
PARETO BANK

Financial Results

Second Quarter 2019

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PRIVATE PLACEMENT SUPPORTS PROFITABLE GROWTH

PRIVATE PLACEMENT

Q2-19: NOK 400m

SUBSEQUENT OFFERING

Q3-19: NOK 16m

PROFITABLE GROWTH

- Healthy pipeline in targeted market niches.
- Good access to new business with ROE of minimum 15%.
- Rigged for growth without increase in cost base.
- Growth ambition lifted to NOK 2bn in 2019.

SOLID CAPITALISATION

- Capital increase lifts CET1 ratio by approx. 2.5% in Q2-19.
- Regulatory readiness – Norwegian banks expected to further increase regulatory capital levels.
- Attractive dividend policy with intention to pay minimum 25% dividend, no cap, nominally stable or increasing each year.

ATTRACTIVE DIVIDEND POLICY

PREDICTABLE

Intention to pay minimum 25% dividend with no cap.

STABLE OR INCREASING

Nominally stable or increasing dividend payout each year.

SUPPORTS LIQUIDITY

A policy more aligned with the banking sector in general.
Supports share liquidity and valuation. Broadens the investor base.

PROFITABLE

Allows for continued profitable lending growth.

STATUS FINANCIAL AMBITIONS

	30.06.2019 STATUS	REVISED AMBITIONS FOR 2019	
ROE	15.3 % *	14 %	New business with ROE of minimum 15 %. ROE ambition for 2019 revised due to capital increase.
LENDING GROWTH	NOK 887m	NOK 2,000m	Attractive markets and strong pipeline. Rigged for growth.
CAPITAL ADEQUACY	17.8 %	16.2 % **	Solid capitalisation. Capital increase secures growth capacity.

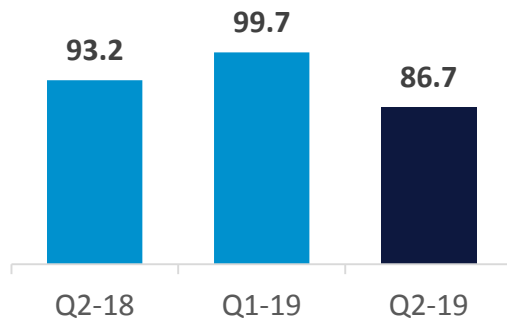
SECOND QUARTER 2019 HIGHLIGHTS

- 1 Profit after tax NOK 86.7m (NOK 93.2m).
- 2 Return on equity after tax 14.1 %* (17.5 %).
- 3 Strong net interest income of NOK 164.4m (NOK 139.4m).
- 4 Diversified net lending growth of NOK 475m (NOK 423m) on stable net interest rate margin.
- 5 Impairments and losses amounted to NOK 14.9m (reversal of NOK 5.9m).
These were related to a limited number of commitments in real estate financing.
- 6 Activity expected to hold strong in H2-19.

KEY FIGURES

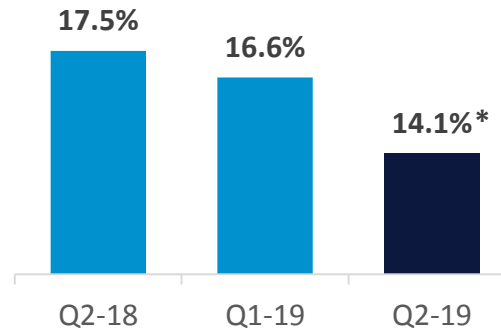
Profit after tax

NOKm



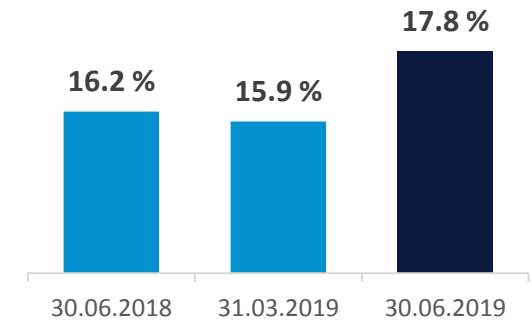
Return on Equity

Excluding AT1 capital and interest



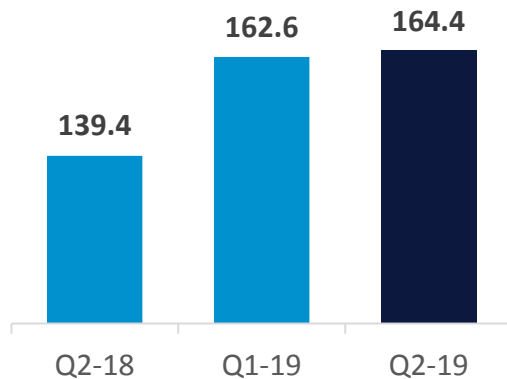
CET1 ratio

Standard model

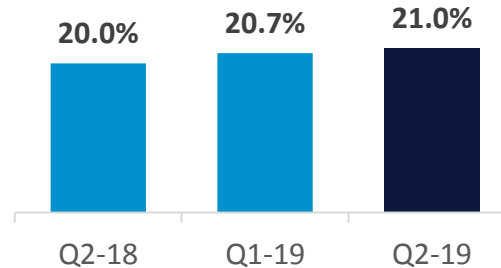


Net interest income (NOKm)

NOKm



Cost/income ratio



Loss ratio

Quarterly write-downs and losses over average net loans

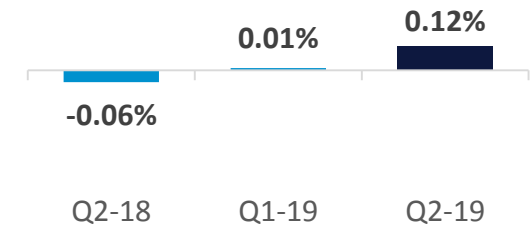


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INCOME STATEMENT

P&L (NOKm)

	Q2-19	Q2-18	H1-19	H1-18
Net interest income	164.4	139.4	327.0	268.5
Net other operating income	0.9	8.6	7.1	13.5
Total net income	165.2	148.0	334.1	281.9
Total operating expenses	34.7	29.6	69.7	60.6
Operating profit before impairments and losses	130.5	118.4	264.4	221.3
Impairments and losses on loans and guarantees	14.9	-5.9	15.9	-8.5
Pre-tax operating profit	115.6	124.2	248.5	229.9
Tax expense	28.9	31.1	62.1	57.5
Profit for the period	86.7	93.2	186.4	172.4
<i>Earnings per share (NOK)</i>	<i>1.45*</i>	<i>1.57</i>	<i>3.12*</i>	<i>2.92</i>
<i>Return on equity</i>	<i>14.1%**</i>	<i>17.5%</i>	<i>15.3%**</i>	<i>16.2%</i>
<i>Cost/income ratio</i>	<i>21.0%</i>	<i>20.0%</i>	<i>20.9%</i>	<i>21.5%</i>

Growth in net interest income due to lending growth and increased lending rates.

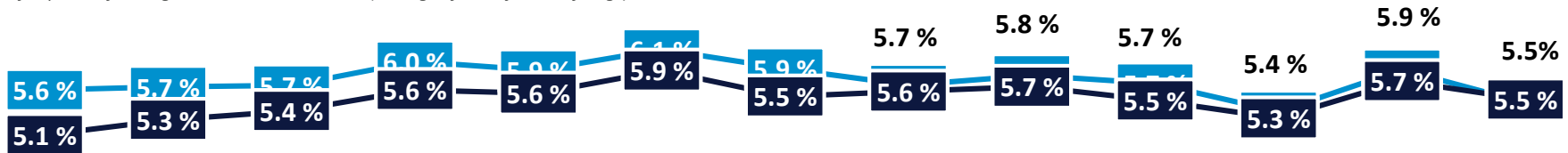
Eight new FTE's since Q2-18.

Impairments and losses related to a limited number of commitments in real estate financing.

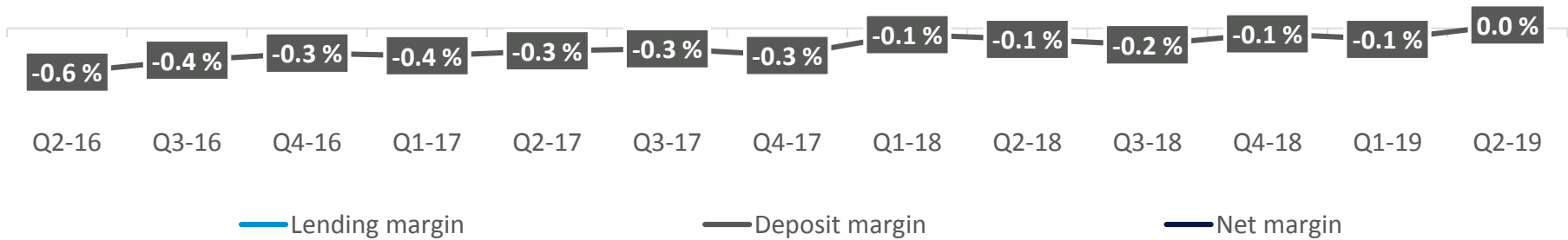
DEVELOPMENT IN MARGINS

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)



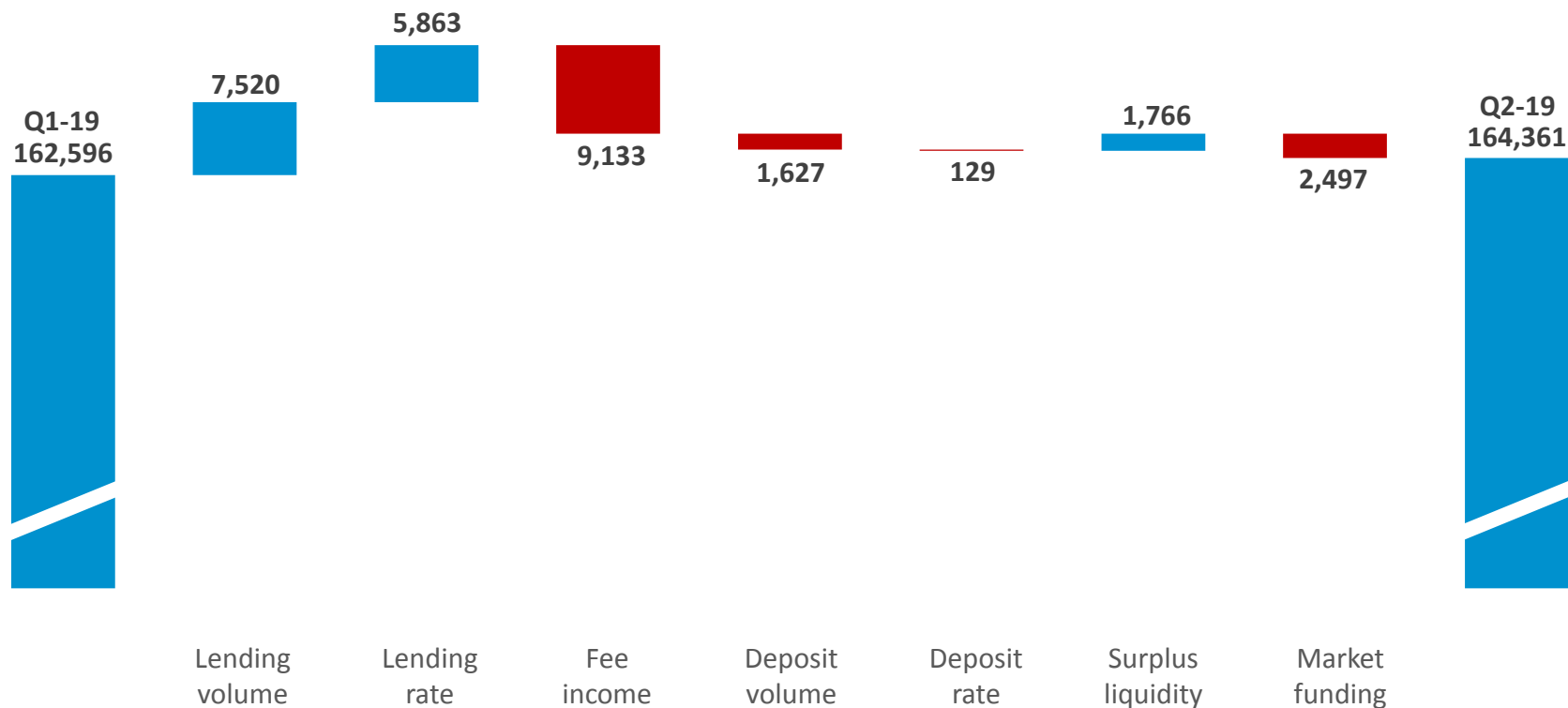
- Reduced fee income compared to Q1-19 (large one-off fee in Q1-19)
- Lending rate adjustment in mid-April, new adjustment takes effect in July
- Improved deposit margins
- Lag effect from increased rates on market funding



QUARTERLY CHANGE IN NET INTEREST INCOME

Net interest income

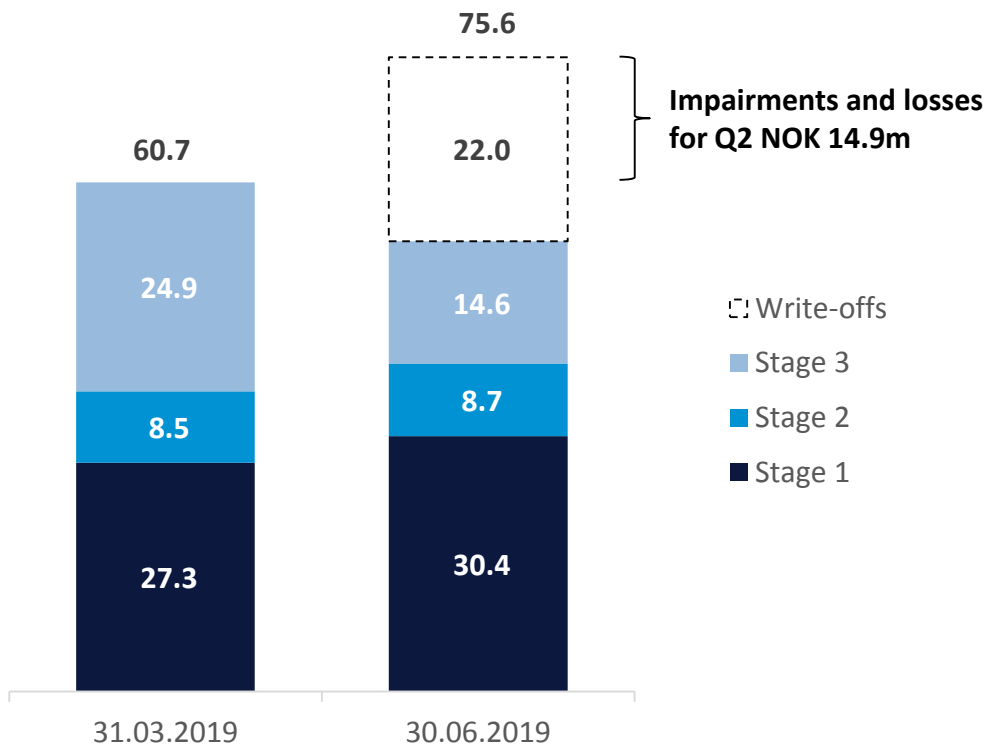
Changes in net interest income (NOK 1,000)



QUALITY OF LOAN PORTFOLIO

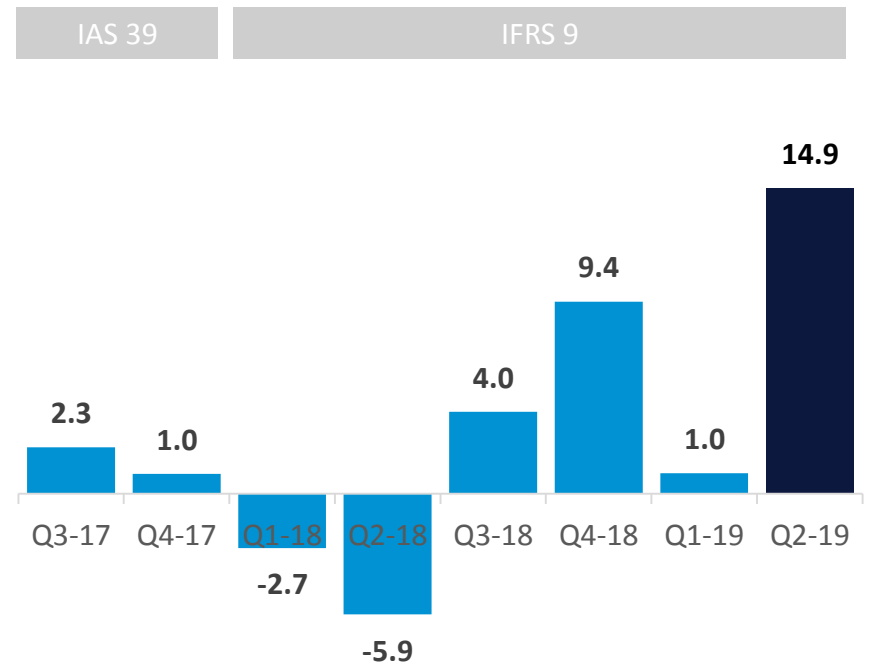
Impairments and losses according to IFRS 9

NOKm



Impairments and losses on loans & guarantees

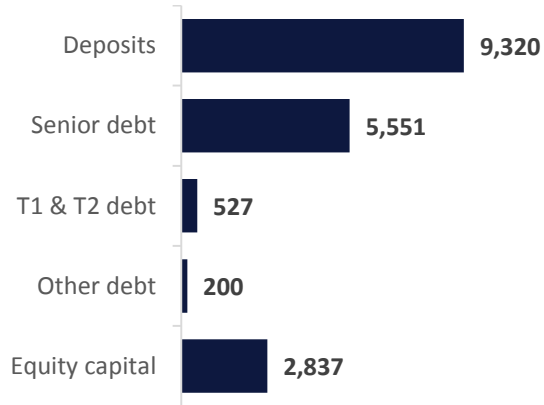
NOKm



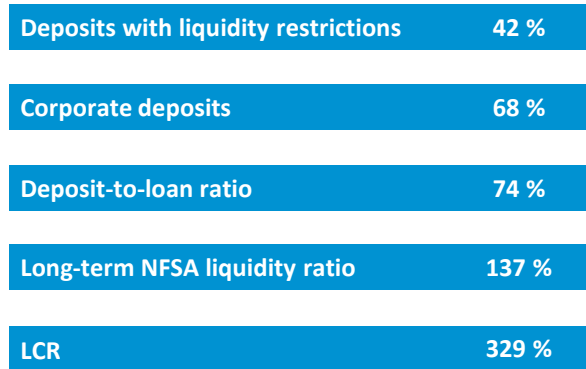
FUNDING

Sources

NOKm



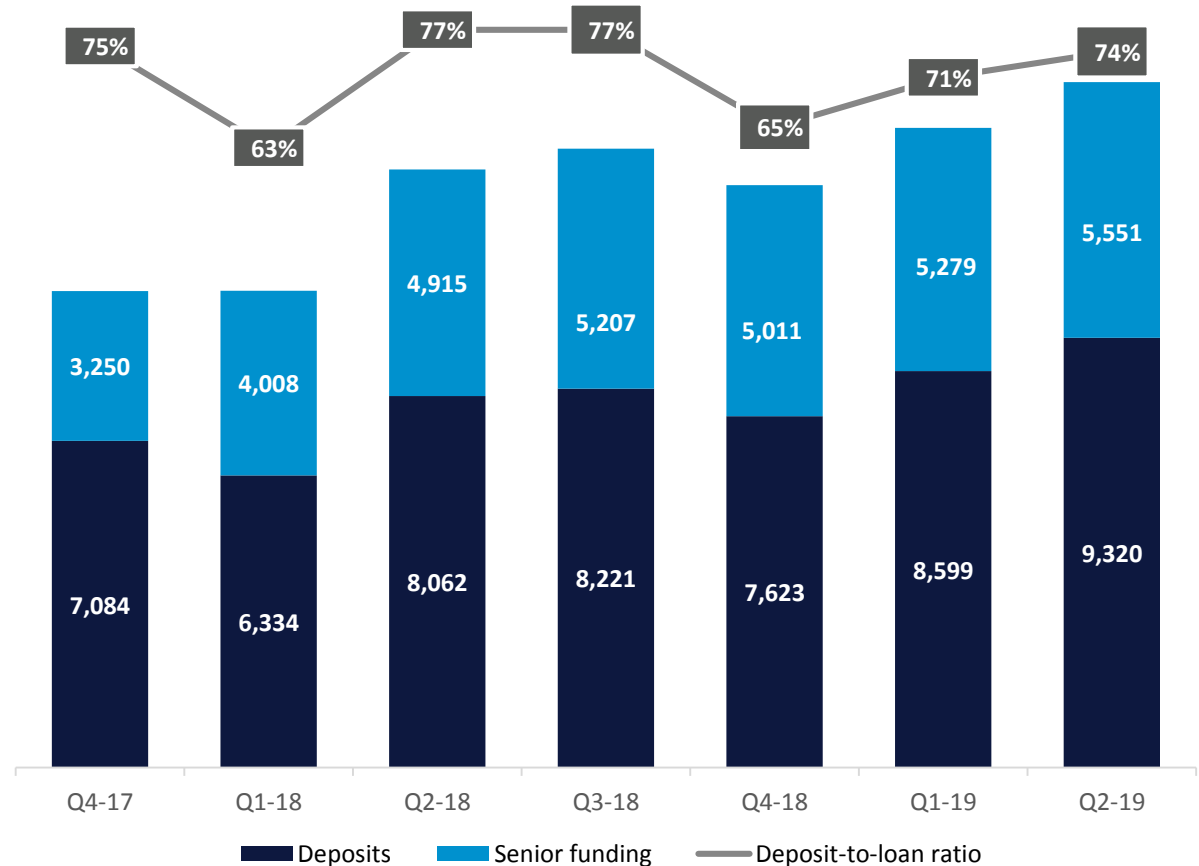
Key ratios



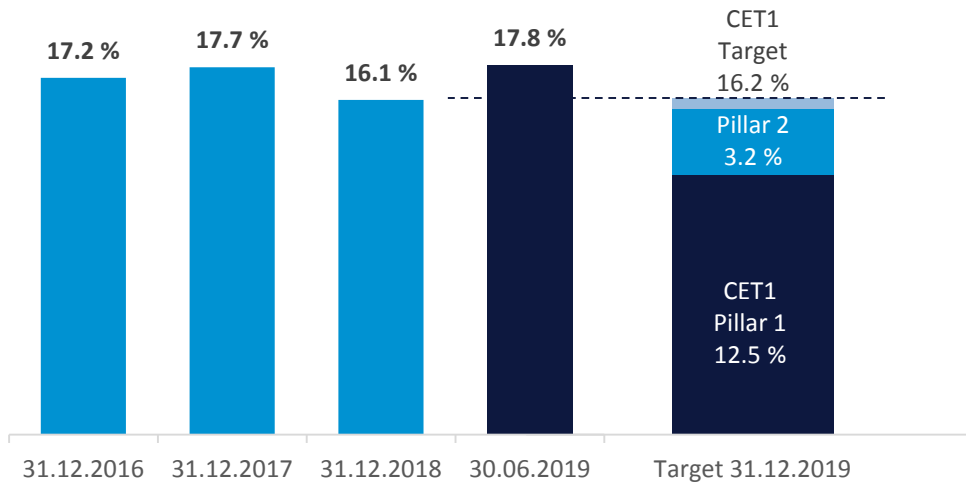
Deposits & senior debt

NOKm,

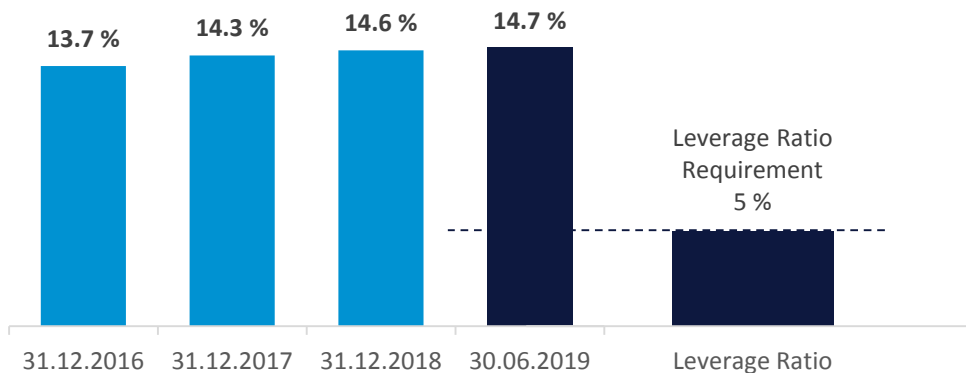
Percent customer deposits of net lending to customers



Core equity tier 1 ratio (CET1 ratio)



Leverage ratio



Key comments on capital

- Private placement of MNOK 400 has strengthened CET1 by approx. 2.5 % in Q2-19.
- Subsequent offering raised MNOK 16 in new equity to be registered in Q3-19. Proforma increase in CET1 of 0.1 % as of 30.06.2019.
- New Additional Tier 1 and Tier 2 loans have been issued in Q2-19 to replace loans to be called in September.
- CRR/CRD IV expected to come into law in the second half of 2019.
- Estimated effect of the "SME-discount" is a proforma increase in CET1 of 1.0 % as of 30.06.2019.
- Norwegian Ministry of Finance has proposed an increase in the systemic risk buffer of 1.5% over the next three years.
- Pareto Bank's pillar 2 buffer and management buffer will undergo a supervisory review (SREP) in 2020.

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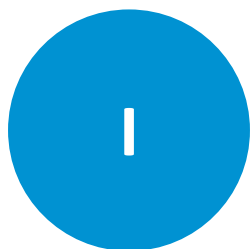
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CREATING CUSTOMER VALUE



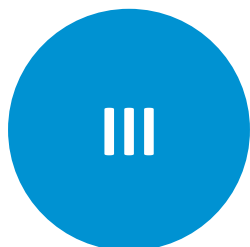
EFFICIENT AND RELIABLE

- Efficient credit process – short time to market.
- Decision-making without unnecessary bureaucracy.
- Flexible and solution oriented – focus on meeting customer needs.



HANDS-ON AND PERSONAL

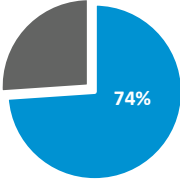
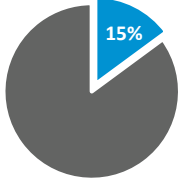
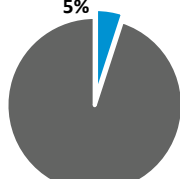
- Tailor-made solutions based on good understanding of customers' businesses.
- Always available with a fixed point of contact throughout the credit process.
- Customer-driven – 80% of employees work with clients.



COMMERCIAL AND SPECIALIZED

- Highly competent credit specialist with extensive knowledge of the Norwegian business environment.
- Deep knowledge of target segments.
- Generating value by delivering tailor-made solutions fast – our prices reflect our expertise.

A NICHE PLAYER FINANCING MEDIUM SIZED ENTERPRISES

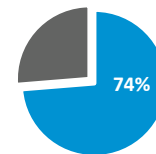
BUSINESS AREAS	FOCUS	CREDITS / CUSTOMERS	EXPOSURE	SWEET SPOT
<p>Real estate</p>	<p>The specialized real estate developer bank for Eastern Norway and larger Norwegian cities.</p>	<p>Land acquisition financing Property construction facilities Commercial property financing</p>	 <p>NOKm 11,327</p>	<p>NOKm 50-100 1-3 yrs</p>
<p>Corporate</p>	<p>A provider of tailor-made financing solutions.</p>	<p>M&A loans Bridge loans Investment loans Working capital facilities Securities financing</p>	 <p>NOKm 2,260</p>	<p>NOKm 20-50 1-3 yrs</p>
<p>Shipping & offshore</p>	<p>Norwegian ship owners, family offices and the investment project market.</p>	<p>First priority financing</p>	 <p>NOKm 699</p>	<p>USDm 10-20 3-5 yrs</p>

EXPOSURE PER BUSINESS AREA

NOKm gross exposure



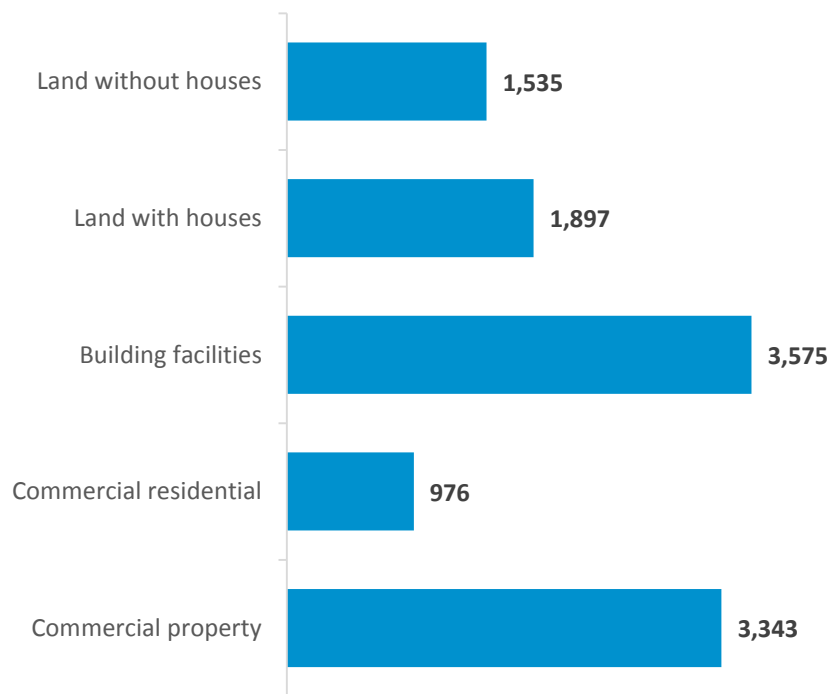
REAL ESTATE | CONTINUED HIGH ACTIVITY



Real estate credit exposure

Σ = NOK 11,327m

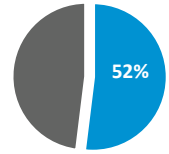
NOKm of gross exposure



Key comments

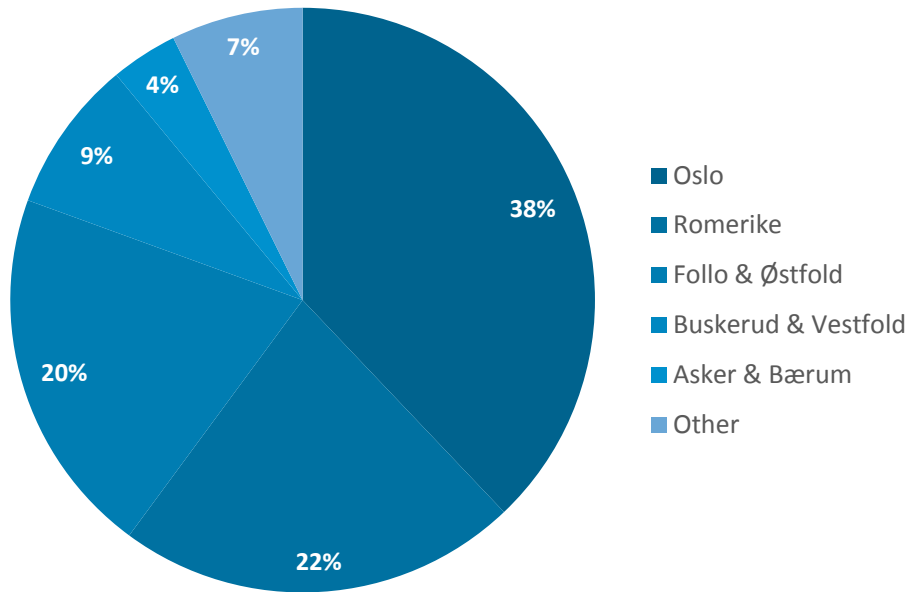
- Activity in commercial property and the newbuild market holding strong in first half of 2019.
- Growth in credit exposure of NOK 1,046m in Q2-19 with NOK 558m in commercial property and NOK 488 in residential property development.
- Activity within residential property development expected to hold strong, while activity within commercial property is expected to soften in H2-19.

REAL ESTATE | RESIDENTIAL PROPERTY EXPOSURE



Geographical residential property exposure (NOKm) $\Sigma = \text{NOK } 7,007\text{m}$

NOKm of gross exposure



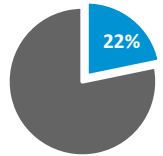
Oslo areas:

West	18 %
East	8 %
Center	7 %
North/Nordstrand	5 %

Policy

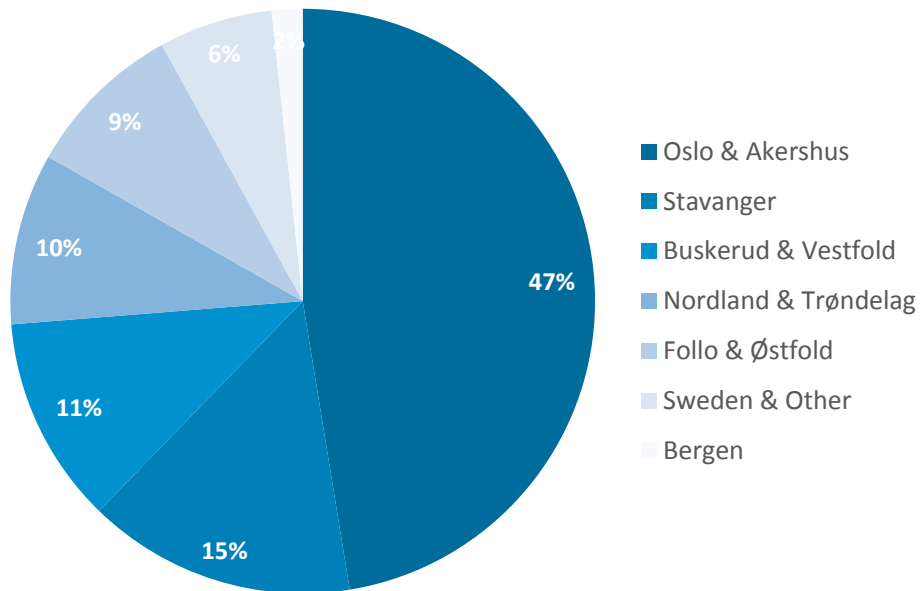
- Presale requirement: if the price of unsold units falls by 50 % compared to the price of presold units, the remaining sales must still be sufficient to cover the bank credit.
- Presale quality: end-users are assessed and qualified.
- Liquidity: tight covenant setting with respect to working capital, liquidity buffers, liquidity reporting.
- Equity: 20 % to 40 % equity contribution requirement for land acquisition financing.
- Semi-annual stress testing against a fall in housing prices.
- Geography: Oslo, Eastern Norway and larger Norwegian cities.

REAL ESTATE | COMMERCIAL PROPERTY EXPOSURE



Geographical commercial property exposure (NOKm) $\Sigma = \text{NOK } 3,343\text{m}$

NOKm of gross exposure



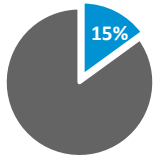
Key comments

- Average commitment size approx. NOK 35m, average maturity approx. 2 years, average loan to value (LTV) approx. 70 %.
- Attractive model: Eiendomskreditt first priority lien max 55 % LTV and Pareto Bank second priority lien max 80 %.
- Bridge loans with clear exits and commercial property development loans.

Policy

- Equity: 20 % to 40 % equity contribution.
- Market valuations: Own assessment and third party.
- Risk analysis with focus on tenants, tenant structure, weighted maturity of leases, vacancy, alternative use, residual value, micro market.
- Tight covenant setting: LTV, liquidity, account holdings, cross default with first priority lien, change of owner.
- Geography: Oslo, Eastern Norway and larger Norwegian cities.

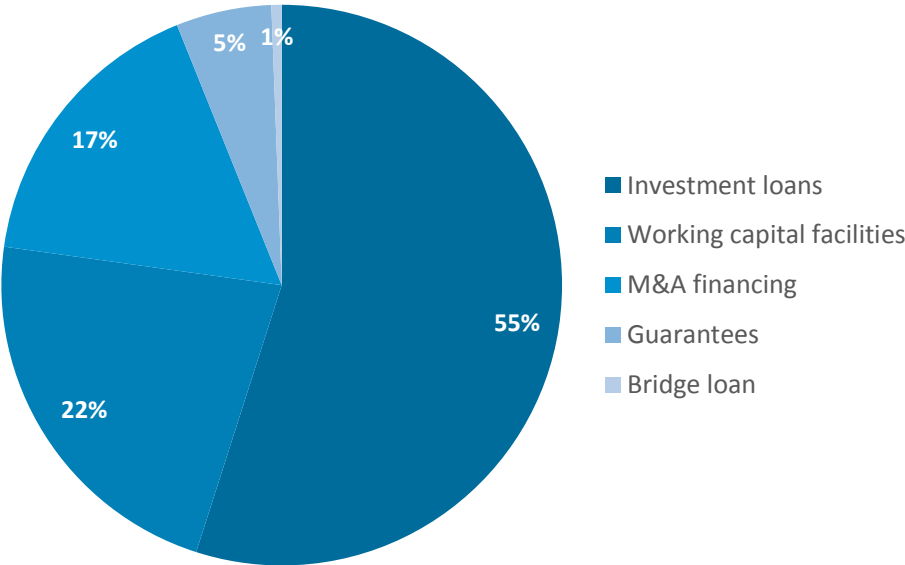
CORPORATE | INCREASING DEAL FLOW



Corporate financing exposure (NOKm)

Σ = NOK 2,213m

NOKm of gross exposure



Key comments

- Positioning Pareto Bank as a provider of tailor-made financing solutions to medium-sized enterprises.
- Deal flow increasing as awareness of Pareto Bank as a financial solution provider for medium-sized businesses improves.

Policy

- Medium-sized corporate transactions (M&A, MBO, LBO).
- A conservative approach to leverage and strict financial covenants.
- Tenor varies depending on product – within M&A financing tenor is 3 to 5 years.

CORPORATE (II) | PARETO DRIFTSKREDITT

- Pareto Bank has recently launched “*Pareto Driftskredditt*” - a credit facility based on receivables as collateral.
- Pareto Driftskredditt is a first step to widen product offering to medium sized businesses within working capital financing.
- Co-operation agreement with Azets - Norway’s largest accounting and administrative services provider with 9,000 customers and 52 branches.
- Digital on-boarding and integration with all leading cloud based accounting systems in place.
- Credit rating model partly based on real-time customer accounting data. Rating model is under continuous development, and with the aim of applying the model to all the bank’s business areas.
- Digital and traditional marketing to increase in H2-19 following H1-19 pilot phase.
- Underserved and underdeveloped market with high growth potential.
- Attractive risk reward above targeted ROE of 15 % and smaller commitments diversifying exposure.



EASY TO USE

Online on-boarding process.
No need to change bank.



FLEXIBLE

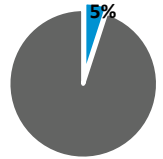
Credit facility for financing of receivables.
Updates in real time.



TRANSPARENT PRICING

No hidden fees.
Interest on drawn amounts only.

SHIPPING & OFFSHORE | CAUTIOUS APPROACH



Status

- Sales efforts have increased with new team in place and exposure is expected to increase in H2-19.
- 17 customers and a total of 25 vessels.
- Largest exposure is USD 11.3m and average commitment size is USD 4.8m.

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 total credit exposure.

Shipping & Offshore credit exposure & loan to value

Σ = NOK 699m

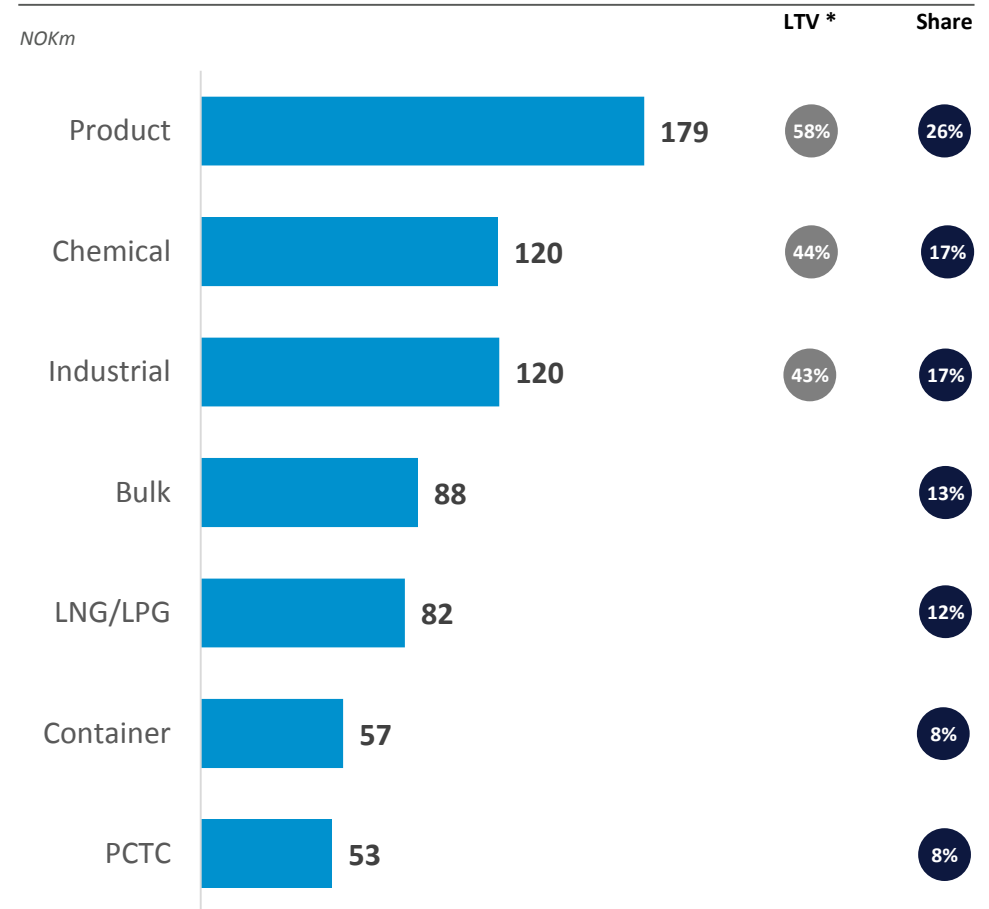


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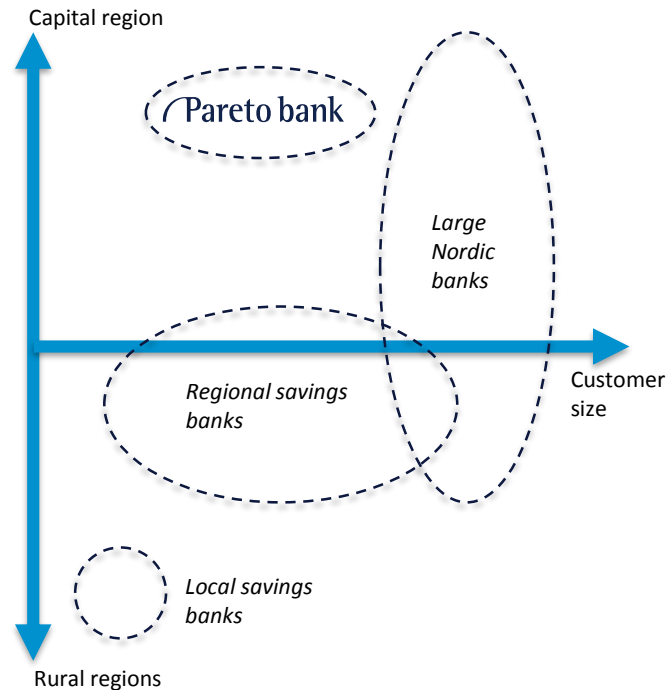
2 FINANCIALS

3 BUSINESS AREAS

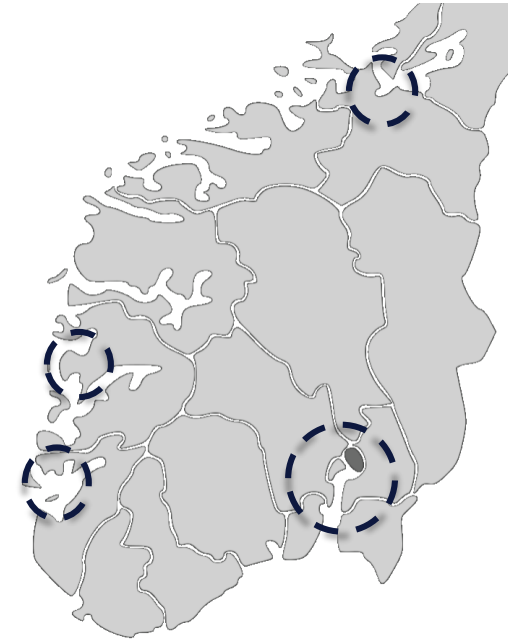
4 PROFITABLE GROWTH

ATTRACTIVE POSITION IN UNDERSERVED REGION

Greater Oslo region dominated by large Nordic banks



Main focus on the Oslo region, in addition to other large cities



- Pareto Bank has established a strong position as a lender to medium sized enterprises in the greater Oslo region, in addition to a foothold in selected other large cities in Norway.
- The greater Oslo region has limited competition from savings banks combined with large banks focusing on large customers – leaving the Oslo market for medium sized enterprises underserved with growth opportunities at attractive terms to Pareto Bank.
- Pareto Bank has a strong value proposition to target customers: Efficient, reliable, hands on, personal, commercial and specialised.
- Stable market dynamics – no major changes are expected to market structure.

LONG TERM FINANCIAL AMBITIONS

ROE	15.0 %	Cost effective. Commercially oriented. Proven credit quality.
LENDING GROWTH	10 % annually	Lending growth within all business areas. Profitability comes first.
CET1	16.2 % *	Optimizing capital for continued growth. Regulatory ready.
DIVIDENDS	> 25 %	Minimum 25 % dividend, no cap, nominally stable and increasing each year.



APPENDIX

LARGEST SHAREHOLDERS AS OF 3 JULY 2019

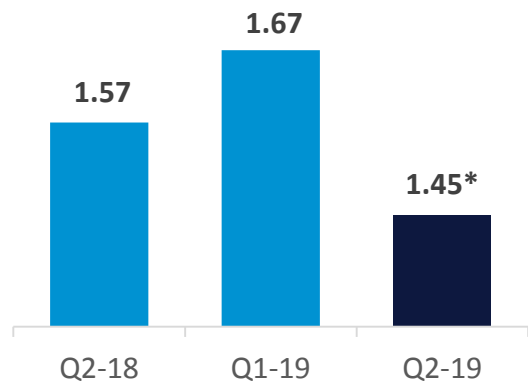
#	Investor	03 July 2019	
		# of shares	% total
1	Pareto AS	11 685 125	16.83 %
2	Pecunia Forvaltning AS	5 900 000	8.50 %
3	AF Capital Management AS	5 861 968	8.44 %
4	K11 Investor AS	2 595 492	3.74 %
5	Rune Bentsen AS	2 595 491	3.74 %
6	Hjellegerde Invest AS	2 355 367	3.39 %
7	Verdipapirfondet Landkreditt Utbytte	2 100 000	3.02 %
8	Kolberg Motors AS	1 610 815	2.32 %
9	Svemorka Holding AS	1 592 601	2.29 %
10	Holberg Norge	1 150 000	1.66 %
11	Apollo Asset Limited	1 081 081	1.56 %
12	Dragesund Invest AS	1 067 231	1.54 %
13	Fondsfinans Norge	1 000 000	1.44 %
14	Pactum AS	917 928	1.32 %
15	Artel AS	900 820	1.30 %
16	Castel AS	807 079	1.16 %
17	Profond AS	775 893	1.12 %
18	Hausta Investor AS	700 000	1.01 %
19	Pareto Securities AS	609 532	0.88 %
20	Sjøinvest AS	600 000	0.86 %
Sum TOP 20		45 906 423	66.12 %
Other shareholders		23 524 075	33.88 %
Total		69 430 498	100.00 %

- The Company has 69,430,498 shares outstanding after the private placement. After the subsequent offering the Company will have 69,851,730 shares.
- One class of shares where each share carries one voting right
- Diversified investor base with 1,202 shareholders
- The top 10 and 20 investors hold 54 % and 66 % of the shares respectively
- Employees in Pareto Bank own 1.5 %
- Top management in the Pareto Group owns 2.8 %
- All employees are covered by an annual bonus compensation scheme settled in Pareto Bank shares

THE SHARE

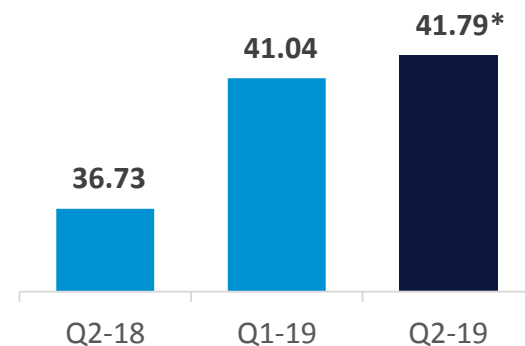
Earnings per share

NOK



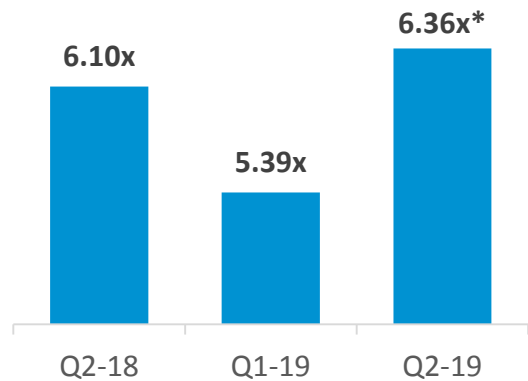
Book equity per share

NOK



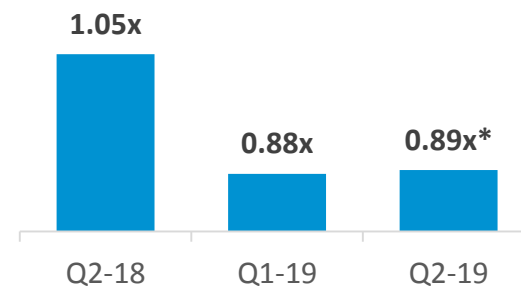
Price / Earnings

NOK, Share price 37.00



Price / Book

NOK, Share price 37.00



QUARTERLY INCOME STATEMENT

P&L (NOKm)

	Q2-19	Q1-19	Q4-18	Q3-18	Q2-18
Net interest income	164.4	162.6	147.0	138.8	139.4
Net other operating income	0.9	6.2	-3.3	-1.4	8.6
Total net income	165.2	168.8	143.7	137.5	148.0
Total operating expenses	34.7	35.0	28.2	31.1	29.6
Operating profit before impairments and losses	130.5	133.9	115.5	106.4	118.4
Impairments and losses on loans and guarantees	14.9	1.0	9.0	4.0	-5.9
Pre-tax operating profit	115.6	132.9	106.5	102.4	124.2
Tax expense	28.9	33.2	24.9	25.6	31.1
Profit for the period	86.7	99.7	81.6	76.8	93.2
<i>Earnings per share (NOK)</i>	<i>1.45*</i>	<i>1.67</i>	<i>1.36</i>	<i>1.28</i>	<i>1.57</i>
<i>Return on equity</i>	<i>14.1%**</i>	<i>16.6%</i>	<i>14.0%</i>	<i>13.7%</i>	<i>17.5%</i>
<i>Cost/income ratio</i>	<i>21.0%</i>	<i>20.7%</i>	<i>19.6%</i>	<i>22.6%</i>	<i>20.0%</i>

QUARTERLY BALANCE SHEET

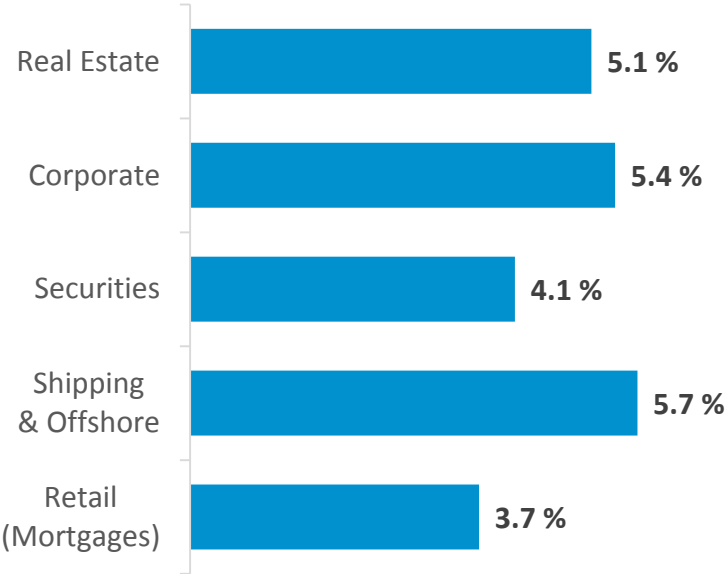
BS (NOKm)

	Q2-19	Q1-19	Q4-18	Q3-18	Q2-18
Loans to credit institutions	1,785	951	320	1,295	1,136
Loans to customers	12,539	12,065	11,653	10,690	10,489
Bonds and other securities	3,998	3,797	3,537	4,220	4,031
Shareholdings in associated companies	37	37	37	35	35
Other assets	76	69	60	80	62
Total assets	18,435	16,919	15,607	16,319	15,753
Deposits from customers and institutions	9,396	8,612	7,623	8,258	8,069
Senior securities issued	5,551	5,279	5,011	5,207	4,915
Other liabilities	124	152	195	156	146
Tier 2 subordinated securities issued	288	270	270	270	270
Additional tier 1 capital	239	200	200	200	200
Other equity	2,837	2,406	2,308	2,228	2,153
Total liabilities and equity	18,435	16,919	15,607	16,319	15,753

MARGINS AND INTEREST CONTRIBUTION

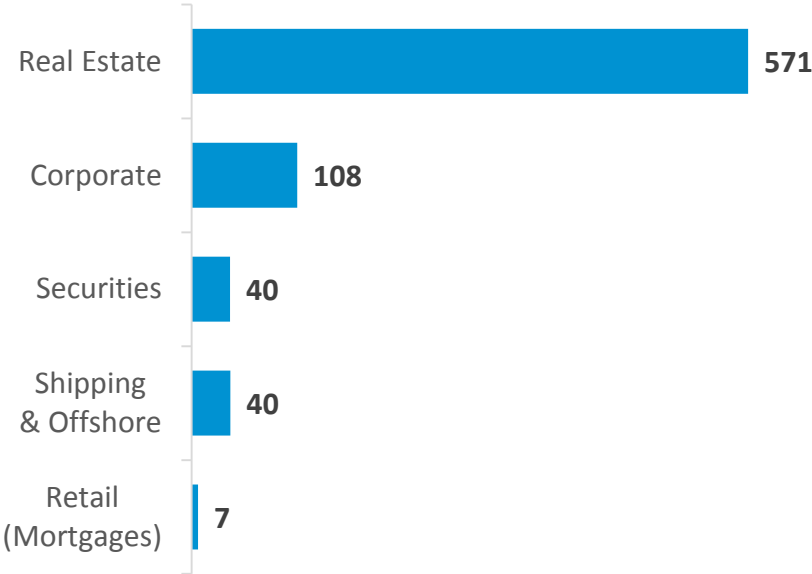
Margins per business area

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

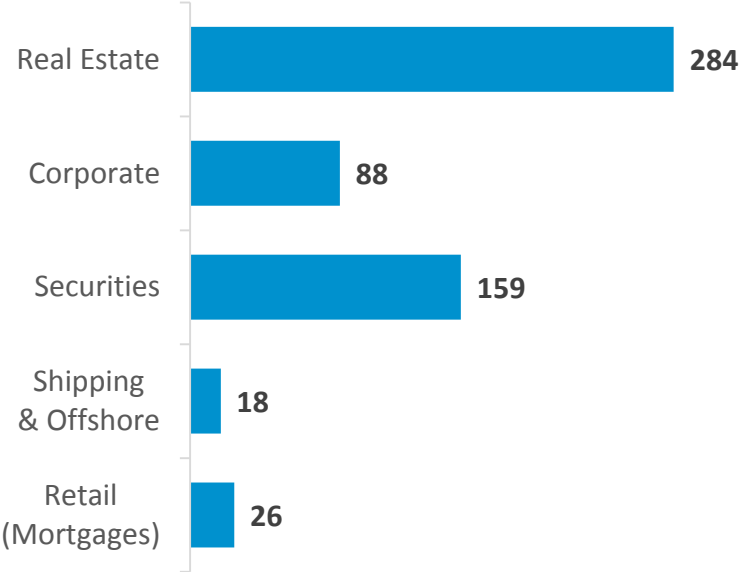


Note segment margins are estimated on the basis of terms of existing loans and will therefore differ from reported total lending margins.

Based on terms and 3M NIBOR as of 30.06.2019

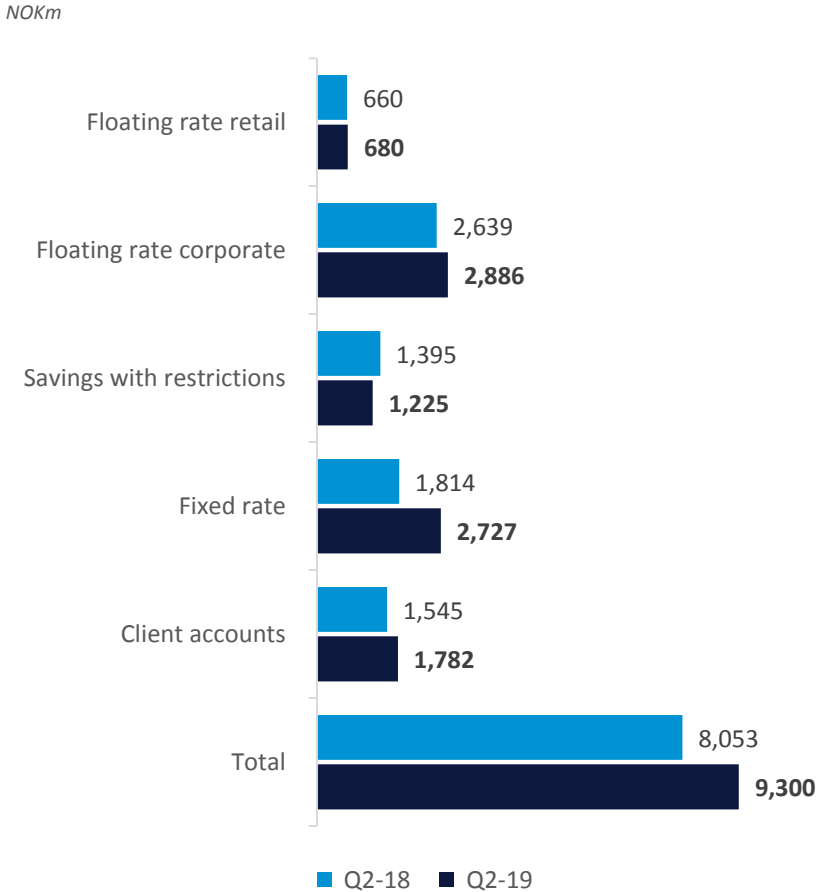
NUMBER OF CUSTOMERS

Number of customers per business area

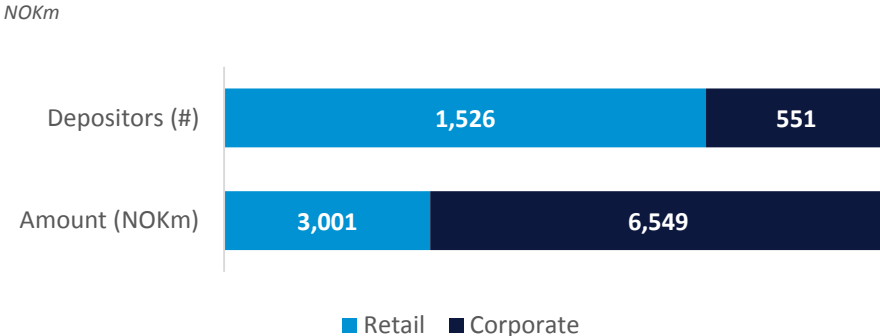


CUSTOMER DEPOSITS

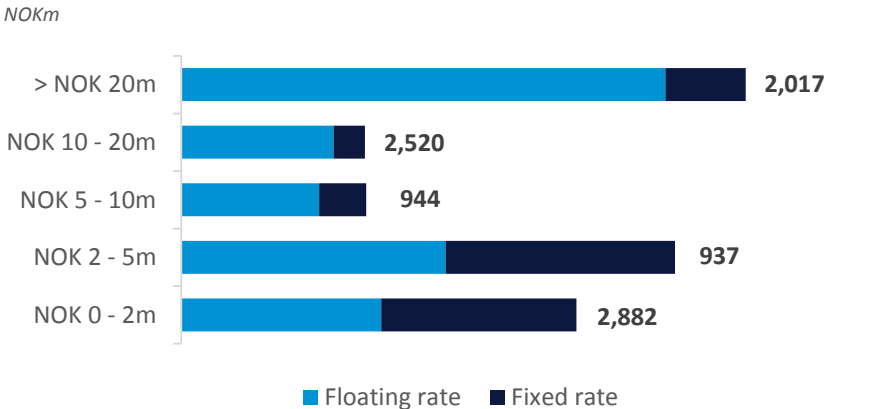
Deposits by product



Deposits by type



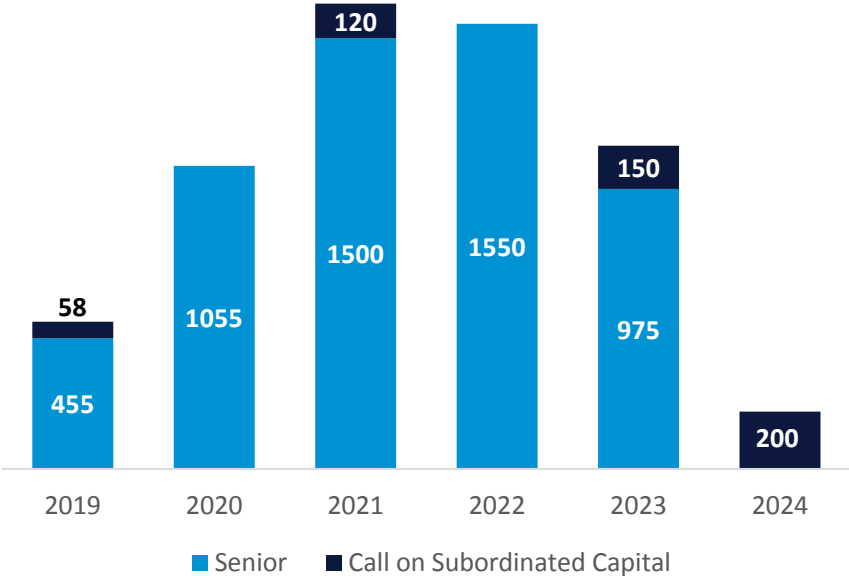
Deposits by size



MARKET FUNDING

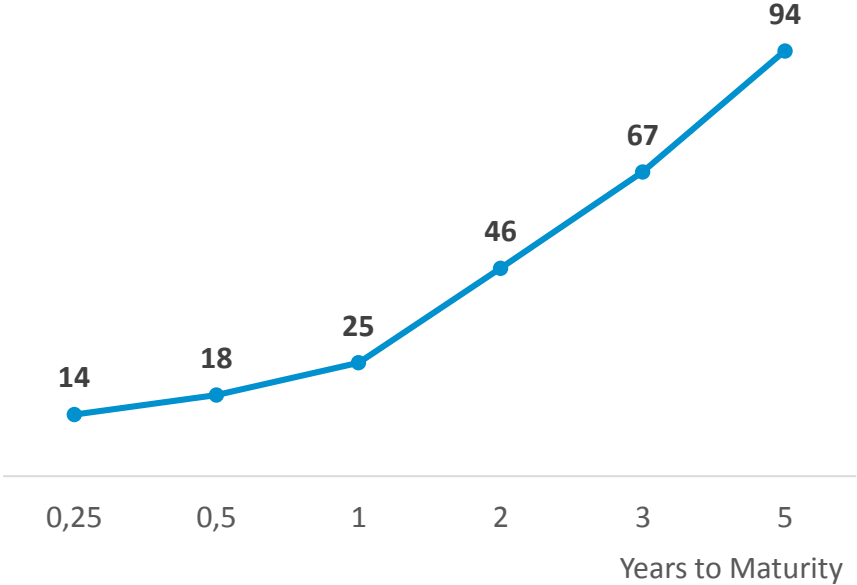
Market funding maturities

NOKm, net of own holdings



Credit spreads

Basis points over 3M Nibor

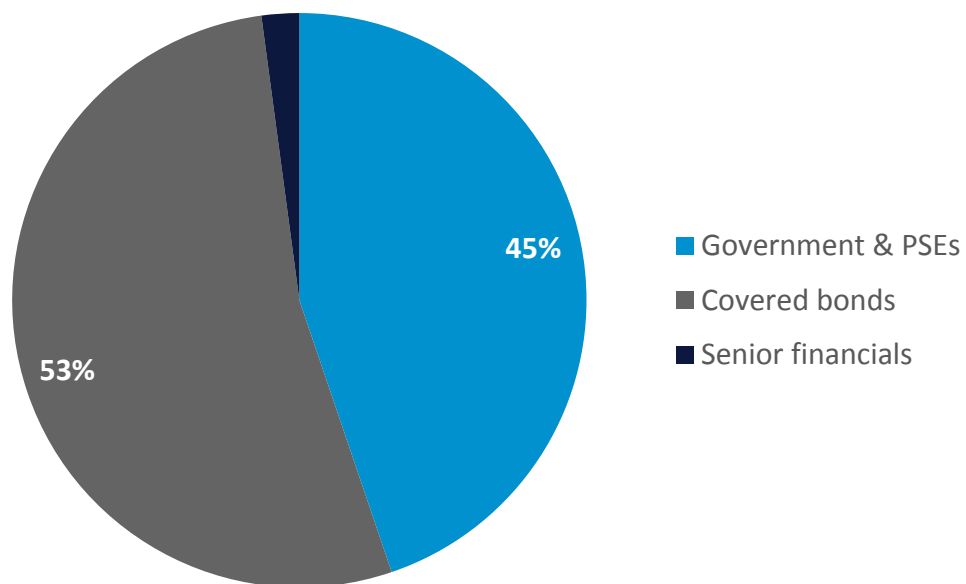


Source: Nordic Bond Pricing

SURPLUS LIQUIDITY

Bond portfolio

Market value of bonds and funds comprising surplus liquidity



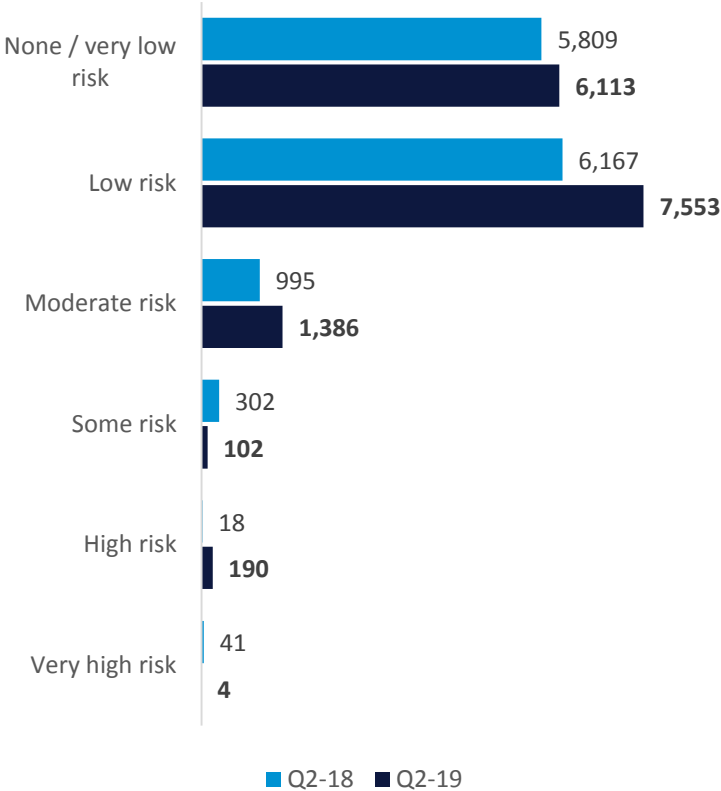
Key comments

- 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

COMMITMENTS BY RISK CLASSIFICATION

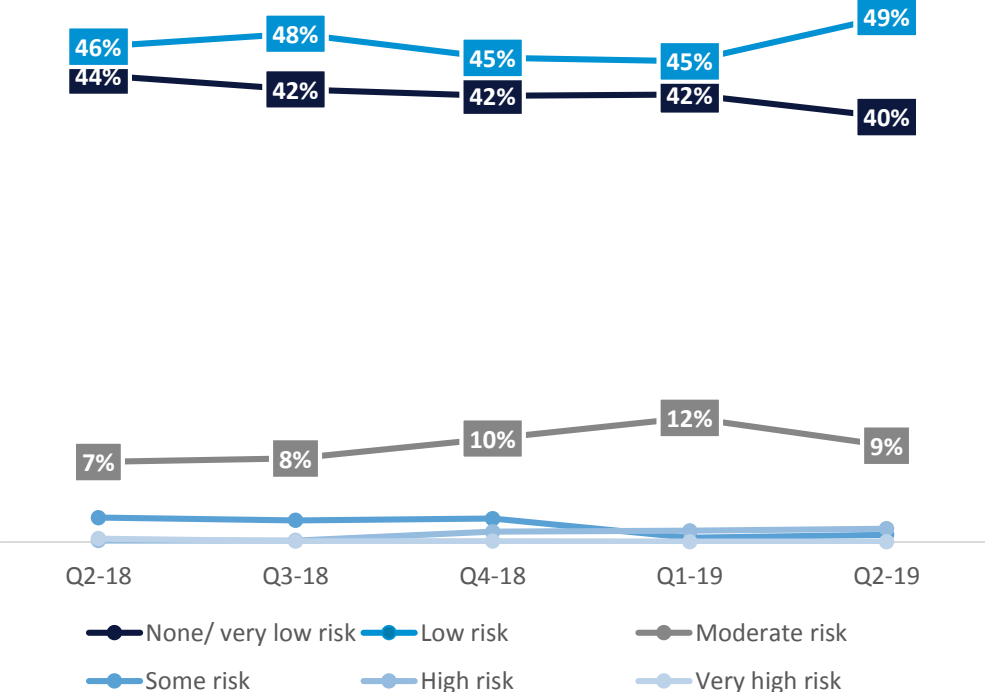
Risk classification

NOKm



Historical risk classification

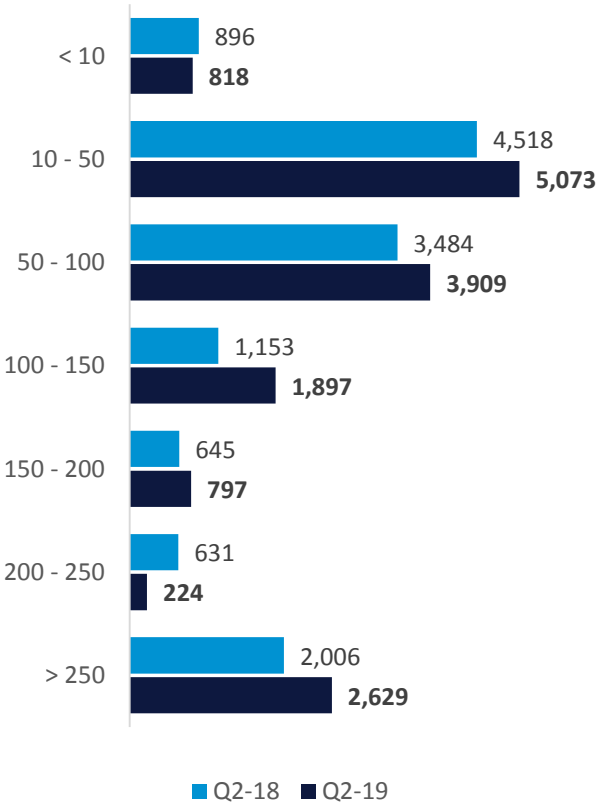
NOKm



COMMITMENTS BY SIZE

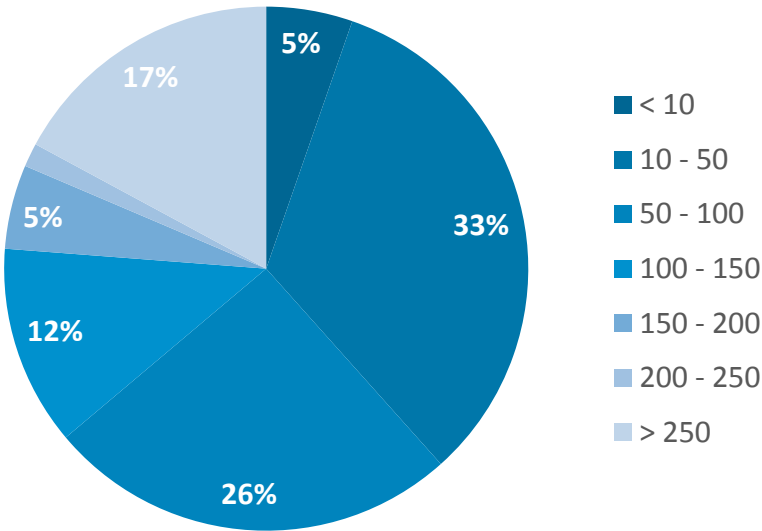
Commitment size per customer

NOKm



Distribution of commitments by size

Percent of NOKm



- Maximum size on a single customer 10 % of total capital (NOK 322m)
- Maximum size on group / consolidated basis 15 % of total capital (NOK 483m)

Pareto bank