



**PARETO BANK**

**Financial Results  
Second Quarter 2015**

Pareto bank

# PARETO BANK AT A GLANCE

- A niche player with focus on real estate financing, securities financing and shipping and offshore financing
- Established in January 2008
- Stock listed on the NOTC-list March 2014
- A total of 322 shareholders where Pareto AS is the largest owner (15.0%)
- Top management in Pareto Bank ASA and the Pareto group own 1,700,000 shares (4.01%)
- Market value of MNOK 1,088: 42.5 million outstanding shares at a market price of NOK 25.60
- Profit after tax was MNOK 154.2 in 2014 with a return on equity after tax of 15.6%

Name	Holding	Share
Pareto AS	6,375,000	15.00%
Societe Generale SS (nom.)	3,700,000	8.71%
Perestroika AS	3,581,400	8.43%
Indigo Invest AS	3,328,000	7.83%
Geveran Trading Co Ltd.	2,910,000	6.85%
Pecunia Forvaltning AS	1,434,600	3.38%
Tonsenhagen Forretningssentrum AS	1,147,100	2.70%
Larre Eiendom 2 AS	925,300	2.18%
Tove Reistads Stiftelse	850,000	2.00%
Eiendomsutvikling Kristiansand AS	801,000	1.88%
<b>Top ten shareholders</b>	<b>25,052,400</b>	<b>58.95%</b>
Other	17,447,600	41.05%
<b>Total</b>	<b>42,500,000</b>	<b>100.00%</b>

- 1 FINANCIAL STATEMENT**
- 2 LENDING AND CREDIT RISK**
- 3 FUNDING AND CAPITAL**
- 4 AMBITIONS FOR 2015**

# SEOCND QUARTER 2015

**Profit after write-downs and tax**

**MNOK 56.9 (MNOK 39.6)**

**Return on equity after tax**

**20.6% (16.3%)**

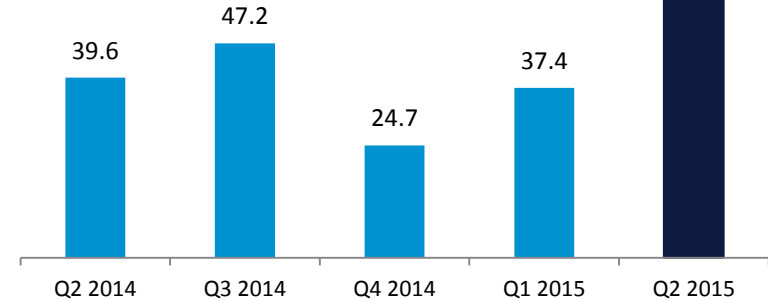
**Cost/income ratio**

**20.8% (21.5%)**

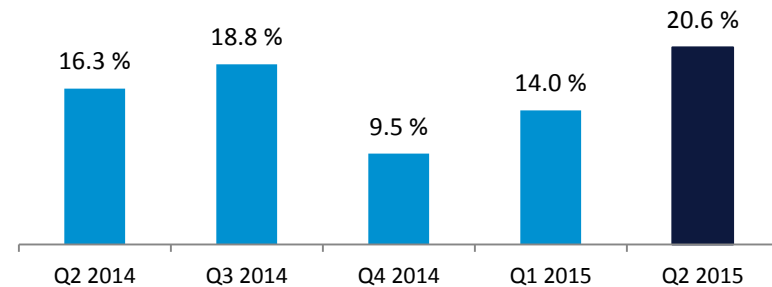
**Common Equity Tier 1 ratio (standard method)**

**12.85% (11.44%)**

**Post-tax operating profit (MNOK)**



**Return on equity (after tax)**



# INCOME STATEMENT

(NOK 1,000)	Q2 2015	Q2 2014	H1 2015	H1 2014	2014
Net interest income	79,523	65,596	154,904	128,489	277,117
Net other operating income	3,245	2,456	6,623	4,978	10,193
Net gains/losses on financial instruments	18,306	3,701	10,895	14,072	9,840
<b>Total net income</b>	<b>101,073</b>	<b>71,754</b>	<b>172,423</b>	<b>147,539</b>	<b>297,150</b>
Total operating expenses	21,047	15,426	39,037	31,043	79,818
<b>Operating profit before losses</b>	<b>80,026</b>	<b>56,327</b>	<b>133,385</b>	<b>116,496</b>	<b>217,331</b>
Losses on loans and guarantees	2,000	2,000	4,038	3,412	7,899
<b>Operating profit before tax</b>	<b>78,026</b>	<b>54,327</b>	<b>129,348</b>	<b>113,084</b>	<b>209,433</b>
Taxes	21,145	14,777	35,053	30,759	55,215
<b>Profit for the period</b>	<b>56,881</b>	<b>39,550</b>	<b>94,294</b>	<b>82,325</b>	<b>154,218</b>

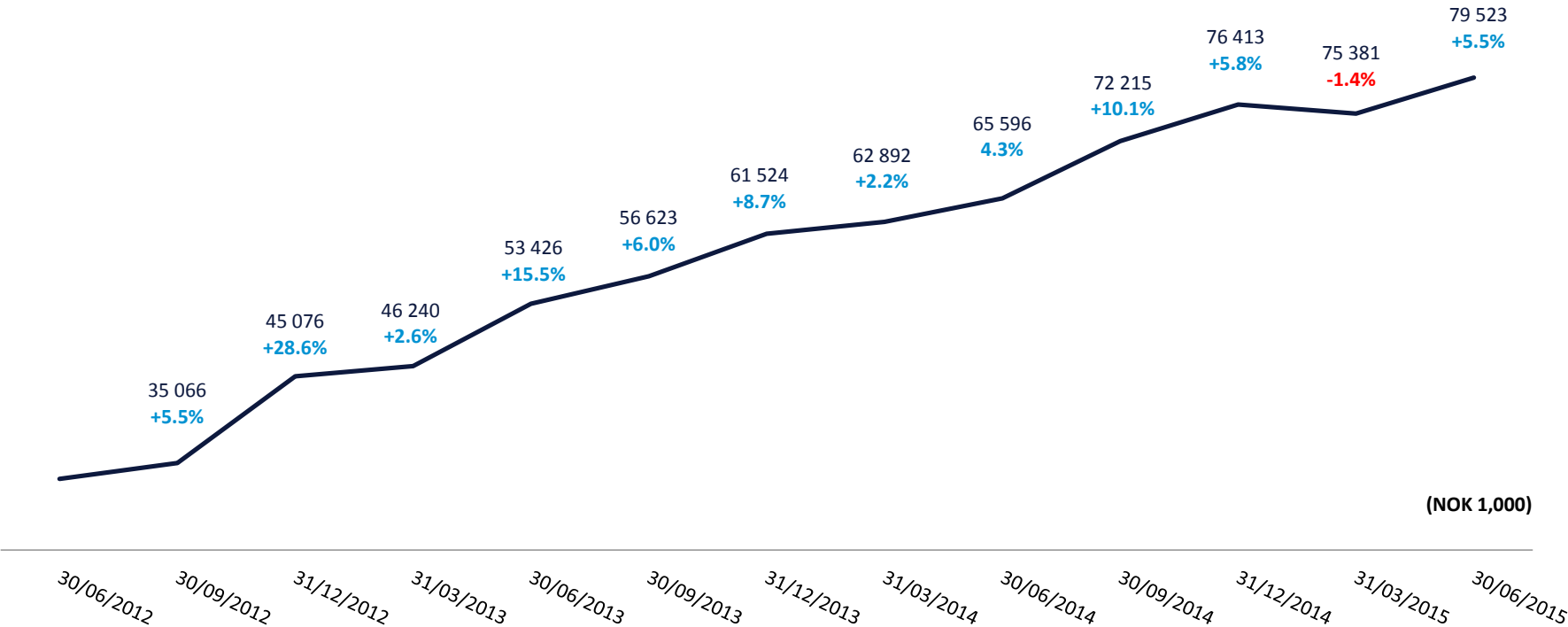
The principle of assessing financial instruments at fair value may cause profits to vary significantly between quarters. For the second quarter of 2015, total net gains were MNOK 18.3 (MNOK 3.7).

The bank has previously allocated the cost of profit sharing with employees entirely in the fourth quarter. As of 2015 this provision will be made throughout the year. NOK 3.0 million was allocated for the second quarter.

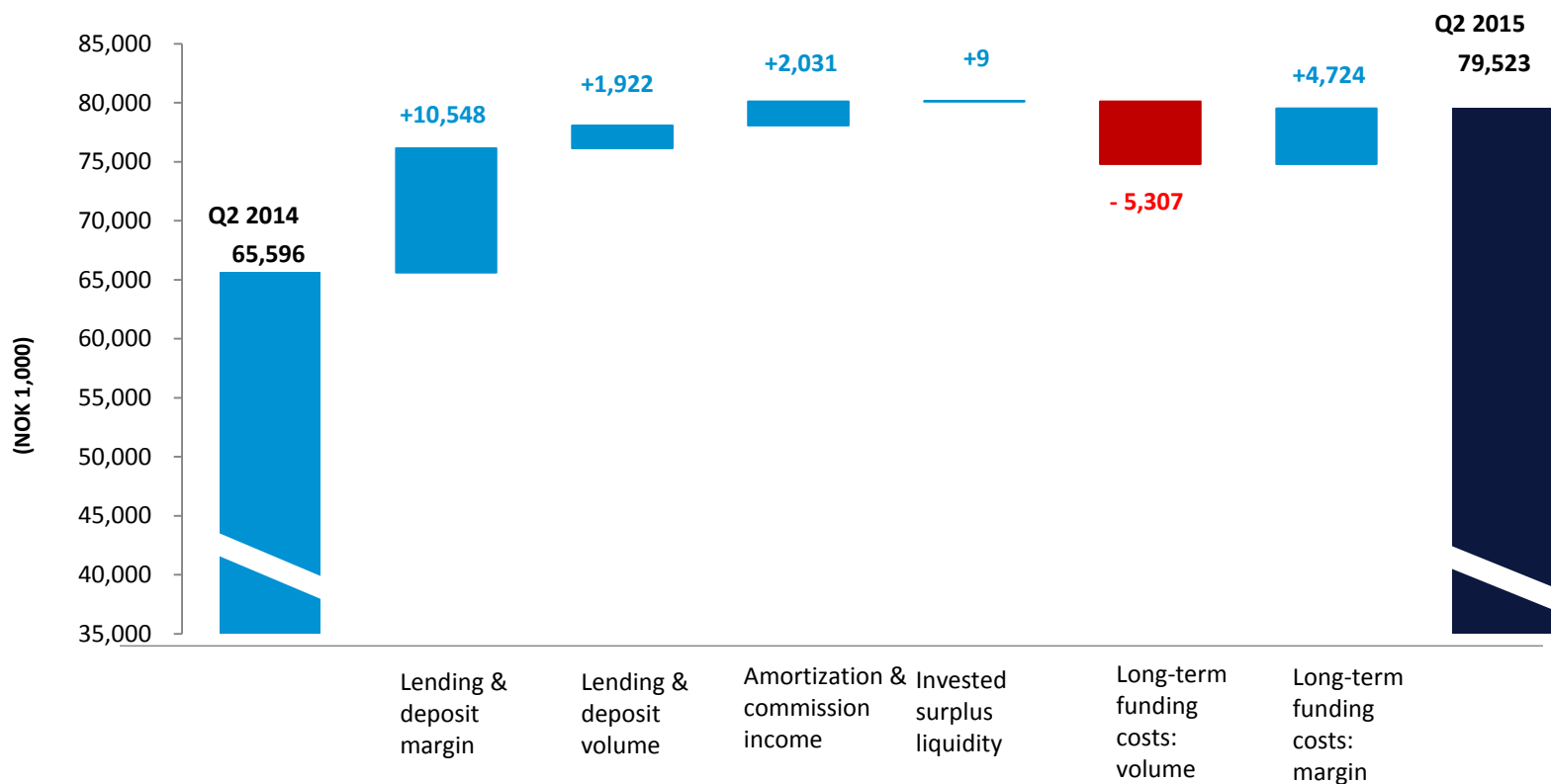
# QUARTERLY PROFIT TRENDS

(NOK 1,000)	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Net interest income	79,523	75,381	76,413	72,215	65,596
Net other operating income	3,245	3,041	2,423	2,584	2,456
Net gains/losses on financial instruments	18,306	-7,073	-11,539	7,514	3,701
<b>Total net income</b>	<b>101,073</b>	<b>71,349</b>	<b>67,297</b>	<b>82,313</b>	<b>71,754</b>
Total operating expenses	21,047	17,990	33,252	15,523	15,426
<b>Operating profit before losses</b>	<b>80,026</b>	<b>53,359</b>	<b>34,044</b>	<b>66,791</b>	<b>56,327</b>
Losses on loans and guarantees	2,000	2,038	2,486	2,000	2,000
<b>Operating profit before tax</b>	<b>78,026</b>	<b>51,321</b>	<b>31,558</b>	<b>64,791</b>	<b>54,327</b>
Taxes	21,145	13,908	6,833	17,623	14,777
<b>Profit for the period</b>	<b>56,881</b>	<b>37,413</b>	<b>24,726</b>	<b>47,168</b>	<b>39,550</b>

# HISTORICAL TREND NET INTEREST INCOME

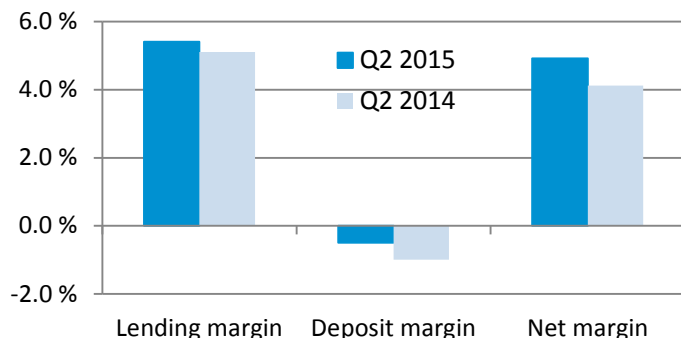


# CHANGE IN NET INTEREST INCOME SECOND QUARTER





# REPRICING OF LOANS AND DEPOSITS IMPROVES NET INTEREST MARGINS



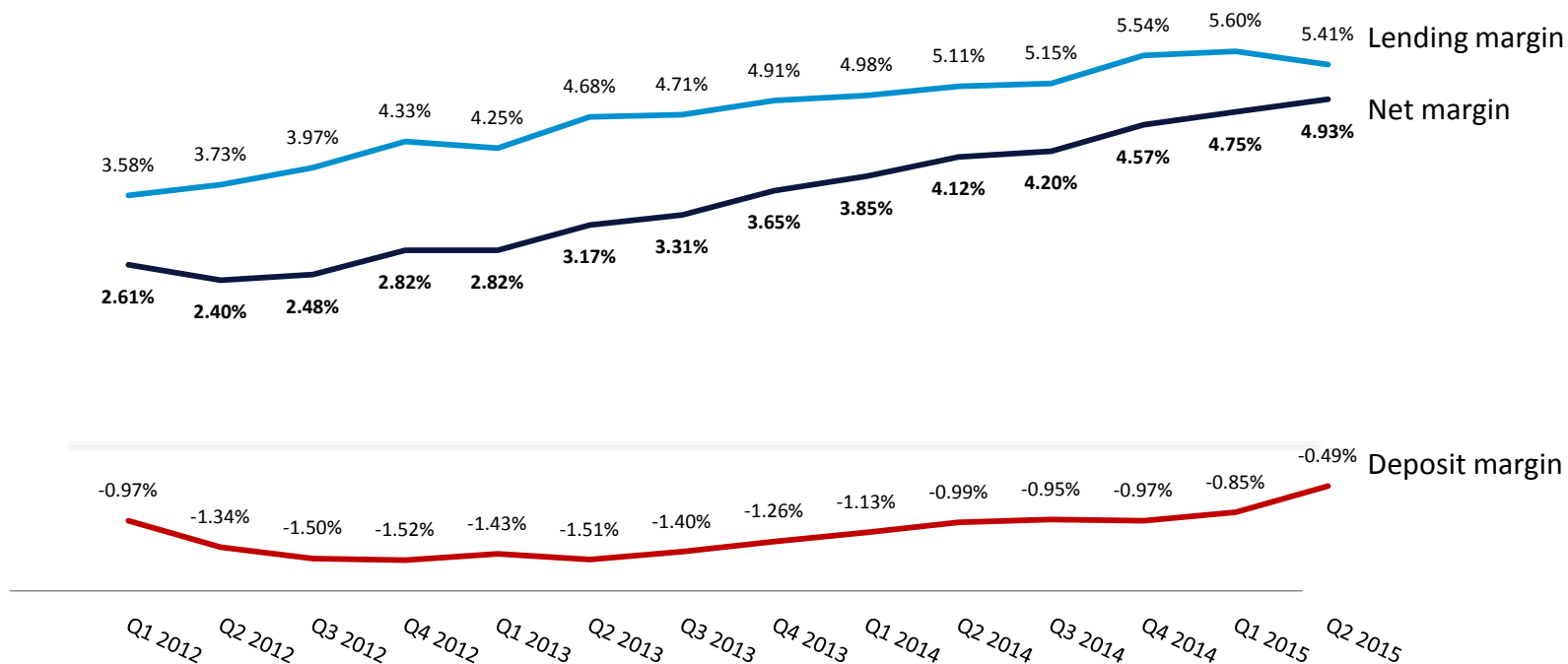
**Net interest margin between deposits and loans increased by 0.80 percentage points over the last 12 months due to:**

- Higher margins on new credits and changes in the composition of the loan portfolio
- Repricing of deposits
- Lower credit spreads on renewals of fixed-rate deposits and on new fixed-term deposits

Margin over 3M NIBOR (NOK million)	Q2 2015	Q2 2014	Change
Average lending	7,085	6,871	+ 213
Average deposits	6,607	6,440	+ 167
Lending margin	5.41%	5.11%	+ 0.30%
Deposit margin	-0.49%	-0.99%	+ 0.50%
<b>Net margin</b>	<b>4.93%</b>	<b>4.12 %</b>	<b>+ 0.80%</b>

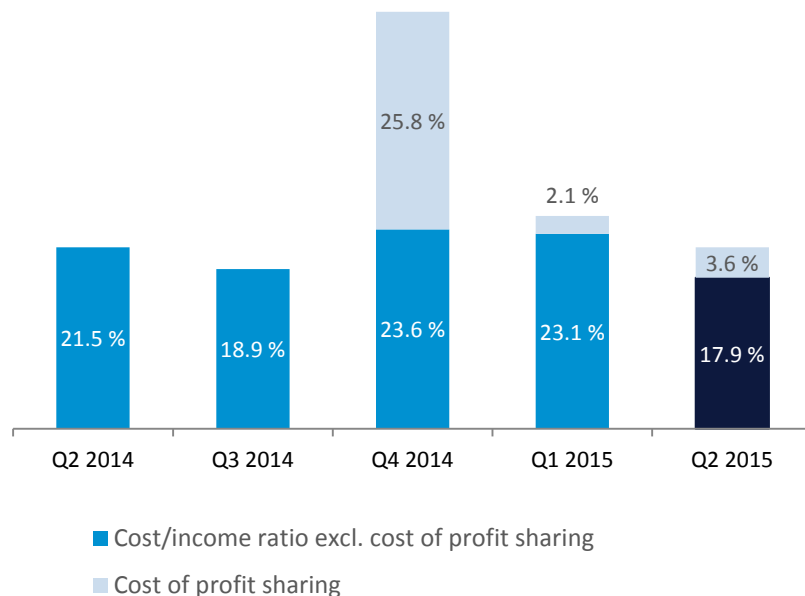
# HISTORICAL TREND MARGINS

Margins over 3 month NIBOR



# HISTORICAL TREND COST/INCOME

Cost/income ratio



The bank has previously allocated the cost of profit sharing with employees entirely in the fourth quarter.

As of 2015 this provision will be made throughout the year.

NOK 3.0 million was allocated for the second quarter.

A slight increase in costs is expected as a result of four new employees.

# ASSETS

(NOK 1,000)	30.06.2015	31.03.2015	31.12.2014	30.09.2014	30.06.2014
Cash and deposits with central banks	544,153	60,688	215,522	50,366	200,097
Lending to and deposits with credit institutions	292,912	406,934	232,981	617,748	185,905
Net lending to customers	7,569,250	6,842,504	7,206,847	7,346,889	7,245,771
Commercial paper and bonds	2,561,473	3,057,427	3,379,970	2,650,149	2,119,878
Shares and other securities	8,005	218,883	219,163	309,283	305,953
Financial derivatives	26,861	27,871	27,858	19,027	13,232
Intangible assets	26,489	26,789	24,850	24,048	22,678
Fixed assets	242	259	309	323	372
Other assets	36,627	33,543	32,279	1,565	4,597
Prepaid costs and retained earnings	1,526	3,106	214	1,037	1,529
<b>Total assets</b>	<b>11,067,539</b>	<b>10,678,004</b>	<b>11,339,992</b>	<b>11,020,435</b>	<b>10,100,013</b>

Net loans to customers increased by NOK 727 million in the second quarter of 2015.

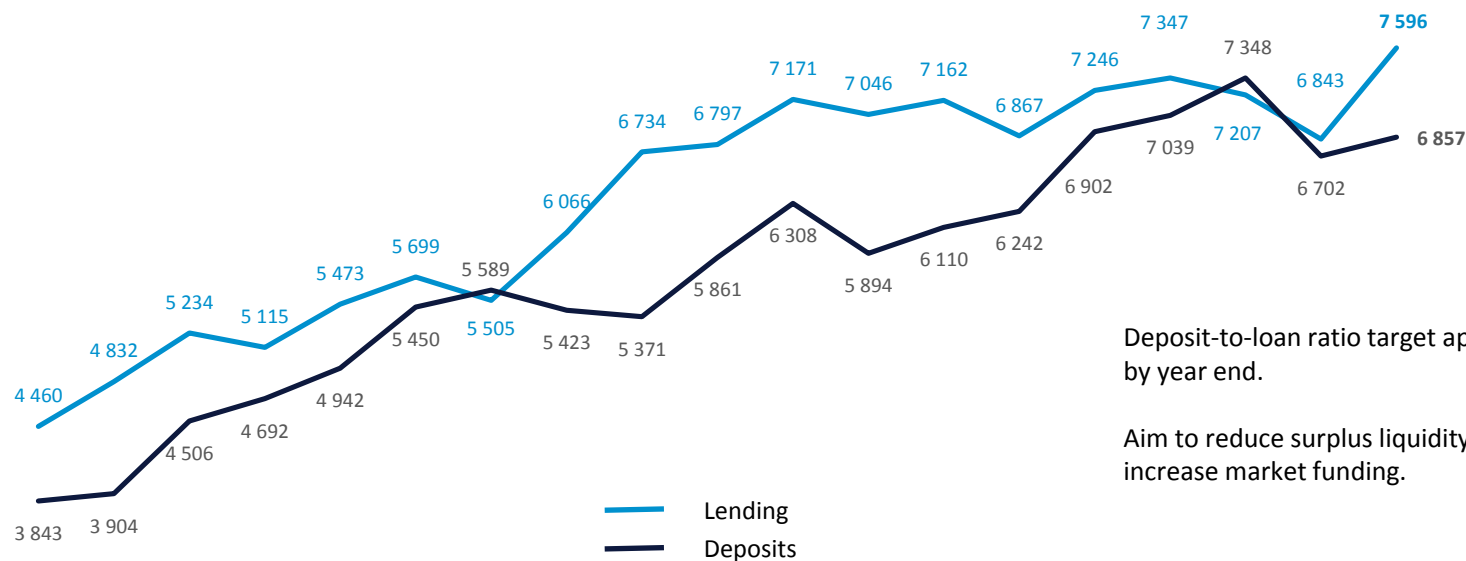
High turnover rate: approximately 30% of the loan portfolio matures within a year.

# LIABILITIES AND EQUITY

(NOK 1,000)	30.06.2015	31.03.2015	31.12.2014	30.09.2014	30.06.2014
Deposits from credit institutions	14,629	169	1,577	153	89
Deposits from customers	6,857,044	6,702,173	7,347,522	7,038,601	6,902,028
Senior securities issued	2,635,457	2,378,942	2,351,022	2,412,371	1,856,752
Financial derivatives	39,064	101,830	149,116	72,943	37,658
Other liabilities	76,942	83,457	107,400	150,926	80,642
Accrued costs and prepaid income	16,232	14,779	24,190	11,147	10,273
Subordinated loan capital	309,122	308,986	308,910	308,764	234,209
<b>Total liabilities</b>	<b>9,948,490</b>	<b>9,590,335</b>	<b>10,289,737</b>	<b>9,994,906</b>	<b>9,121,651</b>
Equity	735,469	735,469	735,469	735,469	735,469
Other equity	383,581	352,200	314,787	290,061	242,893
<b>Total equity</b>	<b>1,119,049</b>	<b>1,087,668</b>	<b>1,050,255</b>	<b>1,025,529</b>	<b>978,362</b>
<b>Total liabilities and equity</b>	<b>11,067,539</b>	<b>10,678,004</b>	<b>11,339,992</b>	<b>11,020,435</b>	<b>10,100,013</b>

Customer deposits increased by NOK 155 million in the second quarter of 2015.

# HISTORICAL TREND LOANS AND DEPOSITS

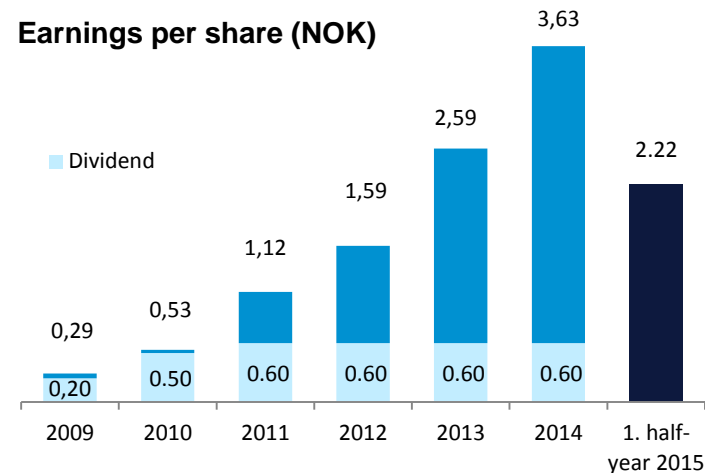


Deposit-to-loan ratio target approx. 80% by year end.

Aim to reduce surplus liquidity and increase market funding.

# KEY STOCK RATIOS

(NOK)	Q2 2015	Q1 2015	2014	2013	2012
Earnings per share after tax	1.34	0.88	3.63	2.59	1.59
Dividend per share	0.00	0.0	0.60	0.60	0.60
Payout ratio	0.0%	0.0%	16.8 %	23.2%	37.7%
Dividend yield	0.0%	0.0%	2.4 %	3.1%	4.2%
Book equity per share	26.33	25.59	24.66	21.62	19.70
<b>P/E</b>	<b>4.8x</b>	<b>7.7x</b>	<b>7.0x</b>	<b>7.5x</b>	<b>8.9x</b>
<b>P/BV</b>	<b>0.97x</b>	<b>1.05x</b>	<b>1.01x</b>	<b>0.90x</b>	<b>0.72x</b>
Share price	25.60	27.00	25.00	19.50	14.20
Number of shares (1000)	42,500	42,500	42,500	42,500	42,500



The Pareto Bank shares were listed on NOTC 7 March, 2014

The General Meeting held on March 26, 2015 approved a split of the Pareto Bank share. Each share had a nominal value of NOK 600 and was on April 30, 2015 split into 50 new shares, each with a nominal value of NOK 12.

# LARGEST SHAREHOLDERS 30.6.2015

Name	Holding	Share
Pareto AS	6,375,000	15.00%
Societe Generale SS (nom.)	3,700,000	8.71%
Perestroika AS	3,581,400	8.43%
Indigo Invest AS	3,328,000	7.83%
Geveran Trading Co Ltd.	2,910,000	6.85%
Pecunia Forvaltning AS	1,434,600	3.38%
Tonsenhagen Forretningssentrum AS	1,147,100	2.70%
Larre Eiendom 2 AS	925,300	2.18%
Tove Reistads Stiftelse	850,000	2.00%
Eiendomsutvikling Kristiansand AS	801,000	1.88%
Holta Invest AS	696,100	1.64%
Artel Holding AS	684,000	1.61%
Profond AS	599,500	1.41%
Kolberg Motors AS	507,500	1.19%
Castel AS	503,750	1.19%
Verdipapirfondet Landkreditt Utbytte	485,100	1.14%
Ola Rustad AS	425,000	1.00%
Belvedere AS	401,500	0.94%
Verdipapirfondet Pareto Investment Fund	400,000	0.94%
Thor Hushovd	329,550	0.78%
Andre	12,415,600	29.21%
<b>Sum</b>	<b>42,500,000</b>	<b>100,00%</b>

- A total of 322 shareholders.
- Top level managers in the Pareto group own 1,704,100 shares or 4.01% of the bank shares.
- 42,5 million shares each with face value of NOK 12.
- Shares have been traded at prices between NOK 24 and NOK 29.



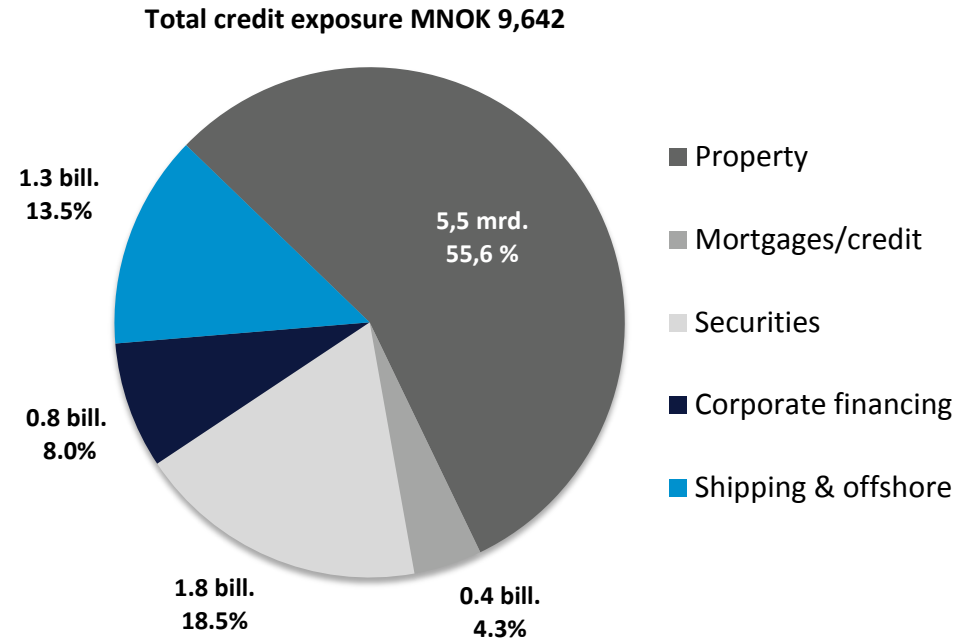
- 1 FINANCIAL STATEMENT**
- 2 LENDING AND CREDIT RISK**
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# A PROJECT BANK

BUSINESS AREA		PROJECTS/CREDITS	PRINCIPAL
Real estate financing		Financing of residential lots and housing development	MNOK 25-50
Corporate and securities financing		M&A finance Working capital facilities Bridging finance Securities finance	MNOK 30/MNOK 5
Shipping & offshore finance		Financing shipping and offshore projects	MUSD 5-10

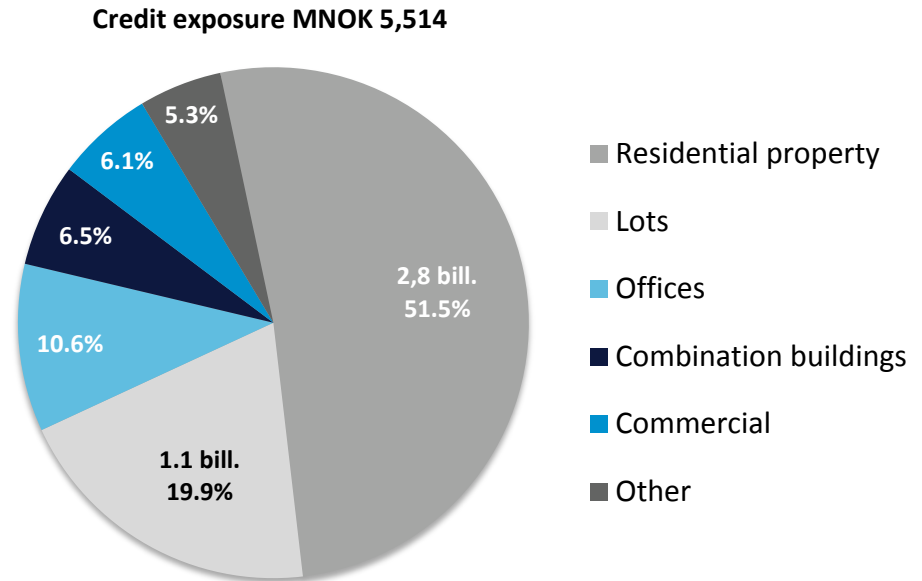
# A SPECIALIST IN FINANCING OF REAL ESTATE, SECURITIES, AND SHIPPING AND OFFSHORE

1. Real estate financing focused on residential property construction in the Oslo region
2. A full scale provider of securities financing including investment services
3. Gradually building a diversified shipping and offshore portfolio



# A STRONG MARKET POSITION WITHIN RESIDENTIAL PROPERTY CONSTRUCTION IN THE OSLO REGION

- Primarily financing of regulated lots with a potential for property development
- Financing construction of flats or housing
- A typical project is composed of lot financing and a building construction facility in the range of MNOK 10 - 50 for the construction of 4 - 8 homes in the greater Oslo area
- Financing of projects for renovation and conversion of commercial property to residential units



# TERMS OF REAL ESTATE FINANCING

## FINANCING OF RESIDENTIAL DEVELOPMENT

- The bank requires on average 20% to 40% equity to finance a property lot purchase.
- Primarily financing of regulated lots purchased for development with a clear exit strategy.
- The developer must demonstrate the ability to successfully complete projects and have experience with residential development.
- Projects stress tested: if the price of unsold units falls by 50% compared to pre-sold units, the sales amount must still be sufficient to cover the bank credit.
- Primarily financing of projects in the Oslo region and other well-functioning and liquid markets.

## FINANCING OF COMMERCIAL PROPERTY

- The bank requires equity of 20% to 40%.
- Long leases with financially sound tenants.
- Primarily financing of properties in the Oslo region and other well-functioning and liquid markets.

# A FULL SCALE PROVIDER OF SECURITIES FINANCING

## STANDARD PRODUCTS

- Financing of stocks on Oslo Stock Exchange with a LTV/leverage of 0% to 80%
- Financing of short trades on Oslo Stock Exchange
- Financing of high yield bonds mainly arranged by Pareto Securities with a LTV/leverage of around 50%
- Financing of funds (stocks, bonds etc.)

## OTHER MORE SPECIALIZED PRODUCTS:

- Forwards
- Total return swaps
- Guarantees in favor of Oslo Stock Exchange for companies in a mandatory offer position

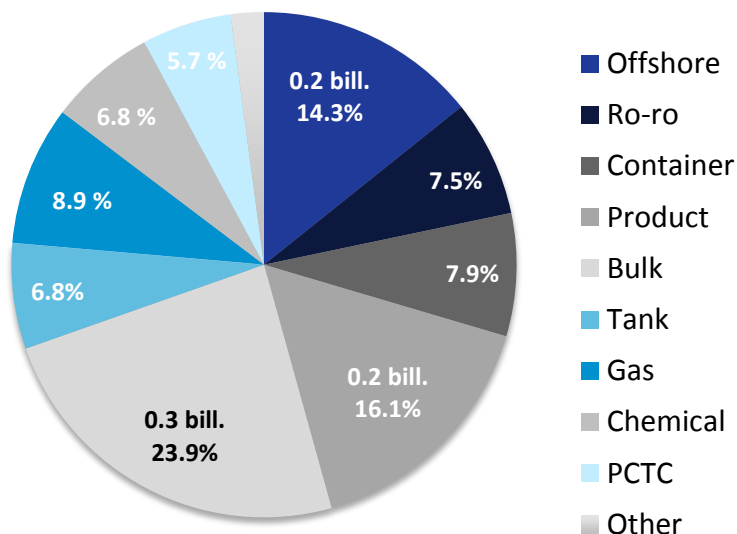
## INCREASED FOCUS ON FINANCING CORPORATE PROJECTS IN COOPERATION WITH PARETO SECURITIES:

- Bridge financing to customers in the process of issuing market debt
- Various forms of bridge financing in connection with investments and issues

# BUILDING A WELL-DIVERSIFIED PORTFOLIO IN SHIPPING AND OFFSHORE

- 23 loans financing a total of 32 vessels
- Pareto Bank is the direct lender in all but 3 loans. These are syndicates or club deals
- 21 loans with 1<sup>st</sup> priority pledge in tonnage
- 1 loan where the bank has 2<sup>nd</sup> priority mortgage where the borrower is a solid ship owner who is offering their balance sheet as collateral
- Average loan size is USD 7.3 million
- Largest loan is USD 12.4 million

Credit exposure Kreditteksponering MNOK 1,305



# TERMS OF SHIPPING & OFFSHORE FINANCING

- Our clients are long-term owners with extensive experience and expertise in operations and maintenance. They normally have Norwegian ownership or management.
- The client should be a high quality charterer with transparent books and a diversified cash flow.
- Objects built in renowned shipyards, with liquid second-hand markets and well-proven designs.
- Equity requirement of 60% to 30%.
- Individual commitment size USD 5 million to USD 20 million.
- The portfolio should be diversified, whereas a single segment normally will not exceed 25% of the total exposure over time.

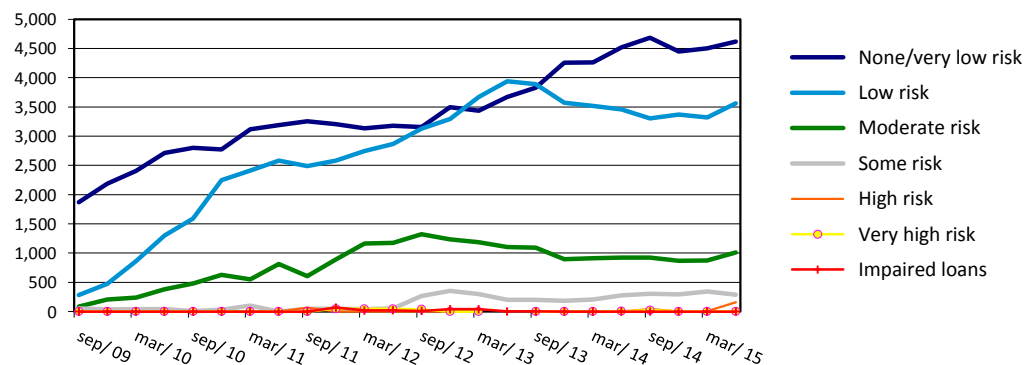
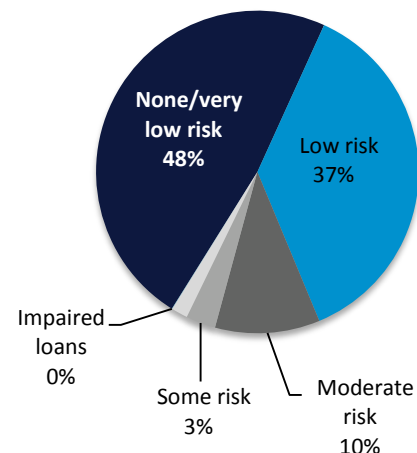


# MORE ON THE SHIPPING & OFFSHORE PORTFOLIO

- The number of engagements is currently relatively modest, and all commitments are followed up individually in lieu of an aggregated stress test. Each engagement is assessed by "loan-to-value" and "minimum cash".
- The bank uses expertise from partners regarding issues such as valuations, marine insurance and technical assessments.
- Individual valuations are obtained from two independent and reputable shipbrokers every third or sixth month, and the value estimates are stress-tested against tight "loan to value" clauses. Immediate measures are taken upon covenant violations.
- The bank normally has strict liquidity requirements, and follows these up closely.
- Watch list for commitments with negative developments. This is actively used for monitoring commitments in an early phase.

# COMMITMENTS BY RISK CLASSIFICATION

(NOK million)	Credit exposure		
	30.06.2015	30.06.2014	31.12.2014
None/very low risk	4,616	4,517	4,448
Low risk	3,560	3,455	3,371
Moderate risk	1,013	922	871
Some risk	286	279	296
High risk	159	2	0
Very high risk	3	6	3
Impaired loans	0	0	0
Accrued interest and amortisation	5	0	-3
<b>Total exposure</b>	<b>9,642</b>	<b>9,181</b>	<b>8,986</b>



# HISTORICAL TREND LOSSES AND WRITE-DOWNS

## Group write-downs

(MNOK)	Annual write-downs	Accumulated write-downs	% of gross lending
2008	0.0	0.0	0.00%
2009	0.0	0.0	0.00%
2010	0.0	0.0	0.00%
2011	0.0	0.0	0.00%
2012	5.9	5.9	0.09%
2013	12.8	18.7	0.26%
2014	8.0	26.7	0.37%
Q1 2015	2.0	28.7	0.42%
Q2 2015	2.0	30.7	0.40%
<b>Sum</b>	<b>30.7</b>		

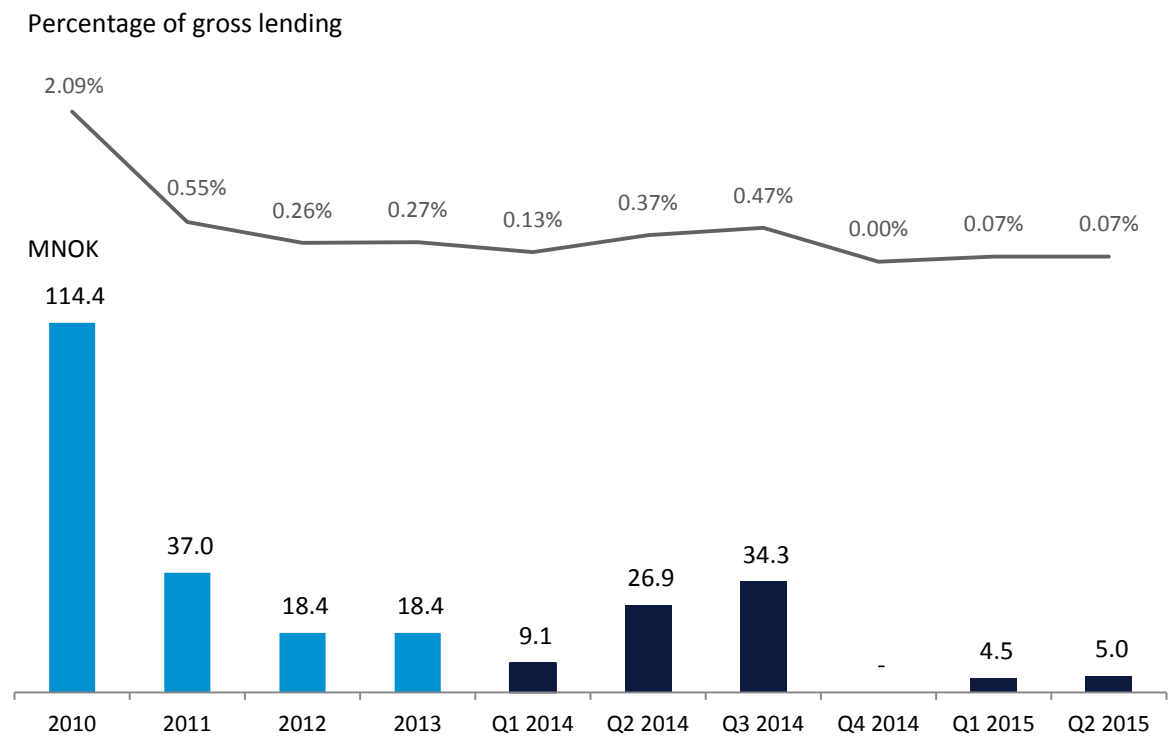
- Group write-downs increased by NOK 2.0 million in the second quarter

## Individual write-downs

(MNOK)	Annual write-downs	% of gross lending
2008	0.0	0.00%
2009	0.0	0.00%
2010	0.0	0.00%
2011	13.6	0.25%
2012	9.8	0.15%
2013	-2.6	-0.04%
2014	-0.1	-0.00%
Q1 2015	0.0	0.00%
Q2 2015	0.0	0.00%
<b>Sum</b>	<b>20.7</b>	

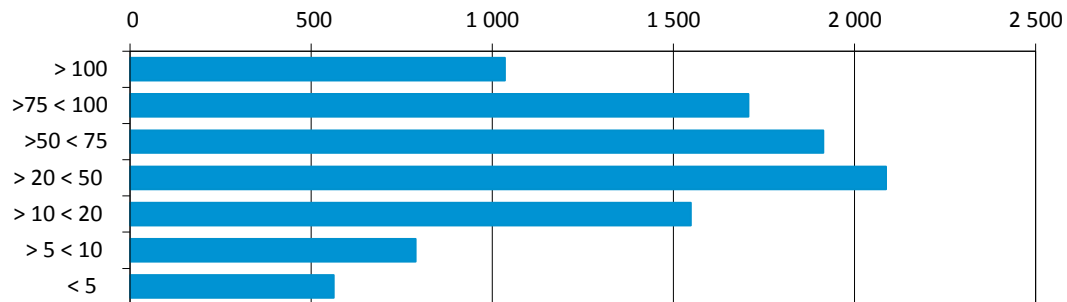
- No individual write-downs in the second quarter
- One non-performing loan of NOK 5.0 million per 30.6.2015
- The loan is well secured and not considered to be impaired

# NET NON-PERFORMING AND IMPAIRED LOANS AND GUARANTEES



# COMMITMENTS BY SIZE

(NOK million)	Credit exposure		
	30.06.2015	30.06.2014	31.12.2014
> 100	1,035	1,212	1,101
> 75 < 100	1,707	1,106	1,031
> 50 < 75	1,914	1,670	1,875
> 25 < 50	2,087	2,204	2,090
> 10 < 20	1,548	1,732	1,576
> 5 < 10	788	702	751
<5	557	555	566
Accrued interest and amortisation	5	(0)	(3)
<b>Total exposure</b>	<b>9,642</b>	<b>9,181</b>	<b>8,986</b>



# TOTAL CREDIT EXPOSURE

(NOK million)	Lending	Guarantees	Undrawn credit lines	Total credit exposure		
				30.06.2015	30.06.2014	31.12.2014
Real estate financing long-term	1,608.5	31.1	130.5	1,770.1	2,040.8	1,520.4
Real estate project financing	2,787.5	293.7	510.3	3,591.5	3,370.8	3,531.6
Securities financing	775.5	0.0	1,004.5	1,780.0	1,727.0	1,698.2
Shipping & Offshore financing	1,277.7	27.6	0.0	1,305.3	974.9	1,102.8
Corporate financing	760.9	5.4	6.4	772.7	497.9	662.4
Retail financing	358.6	0.7	57.7	417.1	569.3	474.1
<b>Total exposure</b>	<b>7,569,3</b>	<b>357.1</b>	<b>1,709.5</b>	<b>9,641.6</b>	<b>9,180.6</b>	<b>8,986.8</b>

# INTEREST MARGIN BY SEGMENT

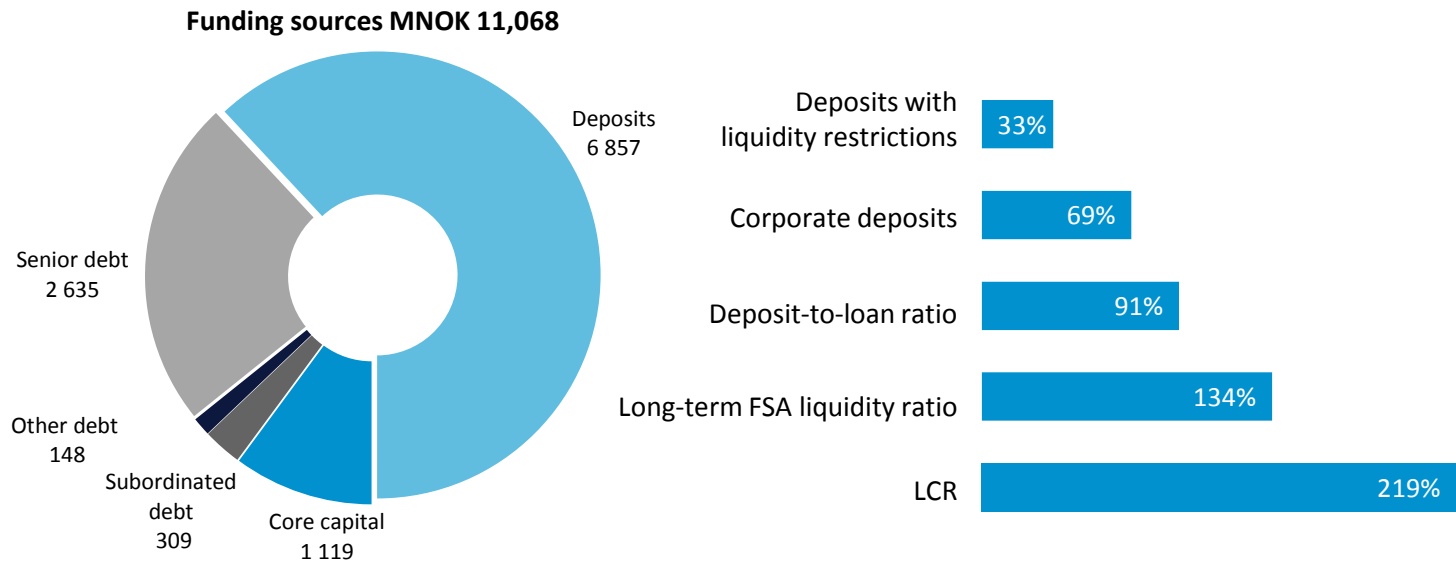
Segment (NOK million)	No. of clients	Credit Exposure	Lending	Unused guarantees	Interest contribution	Interest margin
Securities financing	351	1,780.0	775.5	1,004.5	30.5	3.93%
Corporate financing	29	772.7	760.9	11.8	33.7	4.43%
Real estate project financing	222	5,361.6	4,396.0	965.6	204.5	4.65%
Shipping & Offshore financing	23	1,305.3	1,277.7	27.6	55.3	4.33%
Retail financing	65	417.1	358.6	58.4	9.3	2.58%
<b>Sum</b>	<b>690</b>	<b>9,641.6</b>	<b>7,569.3</b>	<b>2,067.9</b>	<b>333.3</b>	<b>4.40%</b>

Interest contributions and interest margin per segment excluding front-end fees.  
Average cost of funds was 1,97% as of 30.6.15

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- 3 FUNDING AND CAPITAL**
- 4 AMBITIONS FOR 2015**

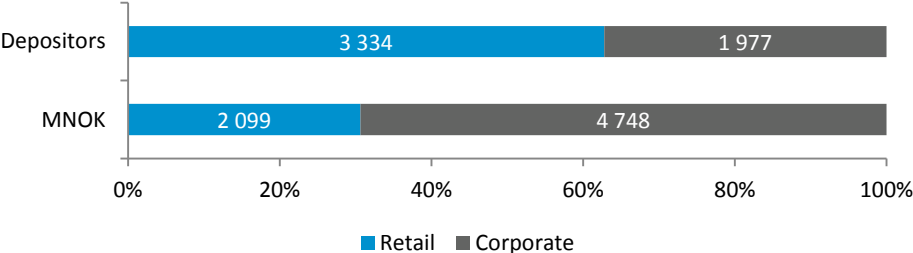


# FUNDING SOURCES

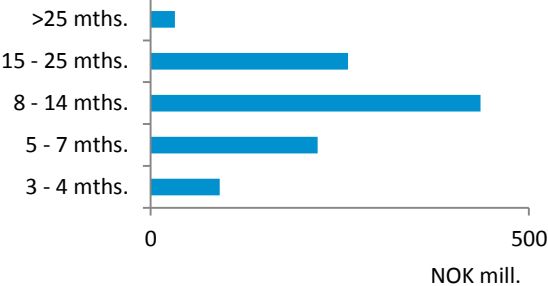


# CUSTOMER DEPOSITS

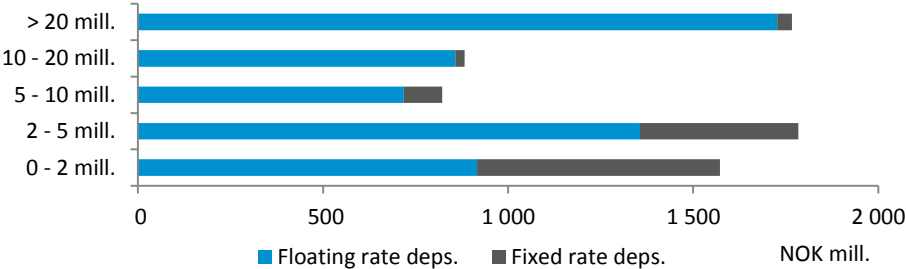
Deposit allocation



Fixed rate deposits – time to maturity



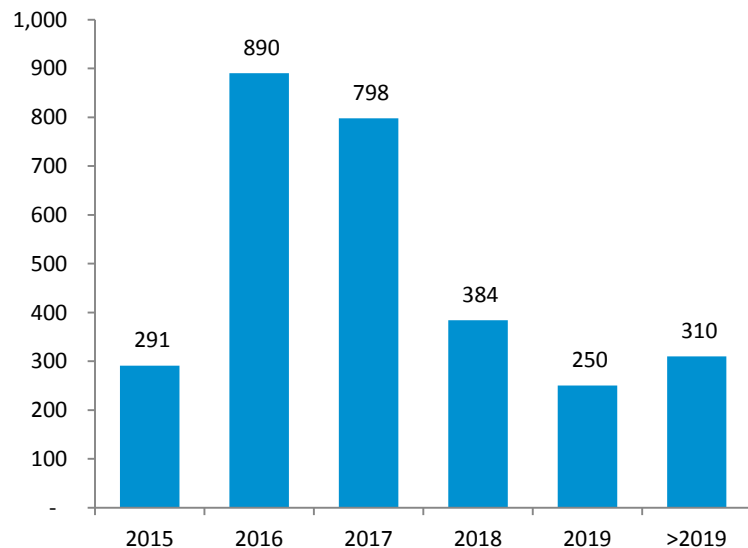
Deposits by size



Average deposit per customer (NOK)

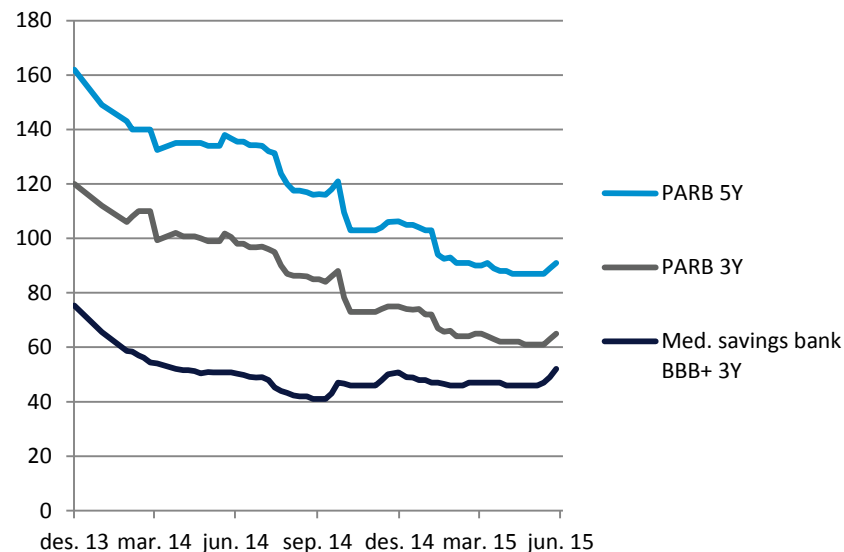
Total	1.3 mill.
Commercial	2.4 mill.
Retail	0.6 mill.

# MARKET FUNDING



## Market funding maturity profile (NOK million)

Pareto Bank has issued 7 senior unsecured bonds, a subordinated loan and two subordinated bonds. The bonds are listed on Nordic ABM and the Oslo Stock Exchange.

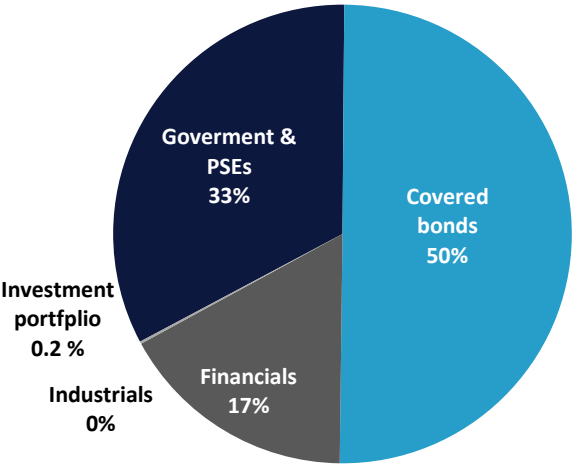
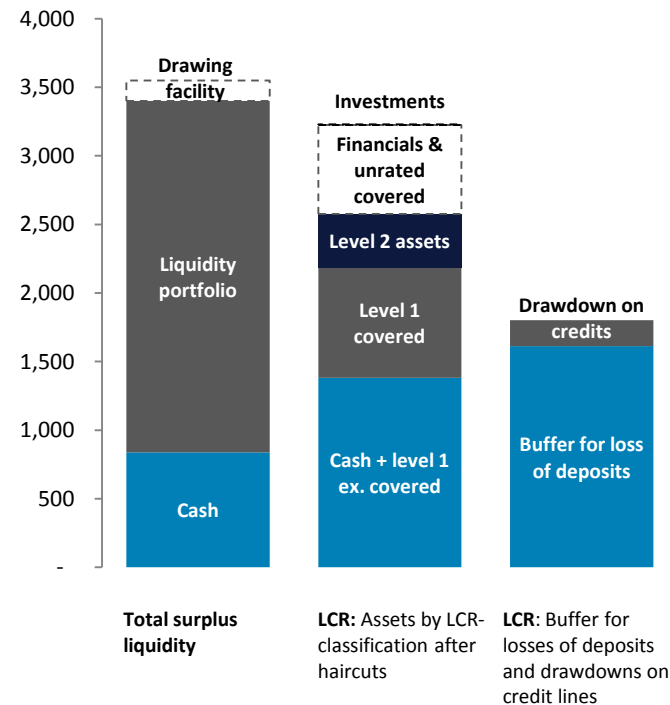


## Lower credit margins

The bank pays an increasingly lower credit spread over NIBOR compared to similarly sized banks. Spreads widened a bit throughout June. More transparent pricing and more interest from the market allows the bank to better utilize securities financing.

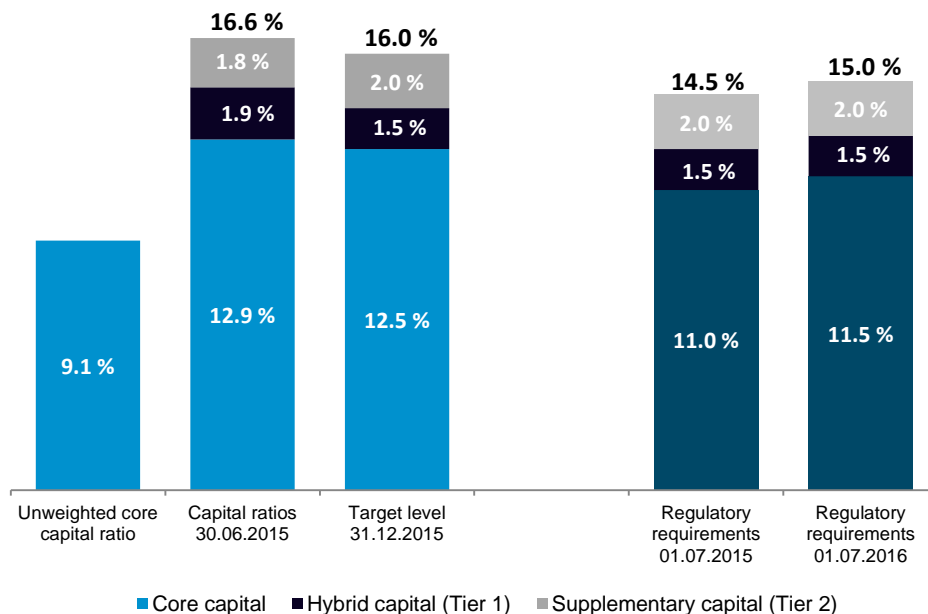
(Sources: NBP, Pareto Bank)

# SURPLUS LIQUIDITY



**The bond portfolio** consists of a liquidity portfolio of mainly AAA securities, an investment portfolio (maximum limit NOK 500 million of which 0.78% is utilized) and a portfolio of contingent drawings (maximum limit of NOK 100 million of which 0% is utilized).

# FINACIAL STRENGTH AND CAPITAL TARGETS



The calculation base for credit exposure is based on the standard method and not the IRB approach.

Pareto Bank operates at target levels ranging from 0.5 to 1.0 percentage points above the current regulatory requirements for Common Equity Tier 1 (CET1) and Total Capital ratios.

The bank has met increased capital requirements through good profitability, moderate dividend payments and moderate lending growth.

The capital target will be reassessed as a result of the 0.50 percentage point increase of the countercyclical capital buffer requirement taking effect 1 July, 2016.

The ambition is to pay a dividend of approximately 50% of the bank's net income over time.

The payout ratio is assessed partly in light of the bank's capital situation, regulatory requirements and prospects for profitable growth.

- 1 FINANCIAL STATEMENT**
- 2 LENDING AND CREDIT RISK**
- 3 FUNDING AND CAPITAL**
- 4 AMBITIONS FOR 2015**

# FINANCIAL AMBITIONS

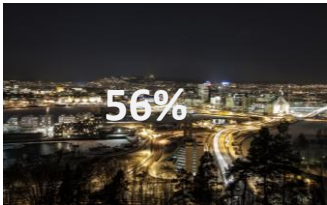


**Return on equity after tax > 15 percent**

**Increased dividends**

2015:

- ✓ Net lending growth of MNOK 800
- ✓ Stable credit spreads and improved deposit margins
- ✓ Moderate cost increase as a result of increasing the size of the real estate and shipping teams
- ✓ The CET1 target of 12.5 percent will be reassessed as a result of increasing the countercyclical capital buffer requirement next year

# GROWTH AMBITIONS FOR 2015

BUSINESS AREA	COMPETITORS	CUSTOMERS	STATUS	GROWTH TARGETS
	DNB, Nordea, Handelsbanken.	Real estate developers and property investors.	Signs of margin pressure and increased risk taking, but the deal flow is still good.	Net growth approx. NOK 200 million
	Brokers, DNB, Nordea and SEB.	Private investors, owners and companies.	Potential customized corporate financing.	Net growth ca. NOK 200 million
	ABN Amro, DVB, savings banks.	Companies and investors in shipping and offshore.	Limited capacity for projects and smaller shipping companies among larger banks.	Net growth ca. NOK 350 million



 Pareto bank