
PARETO BANK

Financial Results

Second Quarter 2020

 Pareto bank
Projektbanken

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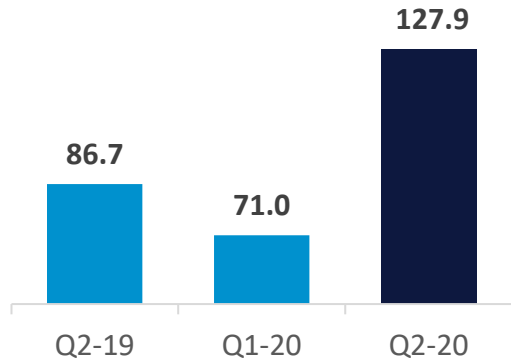
SECOND QUARTER 2020 HIGHLIGHTS

- 1 Profit after tax NOK 127.9m (NOK 86.7m).
- 2 Return on equity after tax 15.7 % (13.0 %).
- 3 Net interest income of NOK 183.8m (NOK 164.4m). Maintaining lending margin in a low interest rate environment.
- 4 Growth in lending to both new and existing customers. Lending grew by NOK 732m (NOK 475m) to a total volume of NOK 14,235m (NOK 12,539m).
- 5 Gains on financial instruments of NOK 21.8m (loss of NOK 1.2m) primarily due to gains on bonds in the surplus liquidity portfolio.
- 6 Unchanged impairments and losses of NOK -0.1m (NOK 14.9m). Shift to a somewhat less negative macro outlook. No individual write-downs or losses as a direct result of Covid-19.

KEY FIGURES

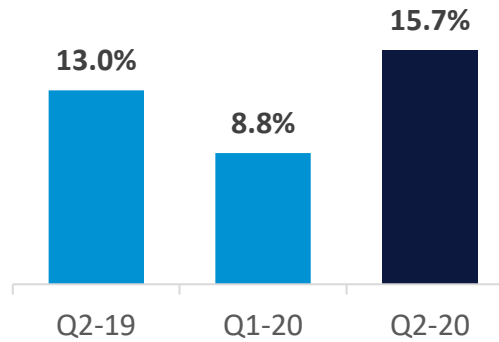
Profit after tax

NOKm



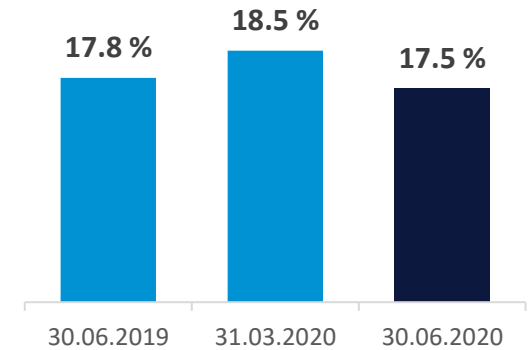
Return on Equity

Excluding AT1 capital and interest



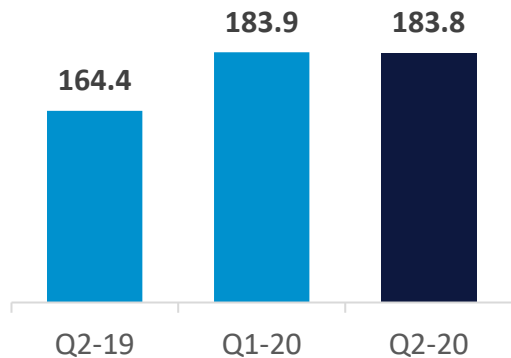
CET1 ratio

Standard model

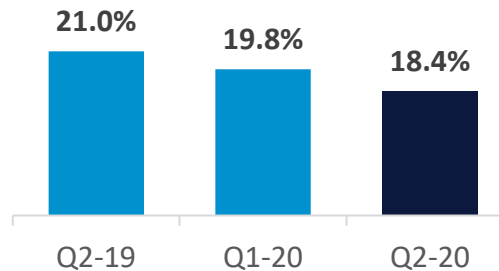


Net interest income (NOKm)

NOKm

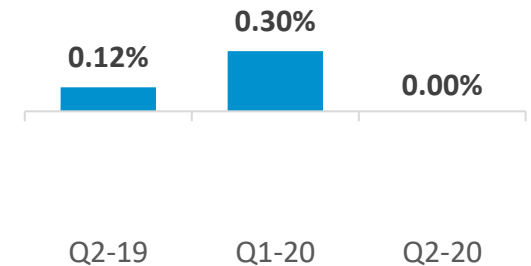


Cost/income ratio



Loss ratio

Quarterly write-downs and losses over average net loans



COVID-19 UPDATE

1 Normalization of operations. Employees returning from home offices in two alternating shifts.

2 Close follow-up of existing customers and lending under the state-guaranteed SME loan program have been priorities.

3 13 existing customers corresponding to NOK 372m have been granted loans under the state-guaranteed SME loan program.

4 A comprehensive review of credit commitments has not resulted in significant changes in risk classifications or impairments.

5 No non-performing or impaired loans due to Covid-19.

LENDING GROWTH HIGHER THAN EXPECTED

LENDING GROWTH IN Q2-20

Strong pipeline within all business areas combined with state-guaranteed SME loans to support existing customers have led to higher than expected lending growth in Q2-20.

ACTIVITY HOLDING UP IN H2-20

Better deal flow within all business areas as markets are improving. Several banks are reluctant to do new business, creating profitable opportunities with good risk. New sales activity is gradually picking up.

Lending growth is expected to continue moderately in H2-20.

Lending to customers

NOKm

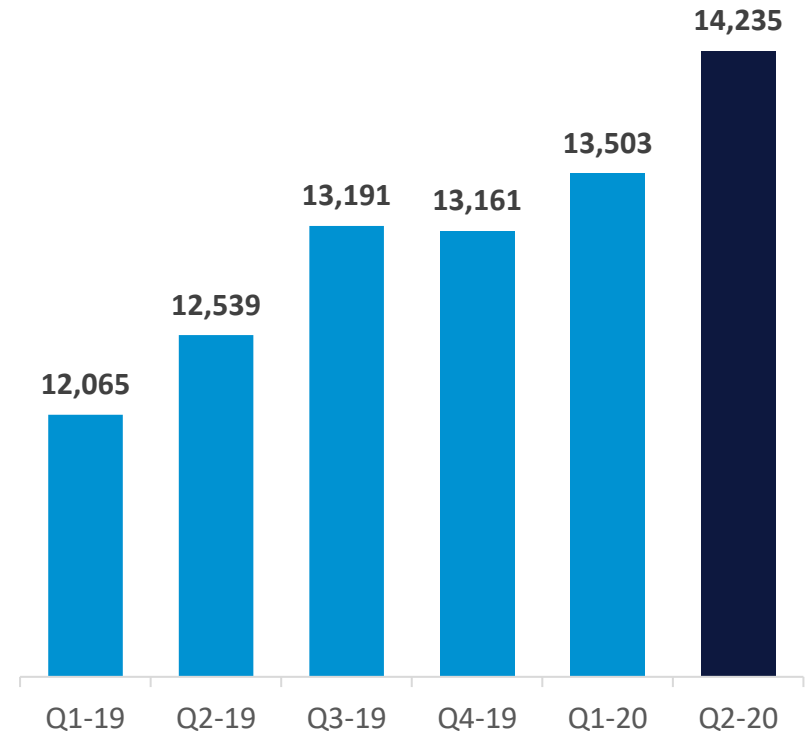


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INCOME STATEMENT

P&L (NOKm)

	Q2-20	Q2-19	H1-20	H1-19
Net interest income	183.8	164.4	367.7	327.0
Net other operating income	23.9	0.9	7.0	7.1
Total net income	207.7	165.2	374.7	334.1
Total operating expenses	38.1	34.7	71.2	69.7
Operating profit before impairments and losses	169.5	130.5	303.5	264.4
Impairments and losses on loans and guarantees	-0.1	14.9	40.1	15.9
Pre-tax operating profit	169.7	115.6	263.4	248.5
Tax expense	41.7	28.9	64.4	62.1
Profit for the period	127.9	86.7	198.9	186.4
<i>Earnings per share (NOK)</i>	<i>1.79</i>	<i>1.23</i>	<i>2.77</i>	<i>2.64</i>
<i>Return on equity</i>	<i>15.7%</i>	<i>13.0%</i>	<i>12.3%</i>	<i>14.5%</i>
<i>Cost/income ratio</i>	<i>18.4%</i>	<i>21.0%</i>	<i>19.0%</i>	<i>20.9%</i>

Lending growth of NOK 732m contributed to growth in net interest income. Lower market rates put pressure on deposit margins and income from surplus liquidity.

Reversal in bond market contributed to gains of NOK 21.8m (negative change NOK 1.2m) in the surplus liquidity portfolio

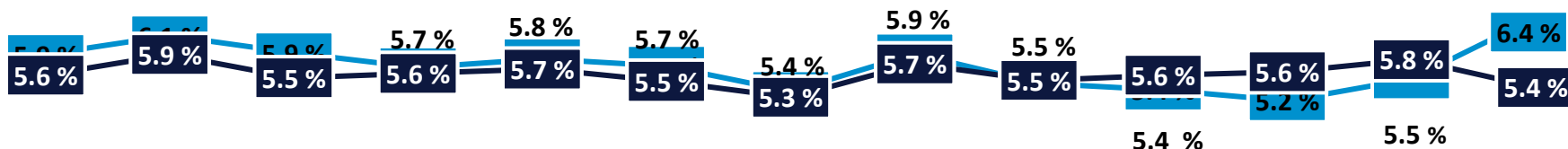
Stable costs. Set off NOK 8.2m in Q2-20 for employee bonus.

Unchanged impairments of NOK -0.1m (NOK 14.9m). A less negative economic outlook outweighs changes in risk classification and migration to stage 2.

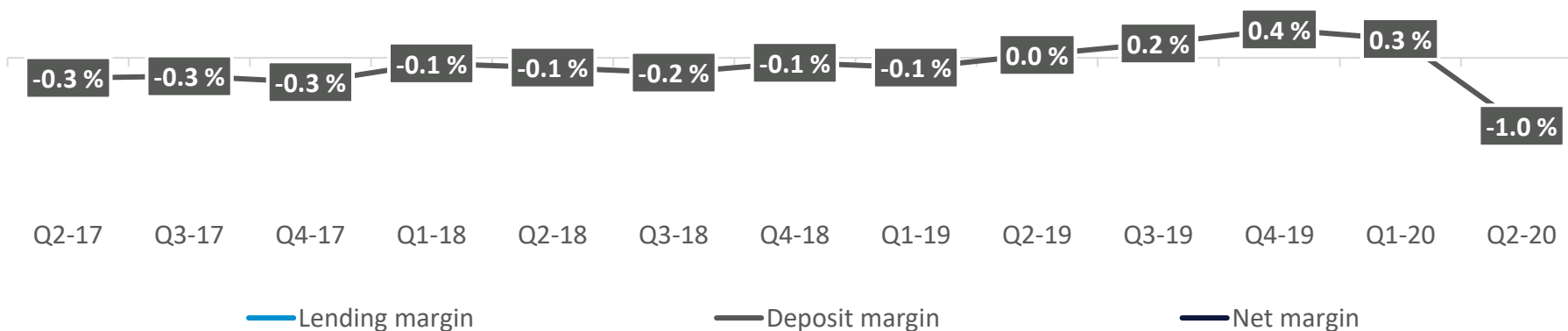
DEVELOPMENT IN NET INTEREST MARGIN

Net interest margin

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



- Higher lending margin and lower deposit margin due to significantly lower Nibor.
- Cut in lending and deposit rates to customers.
- Net margin falls due to limited effect of rate cut on deposit margin.
- Reduced market funding cost contributes positively to net interest income.

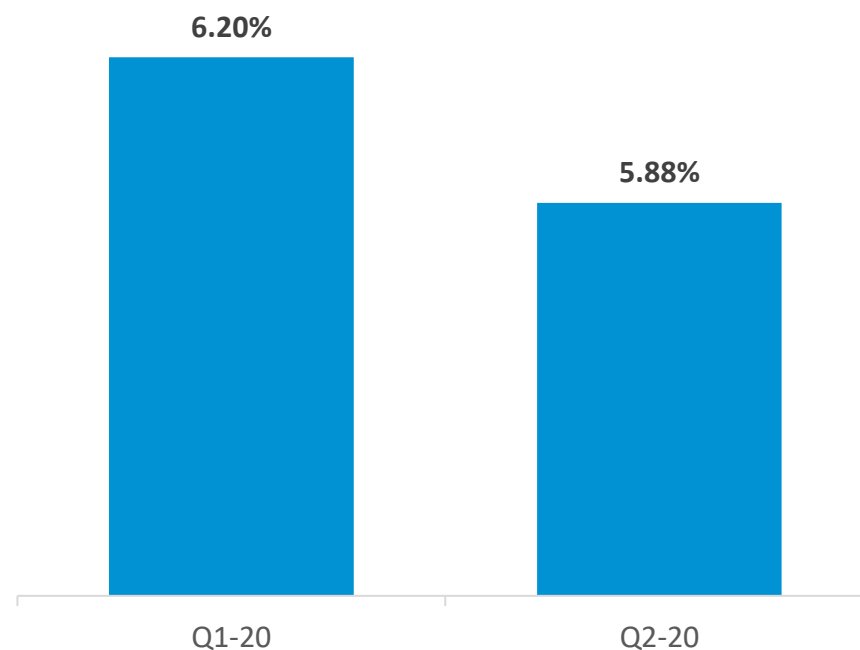


LENDING AND DEPOSIT RATE ADJUSTMENTS

- Lending rate cuts in two rounds on an individual basis coming into effect in May and June.
- Deposit rate reduced by 0.20 percentage points for corporate customers and by 0.40 percentage points for retail customers, coming into effect in June and July.
- Smaller change in deposit rate than in lending rate due to competition in deposit market and low nominal rate.
- Cut in lending rate has a relatively larger effect on net interest income due to larger lending volume than deposit volume.
- Nibor-based loans will automatically adjust with a lower lending rate.
- Nibor will also affect income on surplus liquidity and market funding cost.

Average lending rate

Interest rate income excluding fees as a percentage of average lending to customers

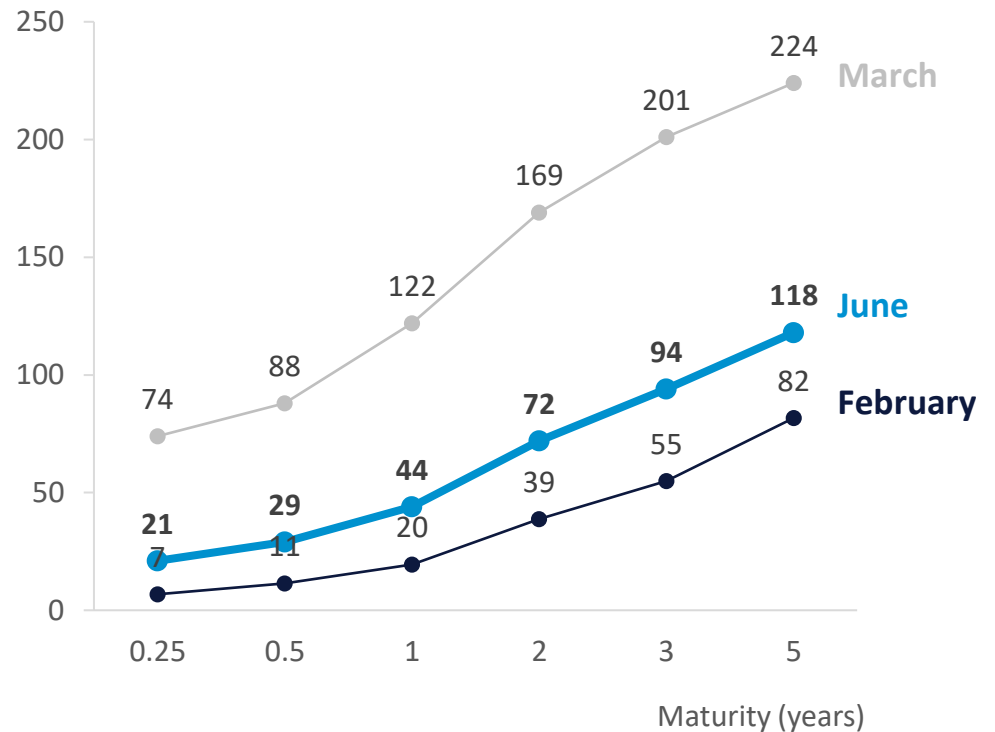


MARKET FINANCING

- Credit spreads on senior debt shot up in March due to Covid-19. A vicious cycle of increased collateral requirements triggered a sell-off.
- Central banks have poured liquidity into markets by cutting rates, buying bonds and offering unlimited lending to banks.
- Increased liquidity has driven down credit spreads significantly in Q2-20.
- Pareto Bank has NOK 5,2 billion outstanding in market debt with maturities up to 5 years.
- Senior bond with a maturity of approx. 4.25 years was extended by NOK 350m and short debt repurchased.
- No significant remaining net redemptions in H2-20.

Credit spreads on Pareto Bank senior debt

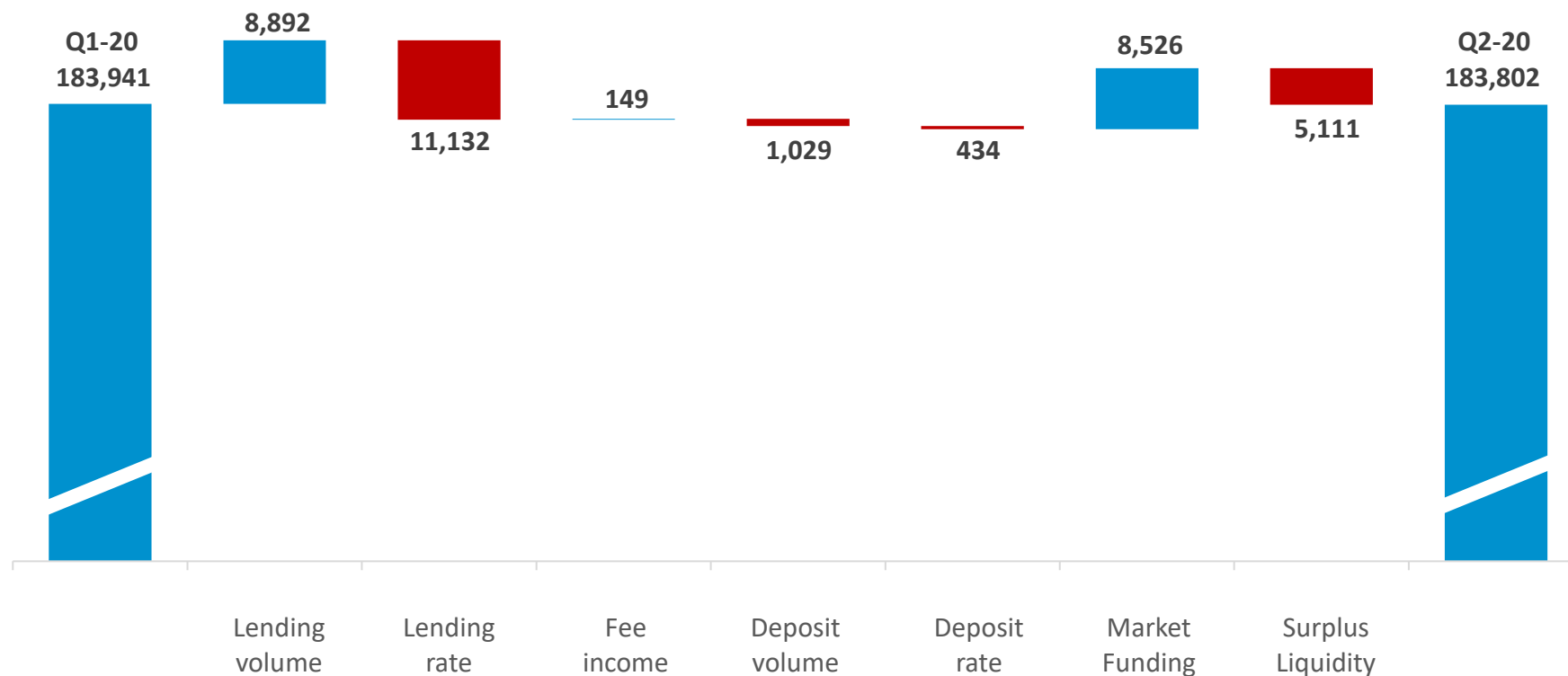
Basis points over 3M Nibor



QUARTERLY CHANGE IN NET INTEREST INCOME

Net interest income

Changes in net interest income (NOK 1,000)



COVID-19 AND IFRS 9

MAIN COMPONENTS OF IFRS 9 MODEL

- Review of risk classifications.
- Migration of existing commitments from stage 1 to stage 2 or 3.
- Changes in macroeconomic scenarios and their probabilities.
- Individual write-downs in stage 3.

UPDATED RISK CLASSIFICATIONS

Certain commitments have been assigned a higher ECL (expected credit loss) after a selective review of the portfolio.

MIGRATION TO STAGE 2 AND 3

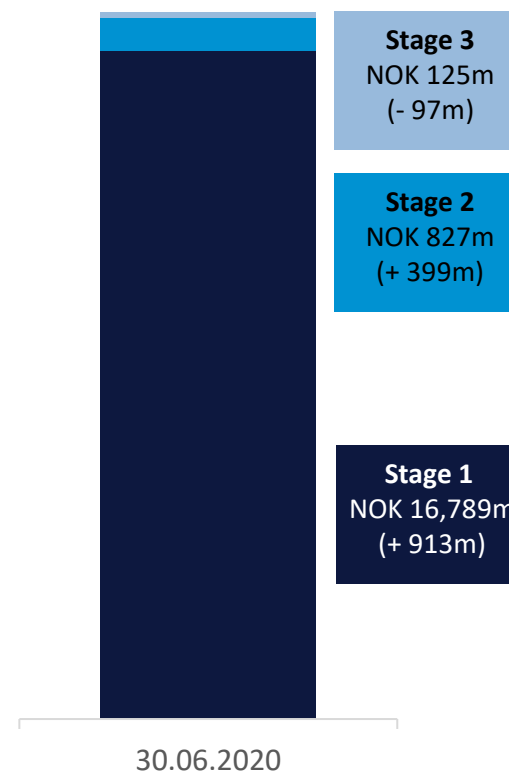
Close follow-up of payment default. Commitments are migrated to stage 2 and 3 if there is a significant increase in credit risk over the lifetime of the loan. Commitments under the state-guaranteed SME loan program are placed on the Watch List, but are divided between stage 1 and stage 2.

MACROECONOMIC SCENARIOS SHIFT TO MORE POSITIVE OUTLOOK

Growth forecasts have been revised upwards, markets have improved and housing prices have begun to rise during Q2-20. Probabilities for negative macroeconomic scenarios have been reduced for corporate financing and residential property, while they have been increased for commercial property and shipping. The net effect of changes to probabilities in macroeconomic scenarios is a reduction of impairments.

Credit exposure by stage

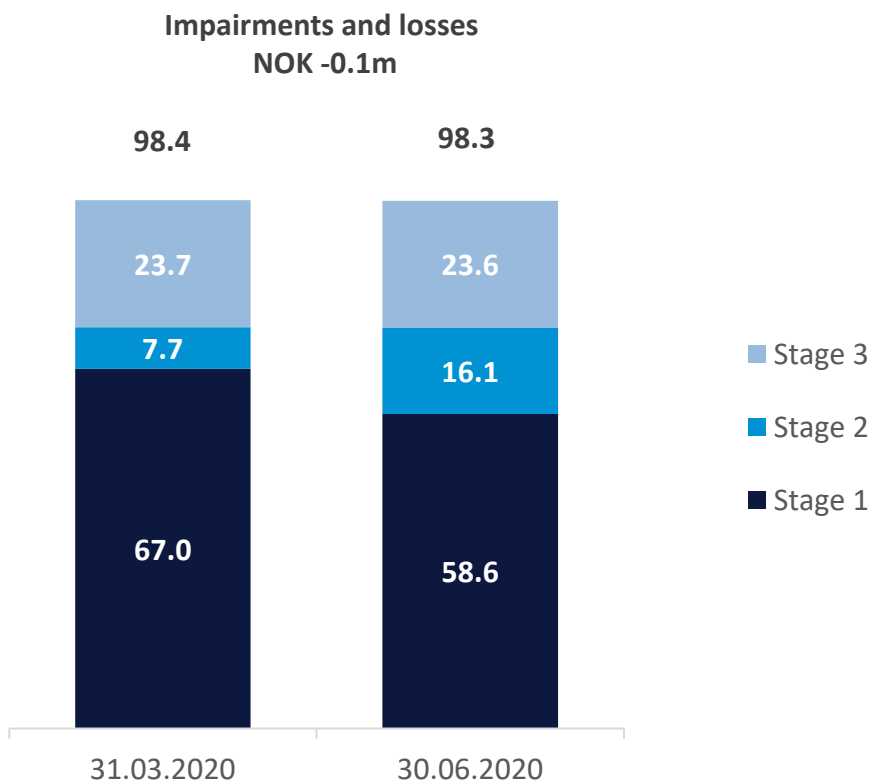
NOK million



QUALITY OF LOAN PORTFOLIO

Impairments and losses according to IFRS 9

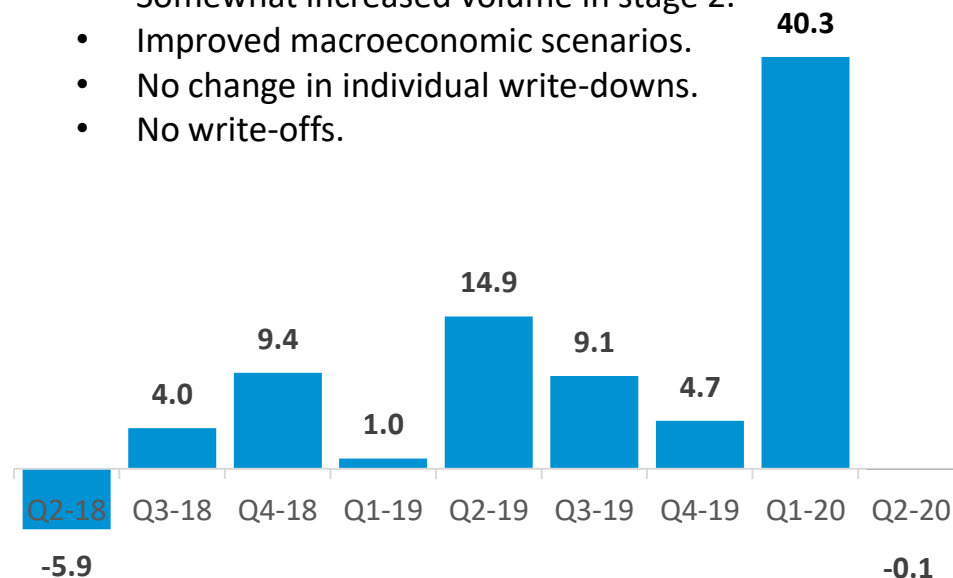
NOKm



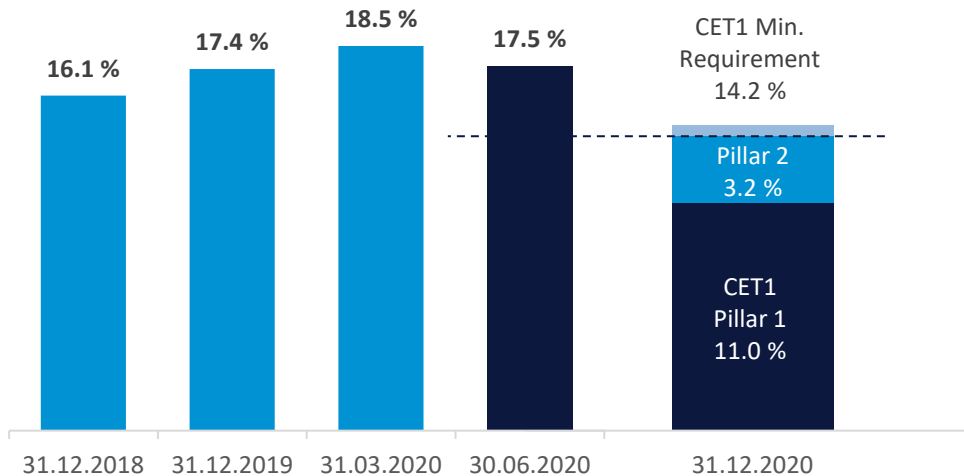
Impairments and losses on loans & guarantees

NOKm

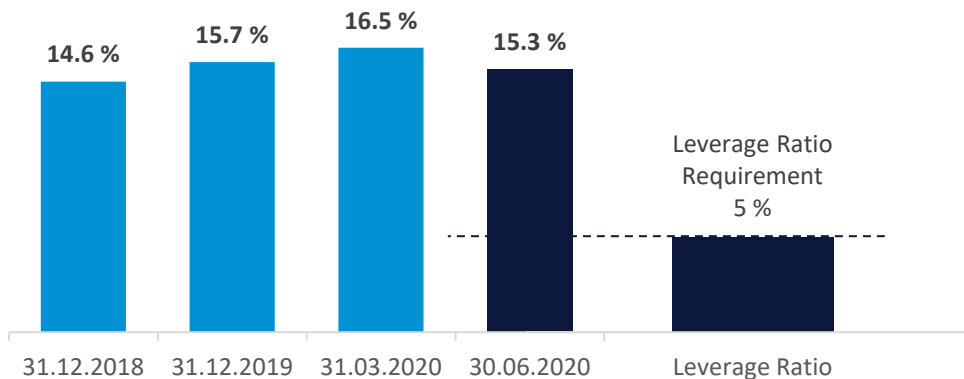
- Unchanged impairments overall.
- Change in risk classification on selected commitments.
- Somewhat increased volume in stage 2.
- Improved macroeconomic scenarios.
- No change in individual write-downs.
- No write-offs.



Core equity tier 1 ratio (CET1 ratio)



Leverage ratio



Key comments

- Strong solidity which exceeds both the minimum capital requirement of 14.2 % and requirement before the reduction of the countercyclical capital buffer of 16.2 % including a management buffer.
- Profitability, capital reserves and a strong leverage ratio make the bank robust against potential losses and provide the capacity to meet customers' needs in a challenging economic environment.
- Supervisory review of pillar 2 requirement (SREP) is postponed to 2021.
- The long-term capital target of 17.7 % will be reviewed following a clarification of future capital buffer requirements.
- The Board of Directors has been granted the authority to pay a dividend of up to NOK 2.80 for 2019 until the next AGM in 2021.

QUARTERLY CHANGE IN CET1

CET1 Captial Ratio*

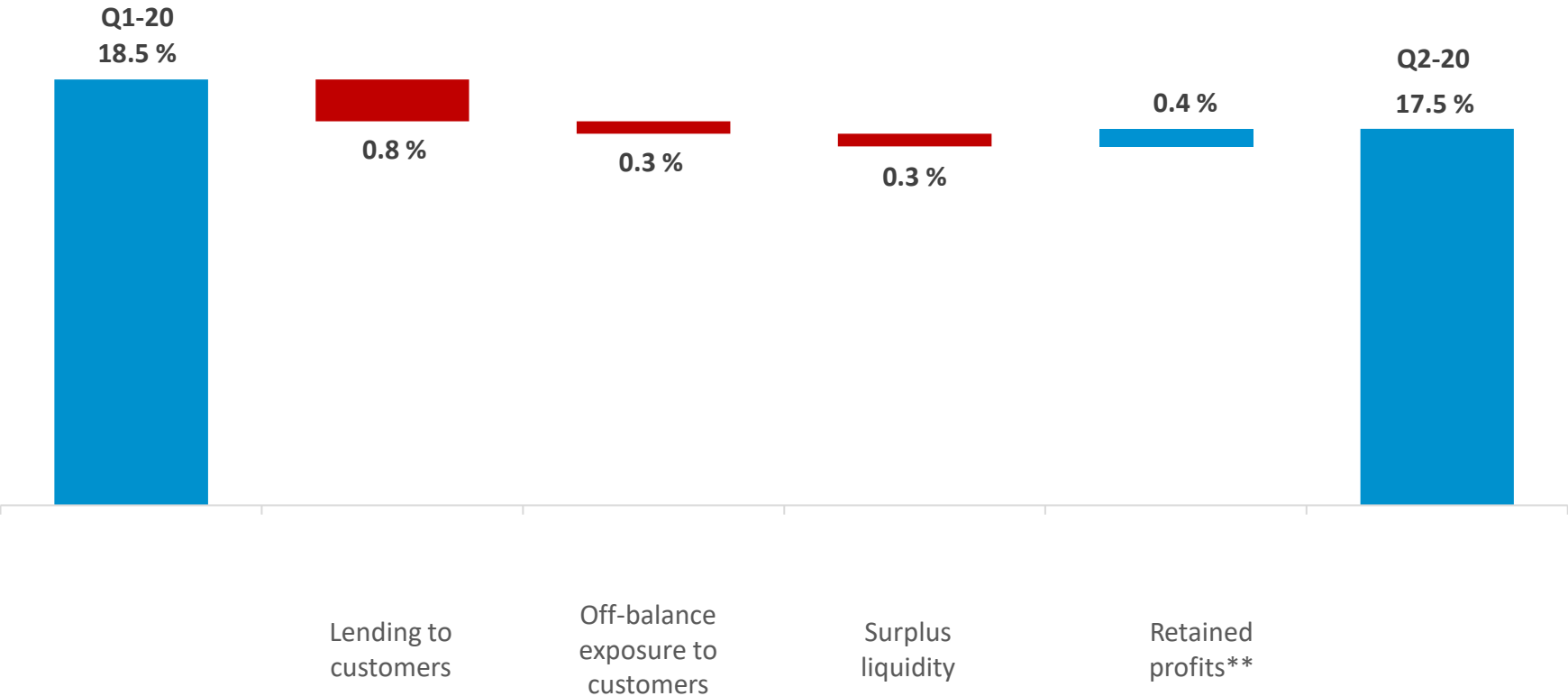


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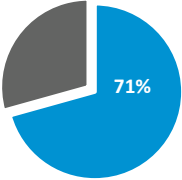
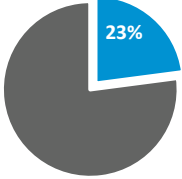
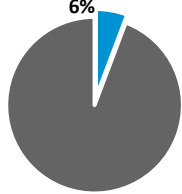
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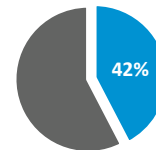
A NICHE PLAYER FINANCING MEDIUM SIZED ENTERPRISES

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 12,511</p>	NOKm 50-100 1-3 yrs
Corporate	A provider of tailor-made financing solutions.	M&A financing Bridge loans Investment loans Working capital facilities Securities financing	 <p>NOKm 4,059</p>	NOKm 20-50 1-3 yrs
Shipping	Norwegian ship owners, family offices and the investment project market.	First priority financing	 <p>NOKm 1,017</p>	USDm 10-20 3-5 yrs

EXPOSURE PER BUSINESS AREA

NOKm gross exposure*

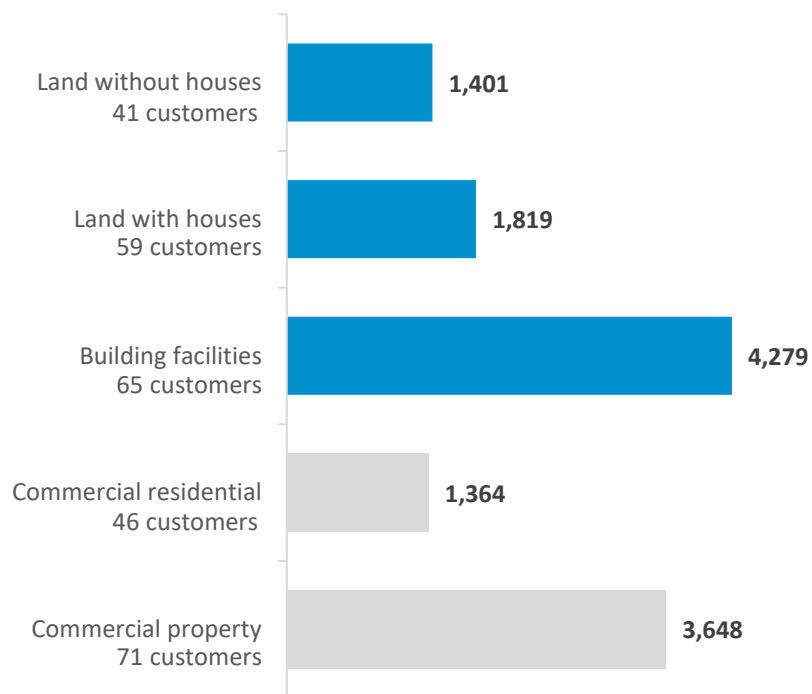




Real estate credit exposure

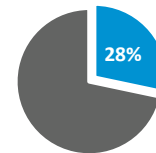
Σ = NOK 12,511m

NOKm of gross exposure



Key comments residential property

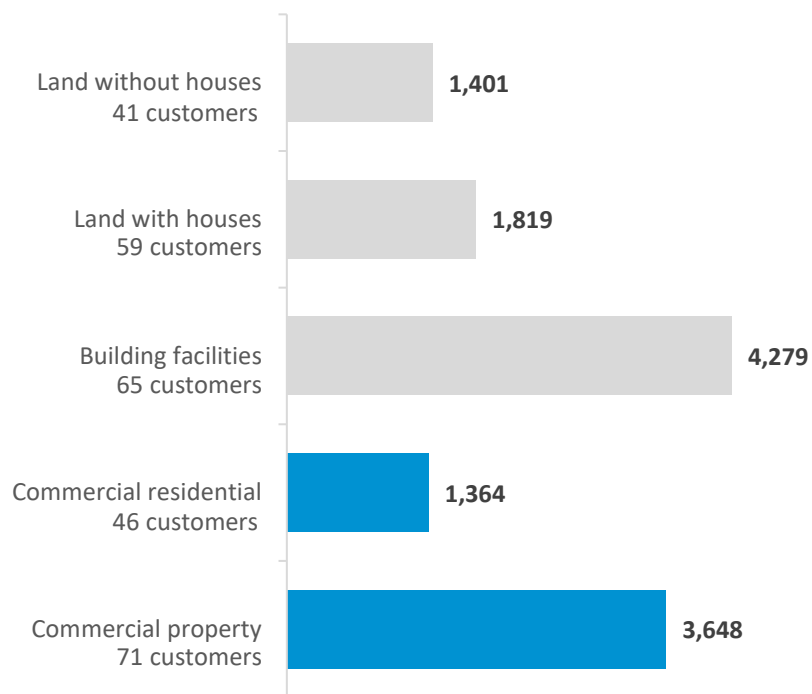
- 165 customers with average commitment of NOK 45m.
- 35 % residential exposure in Oslo, 53 % in Viken.
- Positive development in the housing market despite Covid-19. Low interest rates seem to outweigh unemployment so far.
- Newbuild market has gradually picked up after a complete standstill in March.
- Successful launch of some projects. Pre-sale requirements have been fulfilled and building facilities opened.
- Most projects on schedule. No major delays or challenges on site identified.
- A review of the portfolio has resulted in closer follow-up of 13 residential property commitments.



Real estate collateral exposure

Σ = NOK 12,511m

NOKm of gross exposure

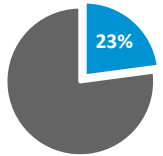


The category *commercial residential* comprises residential property for rent, while the category *commercial property* is made up of 1st and 2nd priority financing of commercial real estate. No project risk associated with financing of commercial residential.

Key comments commercial property

- 117 customers with average commitment of NOK 43m.
- 37 % commercial property exposure in Oslo and 19 % in Rogaland.
- A review of the portfolio has resulted in closer follow-up of 11 commercial property commitments.
- Little exposure to segments that have been seriously hit by Covid-19 such as hotel, restaurant and retail.
- The office market in the greater Oslo area has not been significantly affected so far.
- A cautious approach to future asset value estimates is applied.

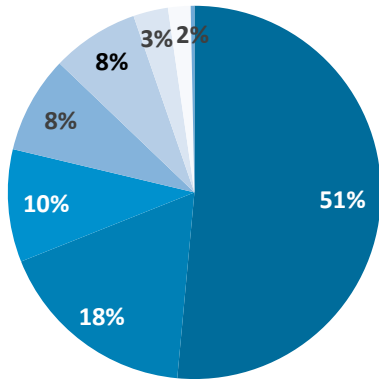
CORPORATE | CREDIT UPDATE



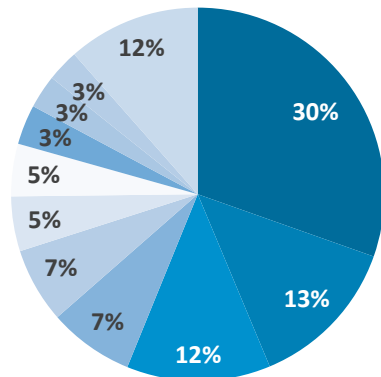
Corporate financing exposure

Σ = NOK 4,059m*

NOKm of gross exposure



- Investment loans
- Working capital facilities
- Securities financing
- M&A loans
- Government guaranteed
- Guarantees

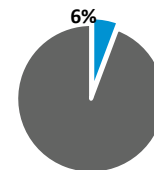


- Real Estate
- IT/Telecommunications
- Investment Company
- Hotel Services
- Health Services
- Cruise
- Oil & Offshore
- Logistics
- Private
- Financial Services
- Others

Key comments

- 81 consolidated corporate customers with average commitment of NOK 44m.
- 59 consolidated securities financing customers with average commitment of NOK 6.7m.
- 13 consolidated receivables financing customers with average commitment of NOK 6.1m.
- Exposure is diversified on products and sectors.
- Several customers are reporting that markets are improving and revenue coming back.
- Deal flow has been stronger than expected as other banks seem reluctant to do new business, creating profitable opportunities for Pareto Bank.

SHIPPING | CREDIT UPDATE



Key comments

- 17 customers and 29 vessels.
- Largest exposure USD 21.6m and average commitment size USD 5.5m.
- Only shipping, no offshore exposure.
- Average LTV of the portfolio is 52 %. All customers are compliant with minimum value clauses.
- 16 customers are compliant with minimum cash clauses.
- Impact on the portfolio related to Covid-19 has so far been manageable.
- Increased exposure to chemical segment.

Shipping credit exposure & loan to value

Σ = NOK 1,017m

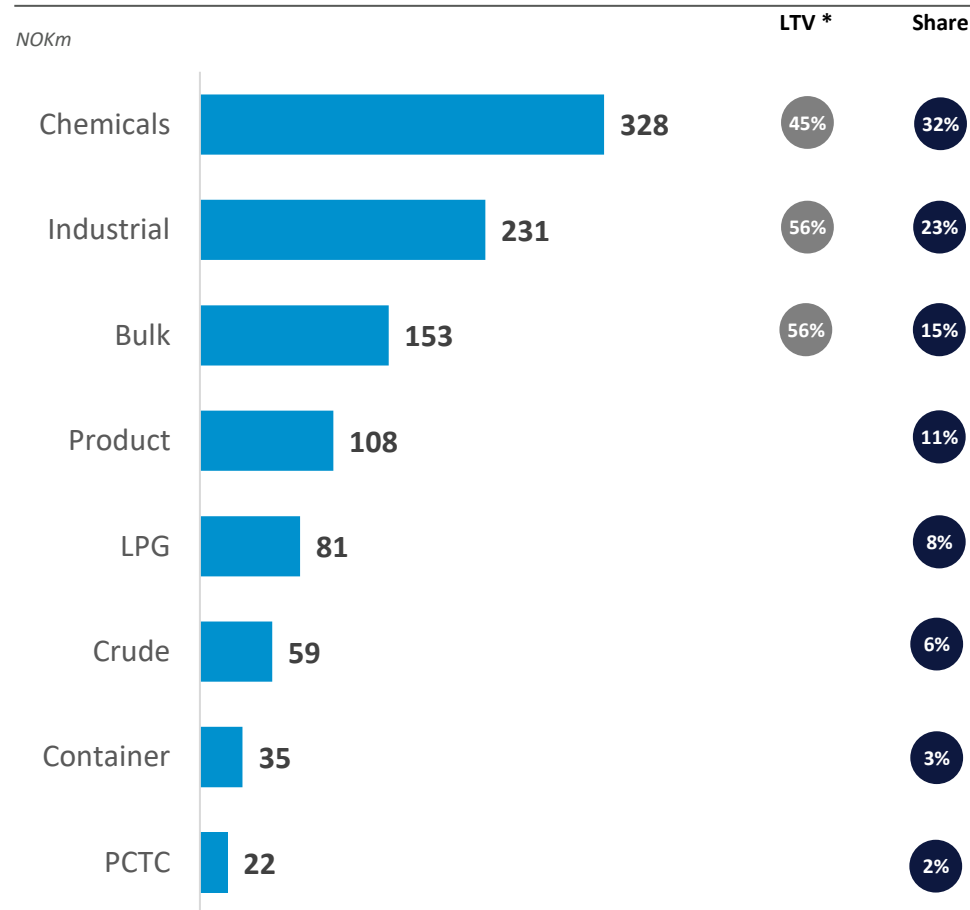


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MARKET ACTIVITY

- A more restrictive credit practice was introduced in March.
- Close follow-up of Watch List and existing customers with focus on liquidity is still our main priority.
- Sales activity is picking up. Markets are improving.
- Deal flow is stronger than expected within all business areas.
- Lending volume is expected to increase moderately in H2-20.



Pareto Bank skal aldri bli større enn at vi kan gi deg som kunde den oppmerksomheten du fortjener. Fordi vi er en mindre bank er vi tettere på kundene våre. Hos oss får du din egen kontaktperson som kjenner

bedriften og hjelper deg når du trenger det. Vi er alltid åpne – både i gode og utfordrende tider. Les mer på pareto.no.

Pareto bank
Prosjektbanken

eiendomsfinansiering | selskapsfinansiering | shippingfinansiering

MARKET OUTLOOK

RESIDENTIAL PROPERTY

- Housing prices have recovered and started to increase. Low interest rates seem to outweigh the rise in unemployment.
- Activity in the newbuild market is picking up, driven by a strong secondary market and expectation of rising property prices.
- Both markets are considered to be fragile and may be affected by negative news of increased infection rates and unemployment.
- Liquidity may be a challenge if the newbuild market deteriorates.
- Deal flow of new and existing customers back to normal.

COMMERCIAL PROPERTY

- The office market in the greater Oslo area has held up well, while retail and hotel have been hit hard.
- The office market is expected to hold up unless new restrictions are imposed and/or the economic development worsens. New restrictions will hurt liquidity as tenants will demand reduction in rents and some will go bankrupt.
- Deal flow back to normal. Co-operation with Eiendoms kreditt is resumed.

CORPORATE

- Several customers are reporting that markets are improving, and that revenue is coming back.
- Stronger deal flow than expected. Profitable opportunities with good risk.

SHIPPING

- Signs of increased volumes and less effect on operation of vessels as restrictions in several areas are slowly lifted.
- Production cuts, lower demand and increased storage has resulted in lower demand for transportation of oil and oil products resulting in rates coming under pressure.
- Still high uncertainty going forward and risk of further shutdowns and restrictions which can have negative effect on all segments.
- Moderate deal flow of both new and existing customers.

MAINTAINING LONG-TERM AMBITIONS

	LONG-TERM AMBITION	STATUS YTD	
RETURN ON EQUITY	15.0 %	12.3 %	Long-term ROE ambition set aside in 2020. Profitability in Q2 supported by lending growth, stable lending margin and unchanged impairments.
CAPITAL ADEQUACY	17.7 % (min. requirement 14.2 %)	17.5 %	Strong solidity despite growth. Exceeding requirements before and after reduction of the countercyclical capital buffer. Long-term target to be reviewed.
DIVIDEND POLICY	50 % or more	Unchanged dividend policy with the intention to pay out 50 % or more. The Board has been given authorization to distribute up to 50 % or NOK 2.80 per share of the 2019 profits.	

APPENDIX

LARGEST SHAREHOLDERS AS OF 30 JUNE 2020

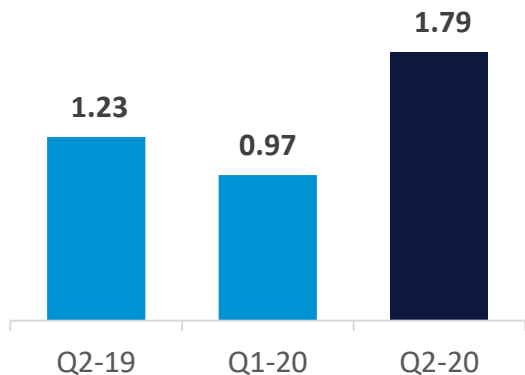
#	Investor	30.06.2020	
		# of shares	% total
1	Pareto AS	13,423,610	19.22 %
2	AF Capital Management AS	6,943,049	9.94 %
3	Hjellegjerde Invest AS	2,800,000	4.01 %
4	K11 Investor AS	2,595,492	3.72 %
5	Rune Bentsen AS	2,595,491	3.72 %
6	Landkreditt Utbytte	2,550,000	3.65 %
7	Svemorka Holding AS	1,928,683	2.76 %
8	Kolberg Motors AS	1,725,000	2.47 %
9	Verdipapirfondet Holberg Norge	1,273,345	1.82 %
10	Dragesund Invest AS	1,146,564	1.64 %
11	OM Holding AS	1,140,351	1.63 %
12	Lombard Int Assurance S.A.	900,820	1.29 %
13	Sjøinvest AS	900,000	1.29 %
14	Profond AS	779,918	1.12 %
15	Hausta Investor AS	700,000	1.00 %
16	Verdipapirfondet Fondsfinans Norge	639,539	0.92 %
17	Salt Value AS	625,000	0.89 %
18	Bergen Kommunale Pensjonskasse	601,464	0.86 %
19	Belvedere AS	598,501	0.86 %
20	Catilina Invest AS	575,000	0.82 %
Sum TOP 20		44,441,827	63.62 %
Other shareholders		25,409,903	36.38 %
Total		69,851,730	100.00 %

- The Company has 69,851,730 shares outstanding. One class of shares where each share carries one voting right.
- Diversified investor base with 3,261 shareholders.
- The top 10 and 20 investors hold 53 % and 64 % of the shares respectively.
- Employees in Pareto Bank own 1.7 %.
- Top management in the Pareto Group owns 3.0 %.
- All employees are covered by an annual bonus compensation scheme settled primarily in Pareto Bank shares.

THE SHARE

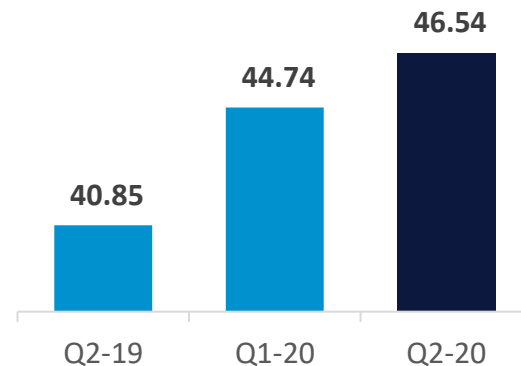
Earnings per share

NOK



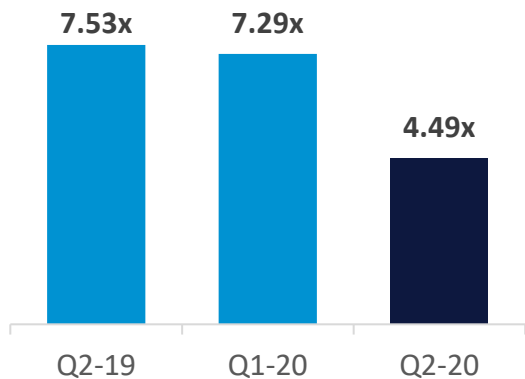
Book equity per share

NOK



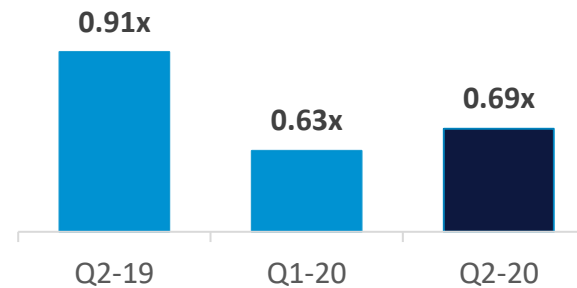
Price / Earnings

NOK, Share price 32.20



Price / Book

NOK, Share price 32.20



QUARTERLY INCOME STATEMENT

P&L (NOKm)

	Q2-20	Q1-20	Q4-19	Q3-19	Q2-19
Net interest income	183.8	183.9	180.5	173.0	164.4
Net other operating income	23.9	-16.9	7.6	-2.9	0.9
Total net income	207.7	167.1	188.2	170.1	165.2
Total operating expenses	38.1	33.1	36.1	32.2	34.7
Operating profit before impairments and losses	169.5	134.0	152.0	137.8	130.5
Impairments and losses on loans and guarantees	-0.1	40.3	4.7	9.1	14.9
Pre-tax operating profit	169.7	93.7	147.3	128.7	115.6
Tax expense	41.7	22.7	32.6	32.2	28.9
Profit for the period	127.9	71.0	114.7	96.5	86.7
<i>Earnings per share (NOK)</i>	<i>1.79</i>	<i>0.97</i>	<i>1.61</i>	<i>1.34</i>	<i>1.23</i>
<i>Return on equity</i>	<i>15.7%</i>	<i>8.8%</i>	<i>15.0%</i>	<i>12.9%</i>	<i>13.0%</i>
<i>Cost/income ratio</i>	<i>18.4%</i>	<i>19.8%</i>	<i>19.2%</i>	<i>19.0%</i>	<i>21.0%</i>

QUARTERLY BALANCE SHEET

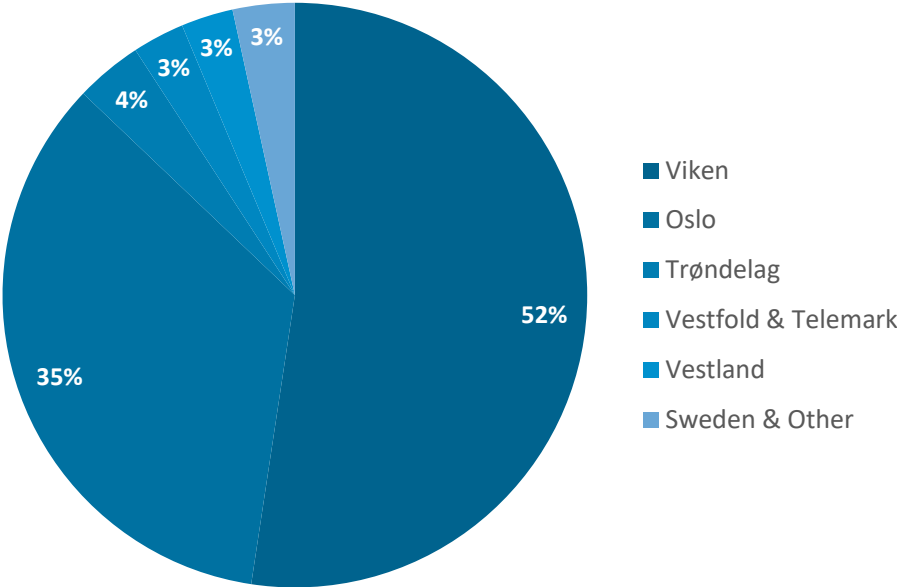
BS (NOKm)

	Q2-20	Q1-20	Q4-19	Q3-19	Q2-19
Loans to credit institutions	1,610	1,315	924	1,004	1,785
Loans to customers	14,235	13,503	13,161	13,191	12,539
Bonds and other securities	3,703	3,053	3,320	3,467	3,998
Shareholdings in associated companies	23	23	22	35	37
Other assets	75	71	83	66	76
Total assets	19,646	17,964	17,511	17,762	18,435
Deposits from customers and institutions	10,497	8,628	8,189	8,561	9,396
Senior securities issued	5,192	5,472	5,624	5,604	5,551
Other liabilities	237	269	171	183	124
Tier 2 subordinated securities issued	270	270	270	270	288
Additional tier 1 capital	200	200	200	200	239
Other equity	3,251	3,125	3,057	2,945	2,837
Total liabilities and equity	19,646	17,964	17,511	17,762	18,435

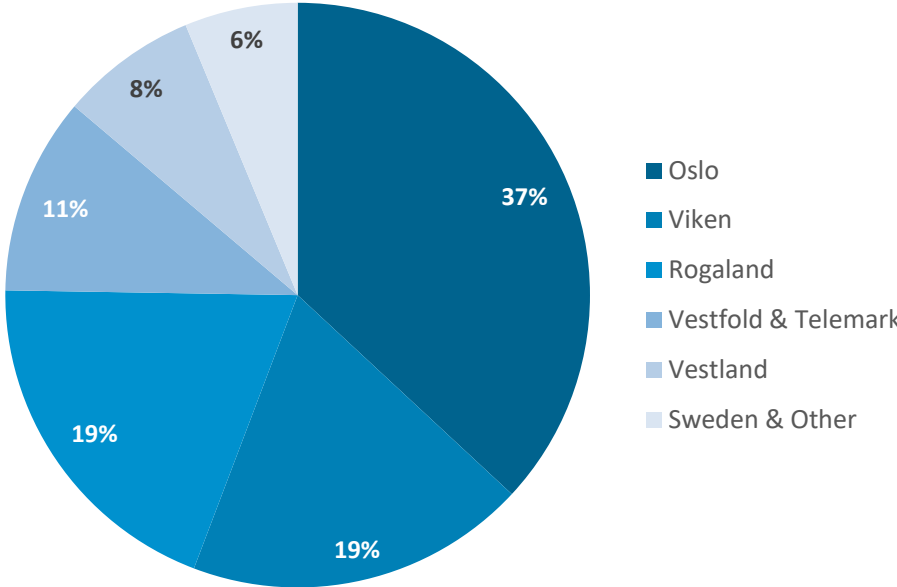
REAL ESTATE | EXPOSURE

Geographical residential property exposure (NOKm) $\Sigma = \text{NOK } 8,864\text{m}$

NOKm of gross exposure



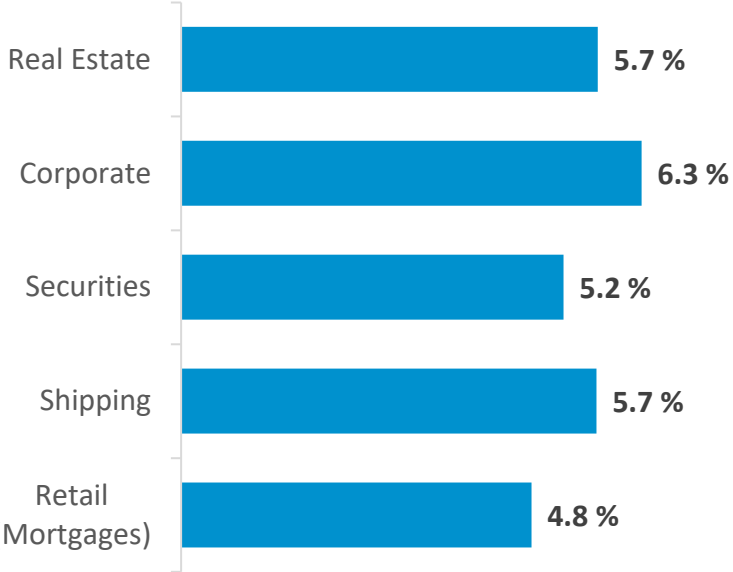
Geographical commercial property exposure (NOKm) $\Sigma = \text{NOK } 3,648\text{m}$



MARGINS AND INTEREST CONTRIBUTION

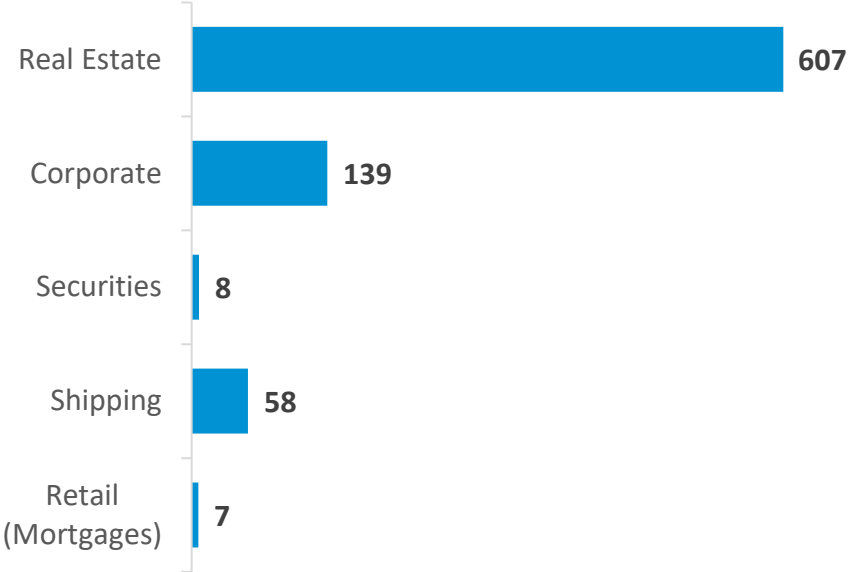
Margins per business area

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

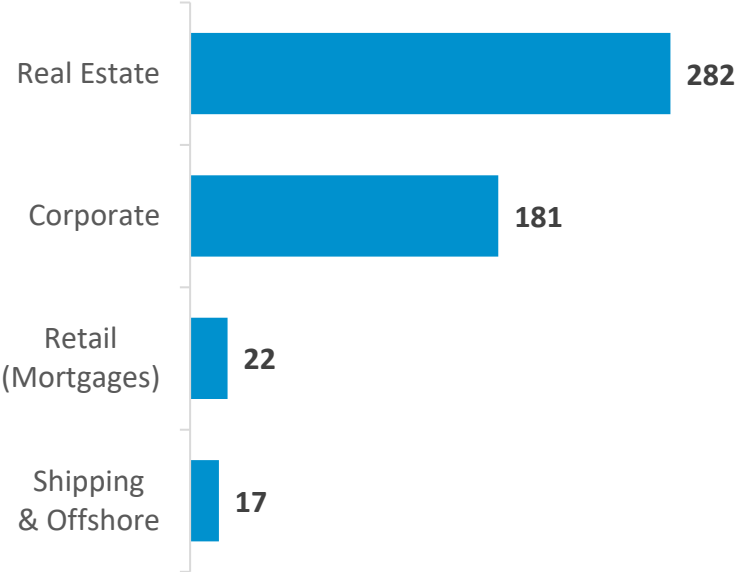


Note segment margins are estimated on the basis of terms of existing loans and will therefore differ from reported total lending margins. Loans granted under the state guaranteed SMB loan program are excluded from this analysis.

Based on terms and 3M NIBOR as of 30.06.2020

NUMBER OF CUSTOMERS

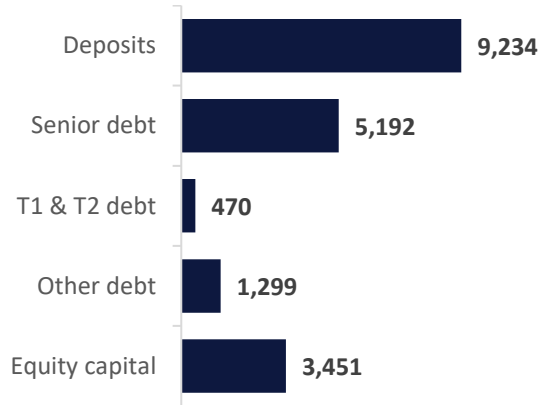
Number of customers per business area



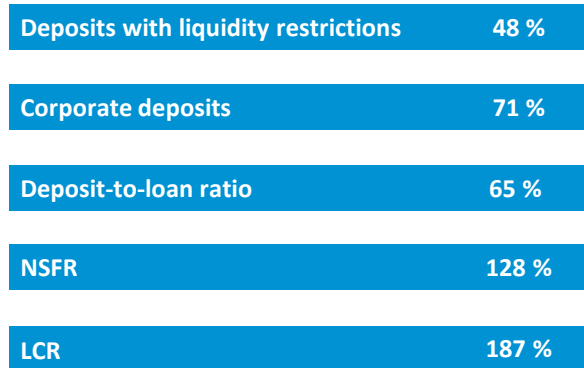
FUNDING

Sources

NOKm



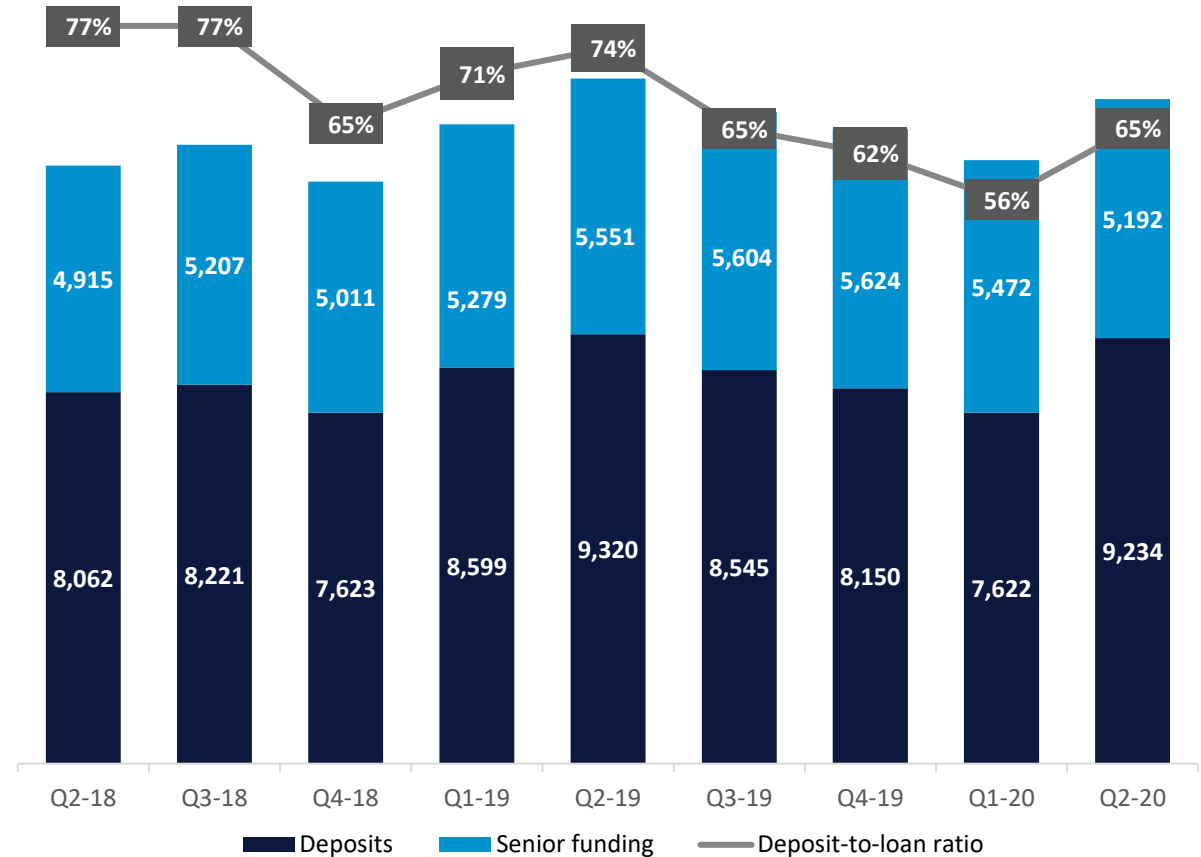
Key ratios



Deposits & senior debt

NOKm,

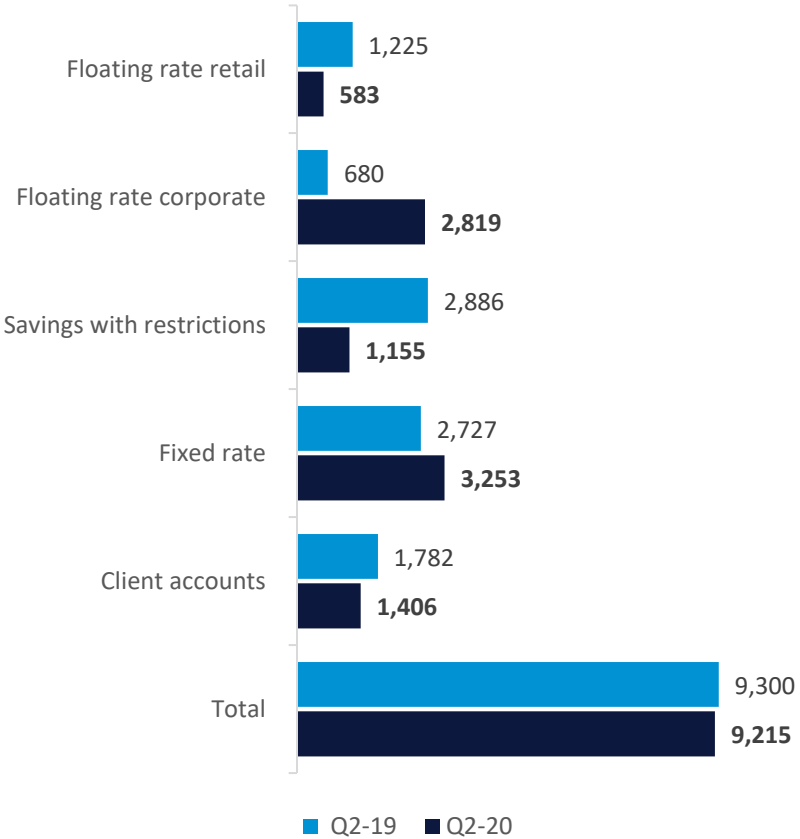
Percent customer deposits of net lending to customers



CUSTOMER DEPOSITS

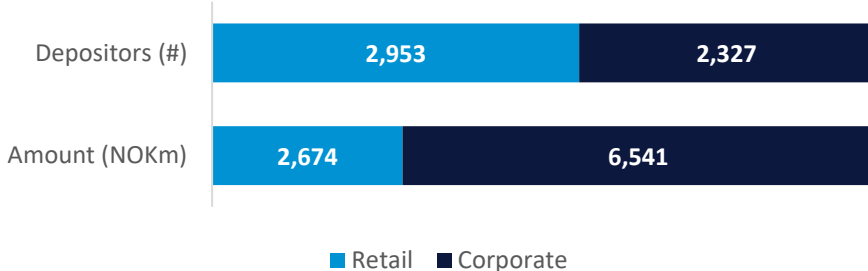
Deposits by product

NOKm



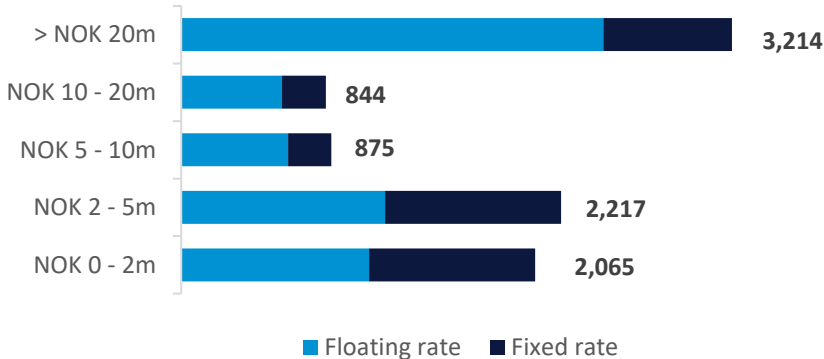
Deposits by type

NOKm



Deposits by size

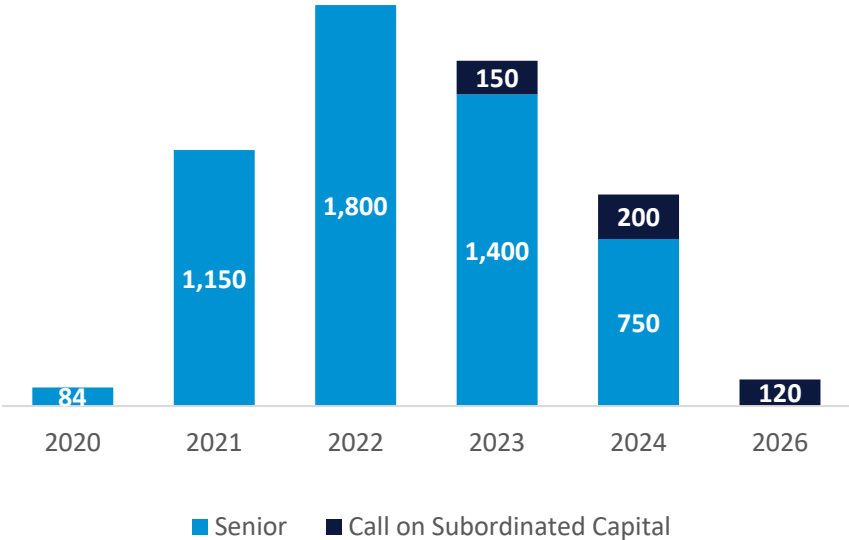
NOKm



MARKET FUNDING

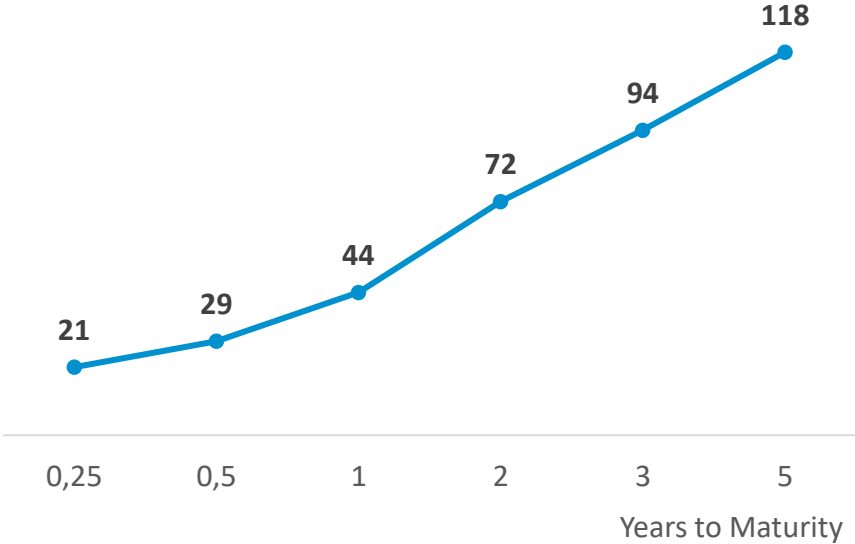
Market funding maturities

NOKm, net of own holdings



Credit spreads

Basis points over 3M Nibor

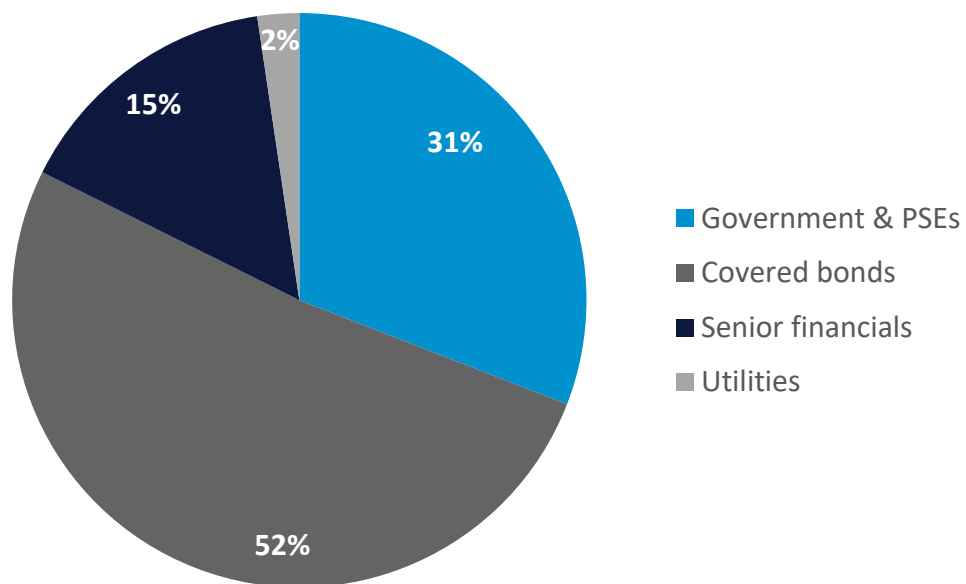


Source: Nordic Bond Pricing

SURPLUS LIQUIDITY

Bond portfolio

Market value of bonds and funds comprising surplus liquidity



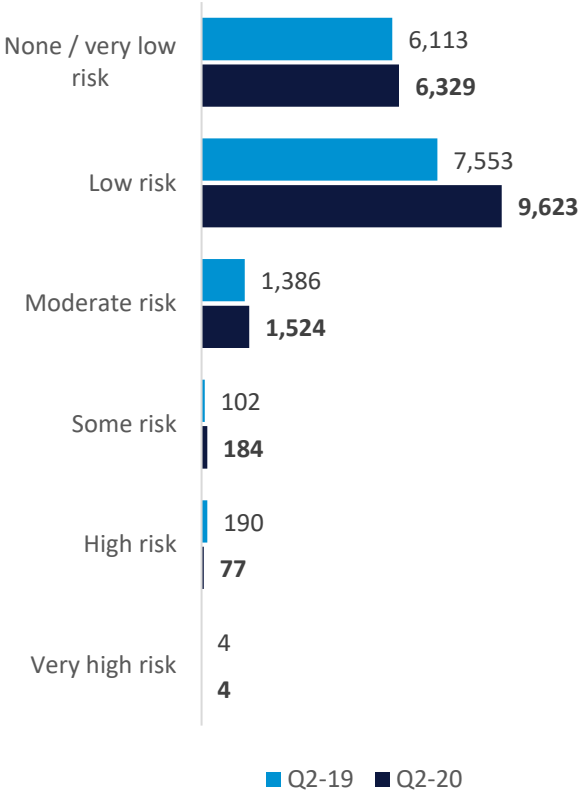
Key comments

- 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

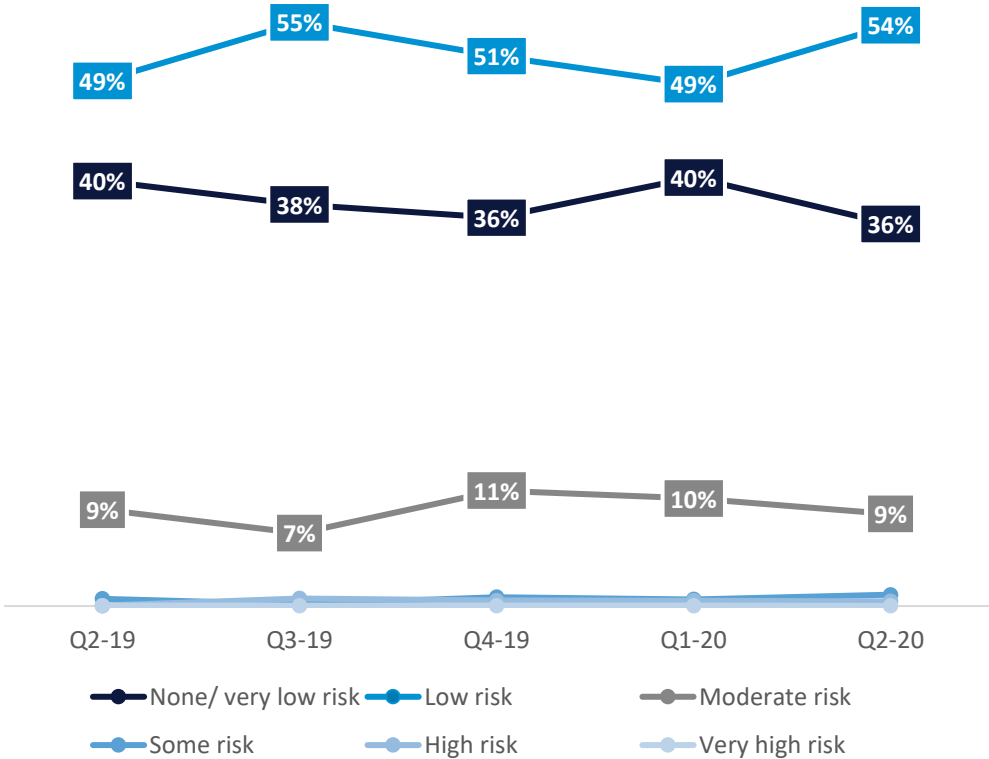
Risk classification

NOKm



Historical risk classification

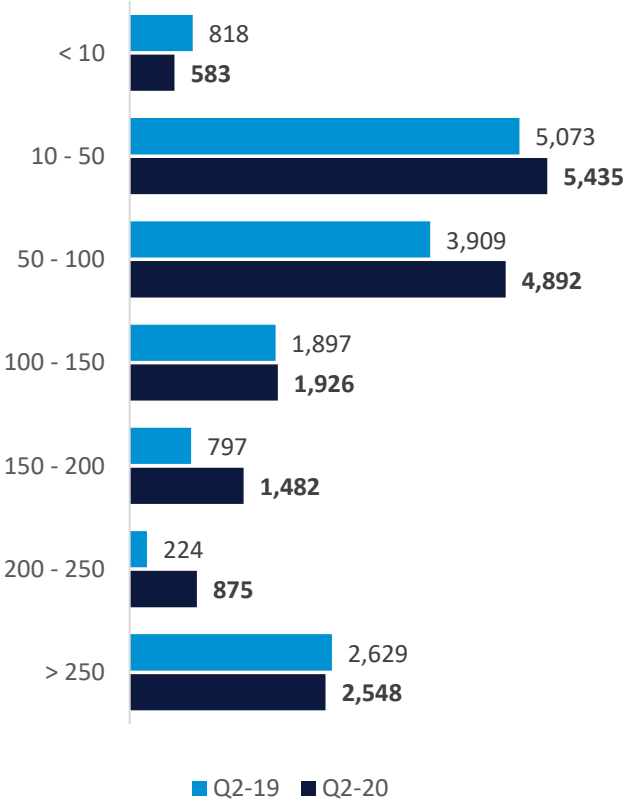
NOKm



COMMITMENTS BY SIZE

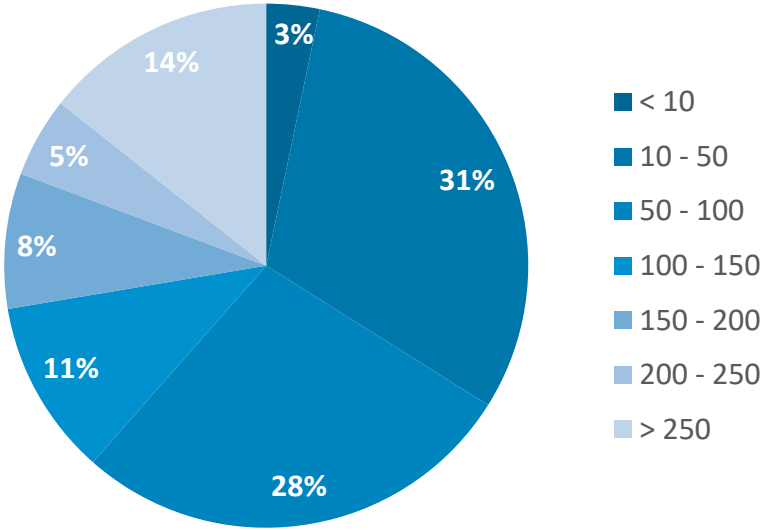
Commitment size per customer

NOKm



Distribution of commitments by size

Percent of NOKm



- Maximum size on a single customer NOK 300m
- Maximum size on group / consolidated basis NOK 400m

REDUCED MINIMUM CET1 REQUIREMENTS

COUNTERCYCLICAL BUFFER LOWERED

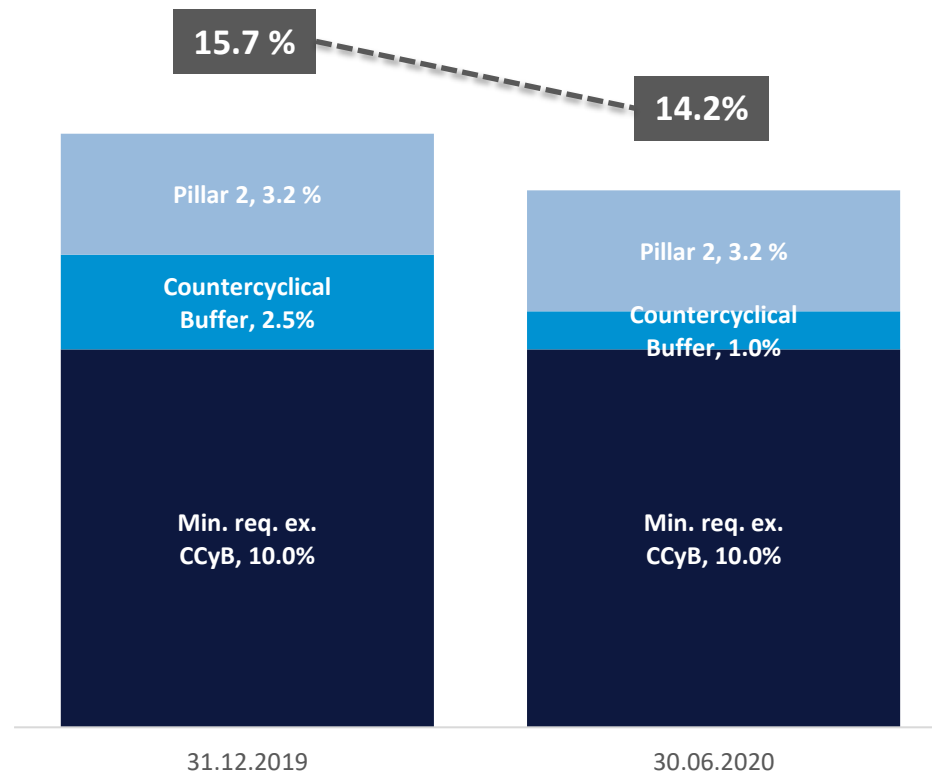
The Department of Finance lowered the countercyclical capital buffer (CCyB) from 2.5 % to 1.0 % to support banks' ability to give loans to customers affected by Covid-19.

MINIMUM REQUIREMENT 14.2 %

This lowers Pareto Bank's minimum requirement for CET1 to 14.2 % including Pillar 2.

FUTURE REQUIREMENTS UNCERTAIN

A future increase in CCyB may not be announced before Q1-2021 and would normally not be put into force until Q1-2022. The planned increase to the systemic risk buffer is uncertain.



Pareto bank