
PARETO BANK

Financial Results

Third Quarter 2018

Pareto bank
Projektbanken

TABLE OF CONTENTS

1 AMBITIONS & HIGHLIGHTS

2 FINANCIALS

3 BUSINESS AREAS

STATUS FINANCIAL AMBITIONS

	30.09.2018 STATUS	2018 AMBITION	
LENDING GROWTH	NOK 1,242m	NOK 1,000m - 1,500m	High activity in all areas of real estate and in corporate financing. Seeing continued growth in 2018.
ROE	15.2 %	> 15.0 % *	Continued high profitability ambition due to lending growth on stable margins and low write-downs and losses.
CAPITAL ADEQUACY	16.5 %	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 reflects the project bank's nature of business and allows for increased flexibility.

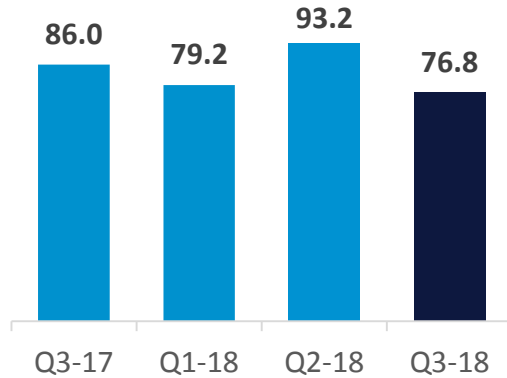
THIRD QUARTER 2018 HIGHLIGHTS

- 1 Profit after tax NOK 76.8m (NOK 86.0m)
- 2 Return on equity 13.7 % (17.5 %)
- 3 Lending growth year to date of NOK 1,242.0m (NOK 1,115.7m)
- 4 Lending growth mainly within real estate
- 5 Stable net interest income of NOK 138.8m (NOK 138.7m)
- 6 Increased funding to meet future lending growth has resulted in temporarily higher surplus liquidity. Higher Nibor rates have increased funding costs.

KEY FIGURES

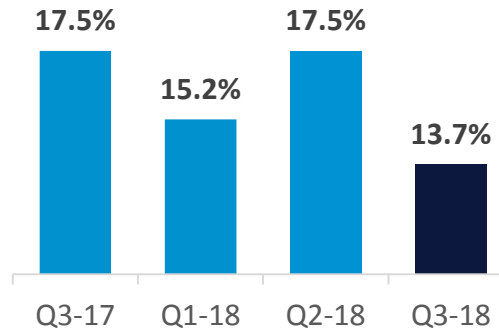
Profit after tax

NOKm



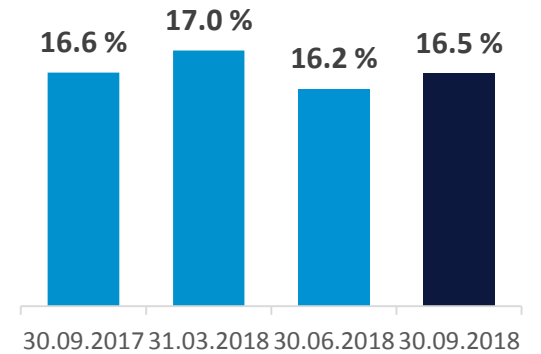
Return on Equity

Excluding AT1 capital and interest



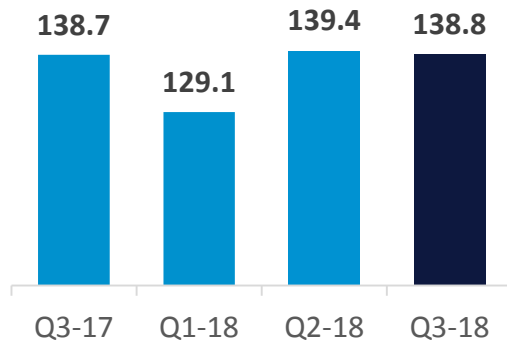
CET1 ratio

Standard model

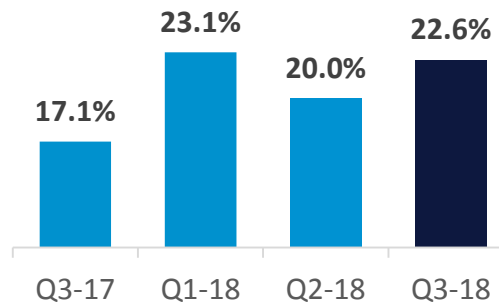


Net interest income (NOKm)

NOKm



Cost/income ratio



Loss ratio

Annualized write-downs and losses over gross lending

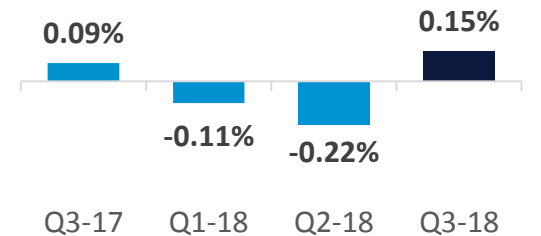


TABLE OF CONTENTS

1 AMBITIONS & HIGHLIGHTS

2 FINANCIALS

3 BUSINESS AREAS

INCOME STATEMENT

P&L (NOKm)

	Q3-18	Q3-17	YTD-18	YTD-17
Net Interest income	138.8	138.7	407.3	378.7
Total other operating income	-1.4	3.2	12.1	-29.9
Total net income	137.5	141.9	419.4	408.6
Total other operating expenses	31.1	24.2	91.7	79.1
Operating result before losses / write-downs	106.4	117.7	327.8	329.5
Losses / write-downs on loans	4.0	2.3	-4.5	-10.5
Operating result before tax	102.4	115.4	332.3	319.1
Tax payable	25.6	29.4	83.1	79.8
Profit for the period	76.8	86.0	249.2	239.3
<i>Earnings per share (NOK)</i>	<i>1.28</i>	<i>1.46</i>	<i>4.19</i>	<i>4.03</i>
<i>Return on equity</i>	<i>13.7%</i>	<i>17.5%</i>	<i>15.2%</i>	<i>16.6%</i>
<i>Cost income ratio</i>	<i>22.6%</i>	<i>17.1%</i>	<i>21.9%</i>	<i>19.4%</i>

Stable lending margins. Lending growth came in the end of the quarter. Increased funding volume, higher market rates and temporarily higher surplus liquidity.

Net loss on financial instruments NOK 6.0m (NOK 0.8m) due to a fall in bond prices and reduced value of hedging instruments.

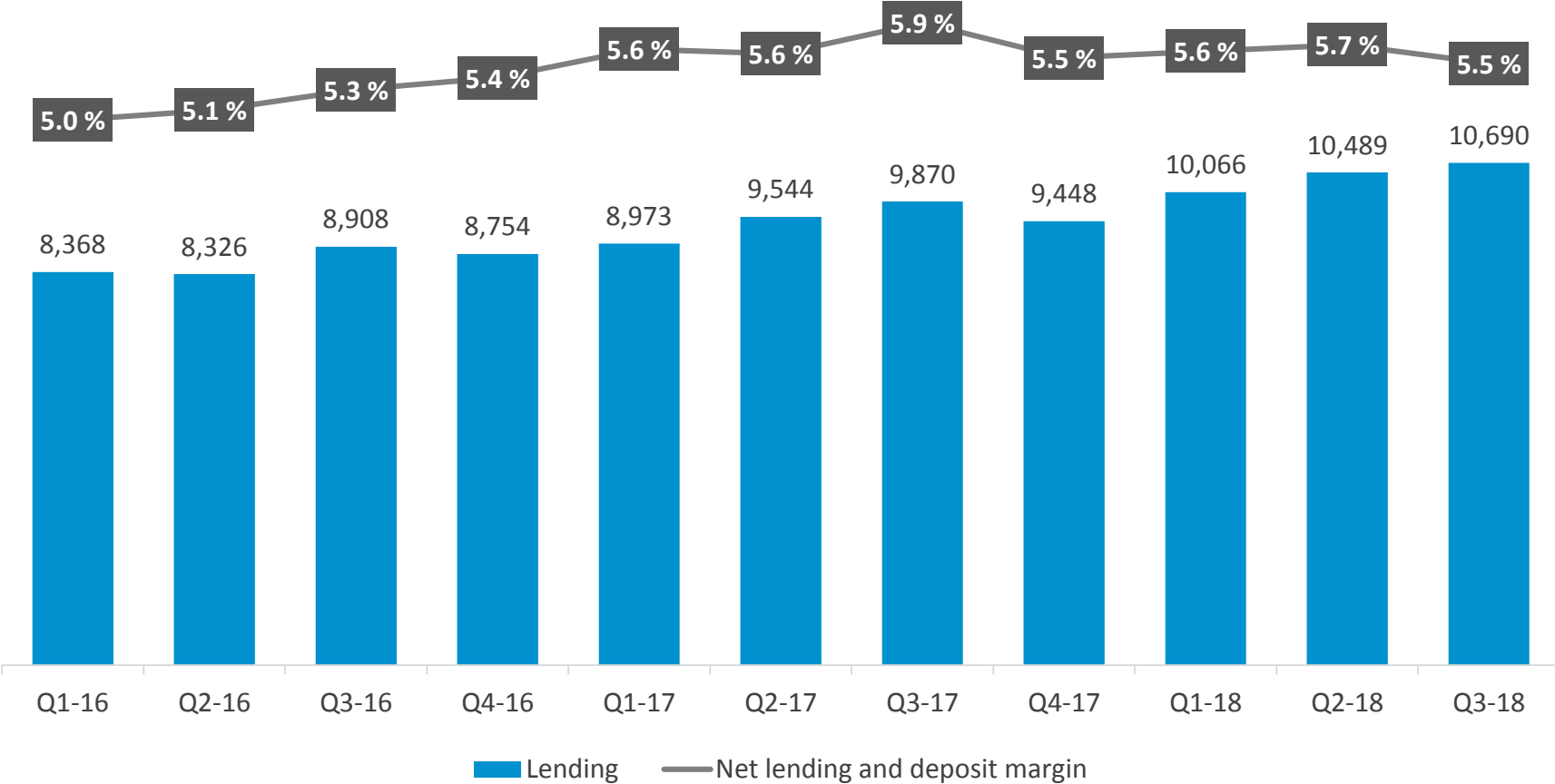
Depreciations due to investment in IT systems and marketing costs. Set off NOK 5.5m (NOK 3.8m) for employee bonus scheme

Write-downs and losses under IFRS 9 due to update of macro model and individual write-downs in real estate.

LENDING GROWTH AT STABLE MARGINS

Historical development in lending and margins

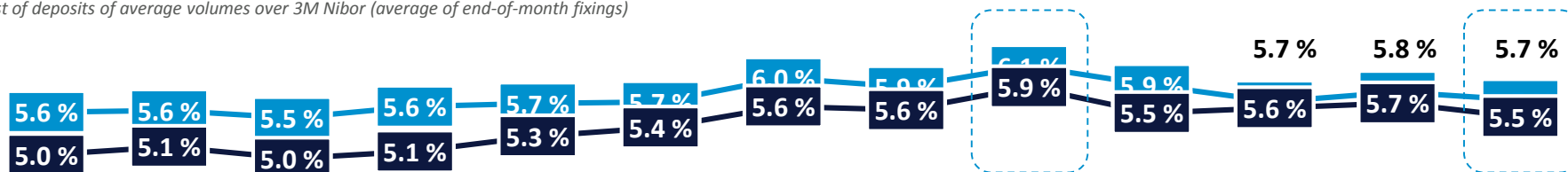
Net lending to customers (NOKm)
 Percent interest income including amortizations and fees over 3M Nibor;
 Cost of deposits of average volumes over 3M Nibor (average of end-of-month fixings)



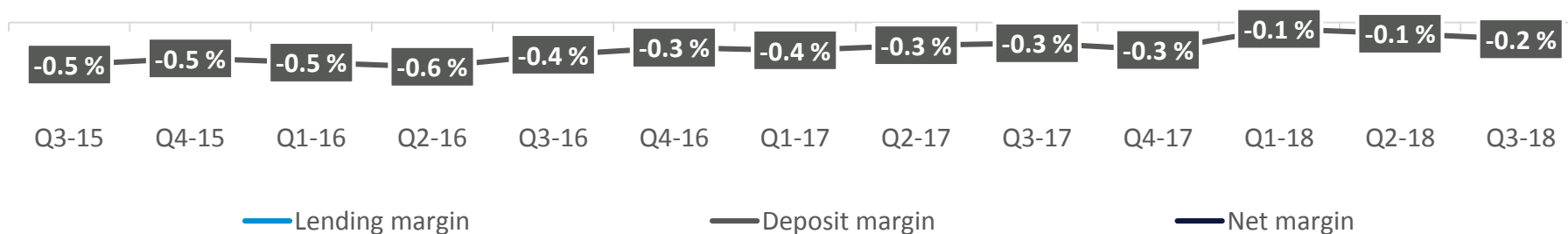
STABLE MARGINS

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)



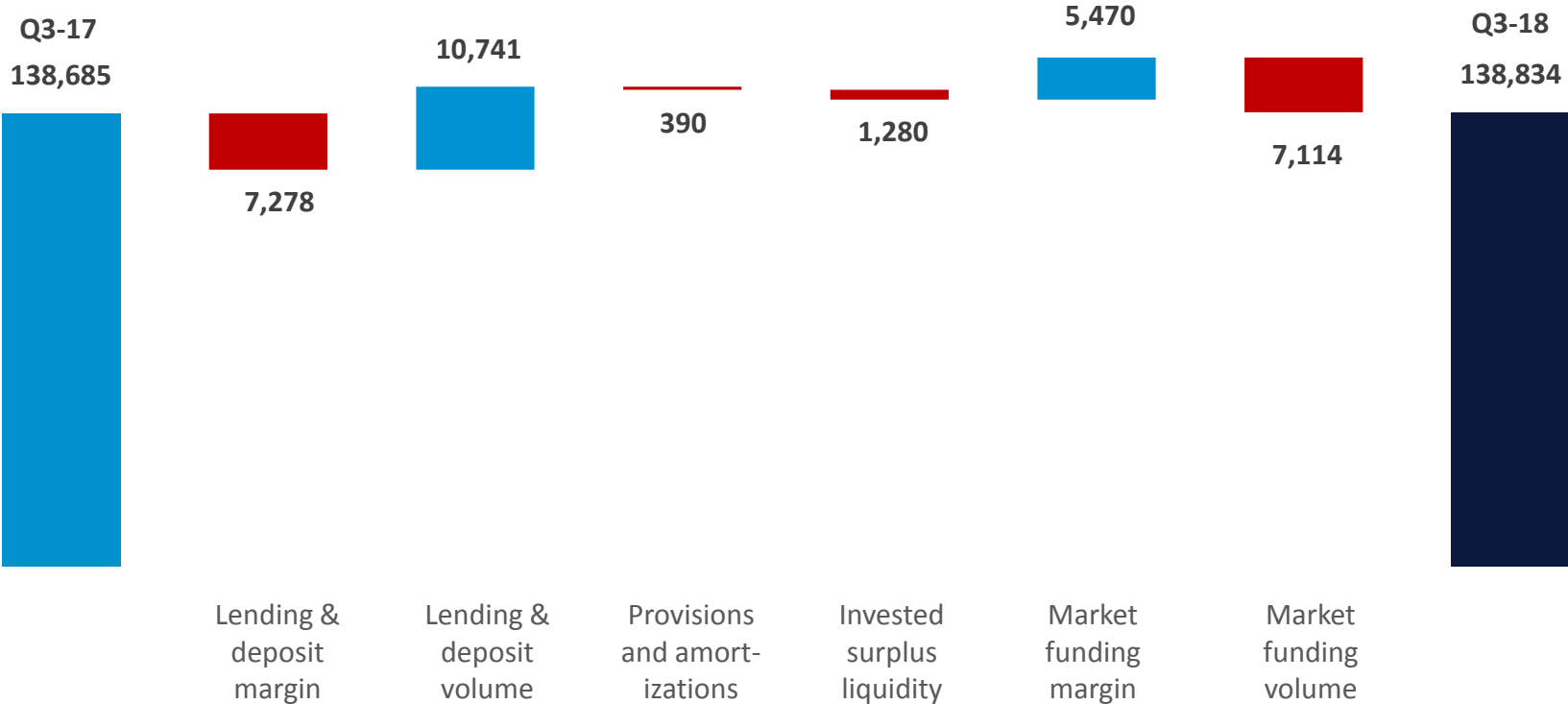
- Lending margins stable while deposit margins fell due to an increased volume of fixed-rate deposits
- Deposit and lending rates will be adjusted up in Q4-18



CHANGE IN NET INTEREST INCOME

Net interest income

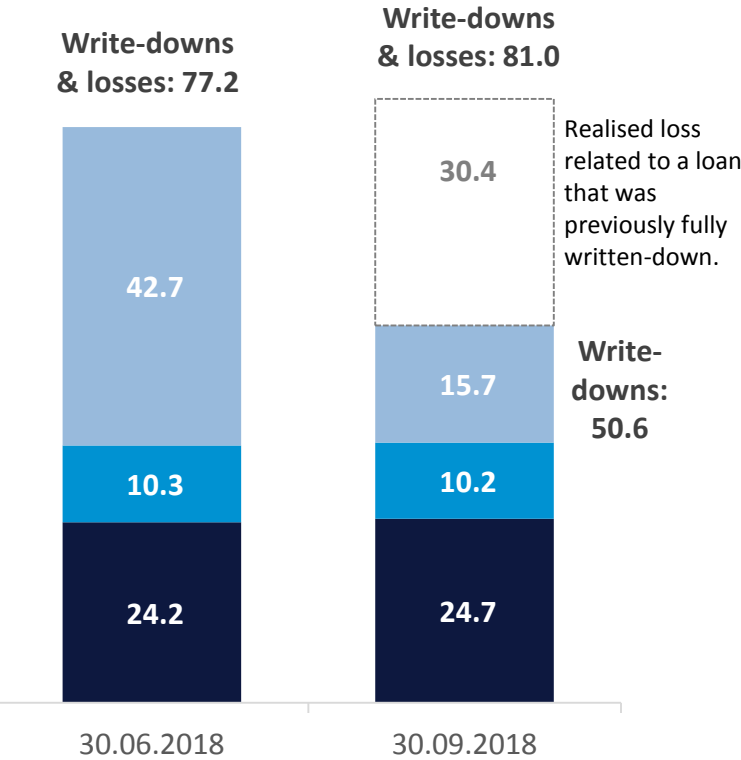
Changes in net interest income over 3M Nibor
NOK 1,000



HIGH QUALITY LOAN PORTFOLIO

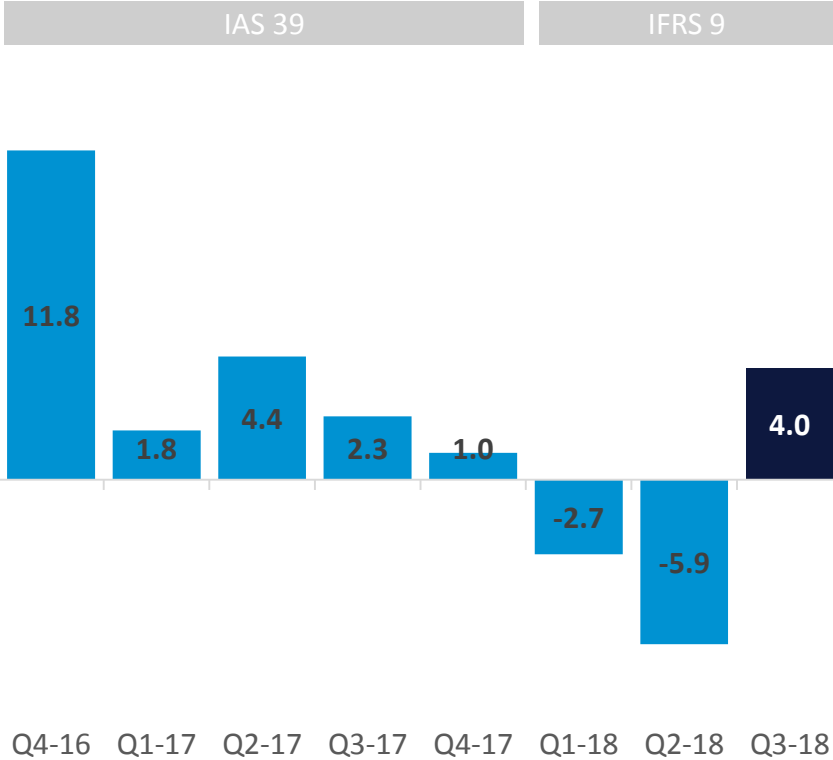
Write-downs & losses according to IFRS 9

NOKm



Write-downs, losses & reversals on loans & guarantees

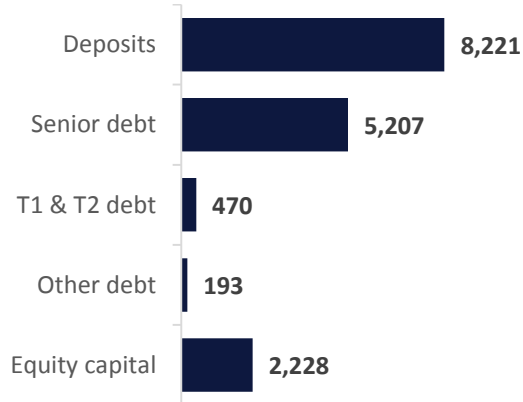
NOKm



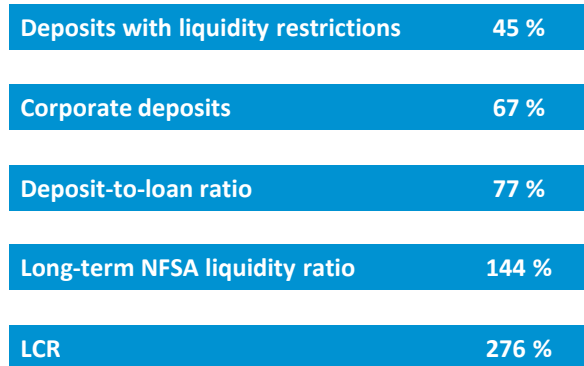
FUNDING

Sources

NOKm

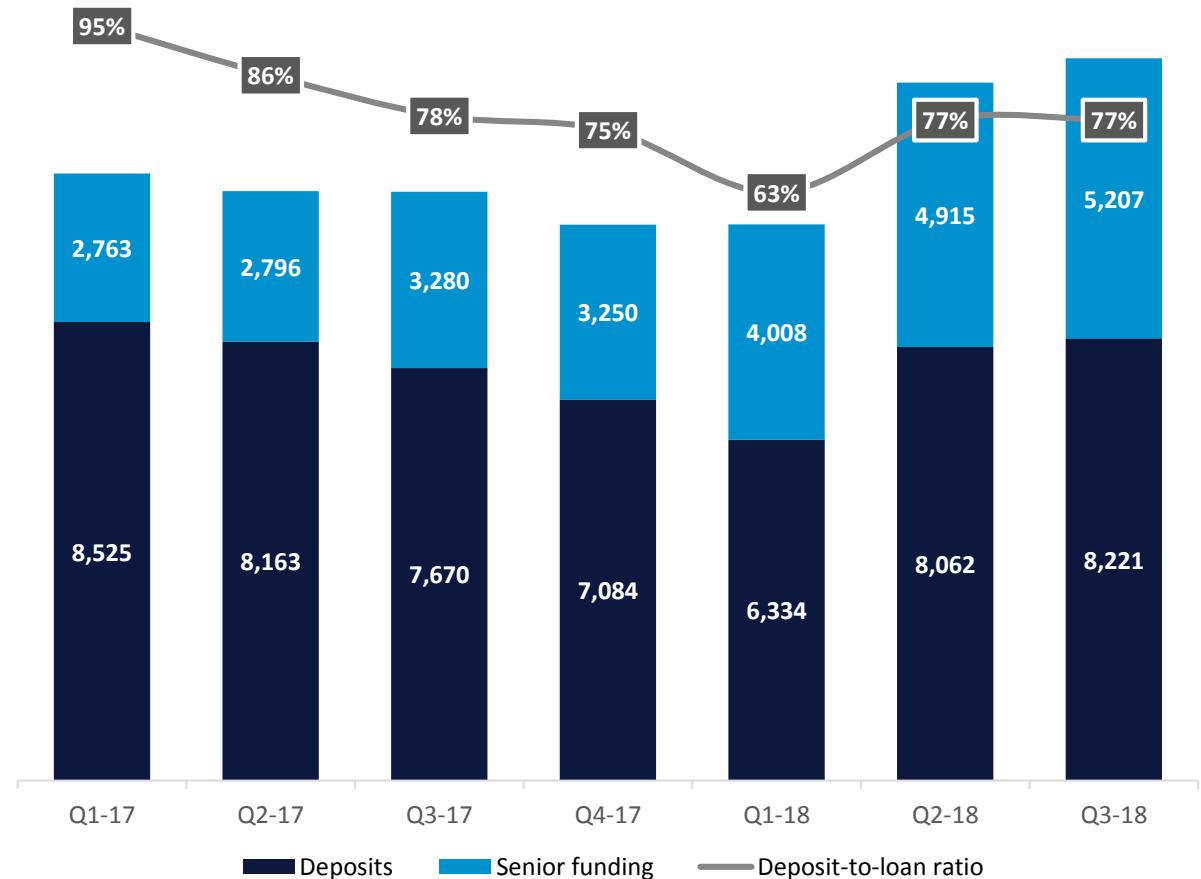


Key ratios



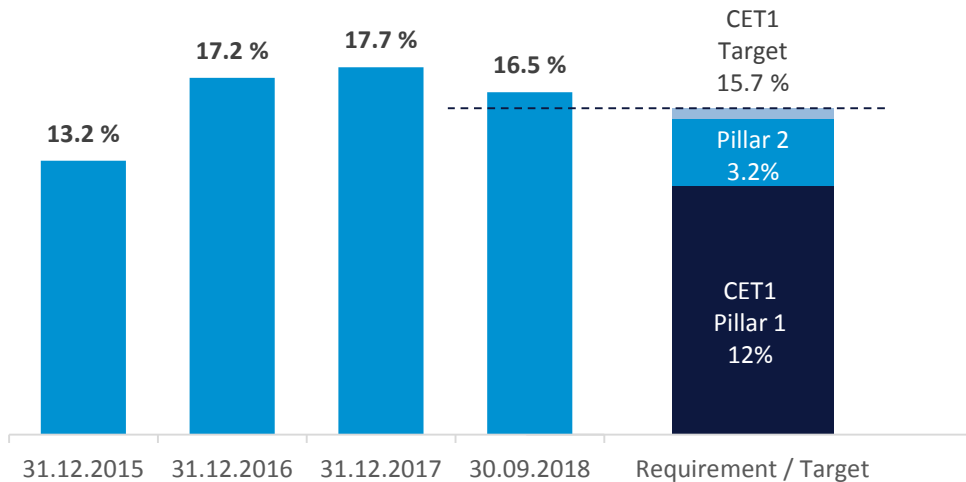
Deposits & senior debt

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 has a strong leverage ratio
- A solid capital position ensures growth capacity

Leverage ratio

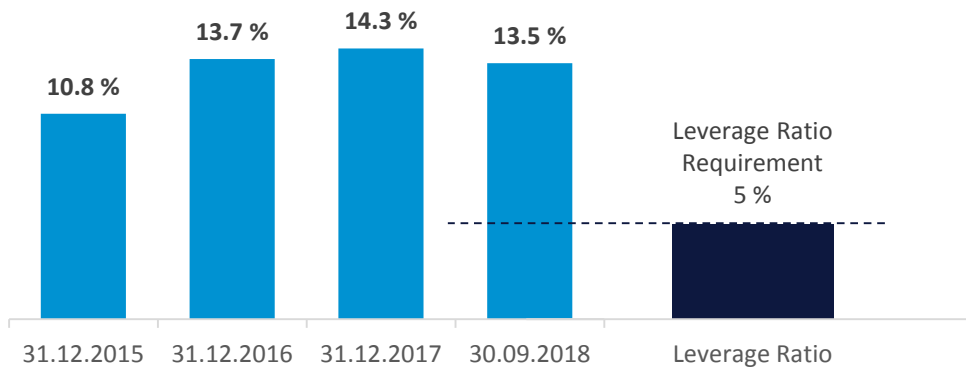


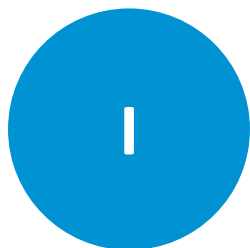
TABLE OF CONTENTS

1 AMBITIONS & HIGHLIGHTS

2 FINANCIALS

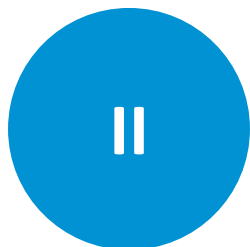
3 BUSINESS AREAS

A NICHE PLAYER WITH FOCUS ON NORWEGIAN MEDIUM-SIZED ENTERPRISES



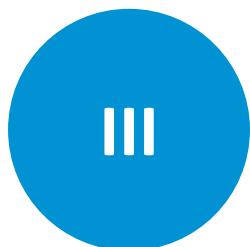
EFFICIENT AND RELIABLE

- Reliably indicate how we can meet customer needs
- An efficient credit process
- Decision-making without unnecessary bureaucracy



HANDS-ON AND PERSONAL

- We understand our customers' businesses and provide tailor-made solutions
- Always available with a fixed point of contact throughout the credit process
- Customer-driven: 80 % of our employees work with clients



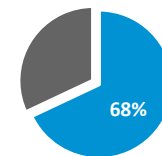
COMMERCIAL AND SPECIALIZED

- Highly competent banking specialists with extensive knowledge of Norwegian business
- Generate value by delivering tailor-made solutions fast
- Our prices reflect our expertise

PROJECT FINANCING FOR MEDIUM-SIZED ENTERPRISES IN FOUR MARKET SEGMENTS

BUSINESS AREAS	FOCUS	CREDITS / CUSTOMERS	EXPOSURE	SWEET SPOT
Real estate	The specialized real estate developer bank for Eastern Norway and larger Norwegian cities.	Property lot financing Building construction facilities Commercial property financing	NOKm 9,059 68 %	NOKm 50-100
Corporate	Positioning Pareto Bank as a provider of tailor-made financing solutions to medium-sized enterprises.	M&A loans Bridge loans Investment loans Working capital facilities	NOKm 1,781 13 %	NOKm 20-100
Securities	A range of customized securities financing products.	Securities financing	NOKm 1,134 9 %	NOKm 5
Shipping & offshore	Norwegian clients and first priority financing of vessels with LTV < 55 %.	Ship owners Family offices Shipping and offshore projects	NOKm 1,012 8 %	USDm 10-20

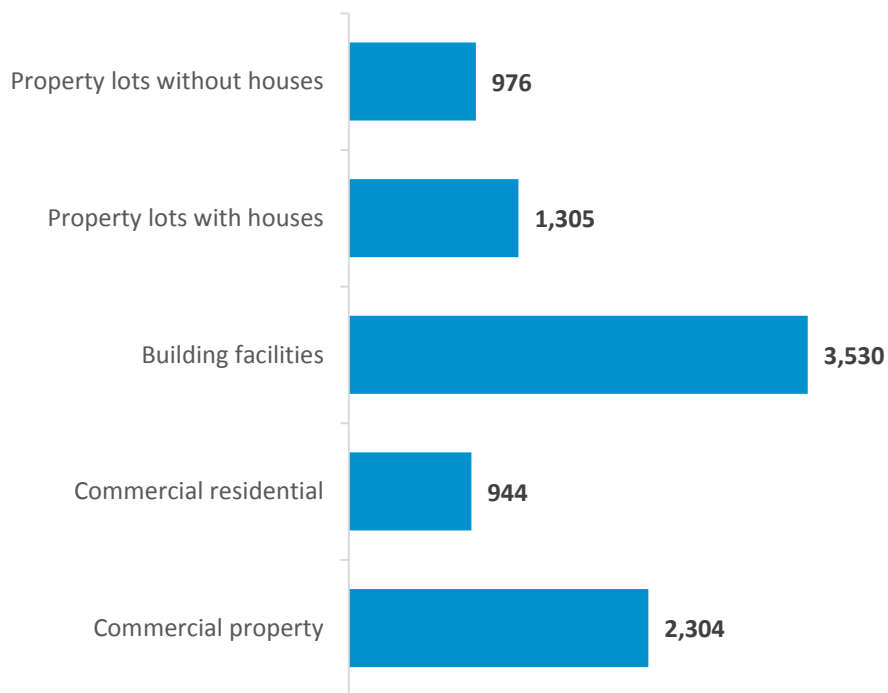
REAL ESTATE | CONTINUED HIGH ACTIVITY



Real estate credit exposure

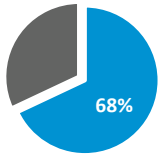
Σ = NOK 9,059m

NOKm of gross exposure



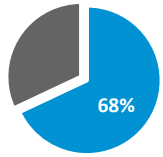
Key comments

- Continued high activity has resulted in real estate credit exposure growth of NOK 152m in Q3-18
- High level of redemptions are expected in Q4-18 in the residential property development portfolio as projects are completed
- Lending activity in the newbuild market holding strong throughout 2018
- Strengthened competitive position within commercial real estate working together with Eiendomskreditt AS on selected loans in commercial real estate financing



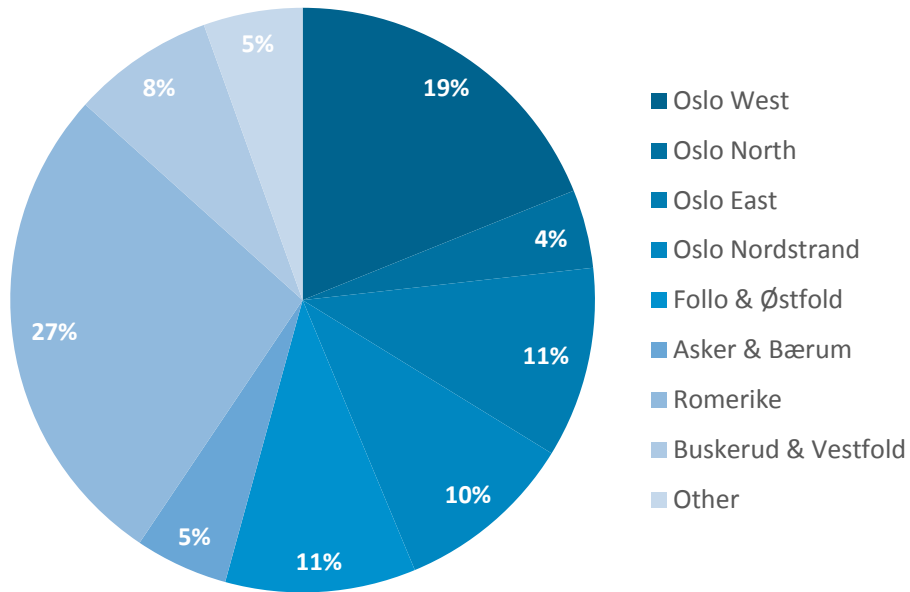
- ✓ Pareto Bank maintains its focus on presale, liquidity buffers and equity contribution
- ✓ Presale requirement: if the price of unsold units falls by 50 % compared to the price of presold units, the remaining sales must still be sufficient to cover the bank credit
- ✓ Presale quality: end-users are 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
- ✓ Restrictive attitude towards financing of projects with long-term exits
- ✓ A high natural turnover rate on loans is in general risk mitigating

REAL ESTATE | RESIDENTIAL PROPERTY EXPOSURE



Geographical residential property exposure (NOKm) Σ = NOK 5,811m

NOKm of gross exposure



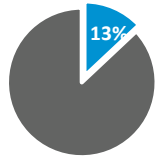
Largest areas:

Oslo	44 %
Romerike	27 %
Follo & Østfold	11 %

Semi-annually stress testing against a fall in housing prices

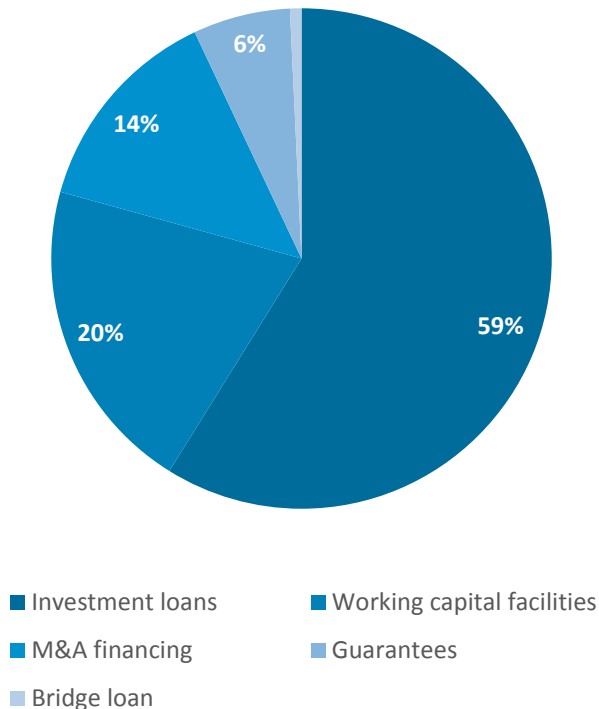
- The portfolio is robust against a theoretical stress test
- In case of a distressed project, focus will be on project completion and sale of remaining units
- Potential loss is limited due to the bank's high presale requirement
- The portfolio consists of 164 different addresses with an average project size of NOK 35m
- 89 projects and 40 % of the exposure are within construction of small houses (*småhus*)
- Approximately 30 % of the projects have presold all units, exposing the bank to little or no market risk
- Growth mainly within the newbuild market in Oslo and Romerike

CORPORATE | CONTINUED STRONG DEAL FLOW



Corporate financing exposure (NOKm)

Σ = NOK 1,781m



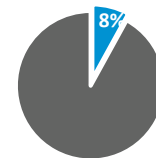
Status

- Continued strong deal flow, but redemptions flattened lending growth in Q3-18
- Increasing awareness of Pareto Bank as a financial solution provider for medium-sized businesses
- Pilot testing of the product *fleksibel driftskreditt* is ongoing. The credit rating model is directly integrated with customer accounting systems. This approach provides opportunities for developing future credit tools and products.

Policy

- Focus on medium-sized corporate transactions (M&A, MBO, LBO) and tailor-made solutions to fit client needs
- 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

SHIPPING & OFFSHORE | DIVERSIFIED PORTFOLIO



Status

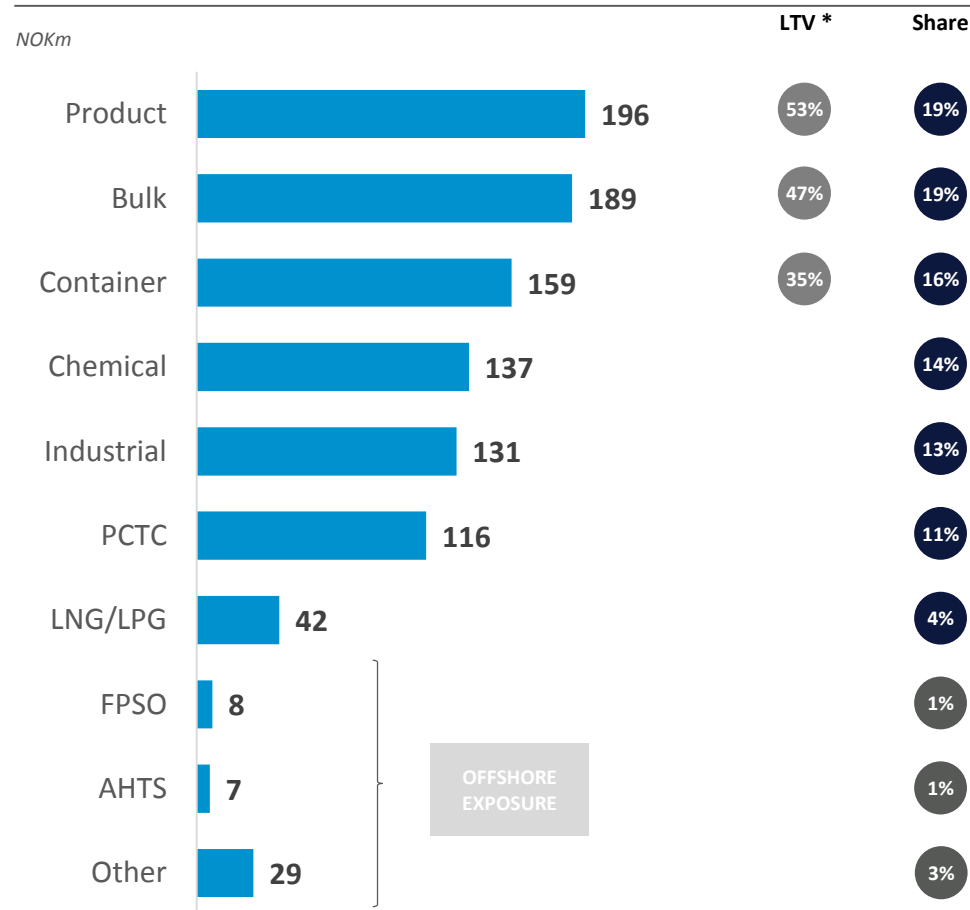
- Stabilised risk in the shipping & offshore portfolio and no impairments
- New team in place: leader with 10 years industry experience and senior relationship manager with 7 years banking experience

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

Shipping & Offshore credit exposure & loan to value

Σ = NOK 1,012m



WELL-POSITIONED FOR FUTURE GROWTH

1 Lending growth on stable margins and ROE ambition of 15 % or above.

2 Solid capital situation enables annual growth capacity of 10 %.

3 Sizeable equity base means increased credit capacity making Pareto Bank more attractive among larger customers.

4 Cost efficient business model and "best-in-class" cost/income ratio.

APPENDIX

LARGEST SHAREHOLDERS AS OF 30 SEPTEMBER 2018

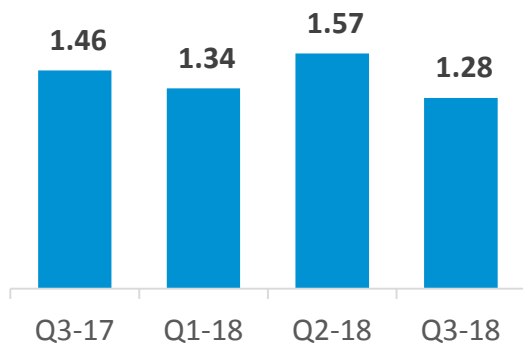
#	Investor	30 September 2018	
		# of shares	% total
1	Pareto AS	8,921,873	15.22%
2	Pecunia Forvaltning AS	6,500,000	11.09%
3	AF Capital Management AS	5,045,998	8.61%
4	Indigo Invest AS	4,382,711	7.48%
5	Saga Tankers ASA	2,365,646	4.04%
6	Verdipapirfondet Landkreditt Utbytte	1,850,000	3.16%
7	Kolberg Motors AS	1,360,000	2.32%
8	Verdipapirfondet First Generator	1,312,907	2.24%
9	Svemorka Holding AS	1,010,000	1.72%
10	Verdipapirfondet Holdberg Norge	1,000,000	1.71%
11	Artel AS	900,820	1.54%
12	Pactum AS	775,000	1.32%
13	Dragesund Invest AS	727,312	1.24%
14	Hjellegjerde Invest AS	705,996	1.20%
15	Castel AS	689,779	1.18%
16	Uthalden AS	622,451	1.06%
17	Hausta Investor AS	600,000	1.02%
17	Verdipapirfondet Fondsfinans Norge	600,000	1.02%
19	Apollo Asset Limited	500,000	0.85%
19	Wenaasgruppen AS	500,000	0.85%
19	Bergen Kommunale Pensjonskasse	500,000	0.85%
Sum TOP 20		40,870,493	69.72%
Other shareholders		17,749,195	30.28%
Total		58,619,688	100.00%

- 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 58 % and 70 % 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

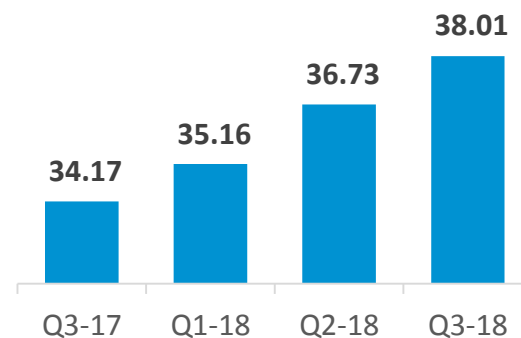
Earnings per share

NOK



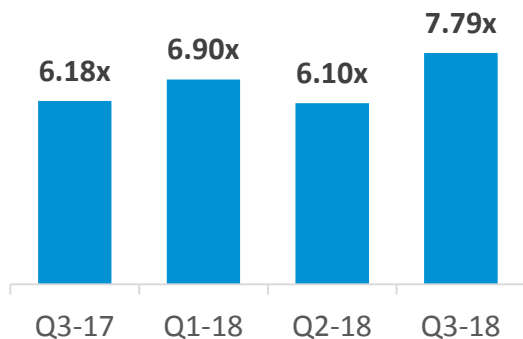
Book equity per share

NOK



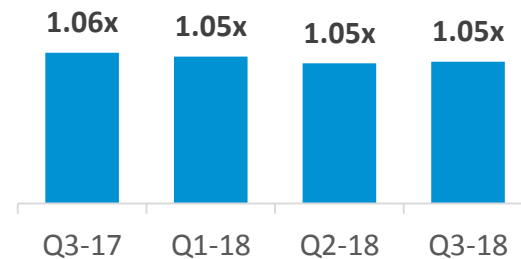
Price / Earnings

NOK, Share price 38.40



Price / Book

NOK, Share price 38.40



QUARTERLY INCOME STATEMENT

P&L (NOKm)

	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17
Net Interest income	138.8	139.4	129.1	128.3	138.7
Total other operating income	-1.4	8.6	4.9	2.1	3.2
Total net income	137.5	148.0	134.0	130.3	141.9
Total other operating expenses	31.1	29.6	31.0	33.5	24.2
Operating result before losses / write-downs	106.4	118.4	103.0	96.8	117.7
Losses / write-downs on loans	4.0	-5.9	-2.7	1.0	2.3
Operating result before tax	102.4	124.2	105.6	95.9	115.4
Tax payable	25.6	31.1	26.4	22.6	29.4
Profit for the period	76.8	93.2	79.2	73.3	86.0
<i>Earnings per share (NOK)</i>	<i>1.28</i>	<i>1.57</i>	<i>1.34</i>	<i>1.24</i>	<i>1.46</i>
<i>Return on equity</i>	<i>13.7%</i>	<i>17.5%</i>	<i>15.2%</i>	<i>14.3%</i>	<i>17.5%</i>
<i>Cost income ratio</i>	<i>22.6%</i>	<i>20.0%</i>	<i>23.1%</i>	<i>25.7%</i>	<i>17.1%</i>

QUARTERLY BALANCE SHEET

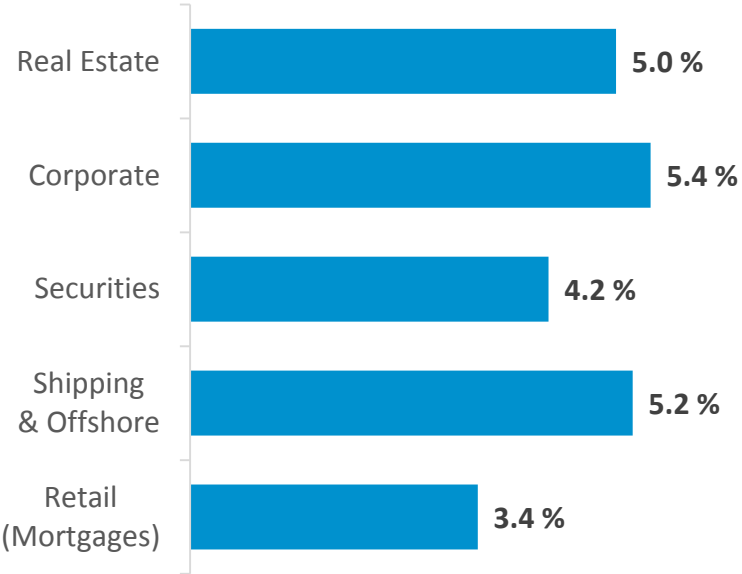
BS (NOKm)

	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17
Loans to credit institutions	1,295	1,136	405	357	165
Loans to customers	10,690	10,489	10,066	9,448	9,870
Bonds and other securities	4,220	4,031	2,844	3,215	3,331
Shareholdings in associated companies	35	35	37	36	42
Other assets	80	62	82	49	68
Total assets	16,319	15,753	13,434	13,104	13,475
Deposits from customers and institutions	8,258	8,069	6,795	7,284	7,693
Senior securities issued	5,207	4,915	4,008	3,250	3,280
Other liabilities	156	146	249	173	178
Tier 2 subordinated securities issued	270	270	270	270	270
Additional tier 1 capital	200	200	50	50	50
Other equity	2,228	2,153	2,061	2,076	2,003
Total liabilities and equity	16,319	15,753	13,434	13,104	13,475

MARGINS AND INTEREST CONTRIBUTION

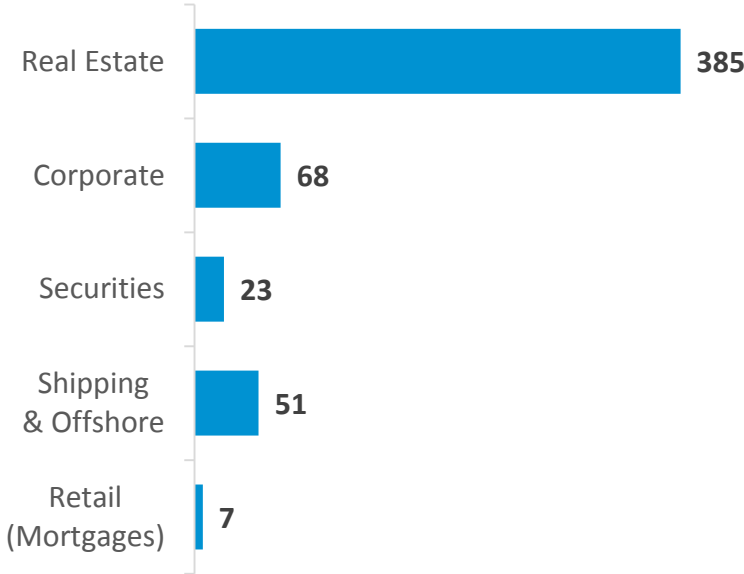
Margins per business area

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

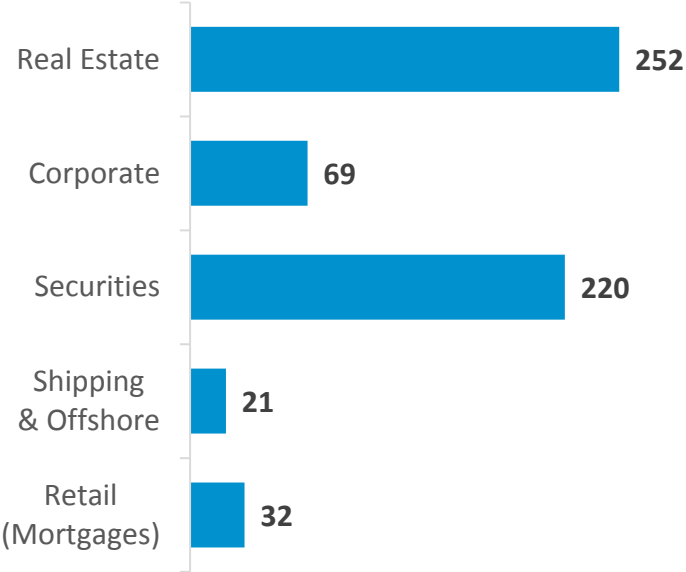


Note segment margins are estimated on the basis of terms of existing loans and will therefore differ from reported total lending margins.

Based on terms as of 30.09.2018

NUMBER OF CUSTOMERS

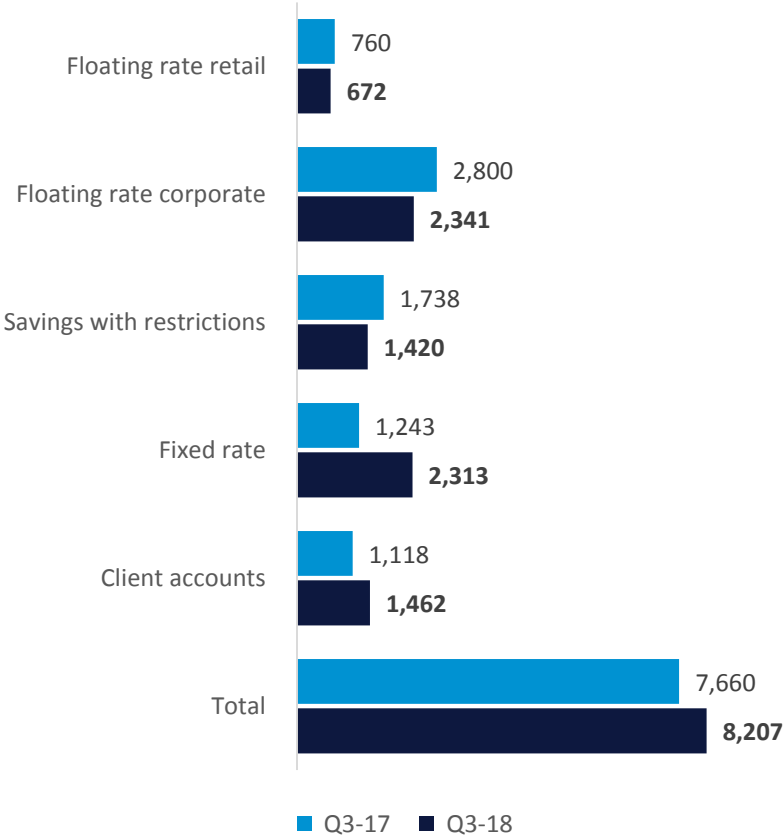
Number of customers per business area



CUSTOMER DEPOSITS

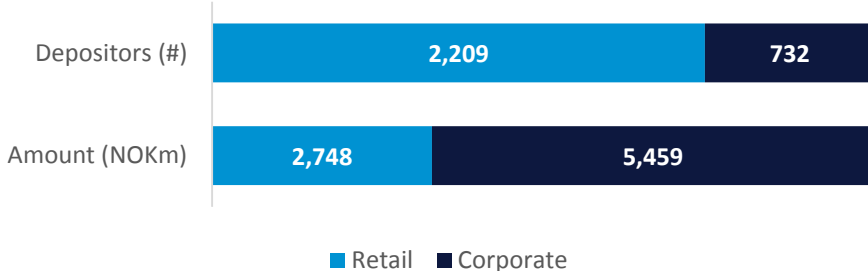
Deposits by product

NOKm



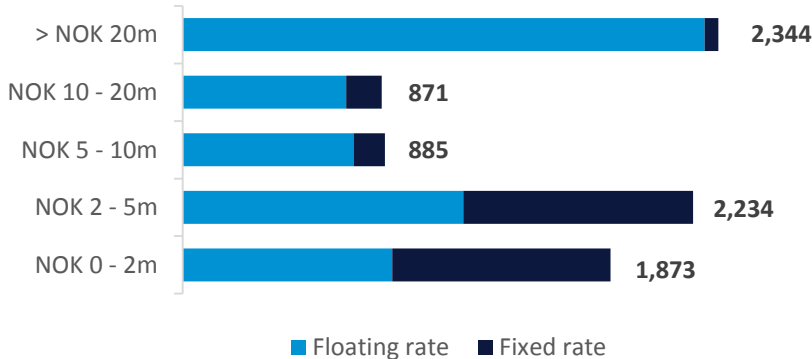
Deposits by type

NOKm



Deposits by size

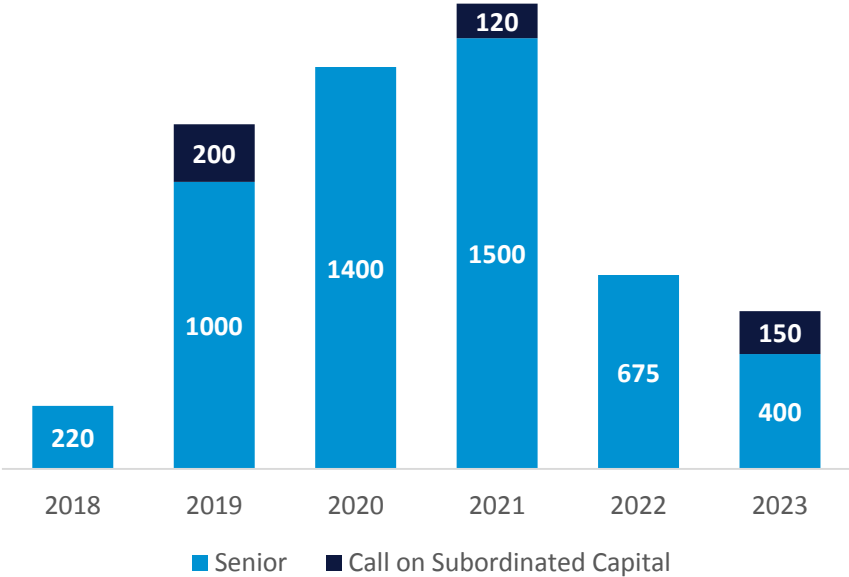
NOKm



MARKET FUNDING

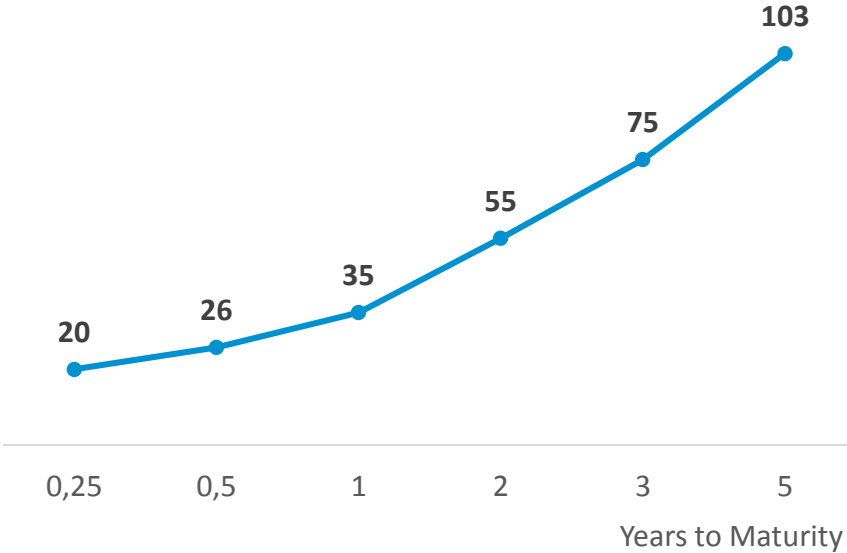
Market funding maturities

NOKm, net of own holdings



Credit spreads

Basis points over 3M Nibor

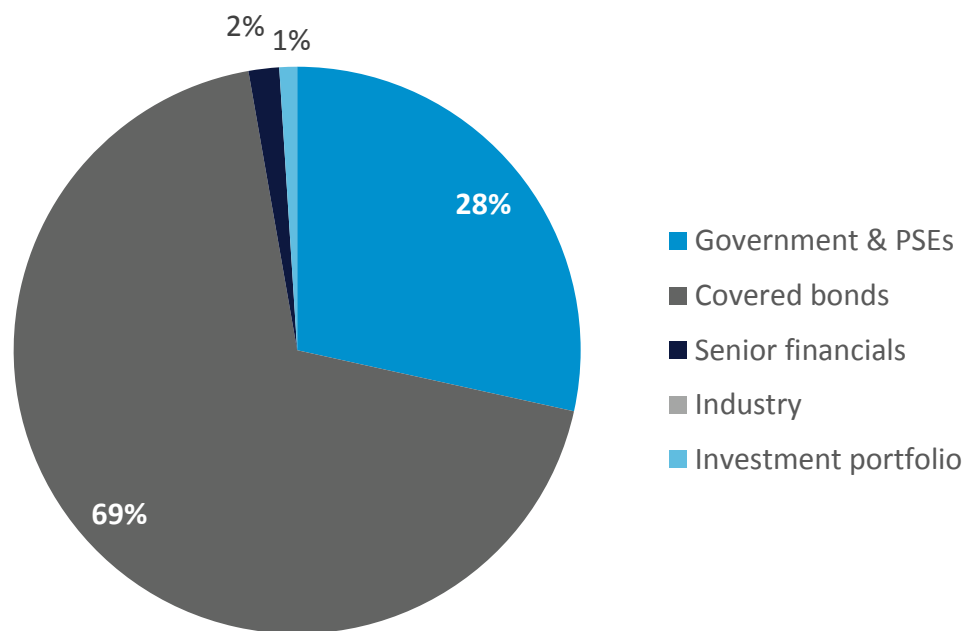


Source: Nordic Bond Pricing

SURPLUS LIQUIDITY

Bond portfolio

Market value of bonds and funds comprising surplus liquidity



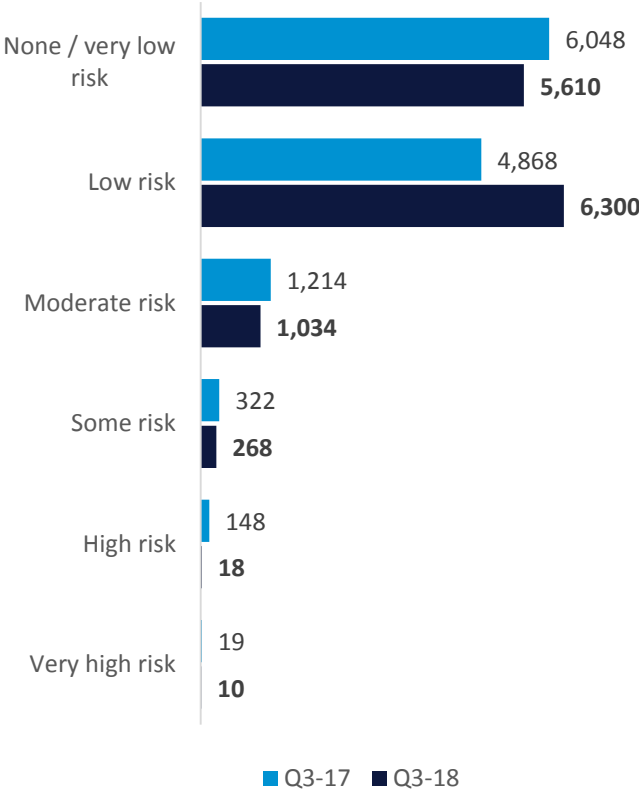
Key comments

- 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 43 invested in high-yield bond funds in the investment portfolio (max limit NOKm 500)

COMMITMENTS BY RISK CLASSIFICATION

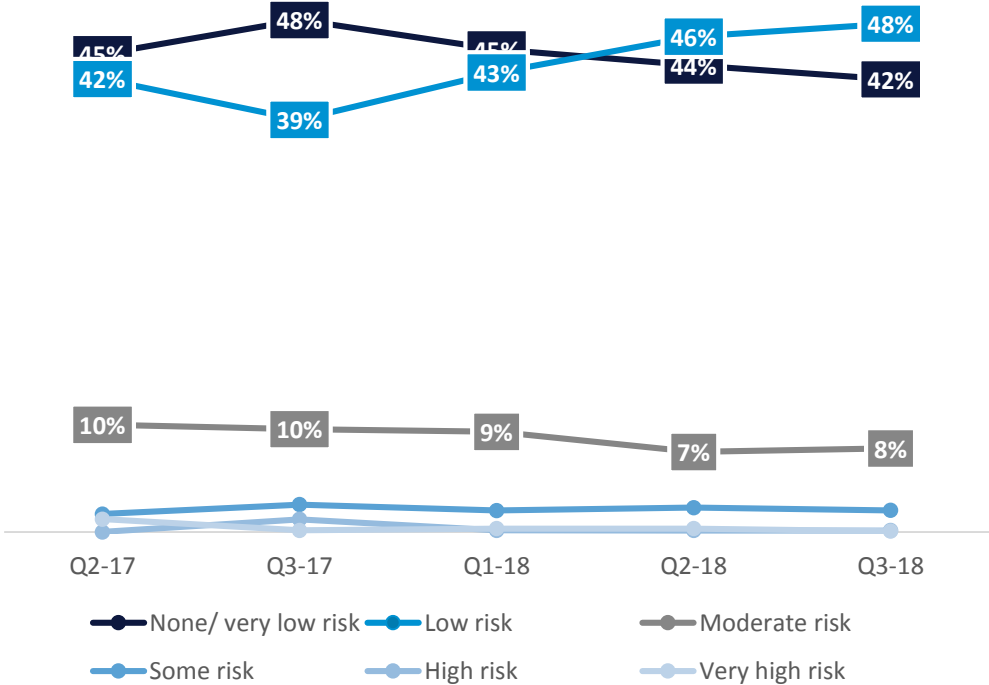
Risk classification

NOKm



Historical risk classification

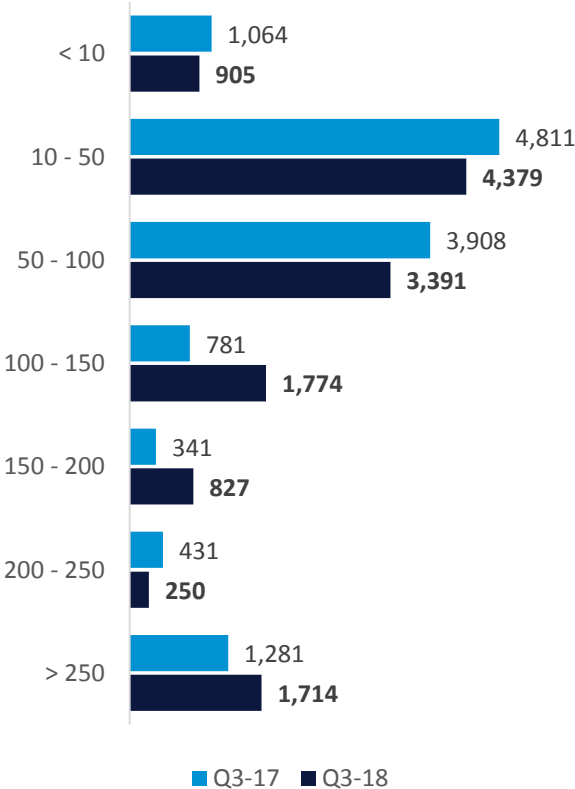
NOKm



COMMITMENTS BY SIZE

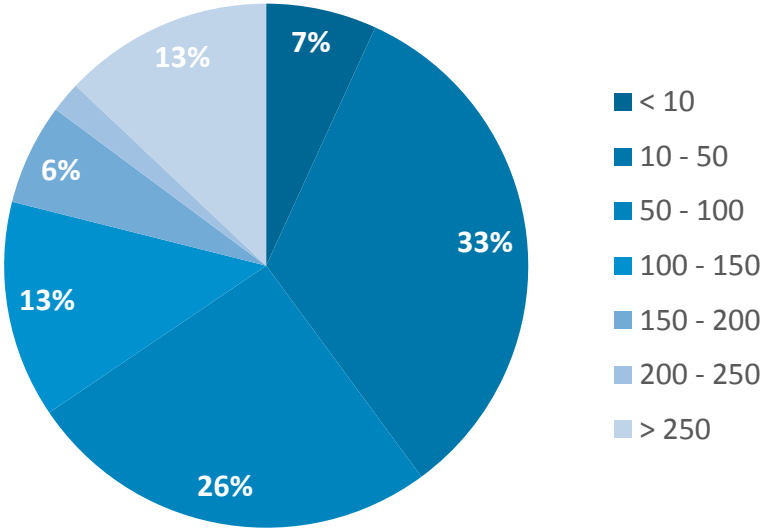
Commitment size per customer

NOKm



Commitment size per customer

Percent of NOKm



- Maximum size on a single customer 10 % of total capital (NOK 263m)
- Maximum size on group / consolidated basis 15 % of total capital (NOK 395m)

Pareto bank