
PARETO BANK

Financial Results

Second Quarter 2018

 Pareto bank
Projektbanken

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SECOND QUARTER 2018 HIGHLIGHTS

- 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 %

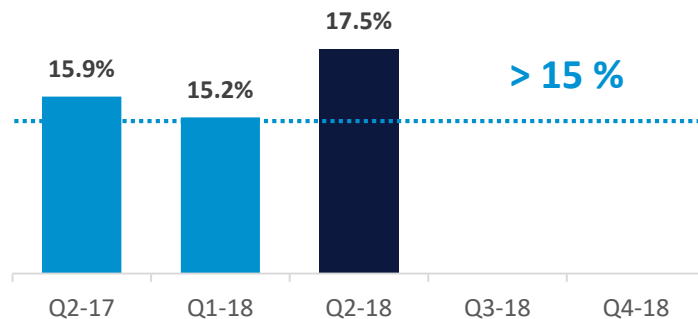
- Profitability ambition lifted to > 15 %
- Stable lending margins
- High lending activity means increased income from provisions and fees
- Continued high credit quality

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

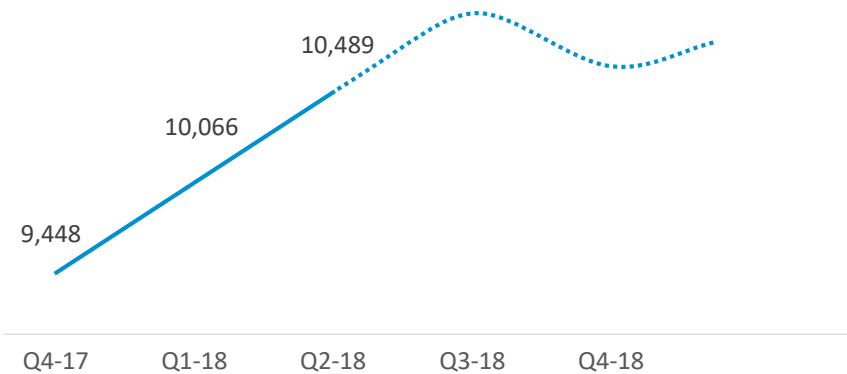
Return on Equity

Excluding AT1 capital and interest



Lending

NOKm, Estimate for illustration only



INCOME STATEMENT

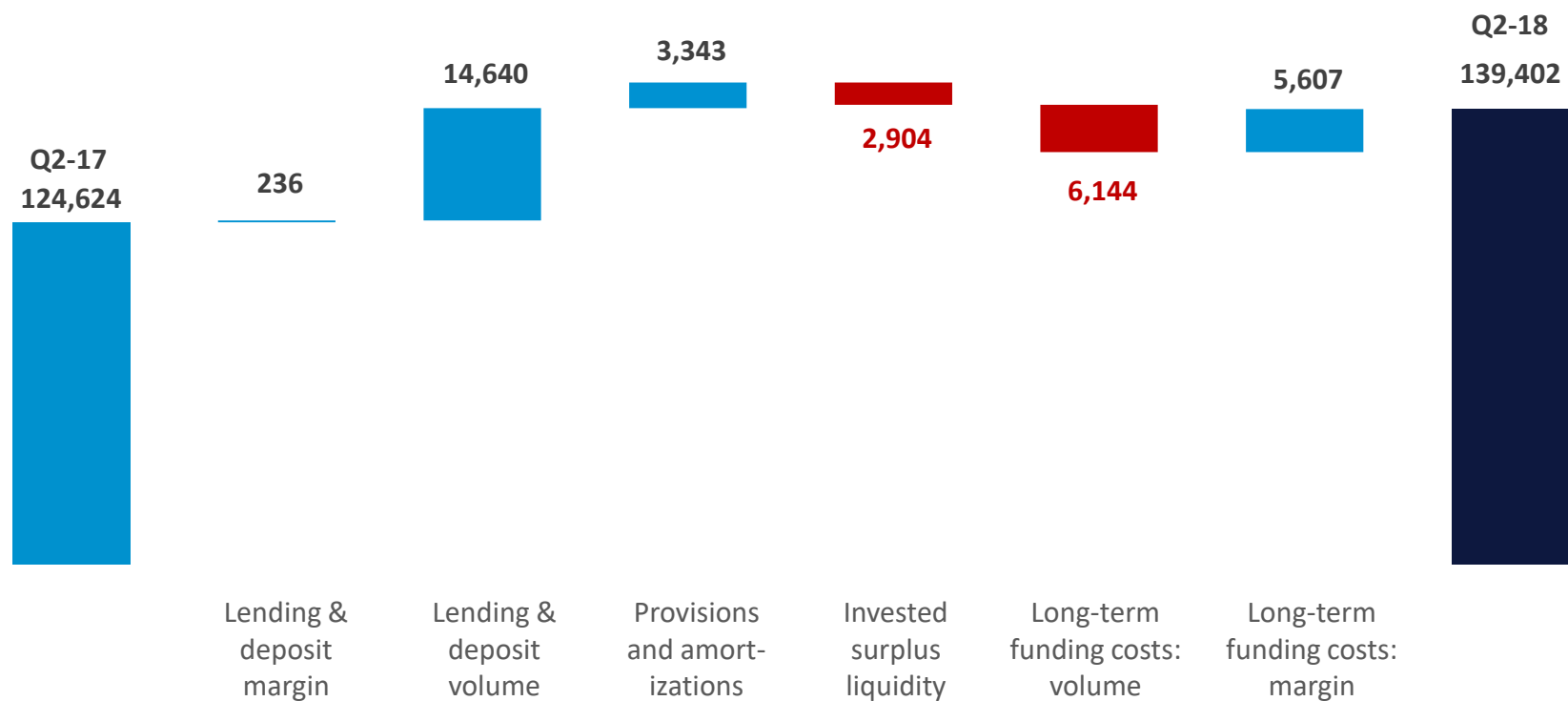
P&L (NOKm)

	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	
Total net income	148.0	132.5	281.9	266.7	
Total other operating expenses	29.6	26.8	60.6	54.9	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.
Operating result before tax	124.2	99.2	229.9	203.7	
Tax payable	31.1	24.2	57.5	50.3	
Profit for the period	93.2	75.0	172.4	153.3	
<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



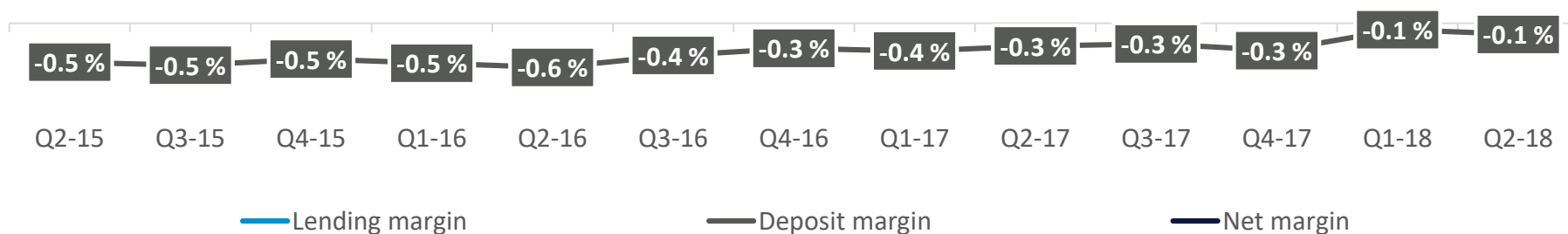
STABLE MARGINS

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)



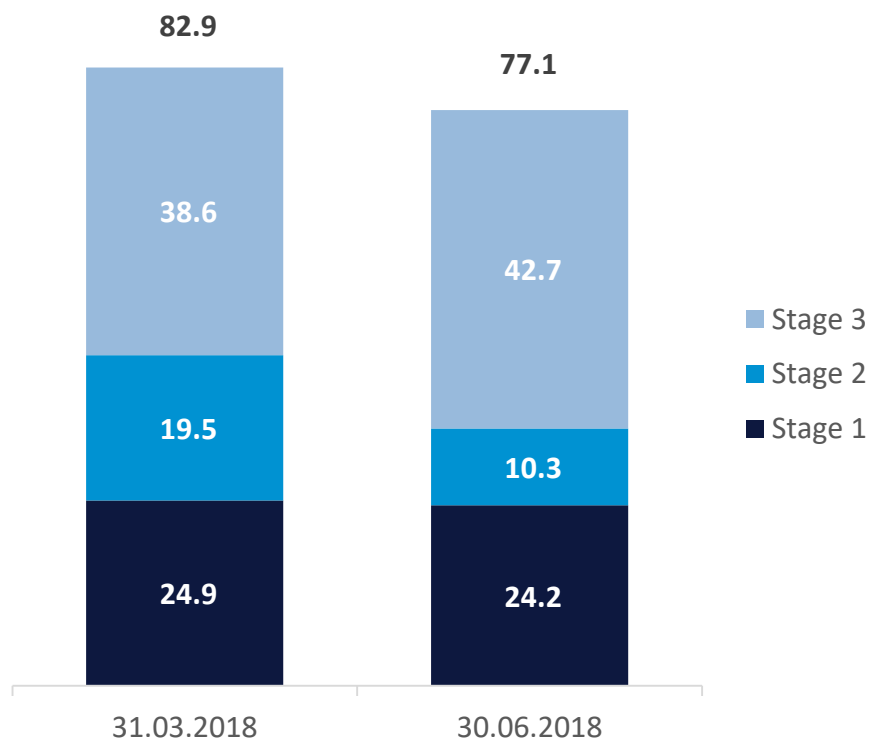
- Short duration allows continuous repricing
- Individual pricing of all loans
- 12 % of exposure fixes on money market rates
- Margins can be repriced on ~90 % of exposure
- Fee income independent of rate changes
- 77 % of deposits can be repriced



HIGH QUALITY LOAN PORTFOLIO

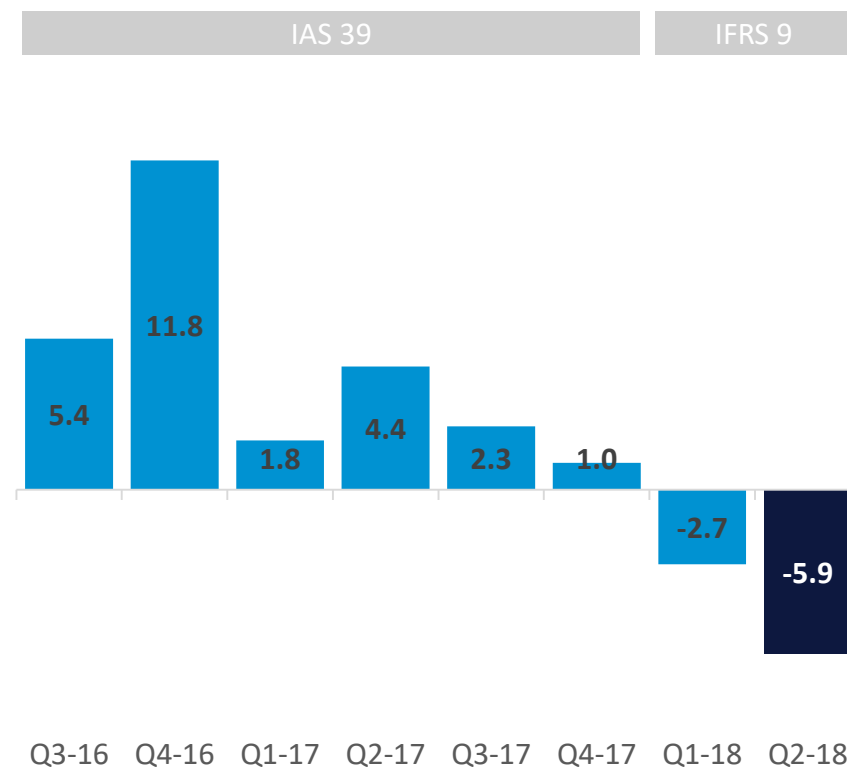
Loss allowances according to IFRS 9

NOKm



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

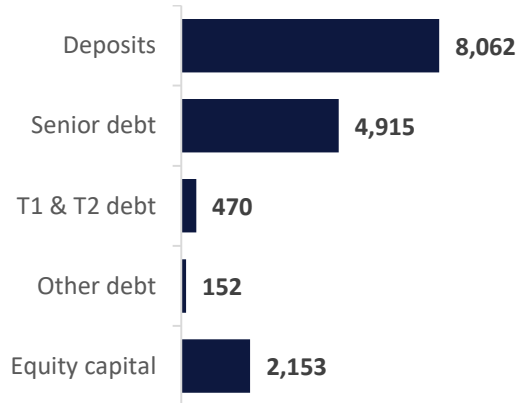
NOKm



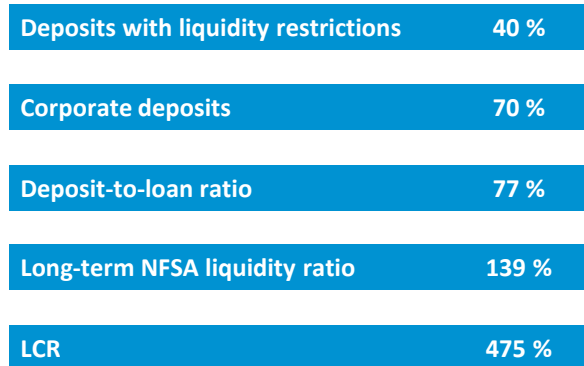
FUNDING

Sources

NOKm

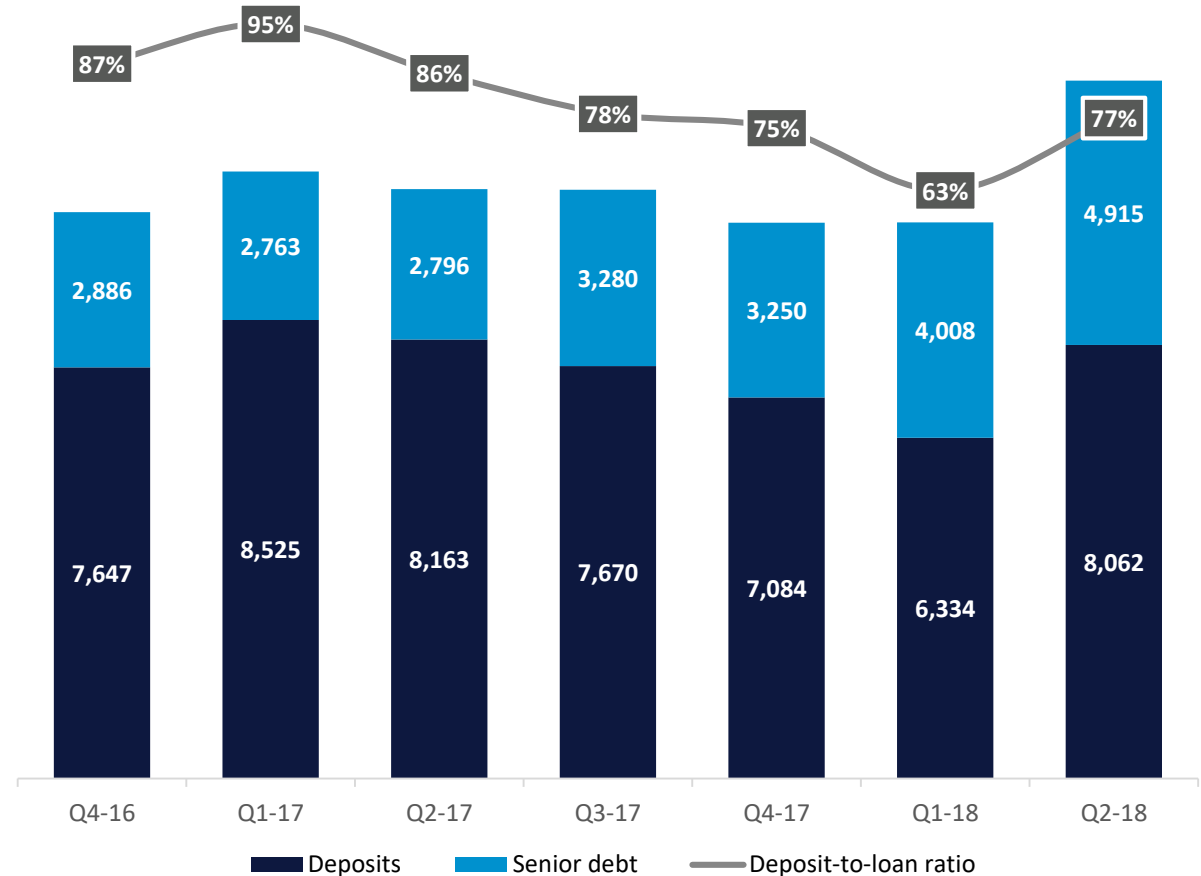


Key ratios



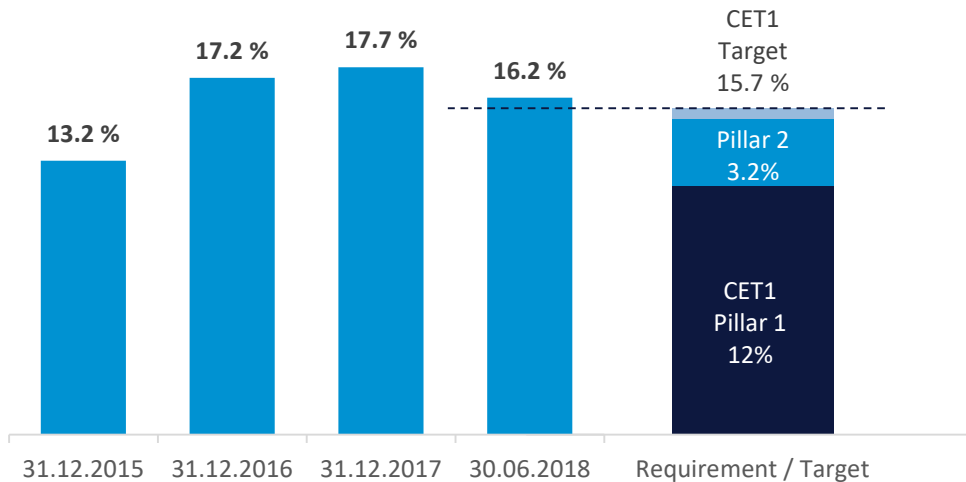
Deposits & senior debt

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

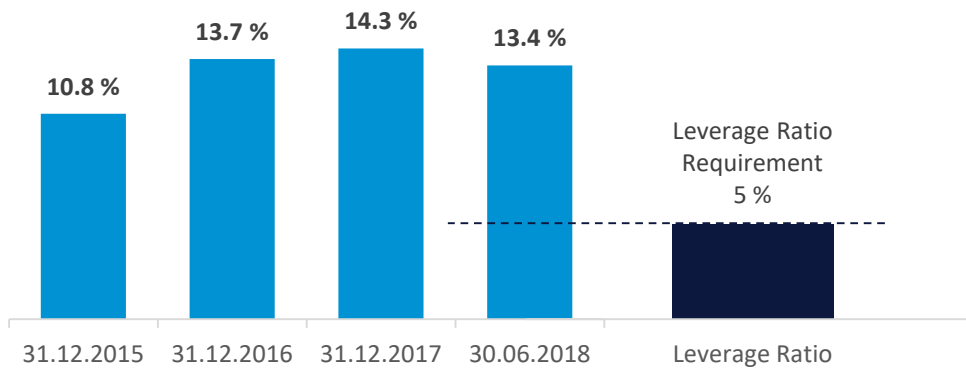


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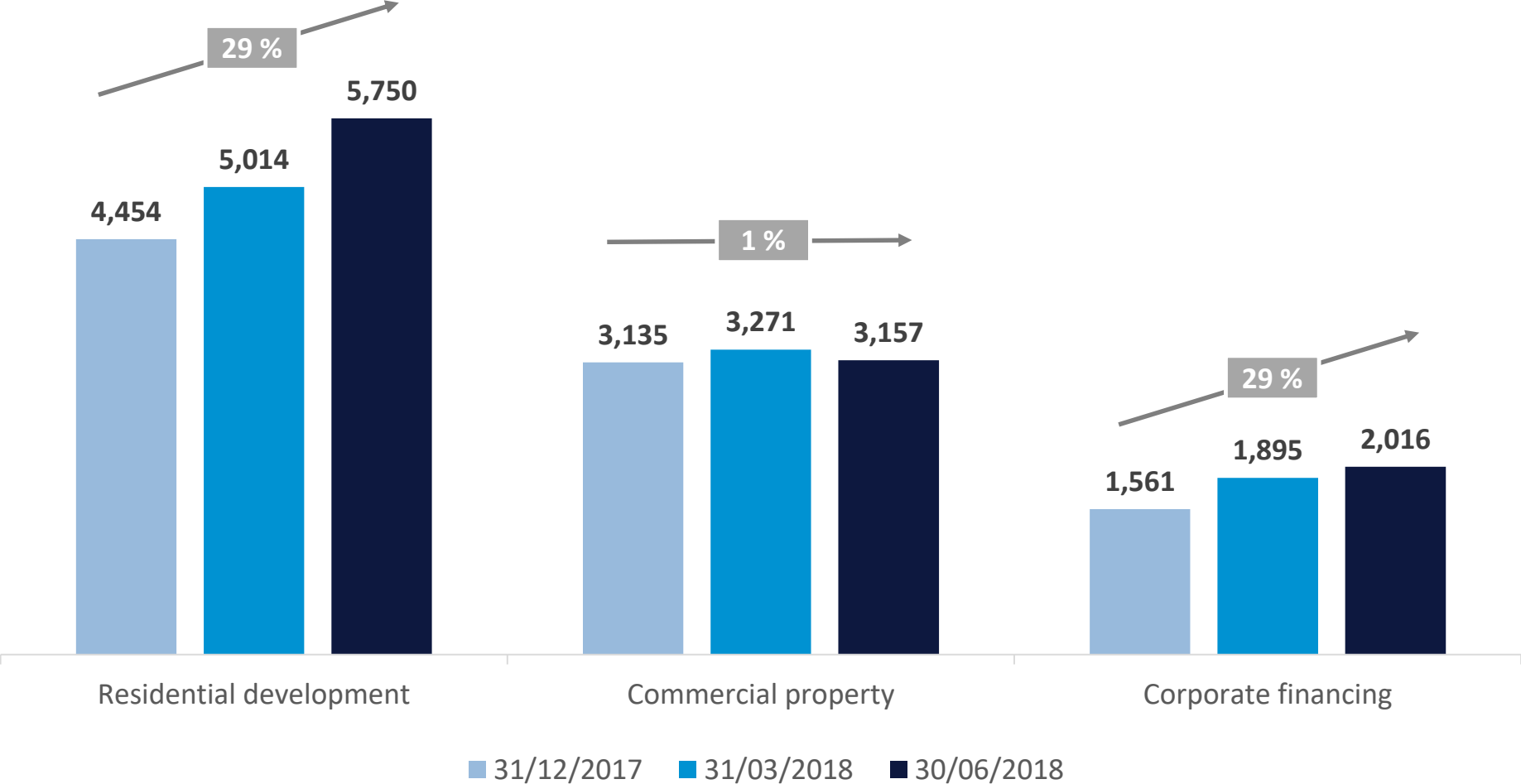
3 AMBITIONS FOR 2018

NORWAY'S LEADING PROJECT BANK

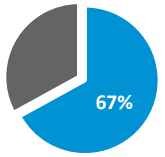
BUSINESS AREAS	PROJECTS / CREDITS	EXPOSURE	AVG. PRINCIPAL
Real estate	Property lot financing Building construction facilities Commercial property financing	NOKm 8,907 67 %	NOKm 40
Corporates	M&A loans Bridge loans Investment loans Working capital facilities	NOKm 2,016 15 %	NOKm 30
Securities	Securities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

GROWTH IN REAL ESTATE & CORPORATE

NOKm of gross exposure

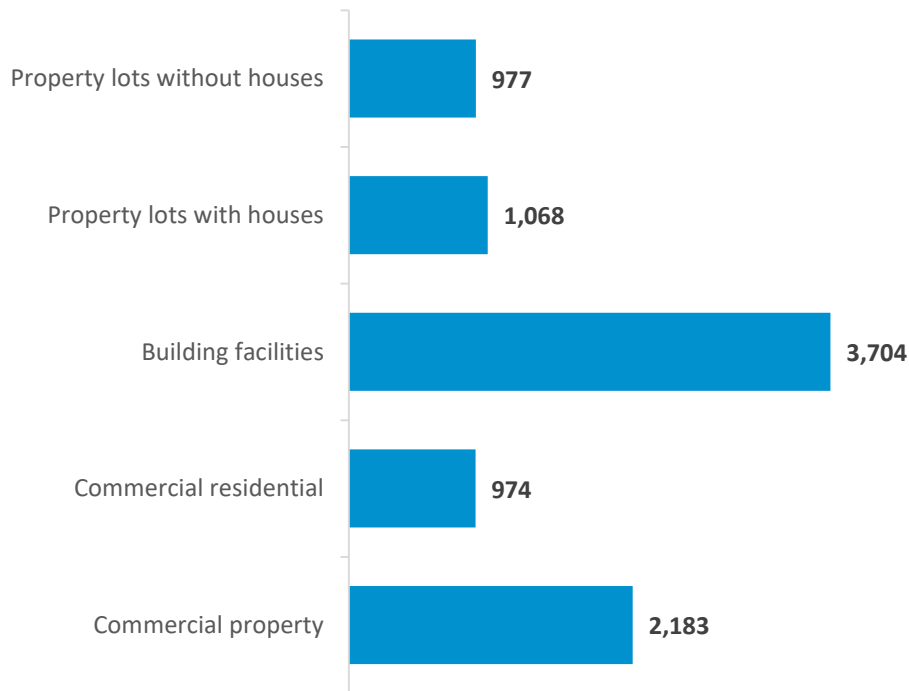


REAL ESTATE | CONTINUED HIGH ACTIVITY



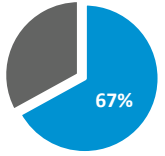
Real estate credit exposure

NOKm of gross exposure



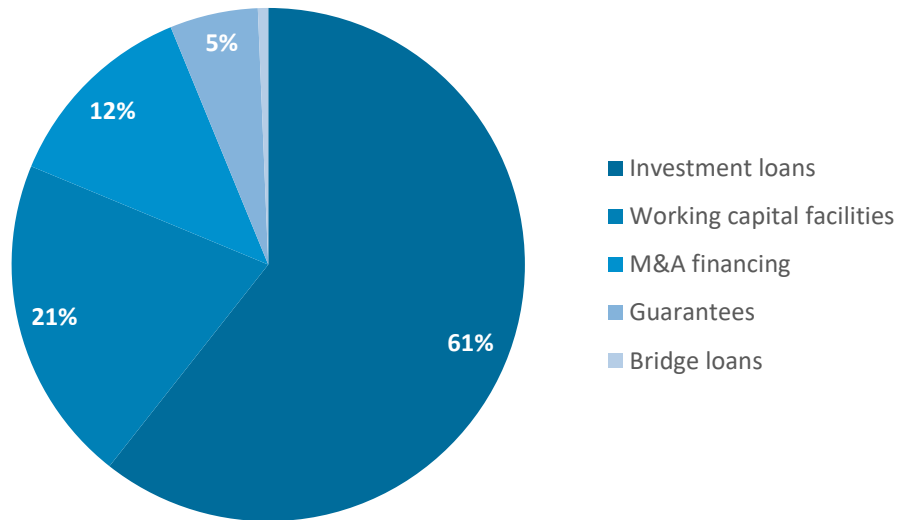
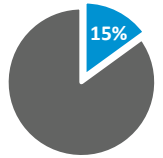
Key comments

- 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

CORPORATES | CONTINUED STRONG DEAL FLOW



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

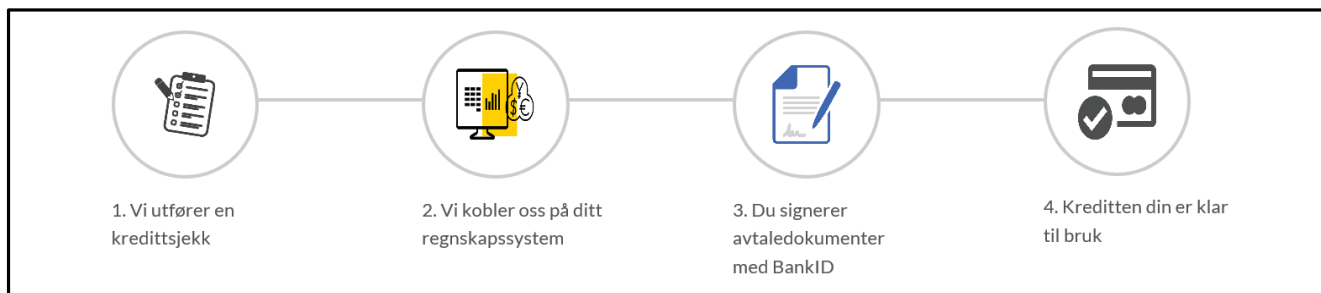
CORPORATES | SME PRODUCT PILOT

New digital approach

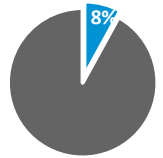
- “Fleksibel Driftskreditt” is a credit facility based on receivables as collateral
- Easy to use, flexible and with transparent pricing
- 100 % digital application and on-boarding process with short response time
- Integration with leading cloud based accounting systems in place
- Credit rating model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

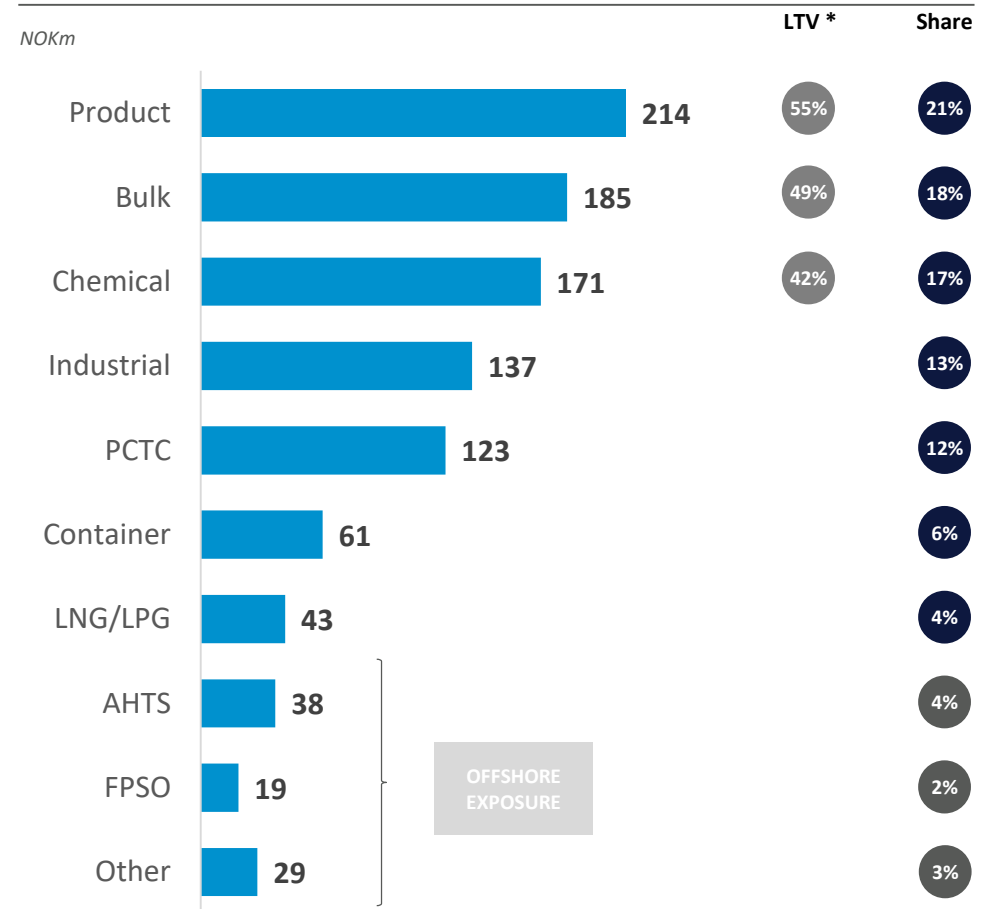


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RAISED FINANCIAL AMBITIONS

	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.

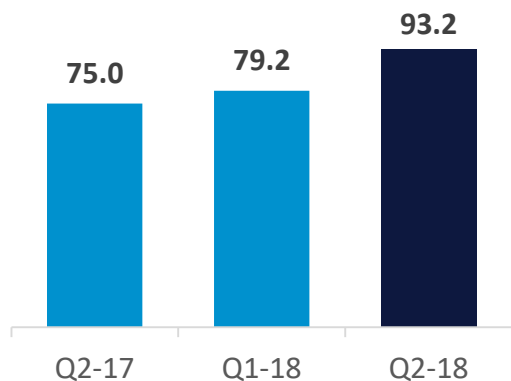
Note(*): Excluding AT1 capital and interest

Note(**): The minimum CET1 ratio requirement including the pillar 2 requirement of 3.2 % from the NFSA is 15.2%. The CET1 target is set to 15.7 % as of 31.12.2018.

STRONG PERFORMANCE

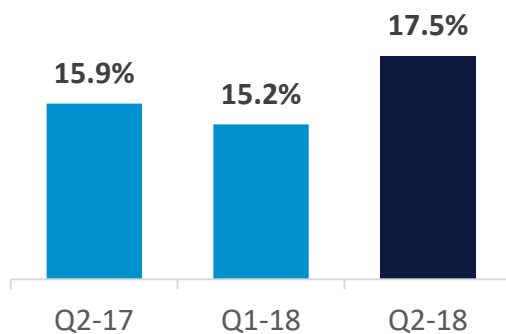
Profit after tax

NOKm



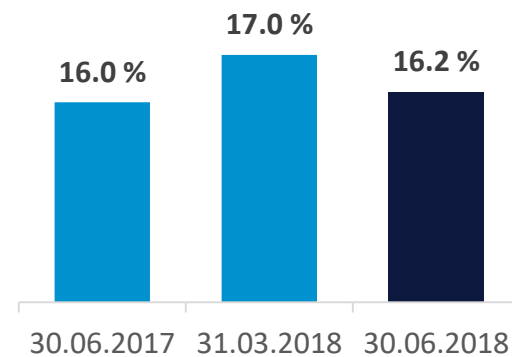
Return on Equity

Excluding AT1 capital and interest



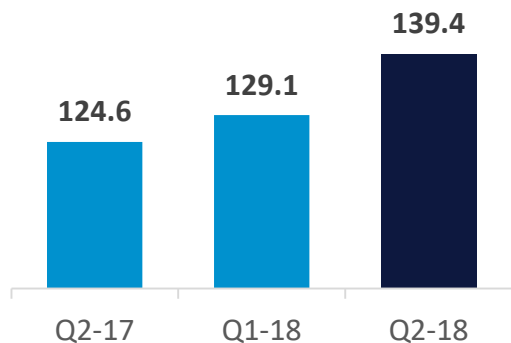
CET1 ratio

Standard model

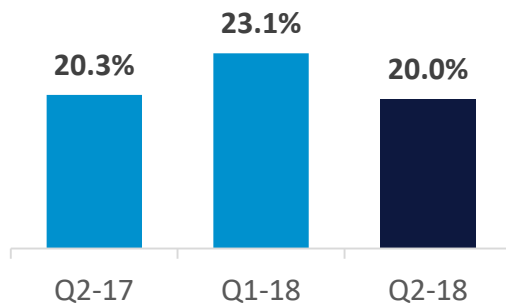


Net interest income (NOKm)

NOKm

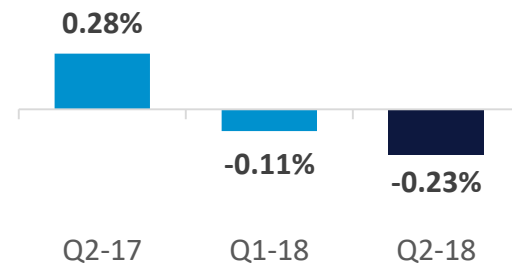


Cost/income ratio



Loss ratio

% of average gross lending



SOLID GROWTH & HIGH PROFITABILITY

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

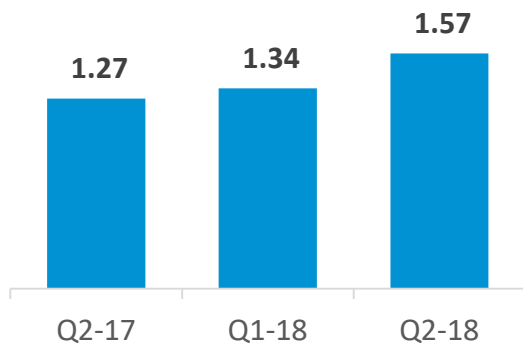
#	Investor	1 July 2018	
		# of shares	% total
1	Pareto AS	8,921,873	15.22%
2	Pecunia Forvaltning AS	8,246,549	14.07%
3	Apollo Capital Management	5,545,998	9.46%
4	Indigo Invest AS	4,382,711	7.48%
5	Saga Tankers ASA	3,365,646	5.74%
6	Verdipapirfondet First Generator	2,302,907	3.93%
7	Verdipapirfondet 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%
Sum TOP 20		42,377,528	72.29%
Other shareholders		16,242,160	27.71%
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 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

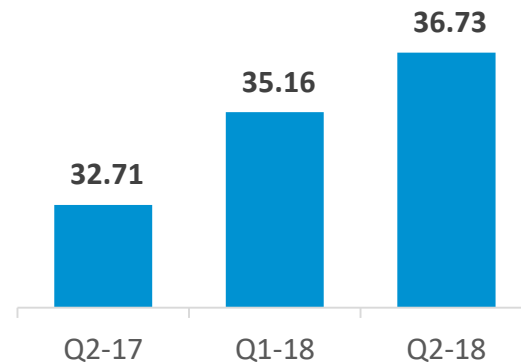
Earnings per share

NOK



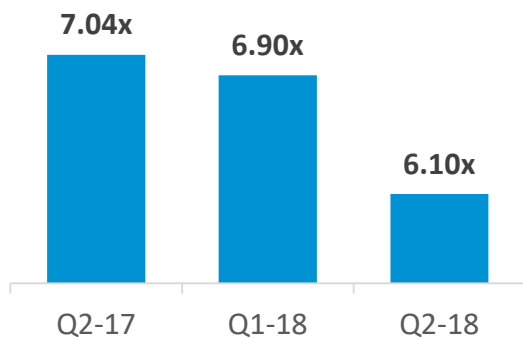
Book equity per share

NOK



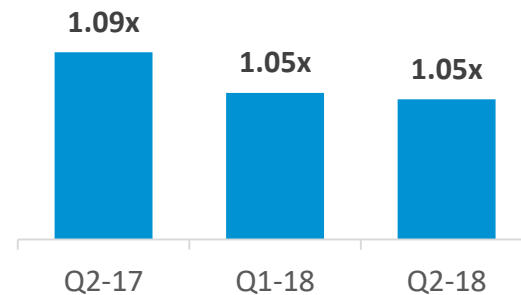
Price / Earnings

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
Total net income	148.0	134.0	130.3	141.9	132.5
Total other operating expenses	29.6	31.0	33.5	24.2	26.8
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
Operating result before tax	124.2	105.6	95.9	115.4	99.2
Tax payable	31.1	26.4	22.6	29.4	24.2
Profit for the period	93.2	79.2	73.3	86.0	75.0
<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

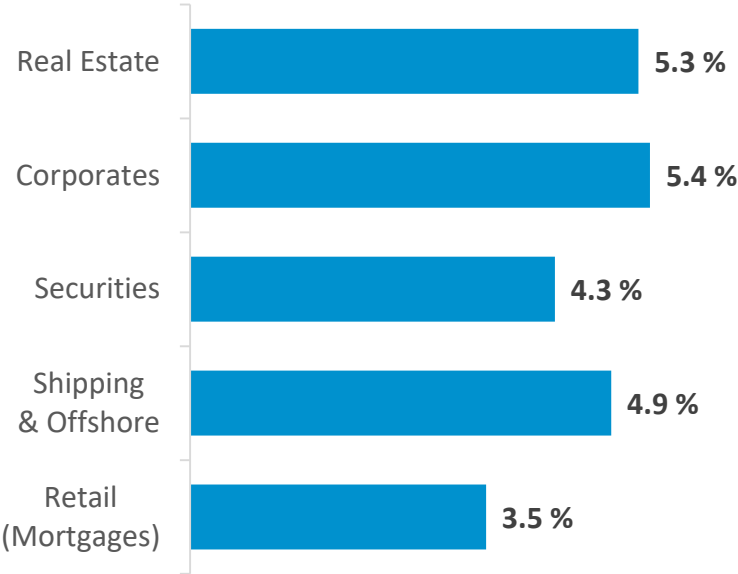
BS (NOKm)

	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
Total assets	15,753	13,434	13,104	13,475	13,310
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
Total liabilities and equity	15,753	13,434	13,104	13,475	13,310

MARGINS AND INTEREST CONTRIBUTION

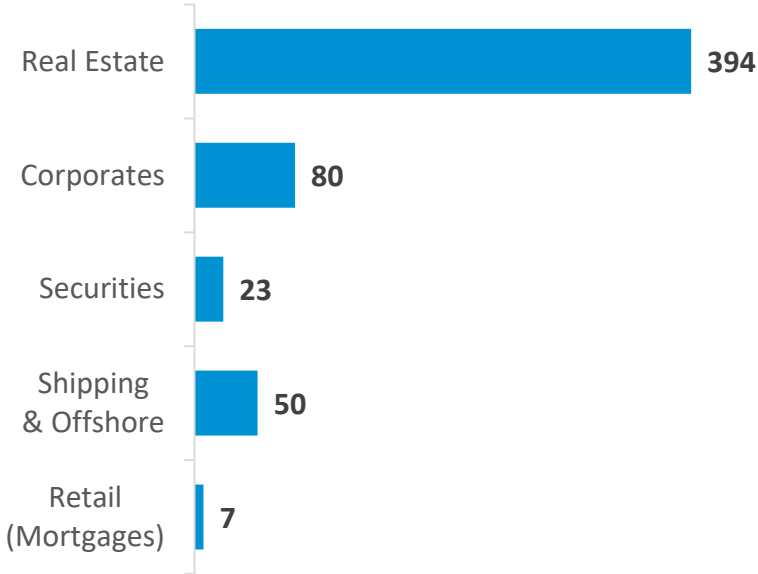
Margins per business area

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

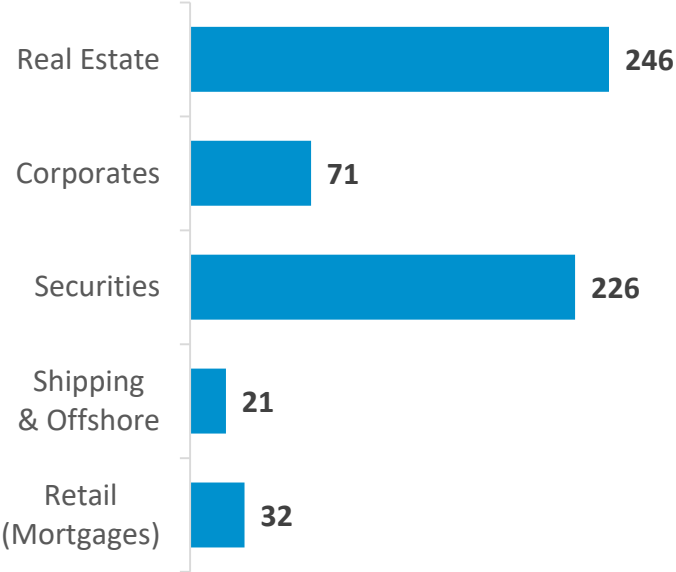


Note segment margins are estimated on the basis of terms of existing loans and will therefore differ from reported total lending margins.

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

NUMBER OF CUSTOMERS

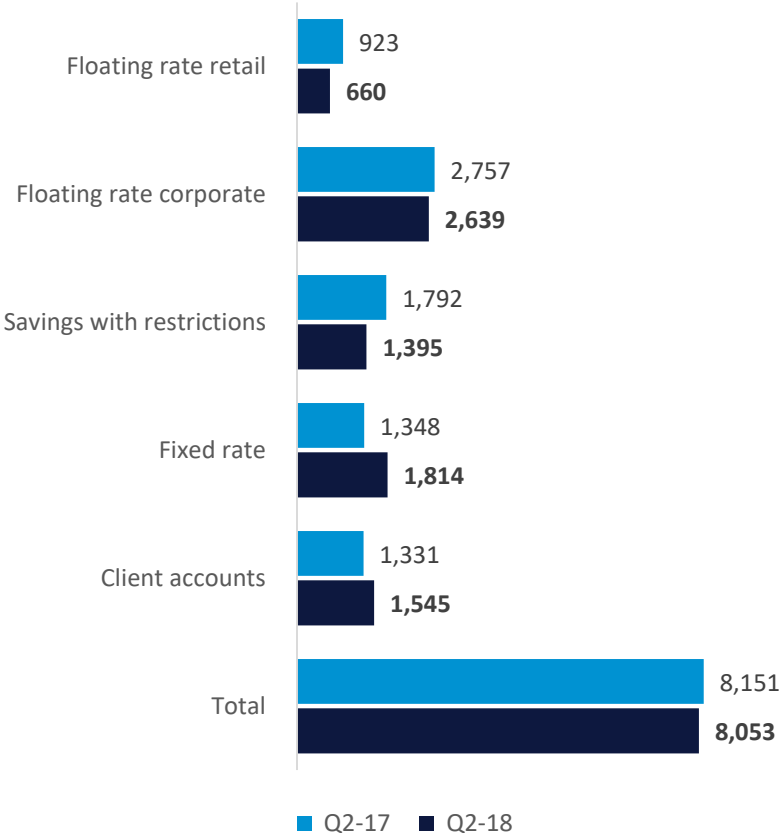
Number of customers per business area



CUSTOMER DEPOSITS

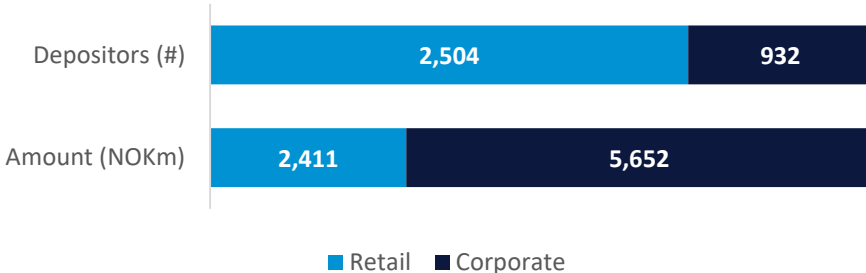
Deposits by product

NOKm



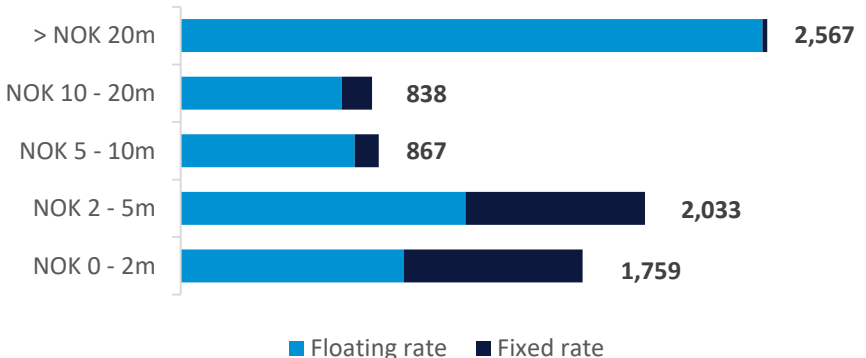
Deposits by type

NOKm



Deposits by size

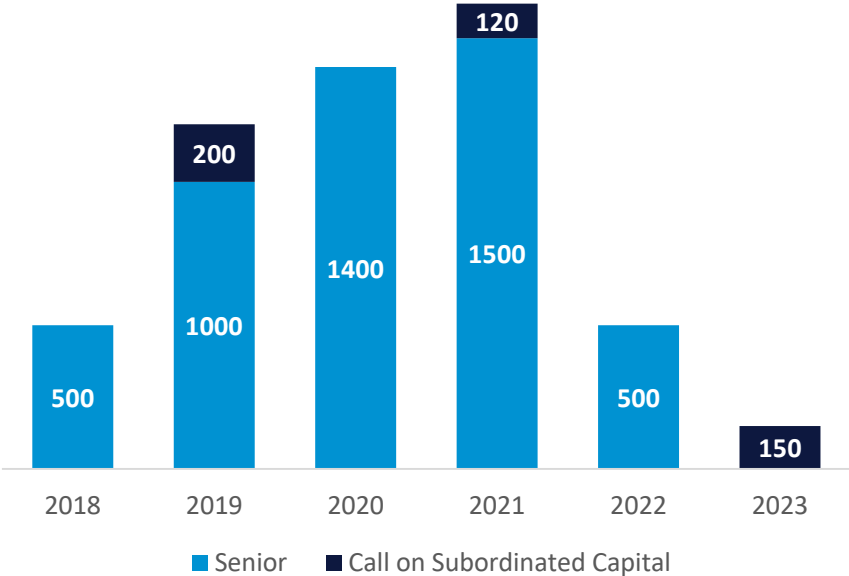
NOKm



MARKET FUNDING

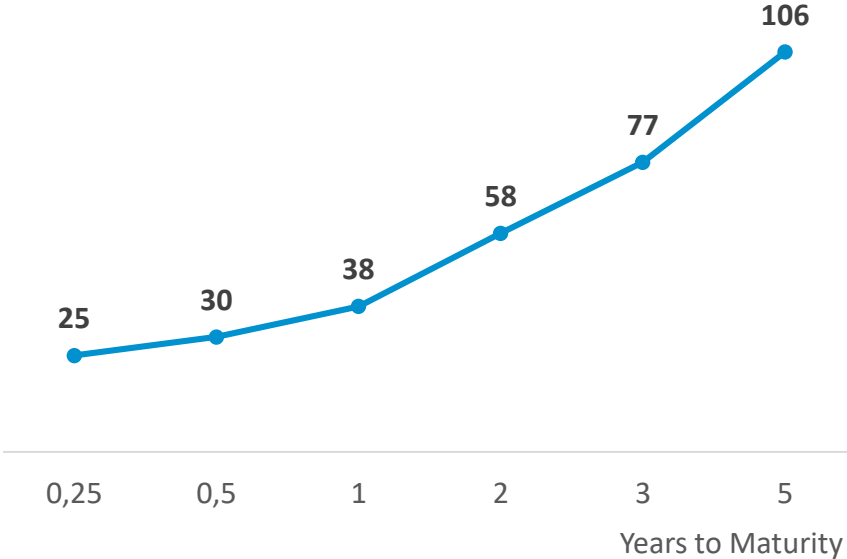
Market funding maturities

NOKm, net of own holdings



Credit spreads

Basis points over 3M Nibor

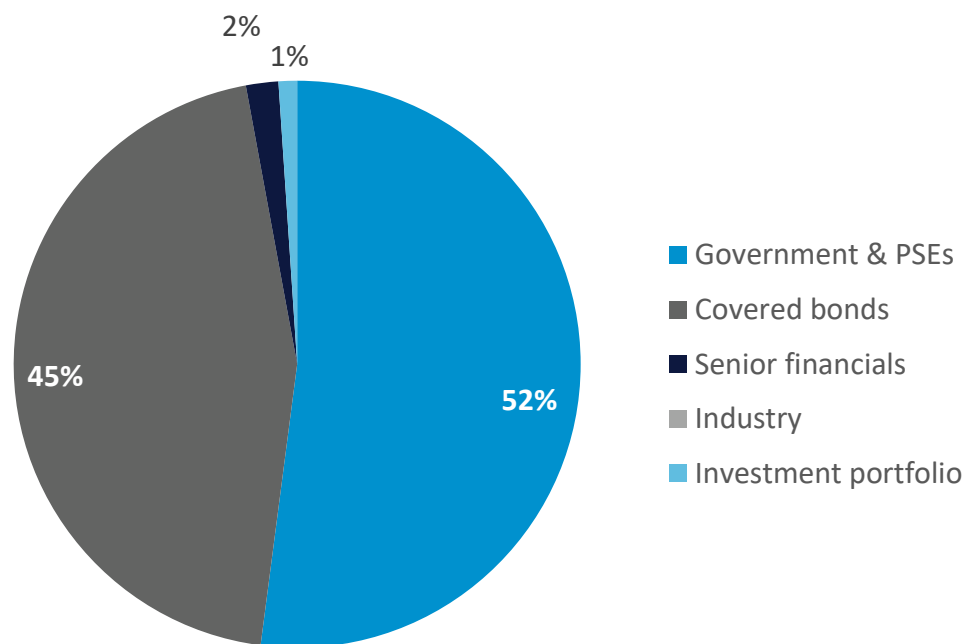


Source: Nordic Bond Pricing

SURPLUS LIQUIDITY

Bond portfolio

Market value of bonds and funds comprising surplus liquidity



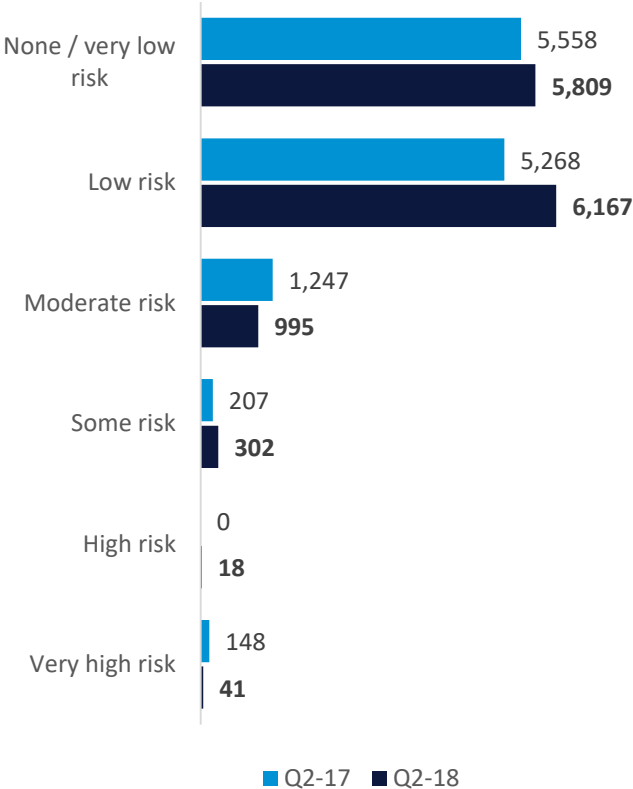
Key comments

- 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 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

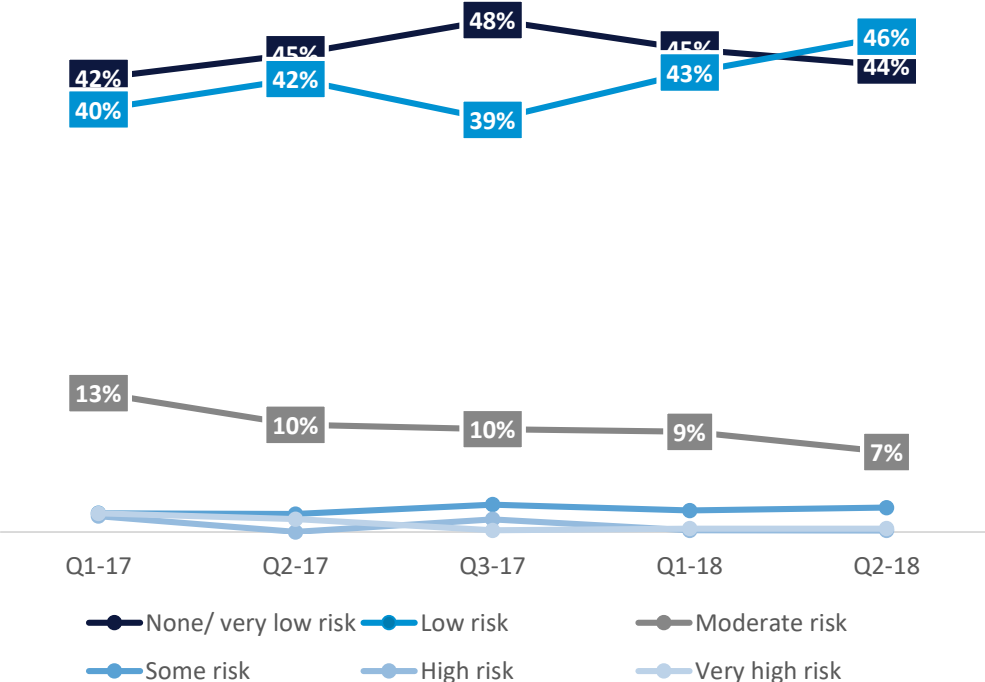
Risk classification

NOKm



Historical risk classification

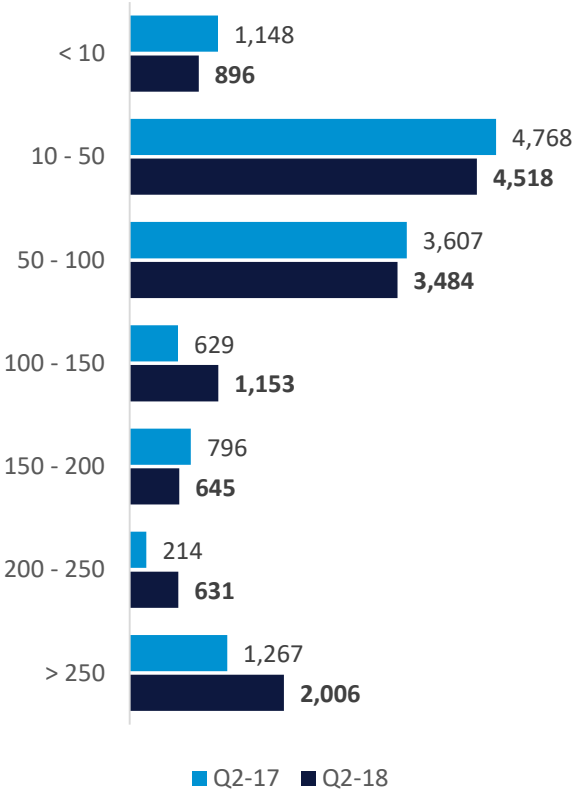
NOKm



COMMITMENTS BY SIZE

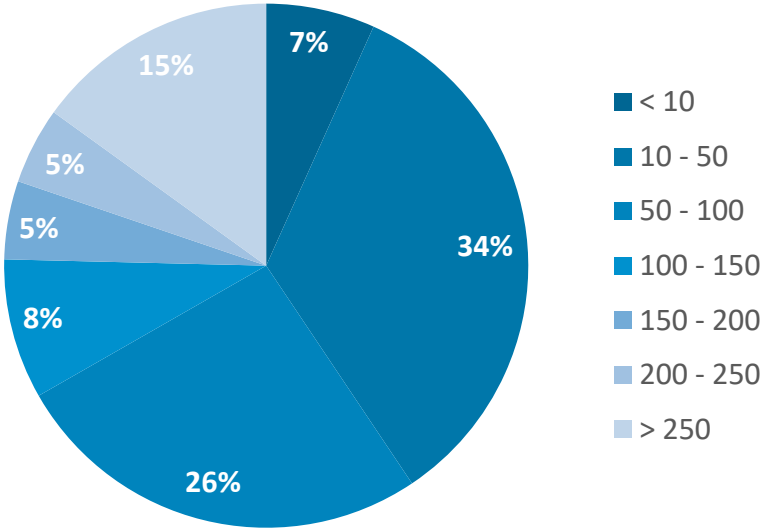
Commitment size per customer

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