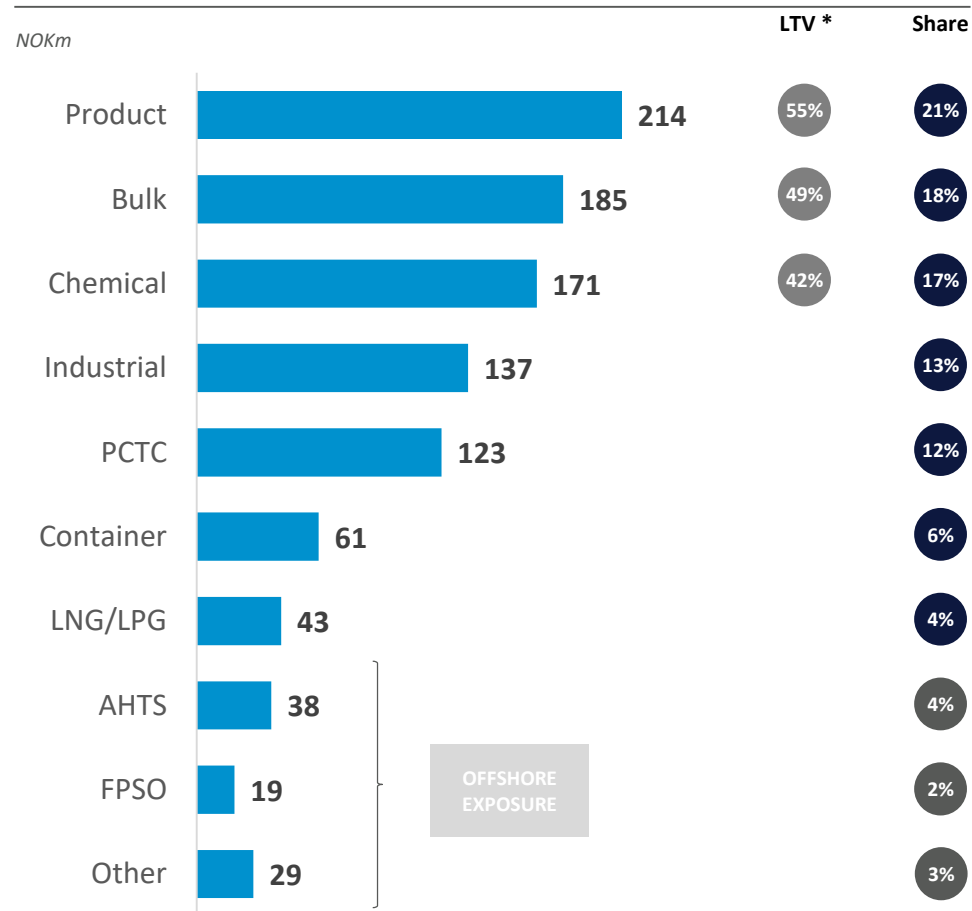
## Policy

- Target LTV of 50 % and increased profitability
- Norwegian ship owners, majority shareholders and family offices
- Strong balance sheets and high-quality counterparties
- Tonnage with liquid second-hand markets and well-proven designs
- A diversified portfolio where a single segment will normally not exceed 25 % of the total S&O exposure
- Maximum S&O exposure is 15 % of the bank's total credit exposure

## Status

- 21 customers and a total of 32 vessels
- Largest exposure is USD 13.0m and average commitment size is USD 6.0m
- Two new loans granted in Q2-18
- New manager recruited

## Total S&O credit exposure & Loan to value



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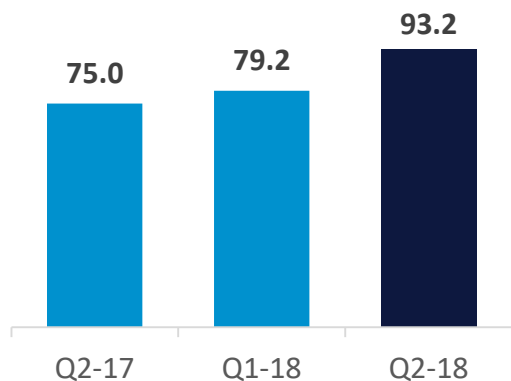
# RAISED FINANCIAL AMBITIONS

	30.06.2018 STATUS	2018 AMBITION	
LENDING GROWTH	NOK 1,042m	NOK 1,000m - 1,500m	High activity in all areas of real estate and in corporate financing. Seeing continued growth in 2018.
ROE	16.2 %	> 15.0 % *	Increased profitability ambition due to lending growth on stable margins and low write-downs and losses.
CAPITAL ADEQUACY	16.2 %	15.7 % **	Solid capital base for long-term growth. High loan redemption rate can cause lending volumes to vary throughout the year.
DIVIDEND POLICY		0 - 50 %	Dividend policy adjusted to reflect the project bank's nature of business and to allow for increased flexibility.

# STRONG PERFORMANCE

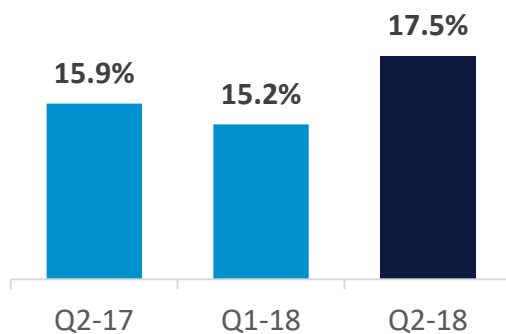
## Profit after tax

NOKm



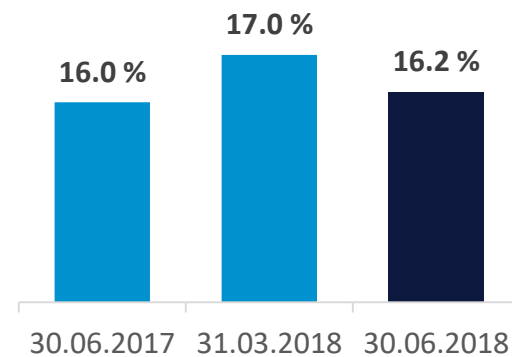
## Return on Equity

Excluding AT1 capital and interest



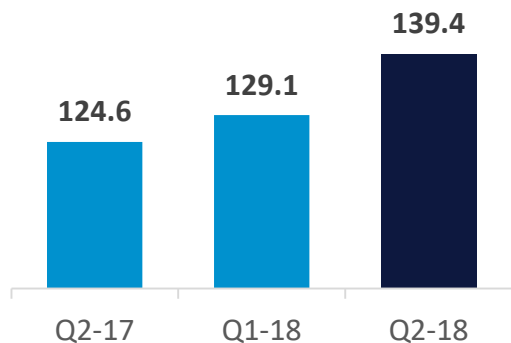
## CET1 ratio

Standard model

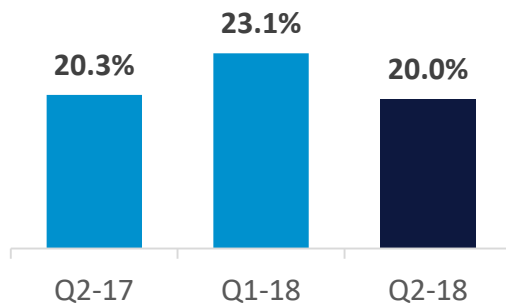


## Net interest income (NOKm)

NOKm

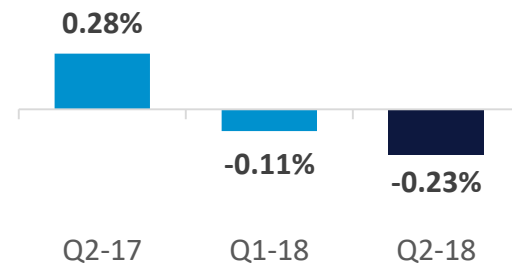


## Cost/income ratio



## Loss ratio

% of average gross lending



# SOLID GROWTH & HIGH PROFITABILITY

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## STRONG LENDING GROWTH

- Net lending growth NOK 1,042m YTD on a stable net interest margin of 5.7 %
- Real estate activity holding up with lending growth of NOK 945m YTD
- Strong deal flow in corporate finance and lending growth of NOK 321m YTD

## STABLE HIGH PROFITABILITY

- Return on equity 16.2 % YTD
- Cost efficient with a C/I ratio of 21.5 % YTD
- High portfolio quality, low impairments and loss reversals

## STRONG CAPITAL POSITION

- CET1 ratio 16.2 % and leverage ratio 13.4 %
- Solid capital base for long-term growth
- High natural turn-over rate on loans and dynamic balance sheet management

# APPENDIX

# LARGEST SHAREHOLDERS AS OF 1 JULY 2018

#	Investor	1 July 2018	
		# of shares	% total
1	Pareto AS	8,921,873	15.22%
2	Pecunia Forvaltning AS	8,246,549	14.07%
3	Apollo Capital Management	5,545,998	9.46%
4	Indigo Invest AS	4,382,711	7.48%
5	Saga Tankers ASA	3,365,646	5.74%
6	Verdipapirfondet First Generator	2,302,907	3.93%
7	Verdipapirfondet Landkreditt Utbytte	1,750,000	2.99%
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	622,451	1.06%
12	Dragesund Invest AS	611,649	1.04%
13	Pactum AS	600,000	1.02%
14	Wenaasgruppen AS	500,000	0.85%
15	Svemorka Holding AS	500,000	0.85%
16	Thabo Energy AS	452,486	0.77%
17	AS Clipper	433,845	0.74%
18	Profond AS	409,597	0.70%
19	Leif Inge Slethei AS	400,000	0.68%
20	Stenberg Holding AS	381,217	0.65%
<b>Sum TOP 20</b>		<b>42,377,528</b>	<b>72.29%</b>
<b>Other shareholders</b>		<b>16,242,160</b>	<b>27.71%</b>
<b>Total</b>		<b>58,619,688</b>	<b>100%</b>

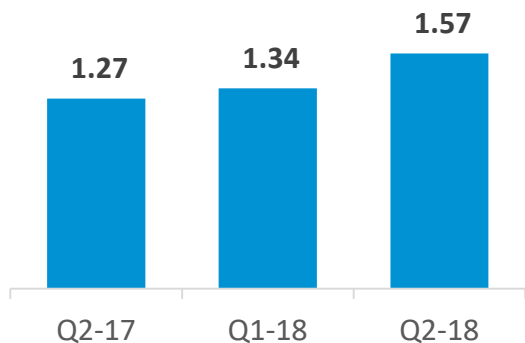
- The Company has 58,619,688 shares outstanding
- One class of shares where each share carries one voting right
- Diversified investor base with 868 shareholders
- The top 10 and 20 investors hold 63.9 % and 72.3 % of the shares respectively
- Employees in Pareto Bank own 1.9 %
- Top management in the Pareto Group owns 2.5 %
- All employees are covered by an annual bonus compensation scheme settled in Pareto Bank shares



# THE SHARE

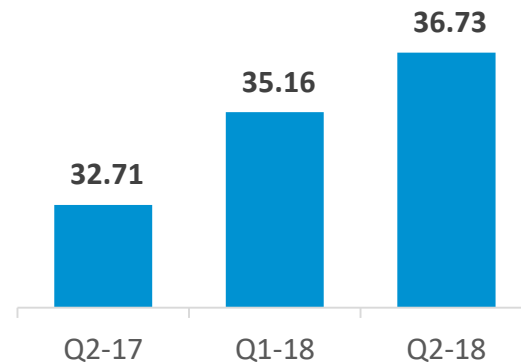
## Earnings per share

NOK



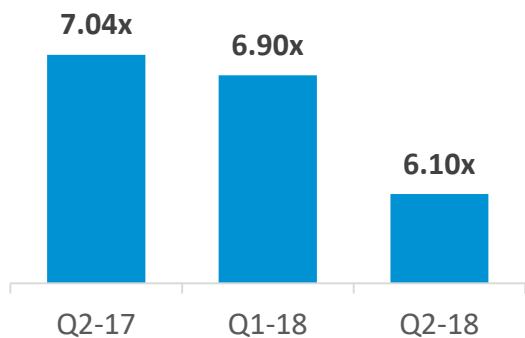
## Book equity per share

NOK



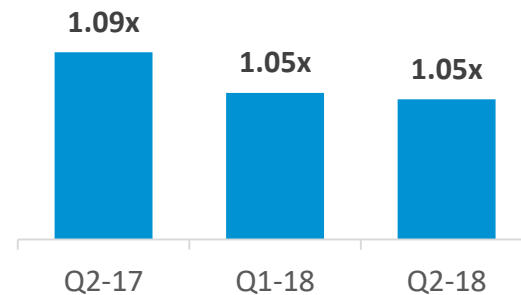
## Price / Earnings

NOK, Share price 38.40



## Price / Book

NOK, Share price 38.40



# QUARTERLY INCOME STATEMENT

## P&L (NOKm)

	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17
Net Interest income	139.4	129.1	128.3	138.7	124.6
Total other operating income	8.6	4.9	2.1	3.2	7.8
<b>Total net income</b>	<b>148.0</b>	<b>134.0</b>	<b>130.3</b>	<b>141.9</b>	<b>132.5</b>
<b>Total other operating expenses</b>	<b>29.6</b>	<b>31.0</b>	<b>33.5</b>	<b>24.2</b>	<b>26.8</b>
Operating result before losses / write-downs	118.4	103.0	96.8	117.7	105.6
Losses / write-downs on loans	-5.9	-2.7	1.0	2.3	6.4
<b>Operating result before tax</b>	<b>124.2</b>	<b>105.6</b>	<b>95.9</b>	<b>115.4</b>	<b>99.2</b>
Tax payable	31.1	26.4	22.6	29.4	24.2
<b>Profit for the period</b>	<b>93.2</b>	<b>79.2</b>	<b>73.3</b>	<b>86.0</b>	<b>75.0</b>
<i>Earnings per share (NOK)</i>	<i>1.57</i>	<i>1.34</i>	<i>1.24</i>	<i>1.46</i>	<i>1.27</i>
<i>Return on equity</i>	<i>17.5%</i>	<i>15.2%</i>	<i>14.3%</i>	<i>17.5%</i>	<i>15.9%</i>
<i>Cost income ratio</i>	<i>20.0%</i>	<i>23.1%</i>	<i>25.7%</i>	<i>17.1%</i>	<i>20.3%</i>

# QUARTERLY BALANCE SHEET

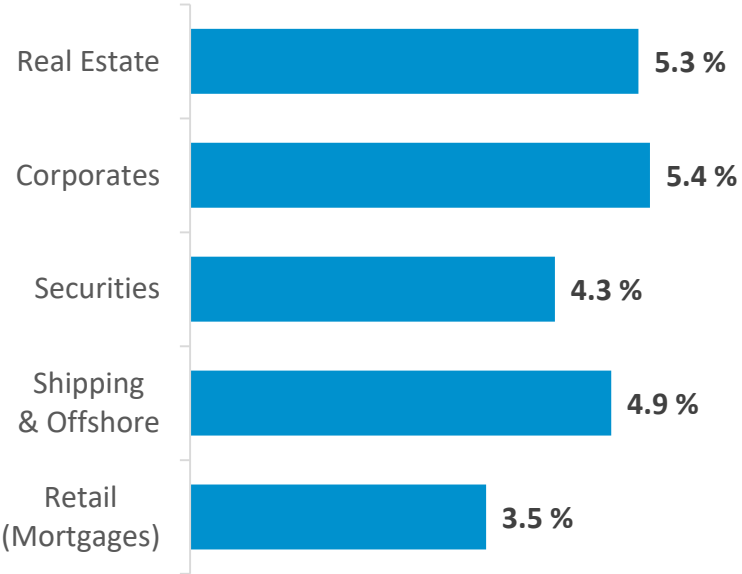
## BS (NOKm)

	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17
Loans to credit institutions	1,136	405	357	165	350
Loans to customers	10,489	10,066	9,448	9,870	9,544
Bonds and other securities	4,047	2,802	3,174	3,331	3,309
Shareholdings in associated companies	35	37	36	42	40
Other assets	46	124	90	68	67
<b>Total assets</b>	<b>15,753</b>	<b>13,434</b>	<b>13,104</b>	<b>13,475</b>	<b>13,310</b>
Deposits	8,062	6,334	7,084	7,693	8,164
Senior securities issued	4,915	4,008	3,250	3,280	2,796
Other liabilities	152	711	374	178	112
Tier 2 subordinated securities issued	270	270	270	270	270
Additional tier 1 capital	200	50	50	50	50
Other equity	2,153	2,061	2,076	2,003	1,917
<b>Total liabilities and equity</b>	<b>15,753</b>	<b>13,434</b>	<b>13,104</b>	<b>13,475</b>	<b>13,310</b>

# MARGINS AND INTEREST CONTRIBUTION

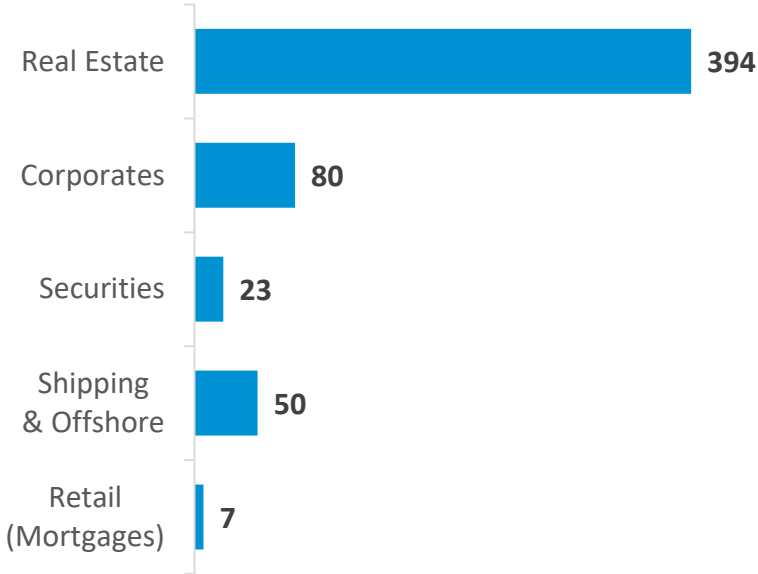
## Margins per business area

Estimated annualized margins including commissions, excluding front and back-end fees over 3M Nibor or similar rate



## Interest contribution per business area

NOKm, estimated interest contribution including commissions, excluding front and back-end fees over 3M Nibor or similar rate



Note segment margins are estimated on the basis of terms of existing loans and will therefore differ from reported total lending margins.

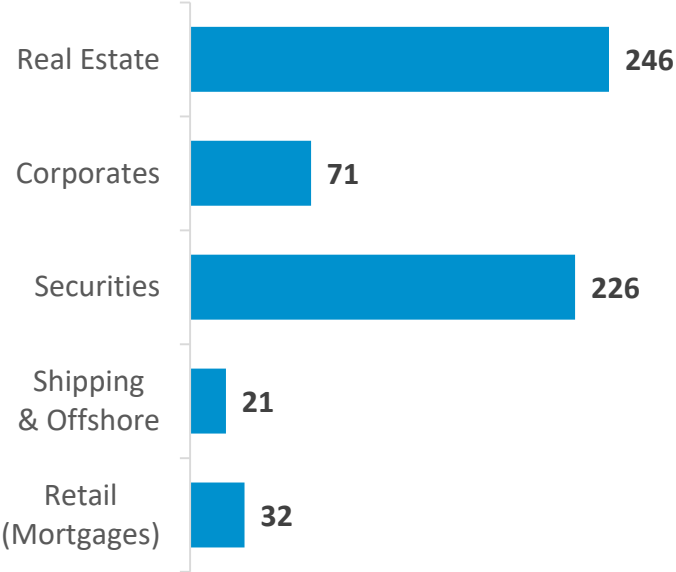
Based on terms as of 31.05.2018, Nibor (or other interbank rate) as of 30.06.2018

# NUMBER OF CUSTOMERS

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Number of customers per business area

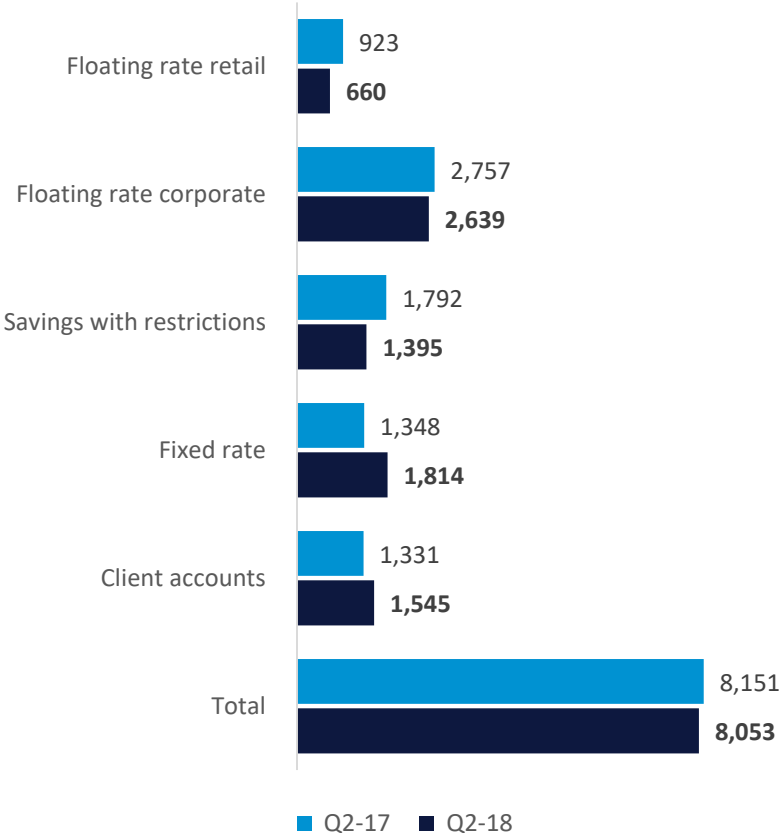
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# CUSTOMER DEPOSITS

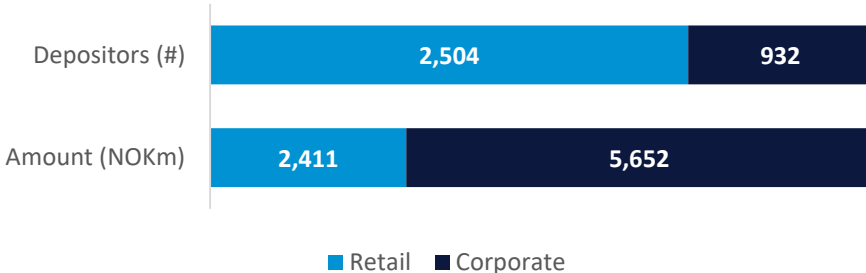
## Deposits by product

NOKm



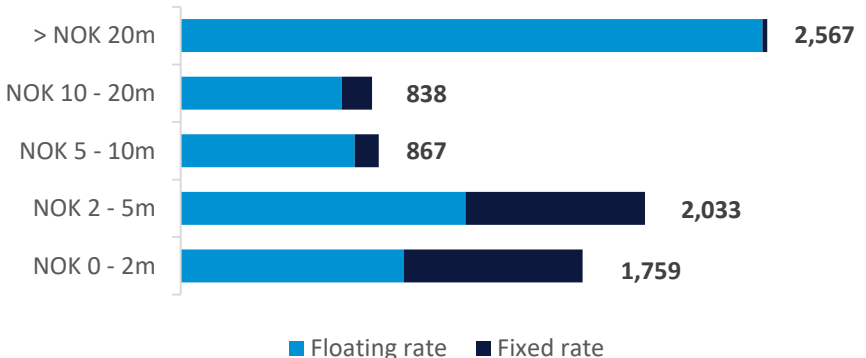
## Deposits by type

NOKm



## Deposits by size

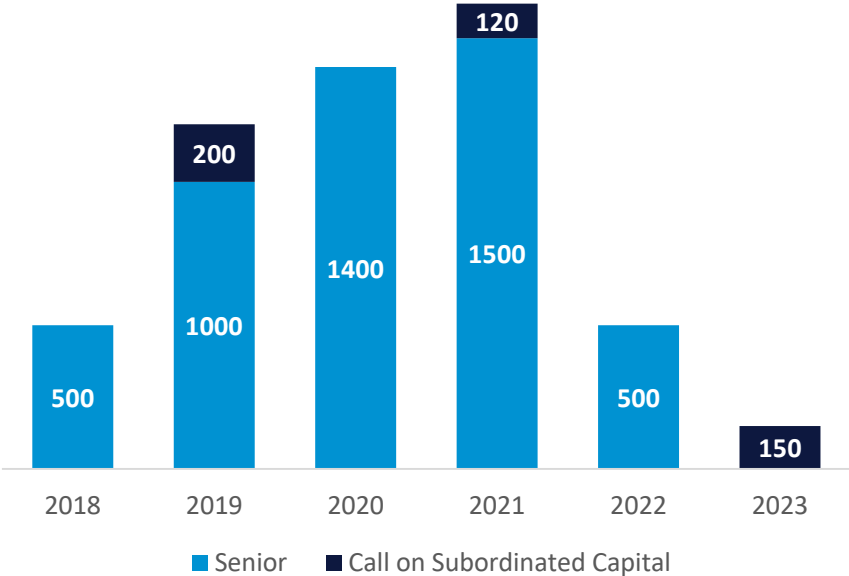
NOKm



# MARKET FUNDING

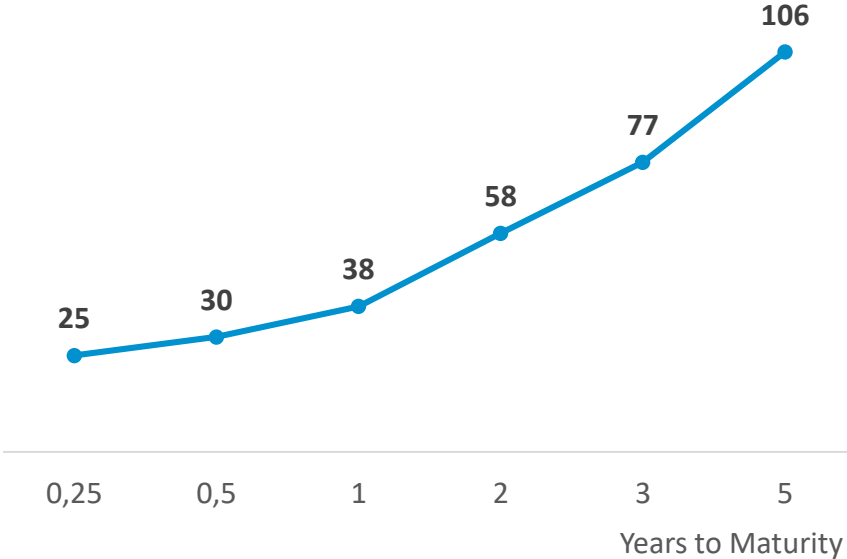
## Market funding maturities

NOKm, net of own holdings



## Credit spreads

Basis points over 3M Nibor

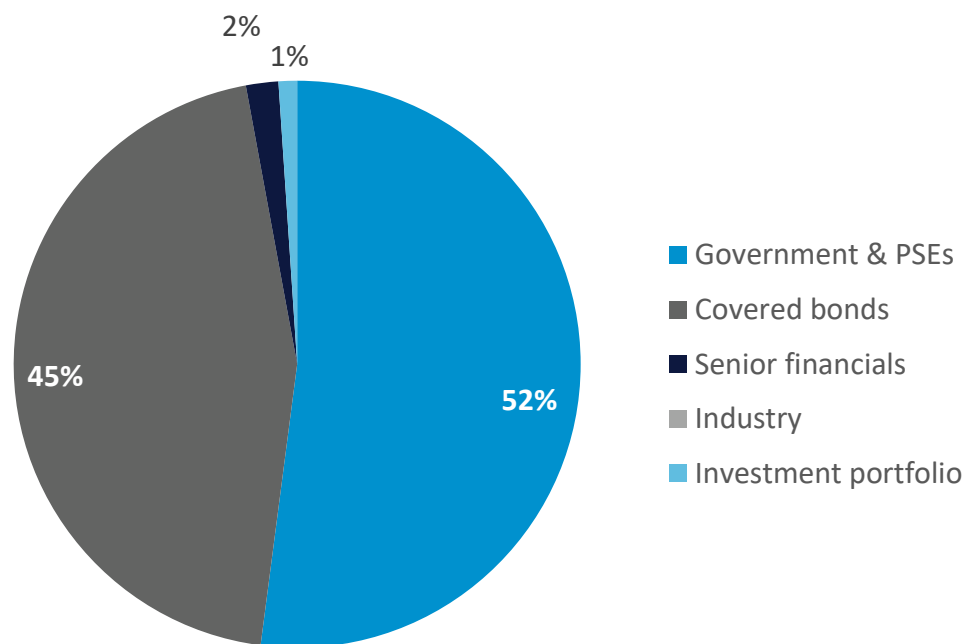


Source: Nordic Bond Pricing

# SURPLUS LIQUIDITY

## Bond portfolio

Market value of bonds and funds comprising surplus liquidity



## Key comments

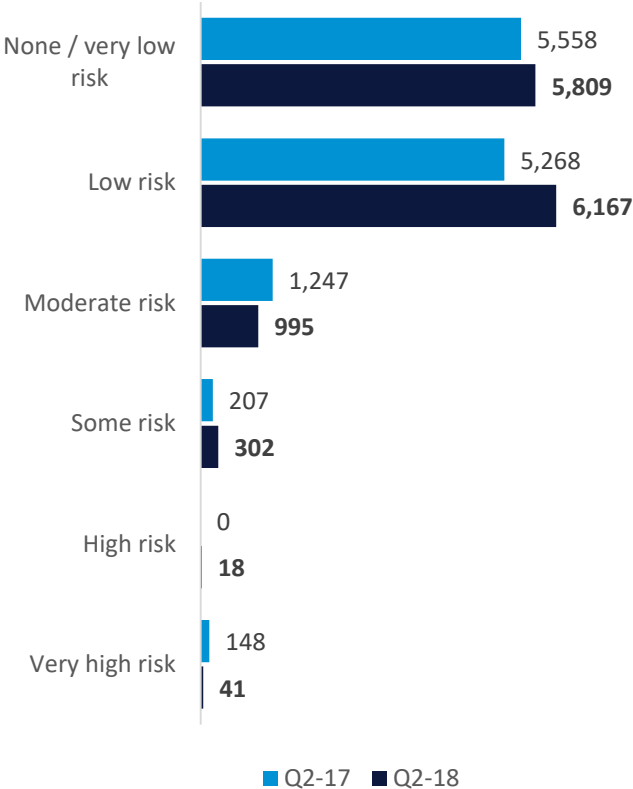
- The bank's liquidity is comprised of cash and highly liquid bonds
- High share of government & PSEs to reduce credit spread risk and increase short-term liquidity
- Large share of covered bonds, mainly short to medium maturities
- NOKm 42 invested in high-yield bond funds in the investment portfolio (max limit NOKm 500)
- The bank has NOKm 41 in a portfolio for conditional subscription to bond issues. This is not considered part of the liquidity portfolio



# COMMITMENTS BY RISK CLASSIFICATION

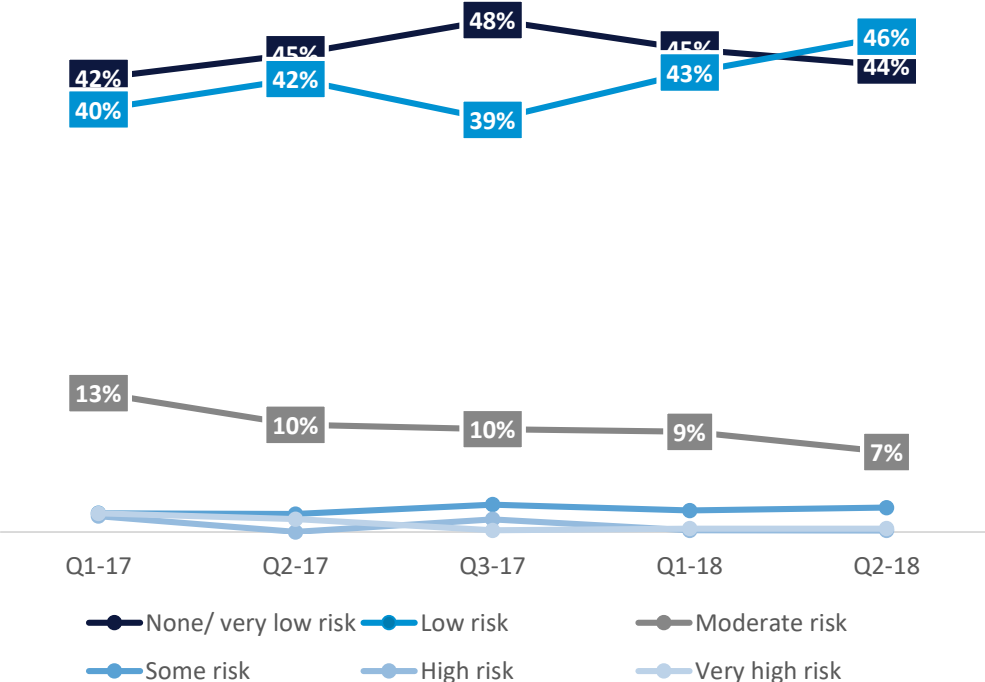
## Risk classification

NOKm



## Historical risk classification

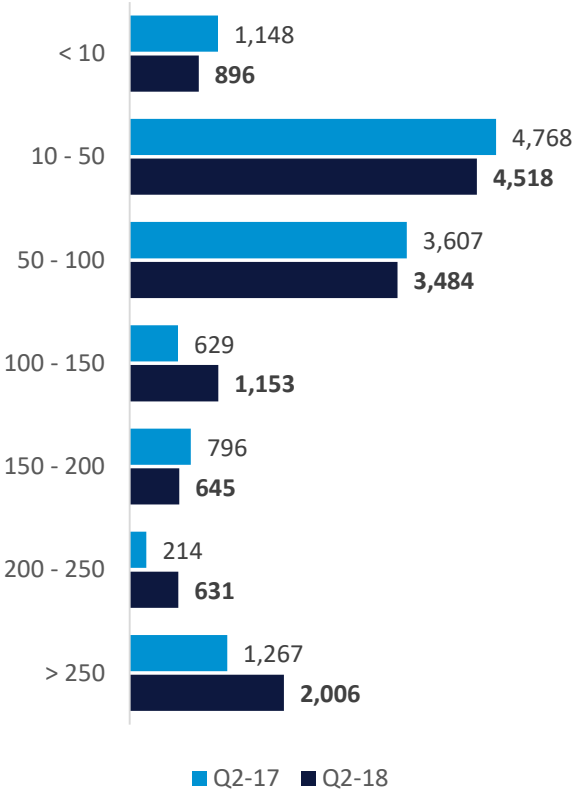
NOKm



# COMMITMENTS BY SIZE

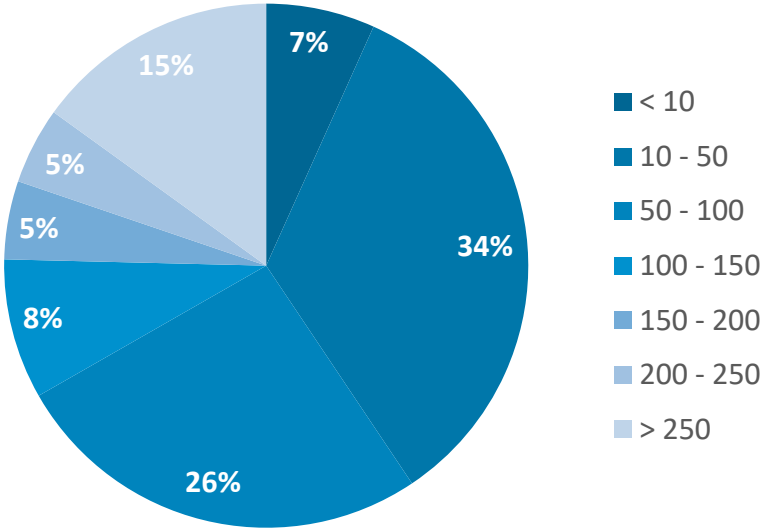
## Commitment size per customer

NOKm



## Commitment size per customer

Percent of NOKm



- Maximum size on a single customer 10 % of total capital (NOK 257m)
- Maximum size on group / consolidated basis 15 % of total capital (NOK 385m)

Pareto bank