
PARETO BANK

Financial Results

Third Quarter 2019

 Pareto bank
Projektbanken

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STATUS FINANCIAL AMBITIONS

	STATUS YTD 30.09.2019	AMBITIONS FOR 2019	
ROE	14.0 %	14.0 %	Profitability requirement for new business is 15 %. Higher capital base creating a temporary drag on ROE.
LENDING GROWTH	NOK 1,539m	NOK 2,000m	Growth on track. Attractive markets and healthy pipeline.
CAPITAL ADEQUACY	17.8 %	16.2 % **	Solid capitalisation. Platform for growth. Regulatory ready.

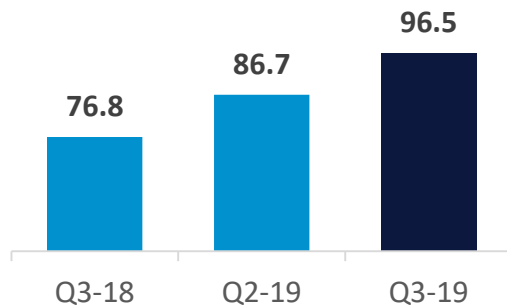
THIRD QUARTER 2019 HIGHLIGHTS

- 1 Profit after tax NOK 96.5m (NOK 76.8m).
- 2 Return on equity after tax 12.9 % (13.7%). Higher capital base creating a temporary drag on return on equity.
- 3 Net interest income of NOK 173.0m (NOK 138.8m) due to increased lending volume and a stable net interest margin.
- 4 Delivering on growth ambition with lending growth of NOK 652m (NOK 200m).
- 5 Impairments and losses of NOK 9.1m (NOK 4.0m).

KEY FIGURES

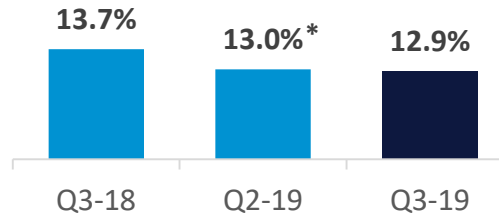
Profit after tax

NOKm



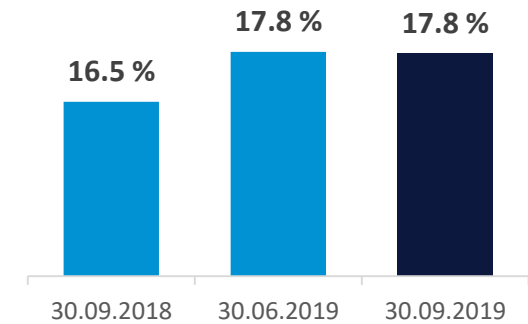
Return on Equity

Excluding AT1 capital and interest



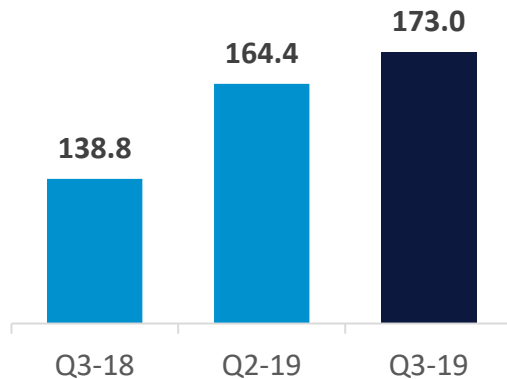
CET1 ratio

Standard model

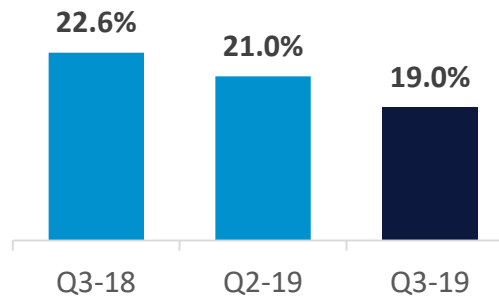


Net interest income (NOKm)

NOKm



Cost/income ratio



Loss ratio

Quarterly write-downs and losses over average net loans

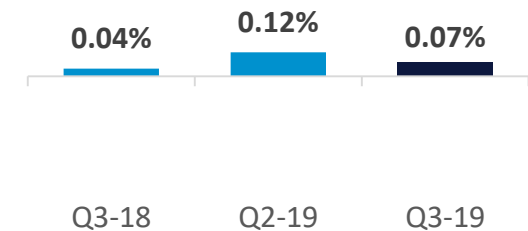


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INCOME STATEMENT

P&L (NOKm)

	Q3-19	Q3-18	YTD-19	YTD-18
Net interest income	173.0	138.8	499.9	407.3
Net other operating income	-2.9	-1.4	4.2	12.1
Total net income	170.1	137.5	504.1	419.4
Total operating expenses	32.2	31.1	101.9	91.7
Operating profit before impairments and losses	137.8	106.4	402.2	327.8
Impairments and losses on loans and guarantees	9.1	4.0	25.0	-4.5
Pre-tax operating profit	128.7	102.4	377.2	332.3
Tax expense	32.2	25.6	94.3	83.1
Profit for the period	96.5	76.8	282.9	249.2
<i>Earnings per share (NOK)</i>	<i>1.34</i>	<i>1.28</i>	<i>3.96</i>	<i>4.19</i>
<i>Return on equity</i>	<i>12.9%</i>	<i>13.7%</i>	<i>14.0%</i>	<i>15.4%</i>
<i>Cost/income ratio</i>	<i>19.0%</i>	<i>22.6%</i>	<i>20.2%</i>	<i>21.9%</i>

Growth in net interest income due to lending growth and a stable net margin. Lending margin was flat to slightly lower while deposit margin was improved over Q3-18.

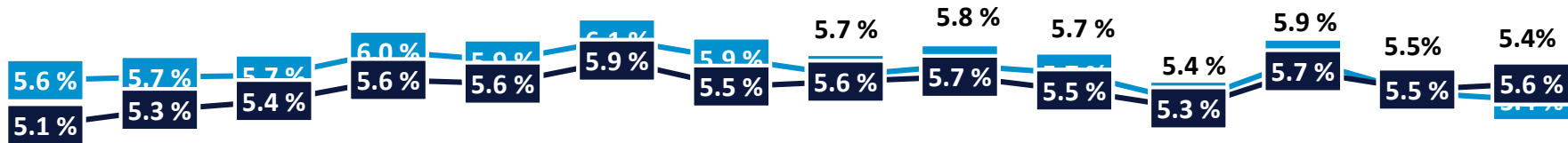
Fair value of financial instruments NOK -5.8m (NOK -6.0m) due to buy-backs of issued senior securities. Other operating income excluding financial instruments was NOK 2.9m.

Increased marketing costs, lower IT and other operating costs compared to previous quarter. Set off NOK 5.6m (NOK 5.5m) in Q3-19 for employee bonus.

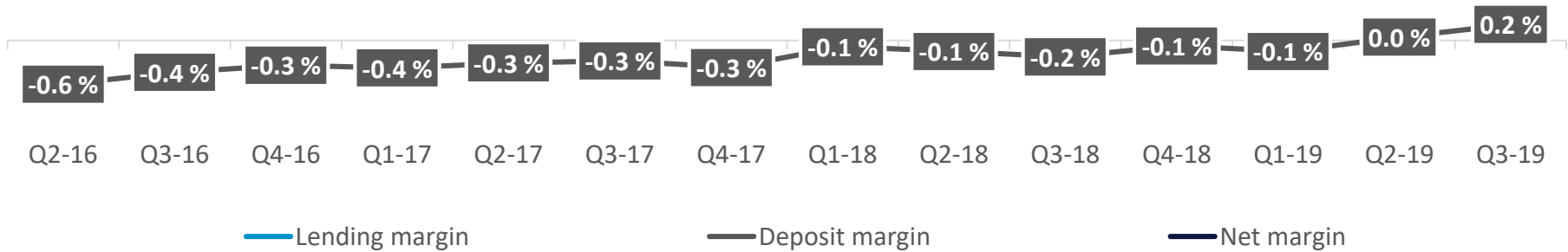
MAINTAINING STABLE NET MARGIN

Net interest margins

Percent interest income including amortizations and fees over 3M Nibor;
Cost of deposits of average volumes over average 3M Nibor in period



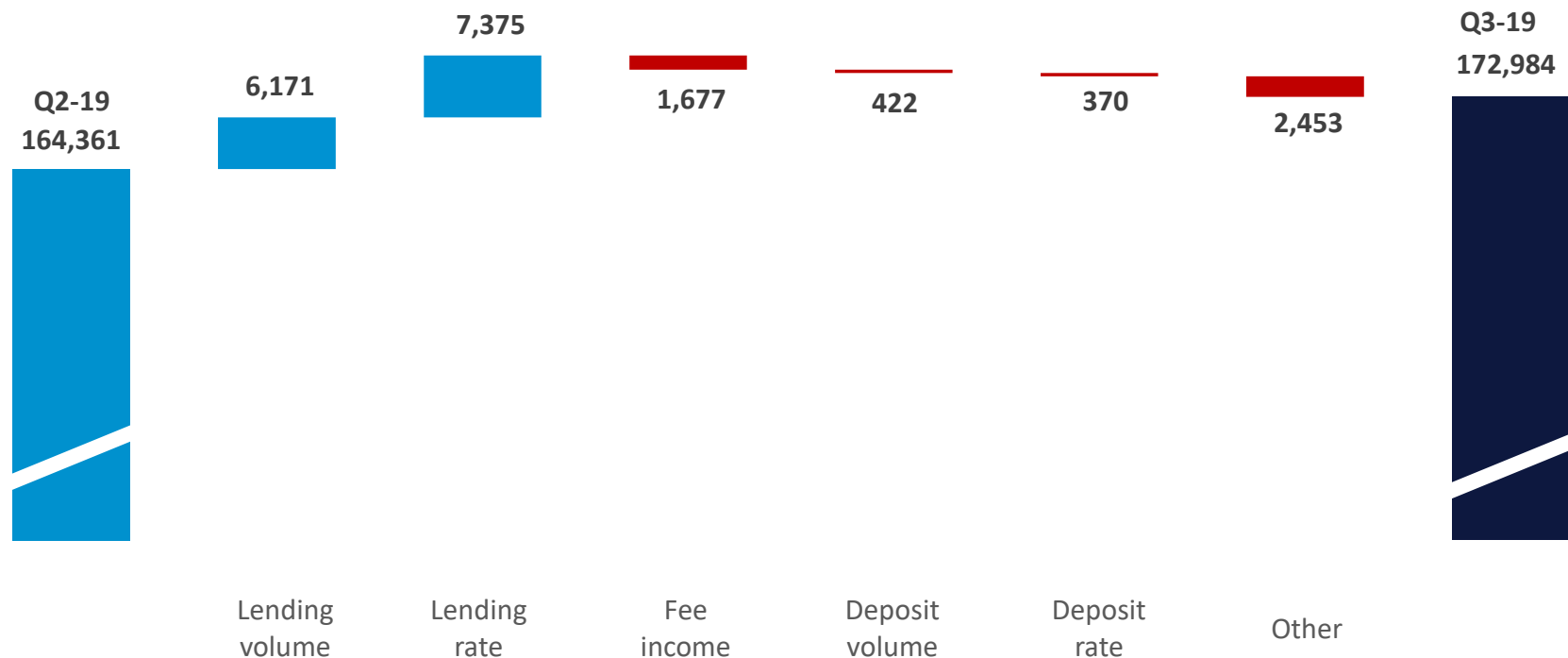
- Lending interest rate increase in July.
- Lending margin under pressure from increase in Nibor.
- New rate increase in November on selected loans.
- Fee income will vary from quarter to quarter and reflect activity and portfolio composition.
- Improved deposit margin supports net margin.



QUARTERLY CHANGE IN NET INTEREST INCOME

Net interest income

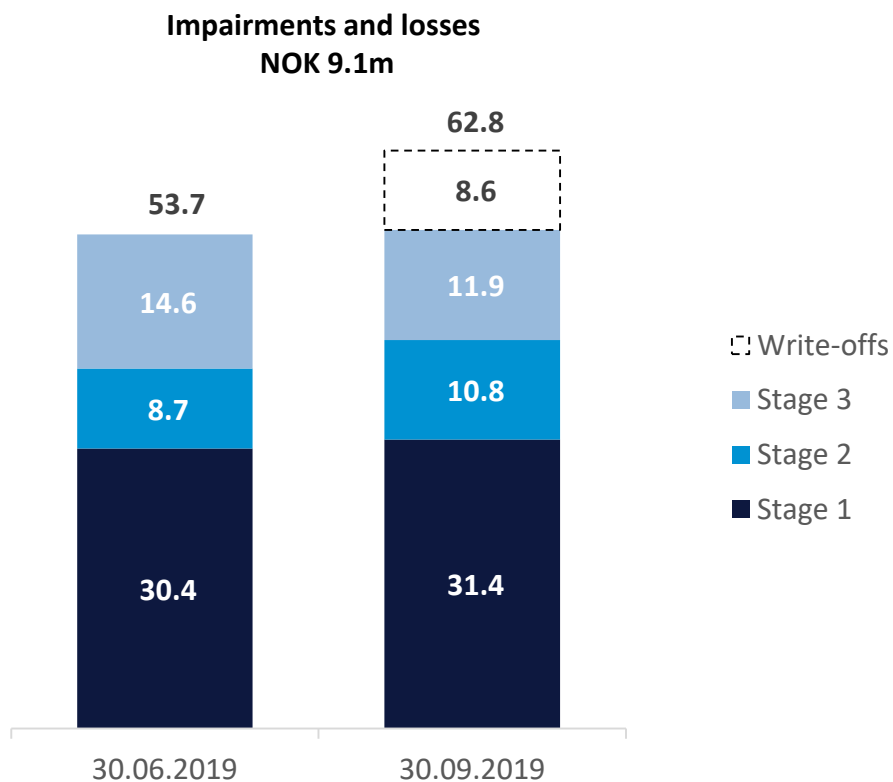
Changes in net interest income (NOK 1,000)



QUALITY OF LOAN PORTFOLIO

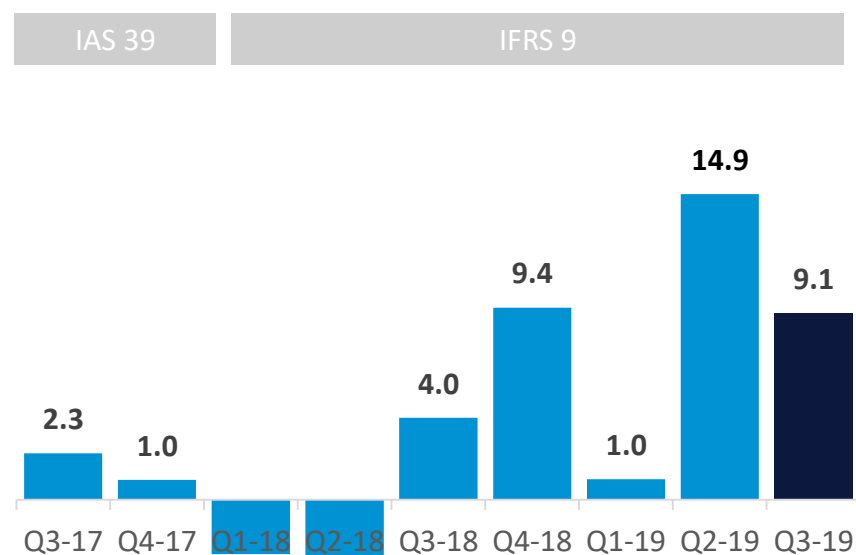
Impairments and losses according to IFRS 9

NOKm



Impairments and losses on loans & guarantees

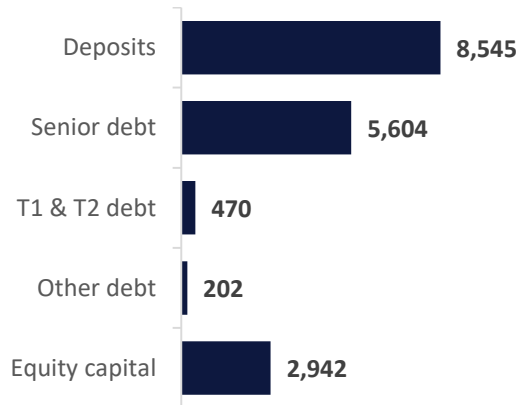
NOKm



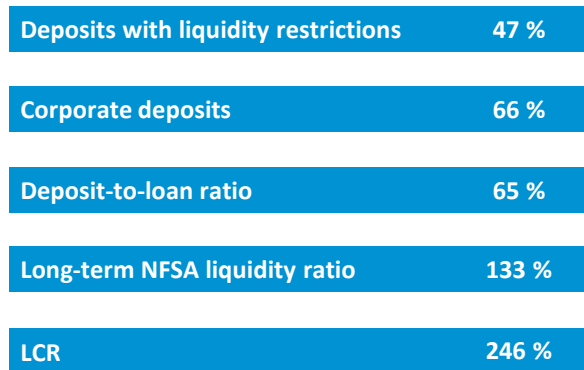
FUNDING

Sources

NOKm



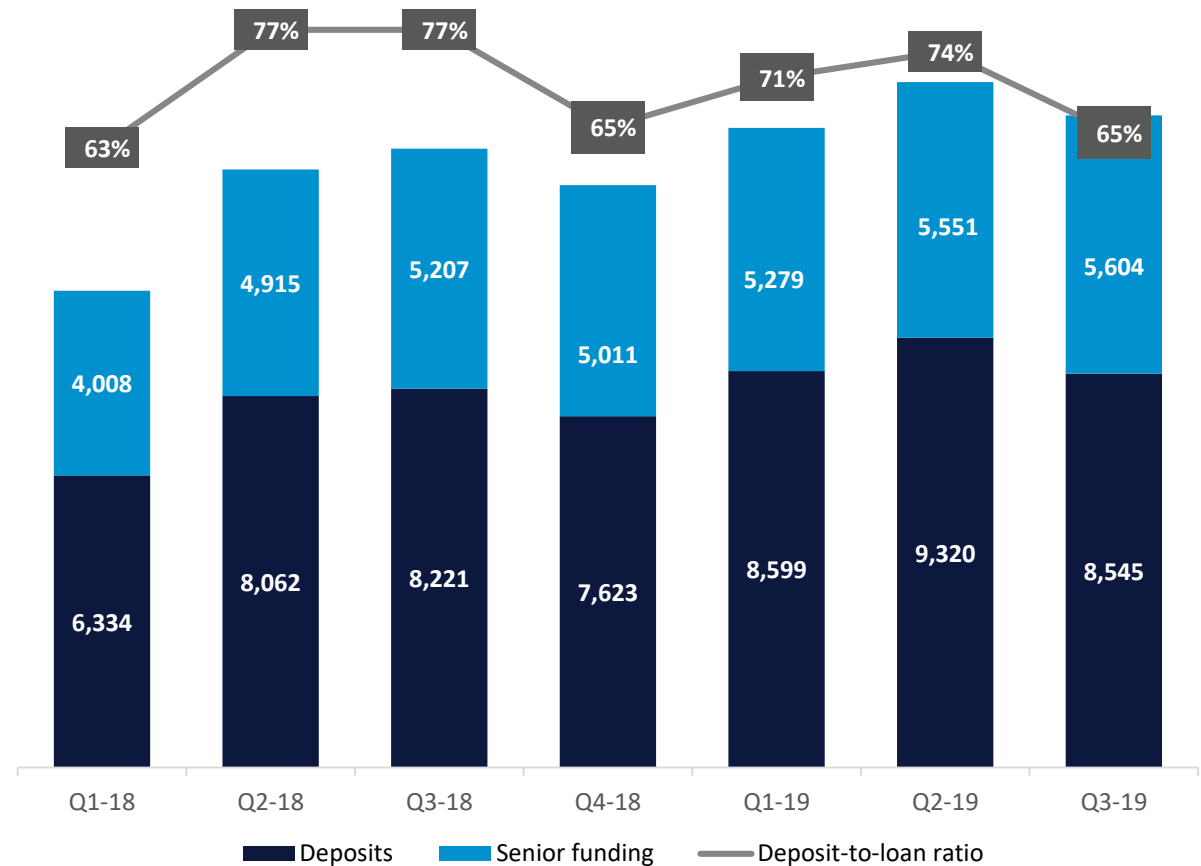
Key ratios



Deposits & senior debt

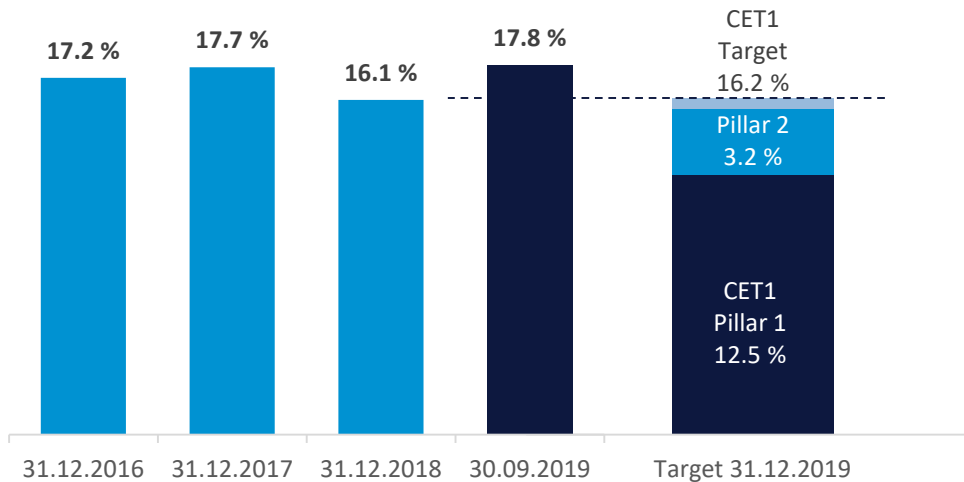
NOKm,

Percent customer deposits of net lending to customers

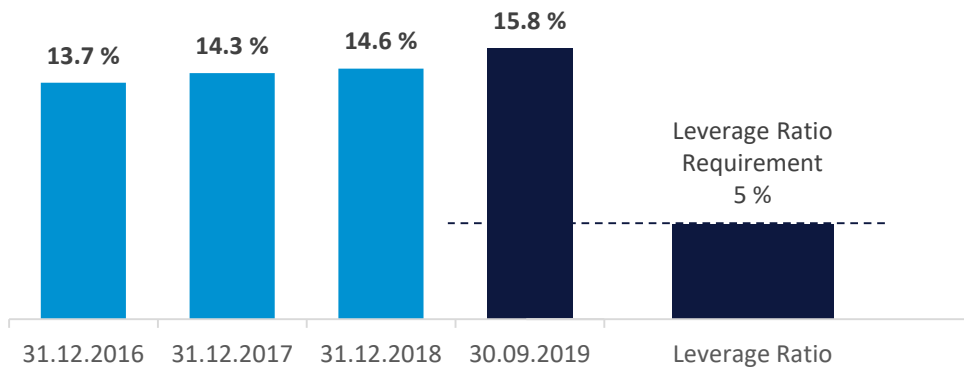


CAPITAL

Core equity tier 1 ratio (CET1 ratio)



Leverage ratio



Key comments

- Strong capitalization following private placement.
- CRR/CRD IV expected to come into force in the second half of 2019.
- Revised estimate of effect of the "SME-discount": proforma increase in CET1 of 0.2 % as of 30.09.2019.
- Norwegian Ministry of Finance has proposed an increase in the systemic risk buffer of 1.5 percentage points over the next three years.
- Pareto Bank's pillar 2 requirement will undergo a supervisory review (SREP) in 2020.

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INCREASING AWARENESS OF PARETO BANK

Systematically building awareness of Pareto Bank as a supplier of tailor-made financial solutions to target customers in the greater Oslo region and larger cities. The bank targets medium-sized projects, transactions and enterprises.



Outbound marketing to increase awareness of Pareto Bank and thereby support relation-based sales activities.



Fleksibel finansiering – når du trenger det

Av [Dag Henning Kleven](#) 3. oktober 2019

Gjesteinnlegg av Dag Henning Kleven, leder for kundekontakt i Azets.



5 tips for å styre kredittiden og forbedre betalingsbetingelsene

Av [Mats Gehrken](#) 19. september 2019

Inbound marketing to create relevant deal flow for specific products and services such as *Pareto driftskreditt*.

CUSTOMER VALUES

EFFICIENT

RELIABLE

HANDS-ON

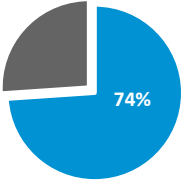
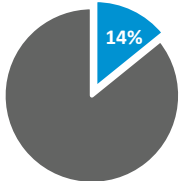
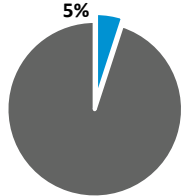
PERSONAL

COMMERCIAL

SPECIALIZED

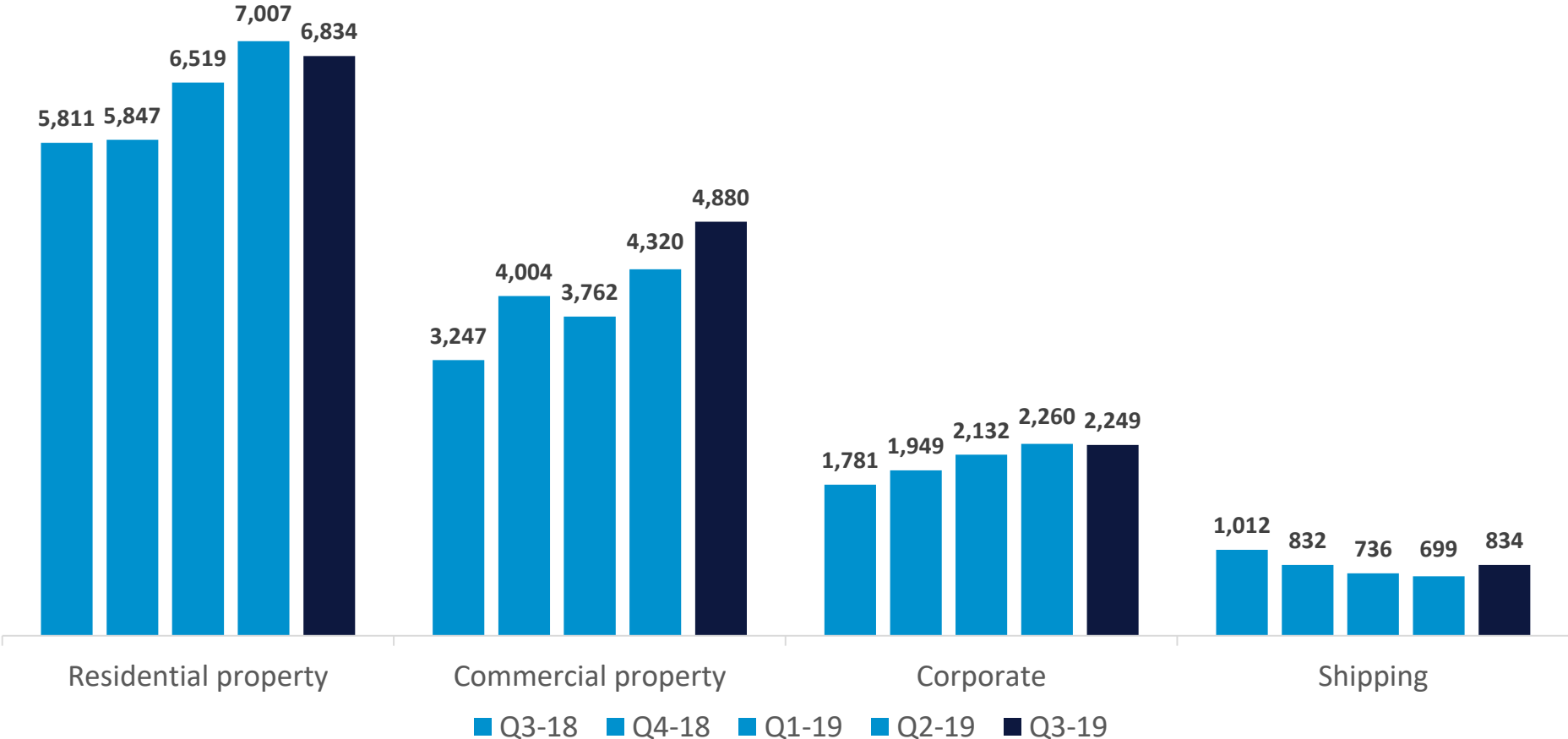


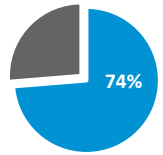
A NICHE PLAYER FINANCING MEDIUM SIZED ENTERPRISES

BUSINESS AREAS	FOCUS	CREDITS / CUSTOMERS	EXPOSURE	SWEET SPOT
Real estate	The specialized real estate developer bank for Eastern Norway and larger Norwegian cities.	Land acquisition financing Property construction facilities Commercial property financing	 <p>NOKm 11,714</p>	NOKm 50-100 1-3 yrs
Corporate	A provider of tailor-made financing solutions.	M&A loans Bridge loans Investment loans Working capital facilities Securities financing	 <p>NOKm 2,217</p>	NOKm 20-50 1-3 yrs
Shipping	Norwegian ship owners, family offices and the investment project market.	First priority financing	 <p>NOKm 834</p>	USDm 10-20 3-5 yrs

EXPOSURE PER BUSINESS AREA

NOKm gross exposure

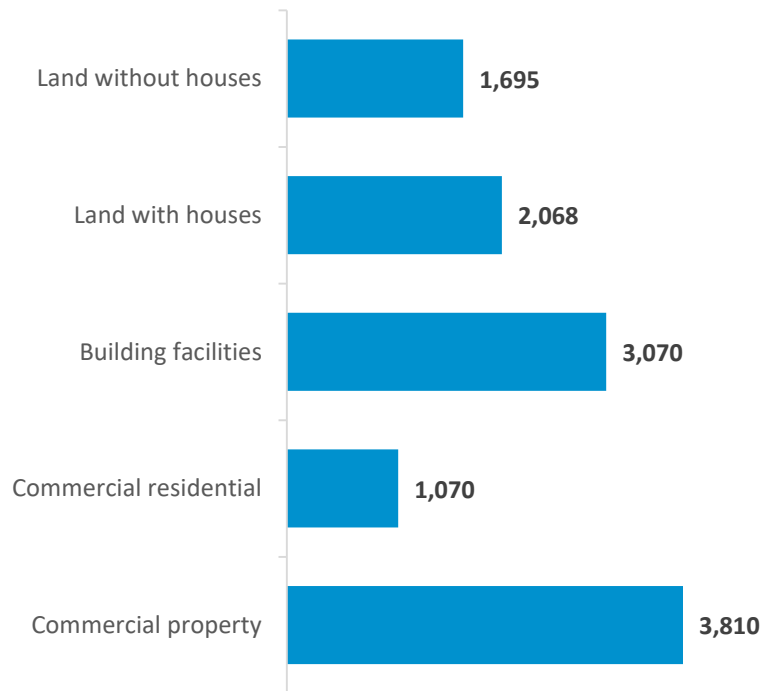




Real estate credit exposure

Σ = NOK 11,714m

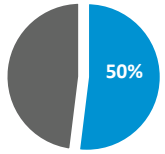
NOKm of gross exposure



Key comments

- Increased exposure to commercial property of NOK 561m and reduced exposure to residential property development of NOK 173.
- Growth in commercial property exposure includes new bridge loans and commercial residential financing.
- Historically high commercial property values increase downside risk. Activity within commercial property is expected to soften in Q4-19.
- Residential property market is stable, but potentially stricter mortgage regulation (*boliglånsforskrift*) can have a negative market impact.
- Residential property exposure is expected to grow in Q4-19 due to increased sales activity, however redemptions may affect growth.

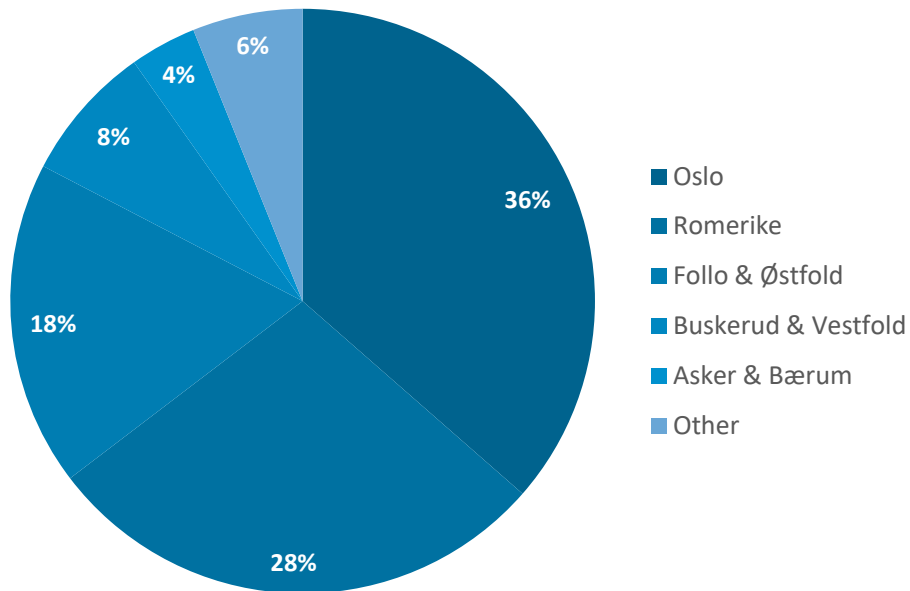
REAL ESTATE | RESIDENTIAL PROPERTY EXPOSURE



Geographical residential property exposure (NOKm)

Σ = NOK 6,834m

NOKm of gross exposure



Oslo areas:

West	18 %
Center	7 %
East	6 %
North/Nordstrand	5 %

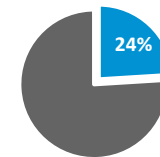
Stress test against fall in housing prices

- Residential property exposure is stress-tested semi-annually against a fall in housing prices of 10 to 40 %.
- Portfolio performs well in a scenario with 20 % fall in housing prices. Larger fall in prices is manageable.
- Diversified portfolio with respect to location, project type and developers.
- 169 different projects/addresses, 87 projects for small houses (34 % of volume) and 77 projects for apartments.

Policy

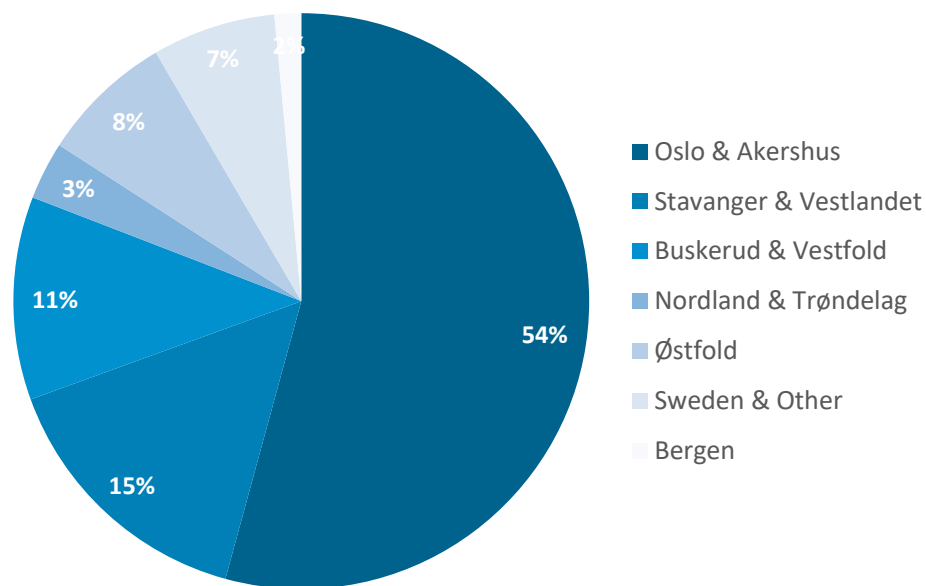
- Presale requirement: if the price of unsold units falls by 50 % compared to the price of presold units, the remaining sales must still be sufficient to cover the bank credit.
- Presale quality: end-users are assessed and qualified.
- Equity: 20 % to 40 % equity contribution requirement for land acquisition financing.

REAL ESTATE | COMMERCIAL PROPERTY EXPOSURE



Geographical commercial property exposure (NOKm) $\Sigma = \text{NOK } 3,810\text{m}$

NOKm of gross exposure



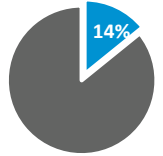
Key comments

- Average commitment size approx. NOK 35m, average maturity approx. 2 years, average loan to value (LTV) approx. 70 %.
- Bridge loans with clear exits, first and second priority financing of commercial property 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.

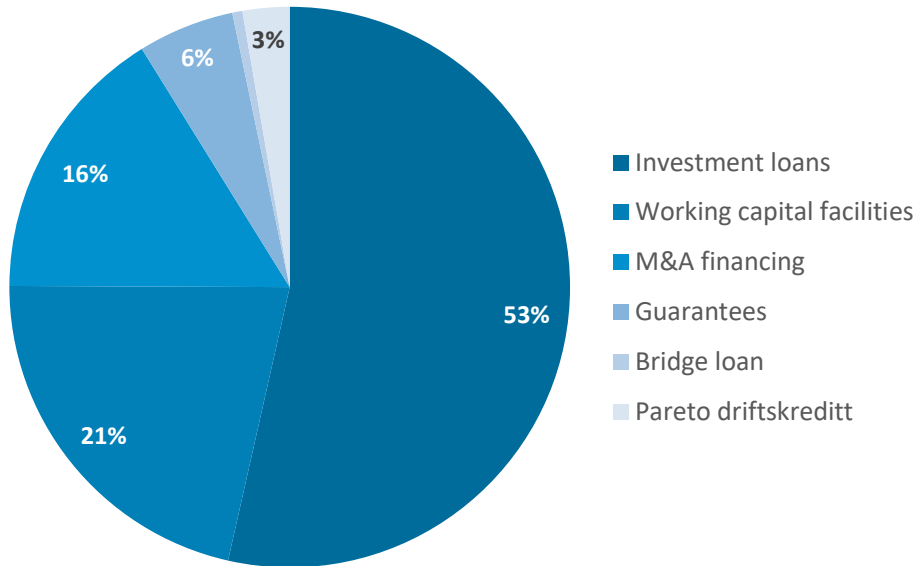
CORPORATE | INCREASING DEAL FLOW



Corporate financing exposure (NOKm)

Σ = NOK 2,249m

NOKm of gross exposure



Key comments

- Deal flow increasing as awareness of Pareto Bank as a financial solution provider for medium-sized businesses improves.

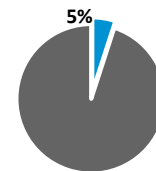
Policy

- 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.

Status Pareto driftskredditt (*receivables financing*)

- Product launched after summer with 13 customers and exposure of approx. NOK 60m.
- Marketing launched in September with increased digital marketing throughout Q4-19.

SHIPPING | TURNING POINT



Status

- Three new loans in Q3-19 (bulk, chemical and industrial/multipurpose) and two repayments (product and container).
- 17 customers and a total of 25 vessels.
- Largest exposure is USD 20.7m and average commitment size is USD 5.4m.

Policy

- Cautious approach with target LTV of 50 %.
- 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 shipping exposure.
- Maximum shipping exposure is 15 % of the bank's total credit exposure.

Shipping credit exposure & loan to value

Σ = NOK 834m

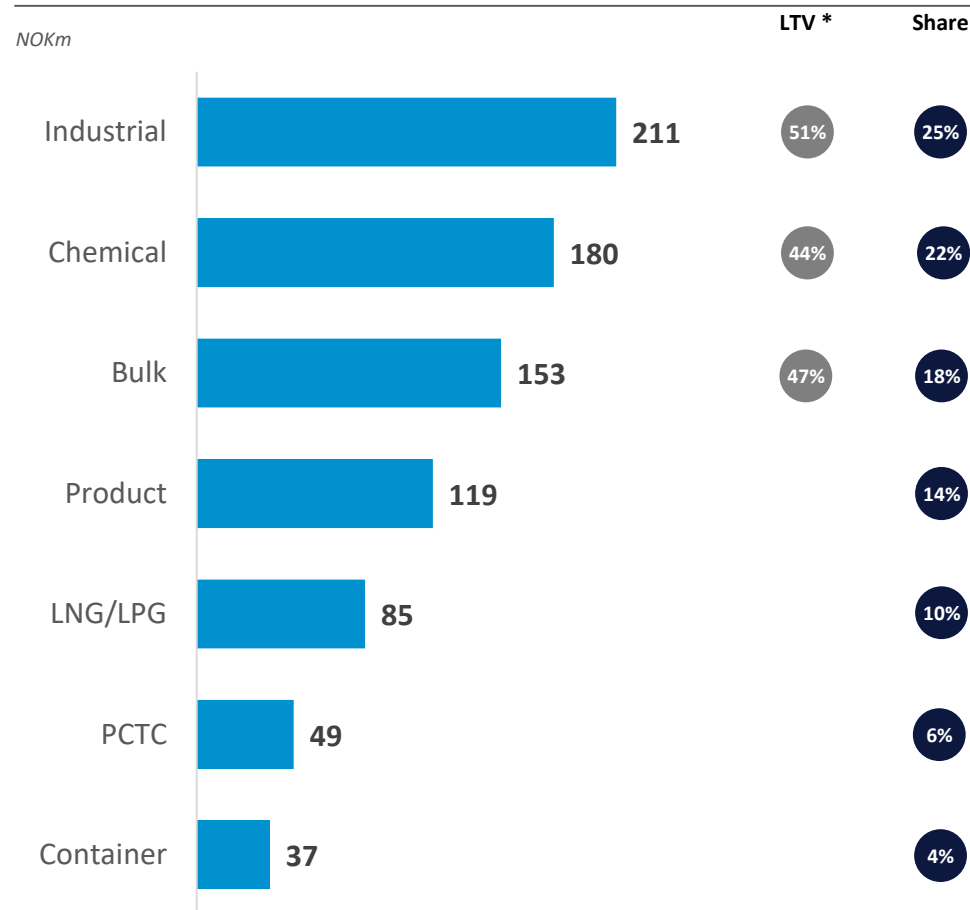


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PARETO BANK IS WELL-POSITIONED

PLATFORM FOR GROWTH

A robust platform for further profitable lending growth.

Capital, competence and capacity in place to profitably develop all business areas going forward.

REGULATORY READY

Solid capitalisation.

Ready to meet potential changes in capital requirements.



LONG TERM FINANCIAL AMBITIONS

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

APPENDIX

LARGEST SHAREHOLDERS AS OF 1 OCTOBER 2019

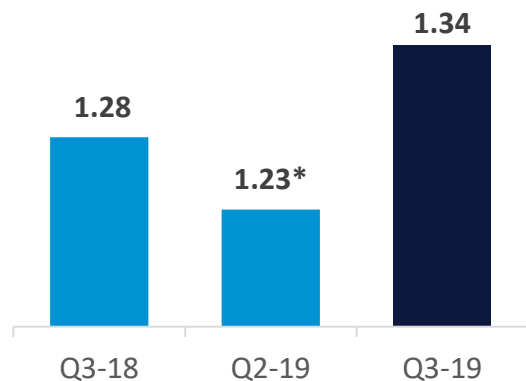
#	Investor	01 October 2019	
		# of shares	% total
1	Pareto AS	12,289,610	17.59 %
2	Pecunia Forvaltning AS	5,900,000	8.45 %
3	AF Capital Management AS	5,861,968	8.39 %
4	K11 Investor AS	2,595,492	3.72 %
5	Rune Bentsen AS	2,595,491	3.72 %
6	Hjellegjerde Invest AS	2,369,644	3.39 %
7	Verdipapirfondet Landkreditt Utbytte	1,950,000	2.79 %
8	Svemorka Holding AS	1,705,640	2.44 %
9	Kolberg Motors AS	1,610,815	2.31 %
10	Holberg Norge	1,150,000	1.65 %
11	Dragesund Invest AS	1,146,564	1.64 %
12	Apollo Asset Limited	1,081,081	1.55 %
13	Fondsfinans Norge	1,000,000	1.43 %
14	Pactum AS	917,928	1.31 %
15	Artel AS	900,820	1.29 %
16	Castel AS	807,079	1.16 %
17	Profond AS	775,893	1.11 %
18	Hausta Investor AS	700,000	1.00 %
19	OM Holding AS	601,072	0.86 %
20	Sjøinvest AS	600,000	0.86 %
Sum TOP 20		46,559,097	66.65 %
Other shareholders		23,292,633	33.35 %
Total		69,851,730	100.00 %

- The Company has 69,851,730 shares outstanding after the private placement. One class of shares where each share carries one voting right.
- Diversified investor base with 1,064 shareholders.
- The top 10 and 20 investors hold 54% and 67% of the shares respectively.
- Employees in Pareto Bank own 1.5%.
- Top management in the Pareto Group owns 2.9%.
- All employees are covered by an annual bonus compensation scheme settled in Pareto Bank shares.

THE SHARE

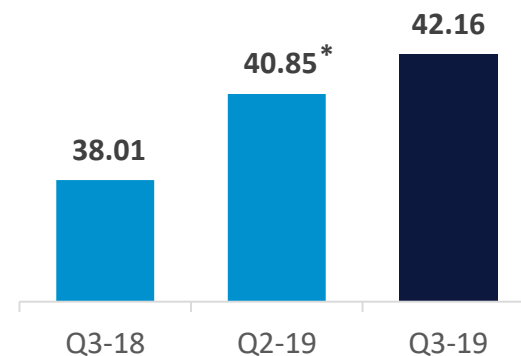
Earnings per share

NOK



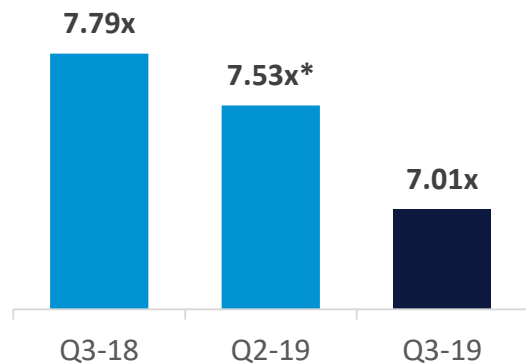
Book equity per share

NOK



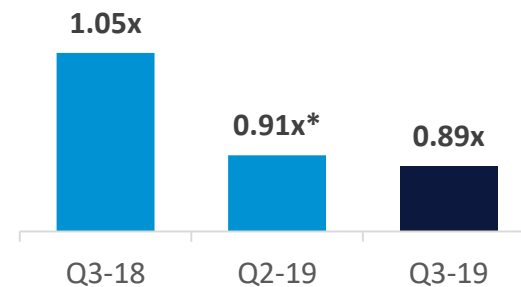
Price / Earnings

NOK, Share price 37.50



Price / Book

NOK, Share price 37.50



QUARTERLY INCOME STATEMENT

P&L (NOKm)

	Q3-19	Q2-19	Q1-19	Q4-18	Q3-18
Net interest income	173.0	164.4	162.6	147.0	138.8
Net other operating income	-2.9	0.9	6.2	-3.3	-1.4
Total net income	170.1	165.2	168.8	143.7	137.5
Total operating expenses	32.2	34.7	35.0	28.2	31.1
Operating profit before impairments and losses	137.8	130.5	133.9	115.5	106.4
Impairments and losses on loans and guarantees	9.1	14.9	1.0	9.0	4.0
Pre-tax operating profit	128.7	115.6	132.9	106.5	102.4
Tax expense	32.2	28.9	33.2	24.9	25.6
Profit for the period	96.5	86.7	99.7	81.6	76.8
<i>Earnings per share (NOK)</i>	<i>1.34</i>	<i>1.23*</i>	<i>1.67</i>	<i>1.36</i>	<i>1.28</i>
<i>Return on equity</i>	<i>12.9%</i>	<i>13.0%**</i>	<i>16.6%</i>	<i>14.0%</i>	<i>13.7%</i>
<i>Cost/income ratio</i>	<i>19.0%</i>	<i>21.0%</i>	<i>20.7%</i>	<i>19.6%</i>	<i>22.6%</i>

QUARTERLY BALANCE SHEET

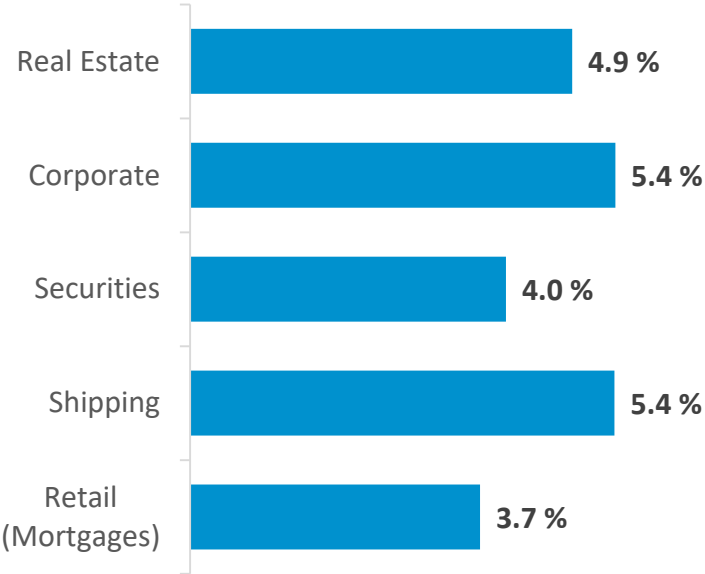
BS (NOKm)

	Q3-19	Q2-19	Q1-19	Q4-18	Q3-18
Loans to credit institutions	1,004	1,785	951	320	1,295
Loans to customers	13,191	12,539	12,065	11,653	10,690
Bonds and other securities	3,467	3,998	3,797	3,537	4,220
Shareholdings in associated companies	35	37	37	37	35
Other assets	66	76	69	60	80
Total assets	17,762	18,435	16,919	15,607	16,319
Deposits from customers and institutions	8,561	9,396	8,612	7,623	8,258
Senior securities issued	5,604	5,551	5,279	5,011	5,207
Other liabilities	183	124	152	195	156
Tier 2 subordinated securities issued	270	288	270	270	270
Additional tier 1 capital	200	239	200	200	200
Other equity	2,945	2,837	2,406	2,308	2,228
Total liabilities and equity	17,762	18,435	16,919	15,607	16,319

MARGINS AND INTEREST CONTRIBUTION

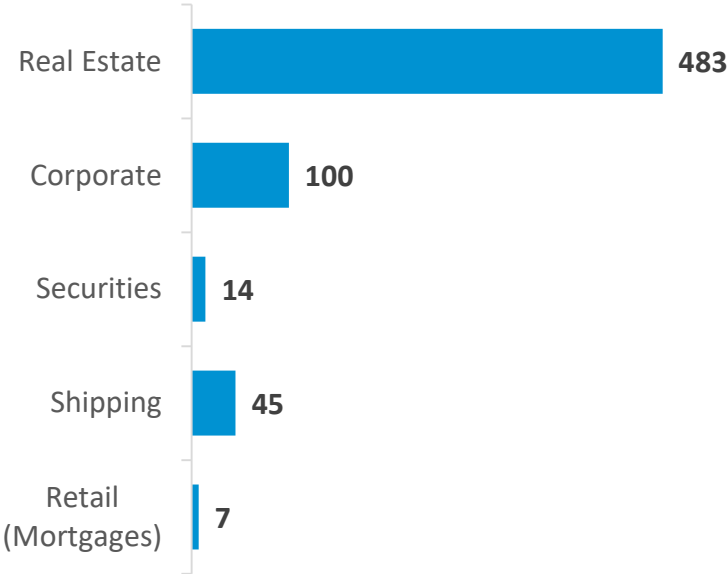
Margins per business area

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

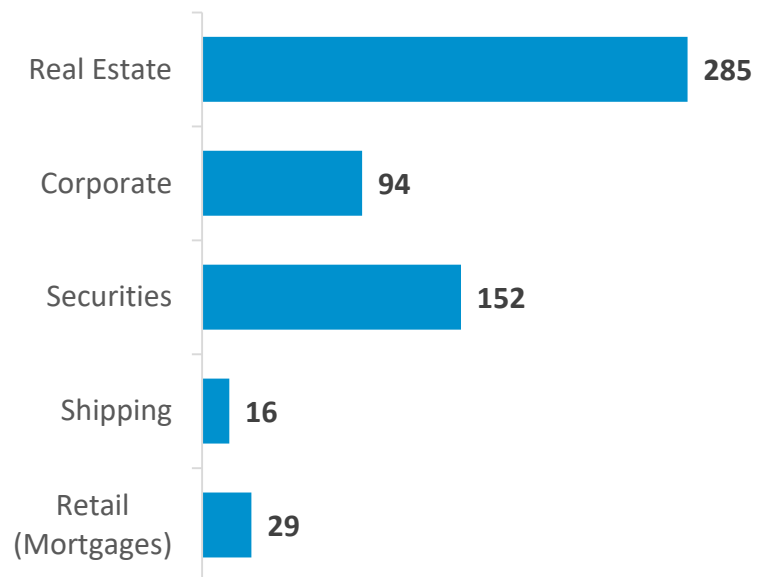


Note segment margins are estimated on the basis of terms of existing loans and will therefore differ from reported total lending margins.

Based on terms and 3M NIBOR as of 30.09.2019

NUMBER OF CUSTOMERS

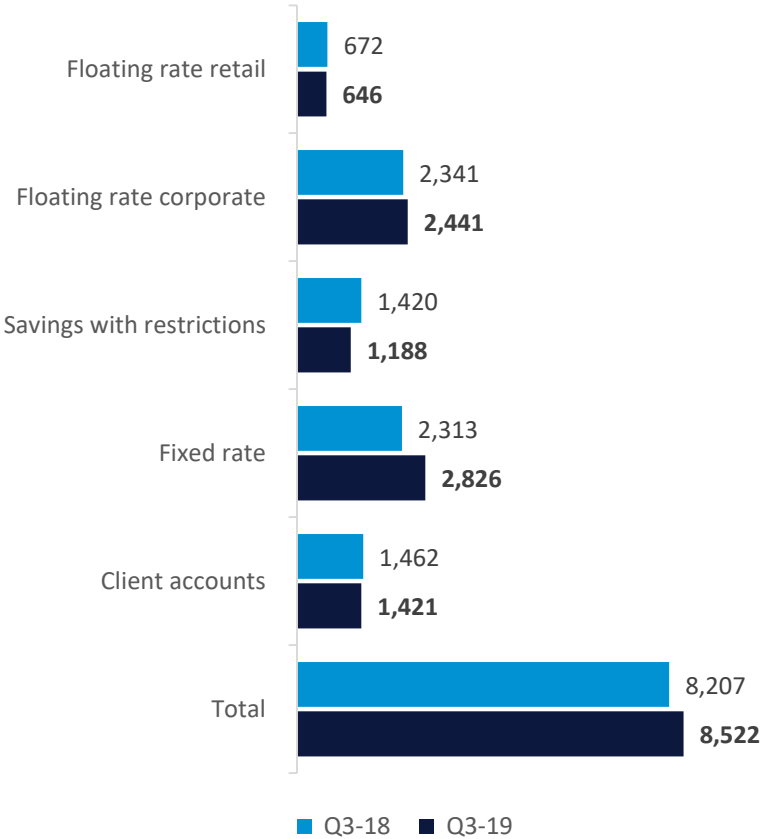
Number of customers per business area



CUSTOMER DEPOSITS

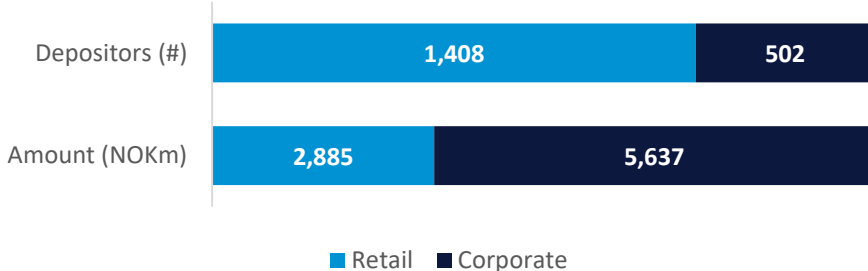
Deposits by product

NOKm



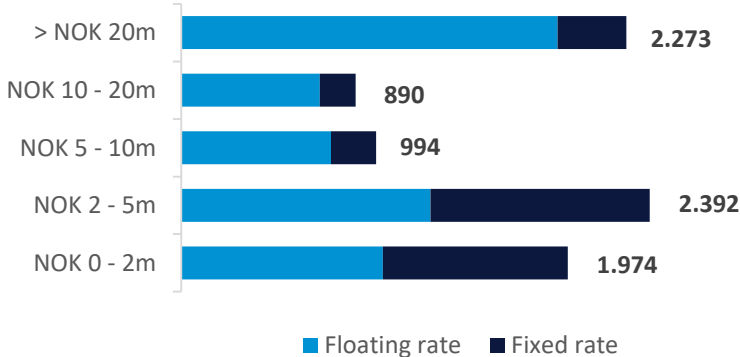
Deposits by type

NOKm



Deposits by size

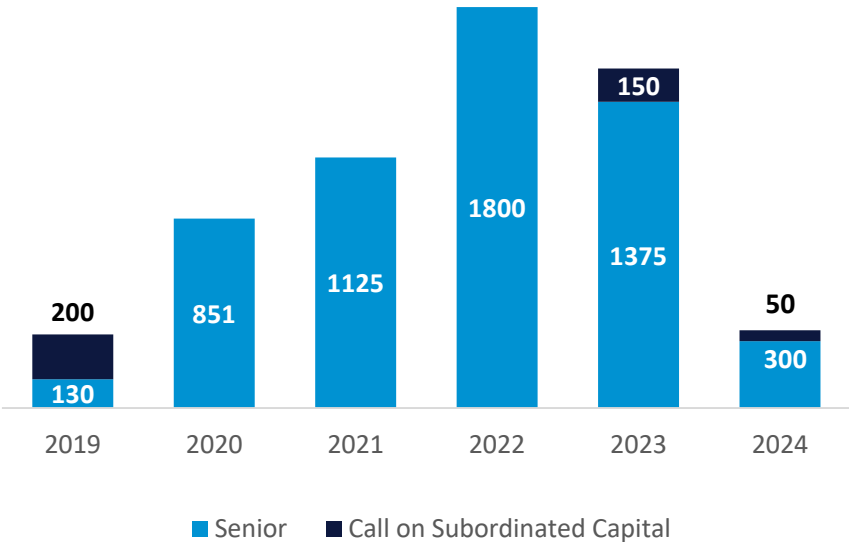
NOKm



MARKET FUNDING

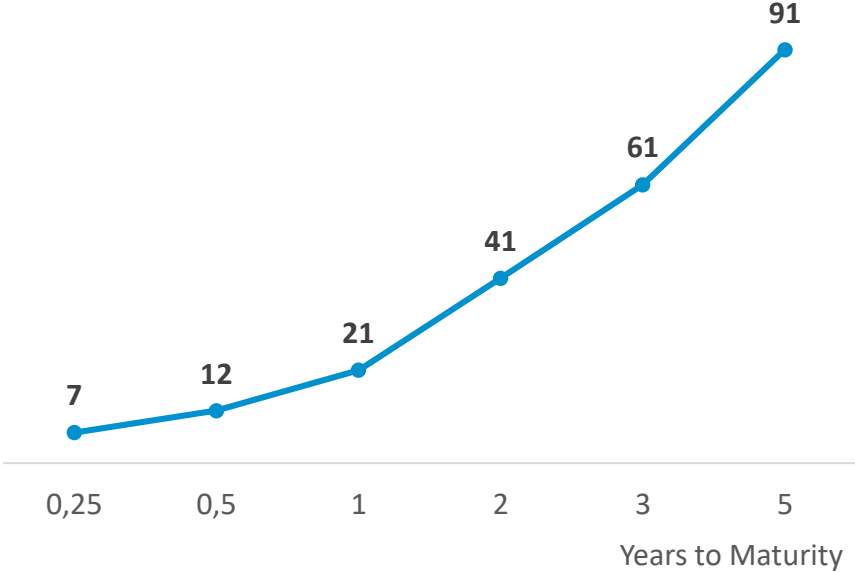
Market funding maturities

NOKm, net of own holdings



Credit spreads

Basis points over 3M Nibor

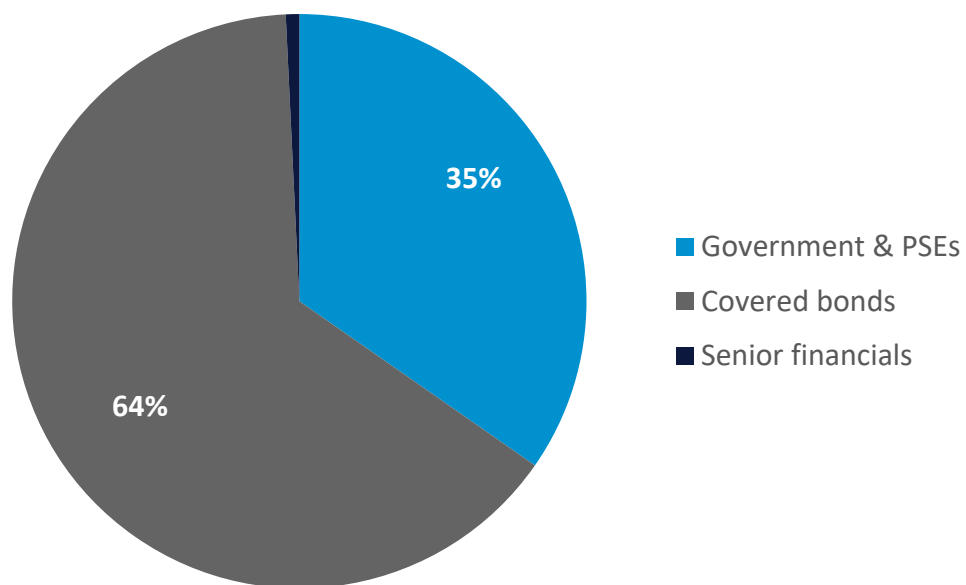


Source: Nordic Bond Pricing

SURPLUS LIQUIDITY

Bond portfolio

Market value of bonds and funds comprising surplus liquidity



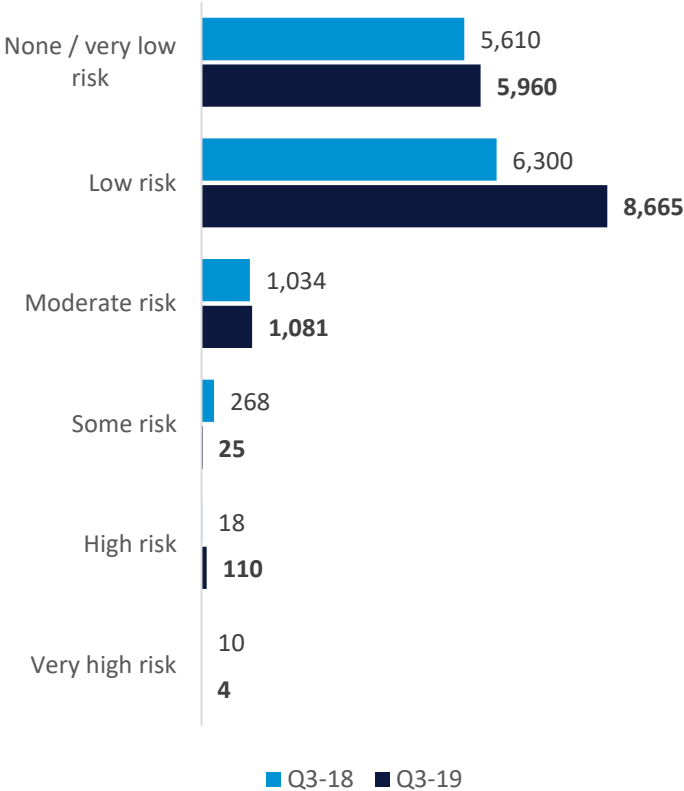
Key comments

- 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

COMMITMENTS BY RISK CLASSIFICATION

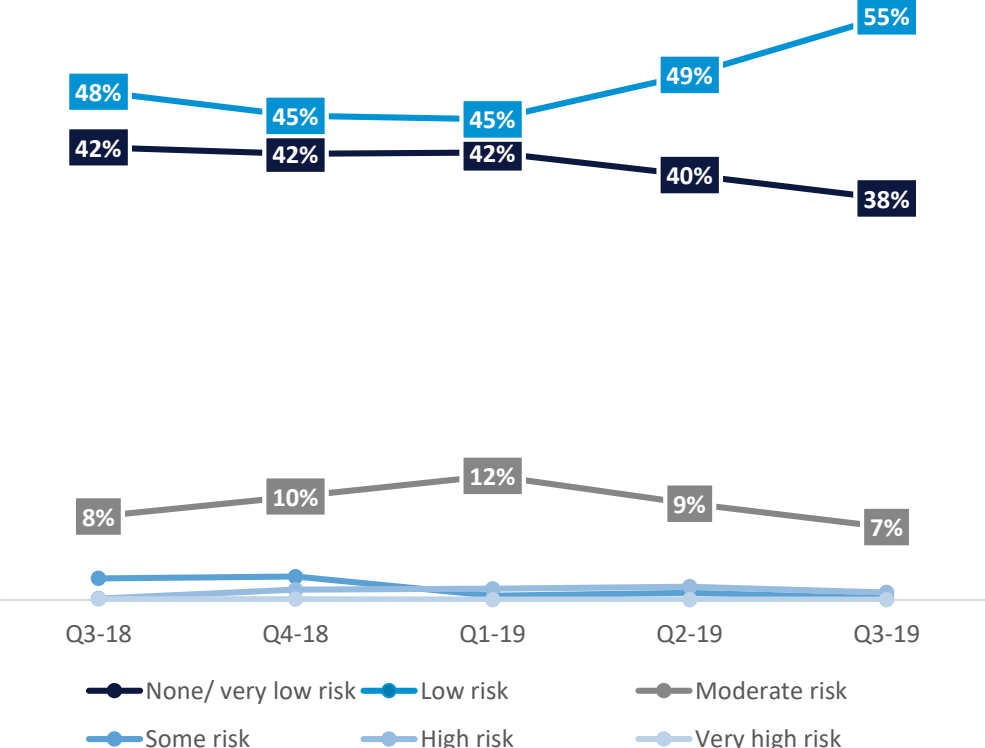
Risk classification

NOKm



Historical risk classification

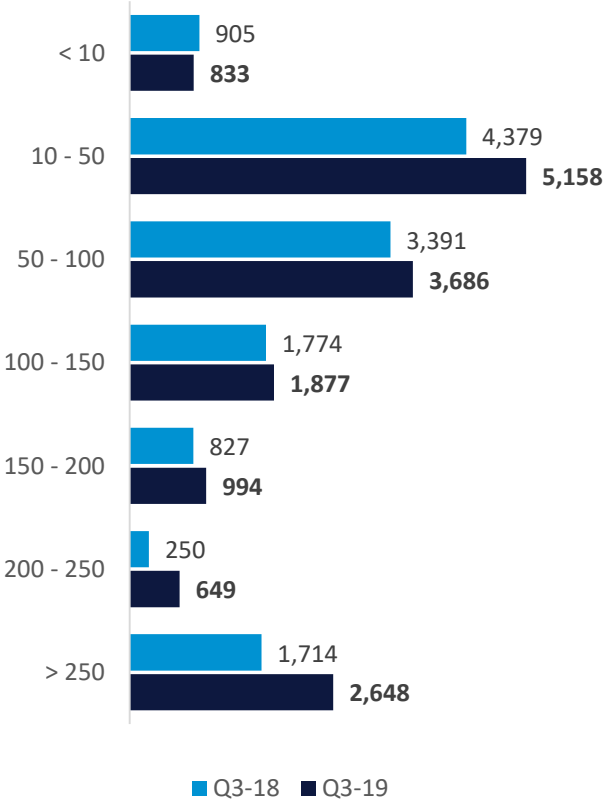
NOKm



COMMITMENTS BY SIZE

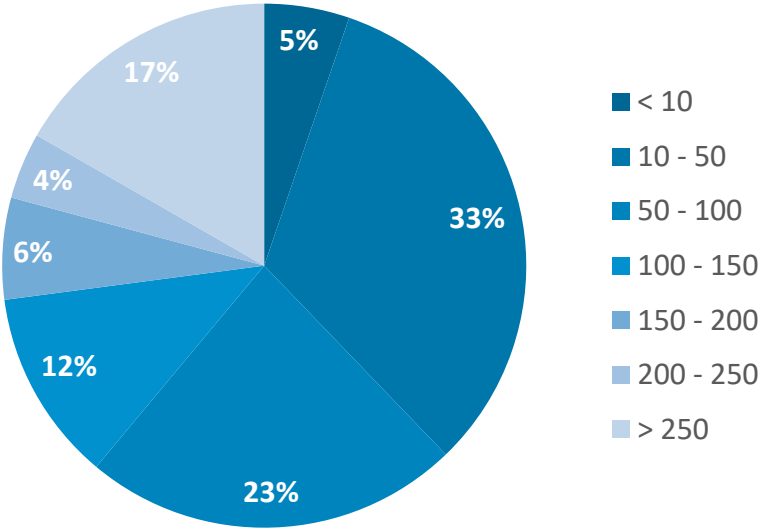
Commitment size per customer

NOKm



Distribution of commitments by size

Percent of NOKm



- Maximum size on a single customer NOK 277m
- Maximum size on group / consolidated basis NOK 415m

Pareto bank