



PARETO BANK

**Financial Results
Third 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
- Profit after tax was MNOK 154.2 in 2014 with a return on equity after tax of 15.6%
- Stock listed on the NOTC-list March 2014
- Market value of MNOK 1,232; 42.5 million outstanding shares at a market price of NOK 29.00
- Top management in Pareto Bank ASA and the Pareto group own 1 million shares (2.28%)

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.	2,110,000	4.96%
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%
Top ten shareholders	24,252,400	57.06%
Other	18,247,600	42.94%
Total	42,500,000	100.00%

- 1 FINANCIAL STATEMENT**
- 2 LENDING AND CREDIT RISK**
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THIRD QUARTER 2015

Profit after write-downs and tax

MNOK 47.7 (MNOK 47.2)

Return on equity after tax

16.7% (18.8%)

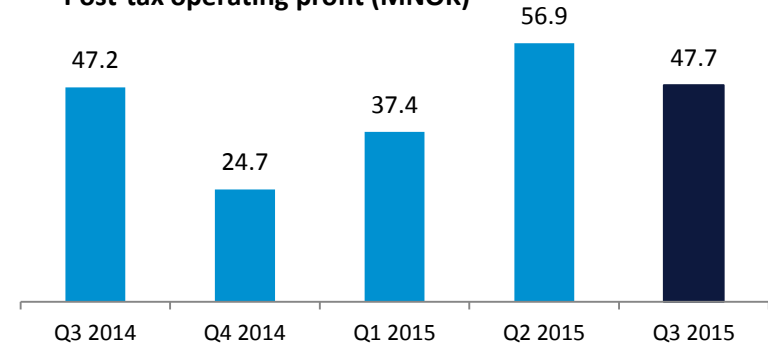
Cost/income ratio

24.2% (18.9%)

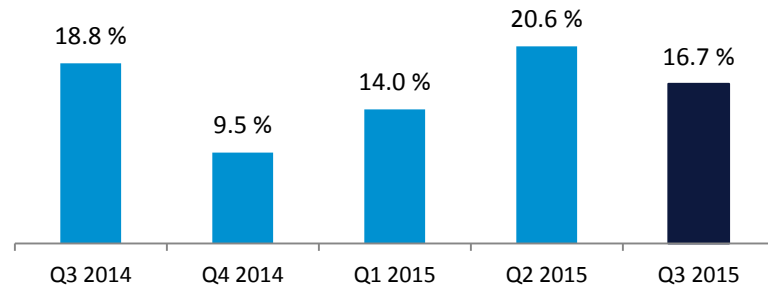
Common Equity Tier 1 ratio (standard method)

13.17% (11.39%)

Post-tax operating profit (MNOK)



Return on equity (after tax)



INCOME STATEMENT

(NOK 1,000)	Q3 2015	Q3 2014	1.1 – 30.09 2015	1.1 – 30.09 2014	2014
Net interest income	86,075	72,215	240,979	200,703	277,117
Net other operating income	3,067	2,584	9,691	7,563	10,193
Net gains/losses on financial instruments	-2,809	7,514	8,087	21,587	9,840
Total net income	86,333	82,313	258,756	229,853	297,150
Total operating expenses	20,922	15,426	59,959	46,566	79,818
Operating profit before losses	65,411	66,791	198,797	183,287	217,331
Losses on loans and guarantees	0	2,000	4,038	5,412	7,899
Operating profit before tax	65,411	64,791	194,759	177,874	209,433
Taxes	17,726	17,623	52,780	48,382	55,215
Profit for the period	47,685	47,168	141,979	129,493	154,218

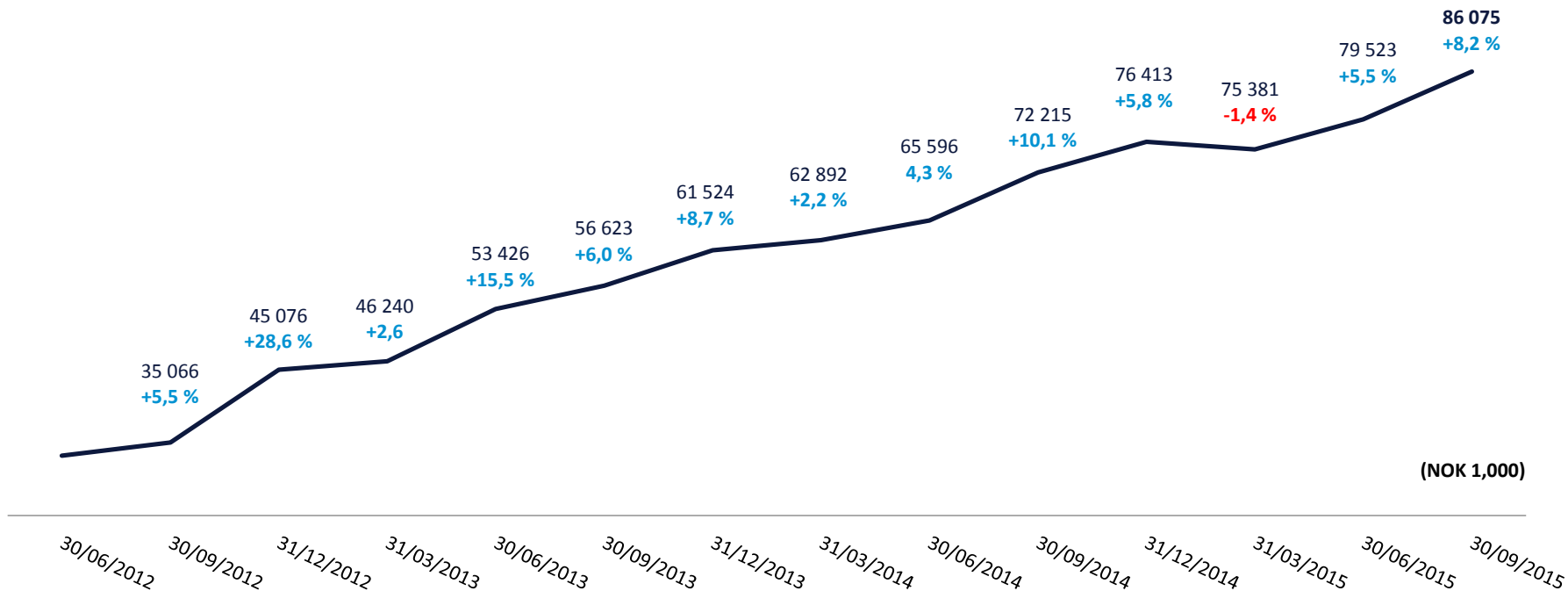
The principle of assessing financial instruments at fair value may cause profits to vary significantly between quarters. For the third quarter of 2015, total net losses were MNOK 2.8 (net gains MNOK 7.5).

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 3.5 million was allocated for the third quarter.

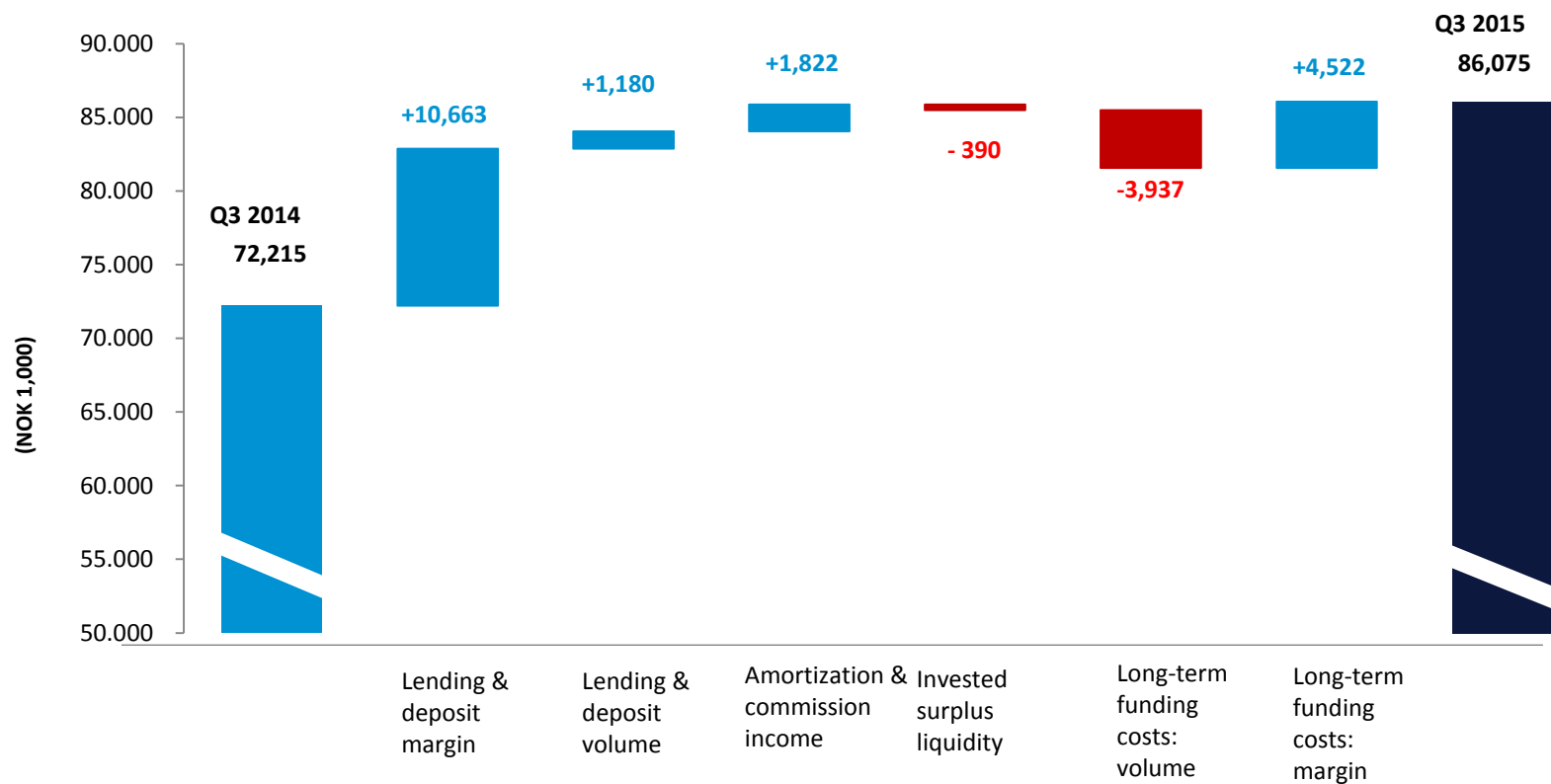
QUARTERLY PROFIT TRENDS

(NOK 1,000)	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Net interest income	86,075	79,523	75,381	76,413	72,215
Net other operating income	3,067	3,245	3,041	2,423	2,584
Net gains/losses on financial instruments	-2,809	18,306	-7,073	-11,539	7,514
Total net income	86,333	101,073	71,349	67,297	82,313
Total operating expenses	20,922	21,047	17,990	33,252	15,523
Operating profit before losses	65,411	80,026	53,359	34,044	66,791
Losses on loans and guarantees	0	2,000	2,038	2,486	2,000
Operating profit before tax	65,411	78,026	51,321	31,558	64,791
Taxes	17,726	21,145	13,908	6,833	17,623
Profit for the period	47,685	56,881	37,413	24,726	47,168

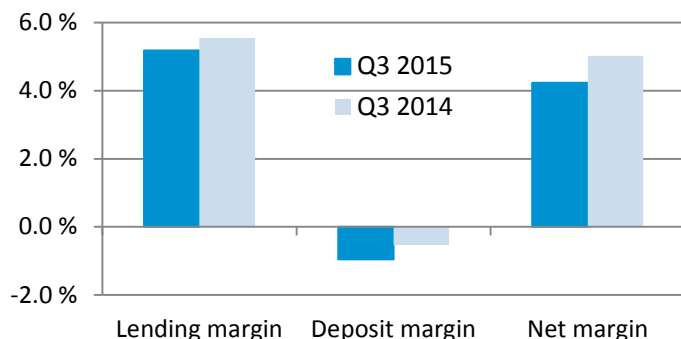
HISTORICAL TREND NET INTEREST INCOME



CHANGE IN NET INTEREST INCOME



REPRICING OF LOANS AND DEPOSITS IMPROVES NET INTEREST MARGINS



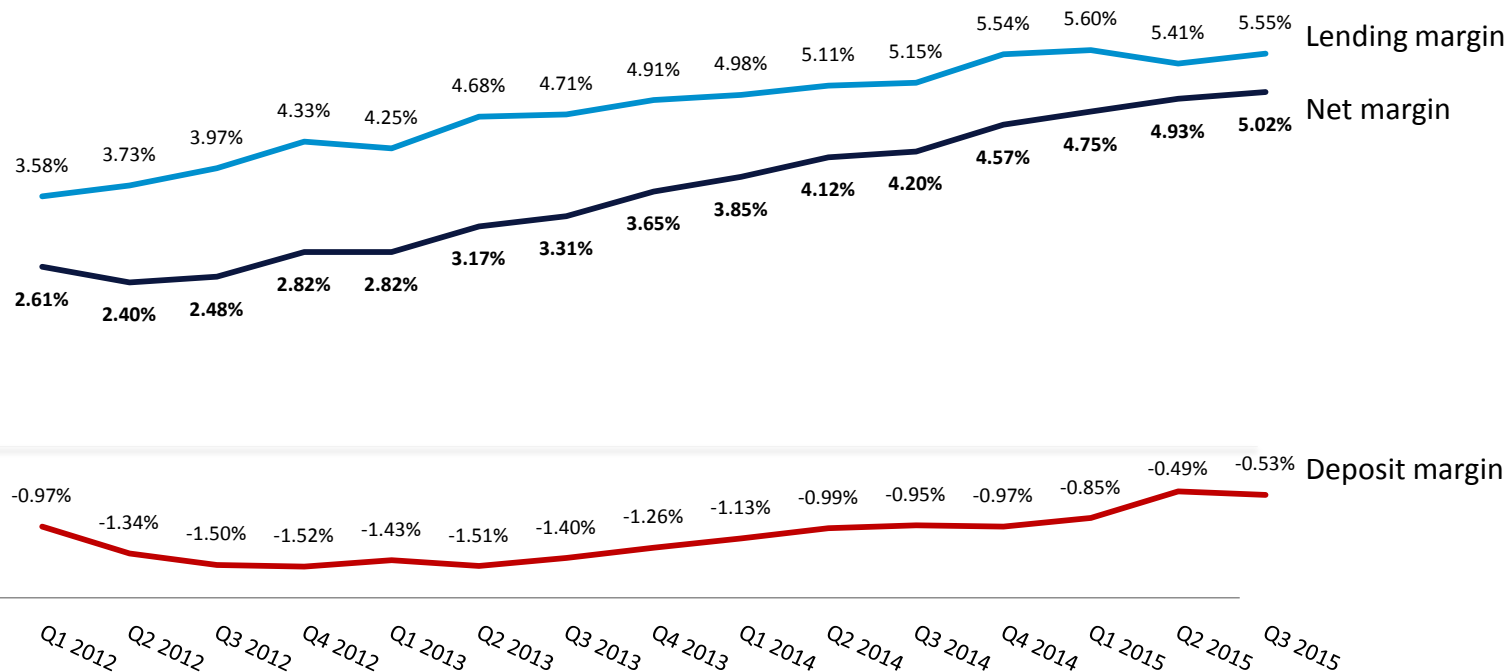
Net interest margin between deposits and loans increased by 0.79 percentage points over the last 12 months due to:

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

Margin over 3M NIBOR (NOK million)	Q3 2015	Q3 2015	Change
Average lending volume	7,368	7,400	-32
Average deposit volume	6,277	6,927	-649
Lending margin	5.55%	5.18 %	+ 0.37%
Deposit margin	-0.53%	-0.95%	+ 0.42%
Net margin	5.02%	4.23%	+ 0.79%

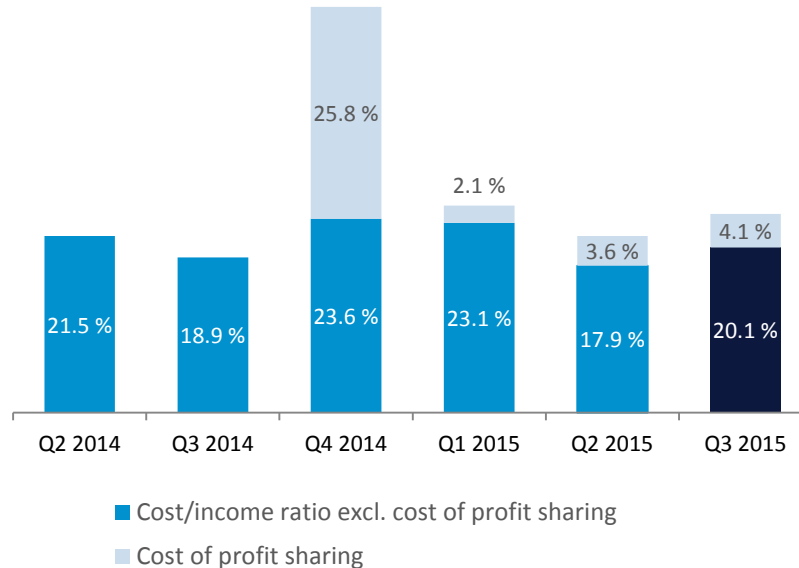
HISTORICAL TREND MARGINS

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 3.5 million was allocated for the third quarter (NOK 0.0 million) .

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

ASSETS

(NOK 1,000)	30.09.2015	30.06.2015	31.03.2015	31.12.2014	30.09.2014
Cash and deposits with central banks	228,269	544,153	60,688	215,522	50,366
Lending to and deposits with credit institutions	298,562	292,912	406,934	232,981	617,748
Net lending to customers	7,486,810	7,569,250	6,842,504	7,206,847	7,346,889
Commercial paper and bonds	2,774,257	2,561,473	3,057,427	3,379,970	2,650,149
Shares and other securities	8,010	8,005	218,883	219,163	309,283
Financial derivatives	12,904	26,861	27,871	27,858	19,027
Intangible assets	25,995	26,489	26,789	24,850	24,048
Fixed assets	195	242	259	309	323
Other assets	32,956	36,627	33,543	32,279	1,565
Prepaid costs and retained earnings	1,711	1,526	3,106	214	1,037
Total assets	10,869,670	11,067,539	10,678,004	11,339,992	11,020,435

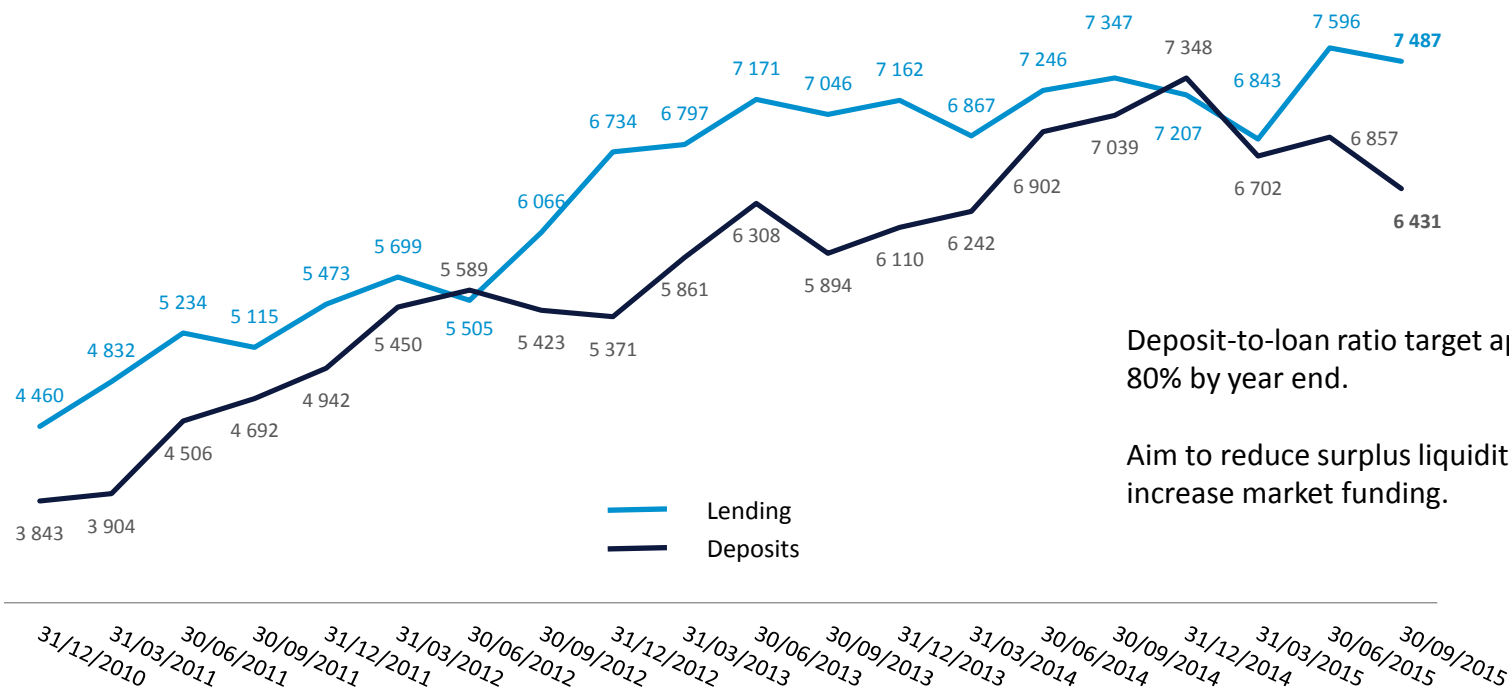
High turnover rate: approximately 30% of the loan portfolio matures within a year.

LIABILITIES AND EQUITY

(NOK 1,000)	30.09.2015	30.06.2015	31.03.2015	31.12.2014	30.09.2014
Deposits from credit institutions	169	14,629	169	1,577	153
Deposits from customers	6,430,768	6,857,044	6,702,173	7,347,522	7,038,601
Senior securities issued	2,713,614	2,635,457	2,378,942	2,351,022	2,412,371
Financial derivatives	73,090	39,064	101,830	149,116	72,943
Other liabilities	158,480	76,942	83,457	107,400	150,926
Accrued costs and prepaid income	17,622	16,232	14,779	24,190	11,147
Subordinated loan capital	309,192	309,122	308,986	308,910	308,764
Total liabilities	9,702,935	9,948,490	9,590,335	10,289,737	9,994,906
Equity	735,469	735,469	735,469	735,469	735,469
Other equity	431,266	383,581	352,200	314,787	290,061
Total equity	1,166,734	1,119,049	1,087,668	1,050,255	1,025,529
Total liabilities and equity	10,869,670	11,067,539	10,678,004	11,339,992	11,020,435

Customer deposits decreased by NOK 427 million in the third quarter of 2015

HISTORICAL TREND LOANS AND DEPOSITS



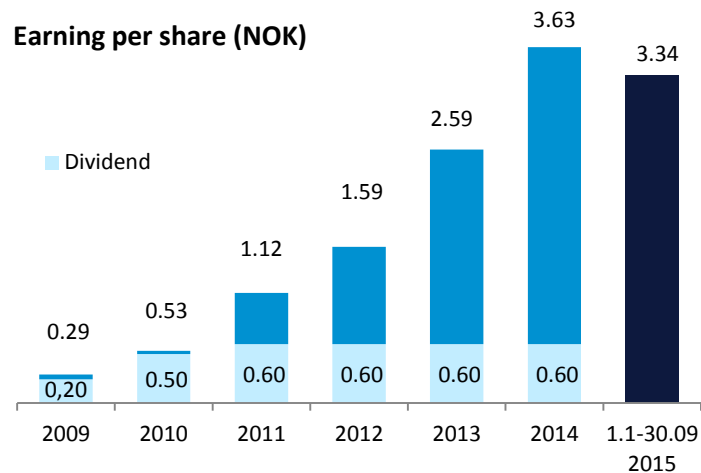
Deposit-to-loan ratio target approx. 80% by year end.

Aim to reduce surplus liquidity and increase market funding.

KEY STOCK RATIOS

(NOK)	1.1-30.09 2015	2014	2013	2012
Earnings per share after tax	3.34	3.63	2.59	1.59
Dividend per share	0.00	0.60	0.60	0.60
Payout ratio	0.0%	16.8%	23.2%	37.7%
Dividend yield	0.0%	2.4%	3.1%	4.2%
Book equity per share	27.45	24.66	21.62	19.70
P/E	6.5x	7.0x	7.5x	8.9x
P/BV	1.04x	1.01x	0.90x	0.72x
Share price	28.50	25.00	19.50	14.20
Number of shares (1,000)	42,500	42,500	42,500	42,500

Earning per share (NOK)



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 30.9.2015

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.	2,110,000	4.96%
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%
Verdipapirfondet Pareto Investment Fund	700,000	1.65%
Artel Holding AS	684,000	1.61%
Profond AS	599,500	1.41%
Verdipapirfondet Landkreditt Utbytte	594,600	1.40%
GH Holding AS	570,000	1.34%
Holta Invest AS	525,600	1.24%
Castel AS	511,250	1.20%
Kolberg Motors AS	507,500	1.19%
Ola Rustad AS	425,000	1.00%
Belvedere AS	401,500	0.94%
Other	12,728,650	29.95%
Sum	42,500,000	100%

- A total of 340 shareholders.
- Top level managers in the Pareto group own 968,550 shares or 2.28% of the bank shares.
- 42.5 million shares each with face value of NOK 12.
- Shares have been traded at prices between NOK 25.60 and NOK 33.50.

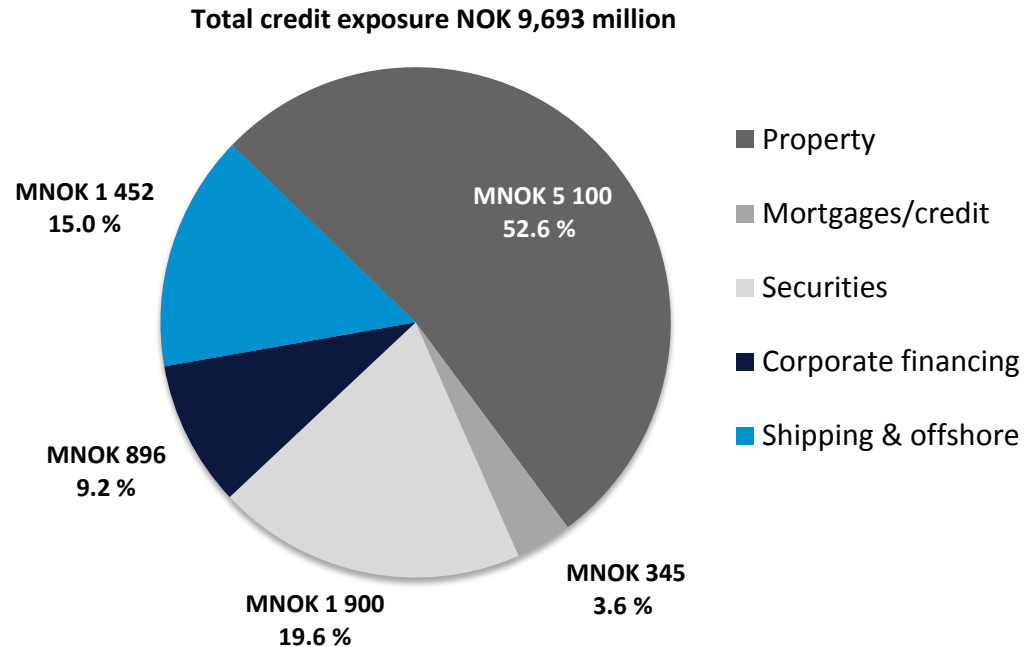
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A PROJECT BANK

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

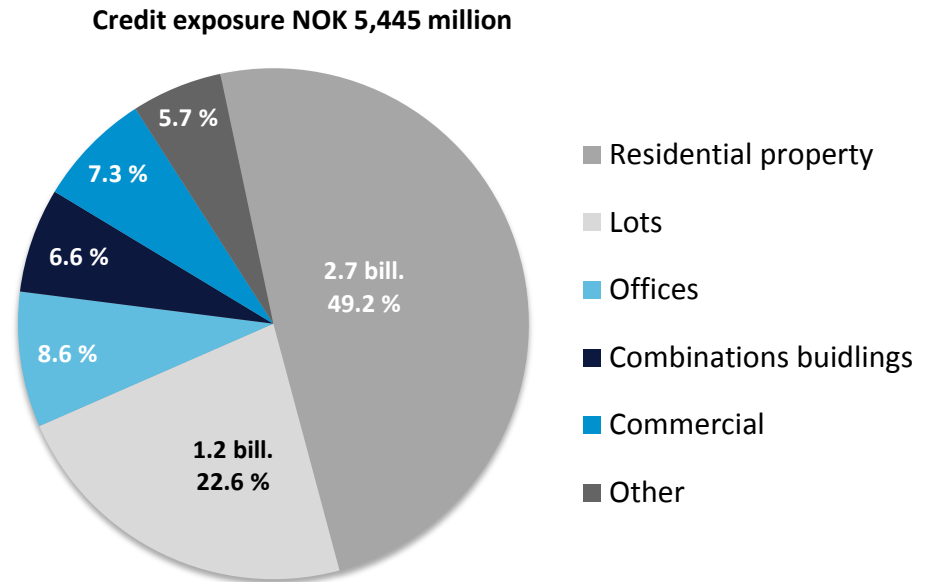
PORTFOLIO COMPOSITION PR. 30.9.2015

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 SPECIALISED PRODUCTS:

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

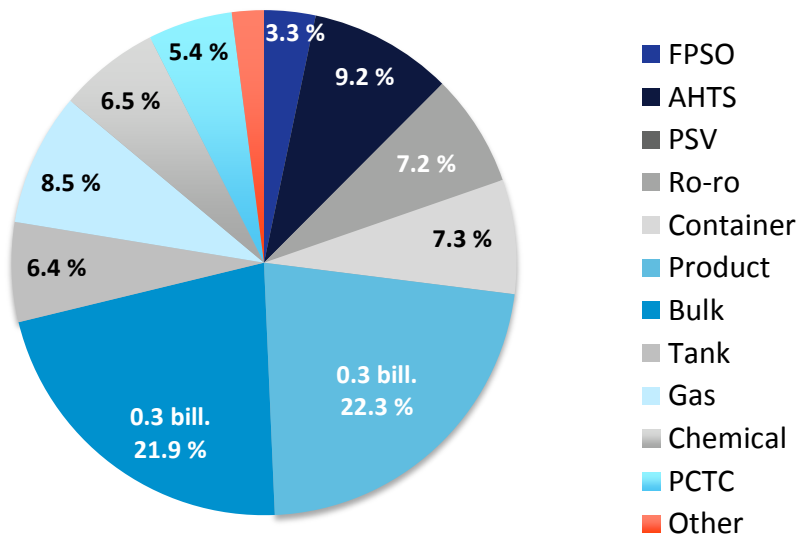
INCREASED FOCUS ON FINANCING CORPORATE PROJECTS IN COOPERATION WITH PARETO SECURITIES:

- 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 34 vessels
- Pareto Bank is the direct lender in all but 3 loans. These are syndicates or club deals
- 23 loans with 1st priority pledge in tonnage
- 1 loan where the bank has 2nd priority mortgage where the borrower is a solid ship owner who is offering their balance sheet as collateral
- Average loan size is USD 7.1 million
- Largest loan is USD 12.4 million

Credit exposure NOK 1,452 million



TERMS OF SHIPPING & OFFSHORE FINANCING

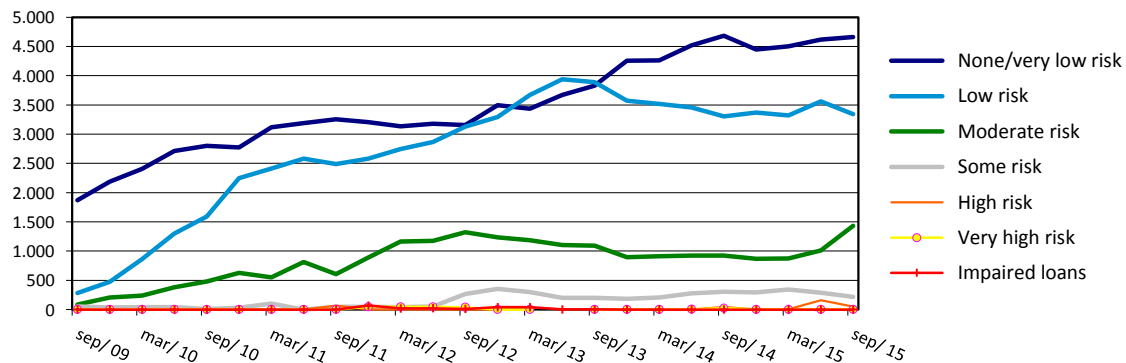
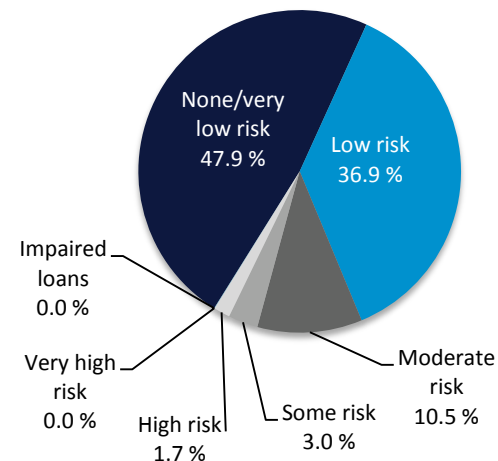
- Our clients are long-term owners with extensive experience and expertise in operations and maintenance. They normally have Norwegian ownership or management.
- The client should be a high quality charterer with transparent books and a diversified cash flow.
- Objects built in renowned shipyards, with 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		
	30.09.2015	30.09.2014	31.12.2014
None/very low risk	4,659	4,685	4,448
Low risk	3,341	3,303	3,371
Moderate risk	1,431	923	871
Some risk	215	305	296
High risk	49	48	0
Very high risk	3	23	3
Impaired loans	0	0	0
Accrued interest and amortisation	-4	1	-3
Total exposure	9,693	9,287	8,986



HISTORICAL TREND LOSSES AND WRITE-DOWNS

Group write-downs

(NOK million)	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%
Q3 2015	0.0	30.7	0.41%
Sum	30.7		

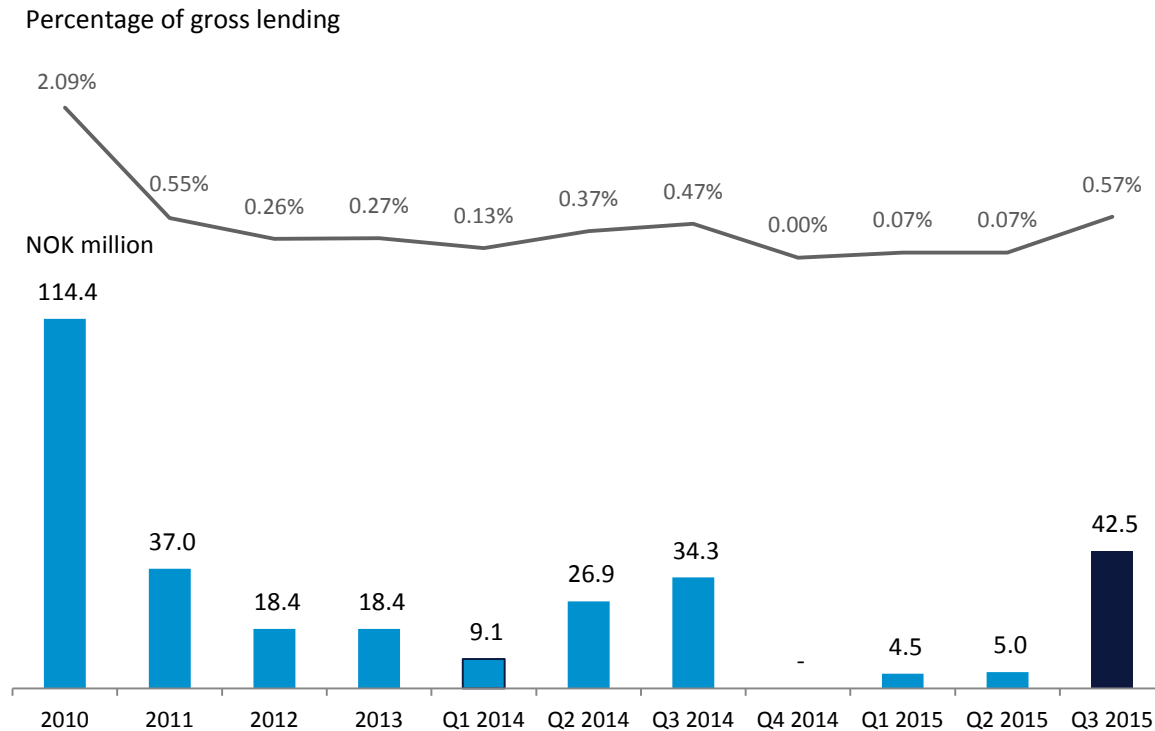
- No group write-downs in the third quarter

Individual write-downs

(NOK million)	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%
Q3 2015	0.0	0.00%
Sum	20.7	

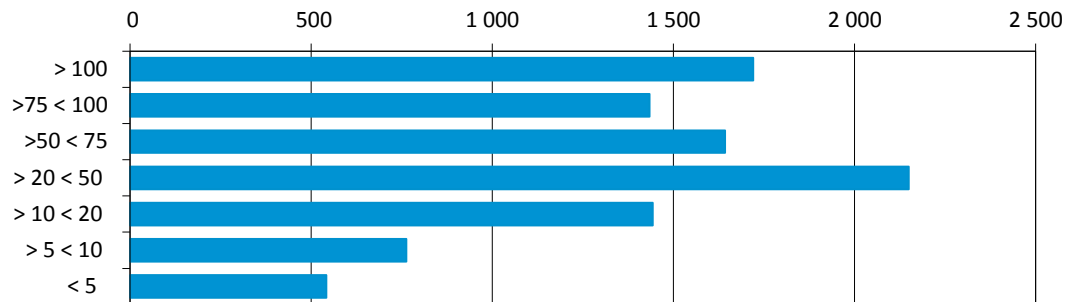
- No individual write-downs in the third quarter
- Total default value of NOK 42.5 million per 30.9.15
- The loans are well secured and not considered to be impaired

NET NON-PERFORMING AND IMPAIRED LOANS AND GUARANTEES



COMMITMENTS BY SIZE

(NOK million)	Credit exposure		
	30.09.2015	30.09.2014	31.12.2014
> 100	1,720	1,128	1,101
> 75 < 100	1,433	1,180	1,031
> 50 < 75	1,642	1,605	1,875
> 25 < 50	2,149	2,569	2,090
> 10 < 20	1,443	1,482	1,576
> 5 < 10	763	760	751
<5	547	561	566
Accrued interest and amortisation	(4)	2	(3)
Sum	9,693	9,287	8,986



TOTAL CREDIT EXPOSURE

(NOK million)	Lending	Guarantees	Undrawn credit lines	Total credit exposure		
				30.09.2015	30.09.2014	31.12.2014
Real estate financing long-term	1,542.7	112.8	82.6	1,738.0	2,144.2	1,520.4
Real estate project financing	2,576.9	250.2	534.8	3,361.9	3,364.9	3,531.6
Securities financing	860.7	0.0	1,039.7	1,900.4	1,671.3	1,698.2
Shipping & Offshore financing	1,422.7	29.7	0.0	1,452.4	1,083.6	1,102.8
Corporate financing	779.2	88.2	28.4	895.9	465.9	662.4
Retail financing	304.6	0.3	40.0	344.9	557.5	474.1
Total exposure	7,486.7	481.2	1,725.5	9,693.4	9,287.3	8,986.8

INTEREST MARGIN BY SEGMENT

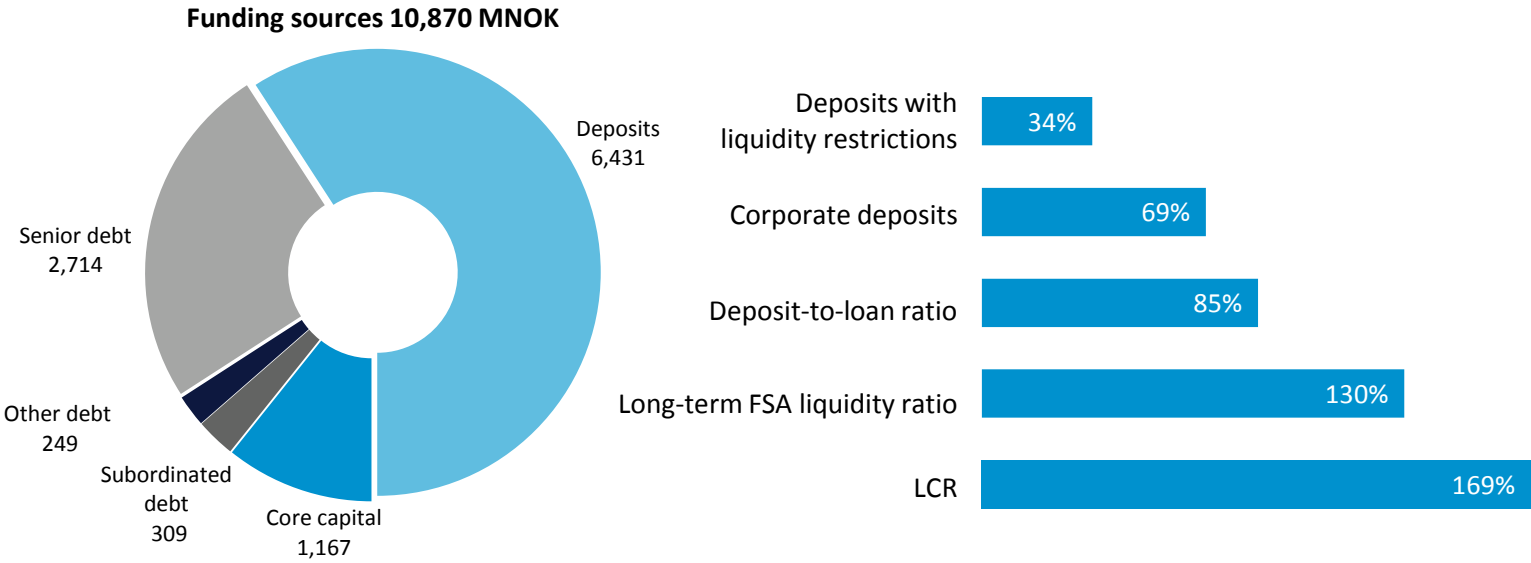
Segment (NOK million)	No. of clients	Credit exposure	Lending	Unused guarantees	Interest contribution	Interest margin
Securities financing	353	1,900.4	860.7	1 039.7	35.3	4.10%
Corporate financing	28	895.9	779.2	116.6	36.6	4.70%
Real estate project financing	212	5,099.9	4,119.6	980.2	196.5	4.77%
Shipping & Offshore financing	24	1,452.4	1,422.7	29.7	59.9	4.21%
Retail financing	57	344.9	304.6	40.3	8.8	2.88%
Sum	674	9,693.4	7,486.7	2,206.7	337.0	4.50%

Interest contributions and interest margin per segment excluding front-end fees as of 30.9.15.

Average cost of funds was 1,80 % as of 30.9.15

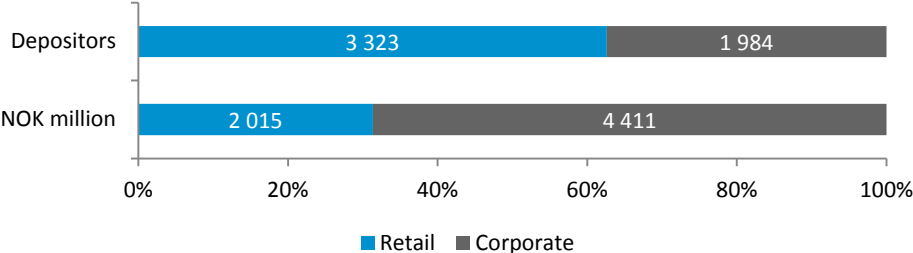
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FUNDING SOURCES

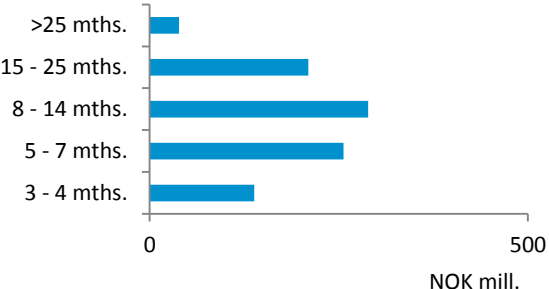


CUSTOMER DEPOSITS

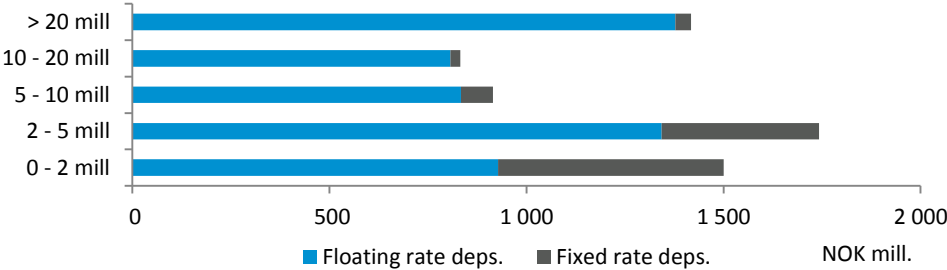
Deposit allocation



Fixed rate deposits – time to maturity



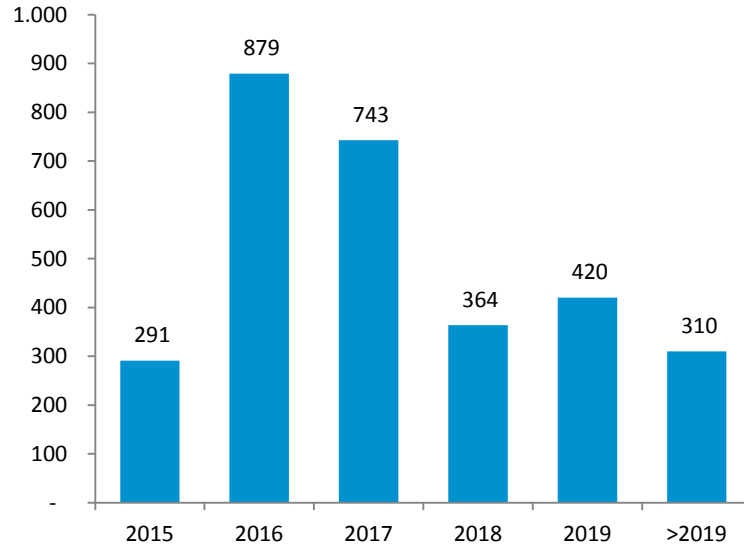
Deposits by size



Average deposit per customer (NOK)

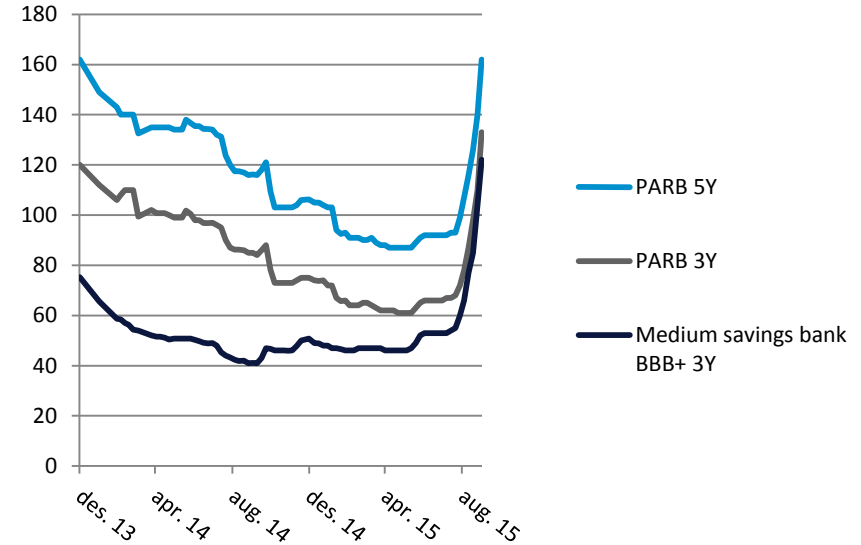
Total	1.2 mill.
Commercial	2.2 mill.
Retail	0.6 mill.

MARKET FUNDING



Market funding maturity profile (NOK million)

Pareto Bank has issued 1 short time paper, 6 senior unsecured bonds, a subordinated loan and two subordinated bonds. The bonds are listed on Nordic ABM and the Oslo Stock Exchange.

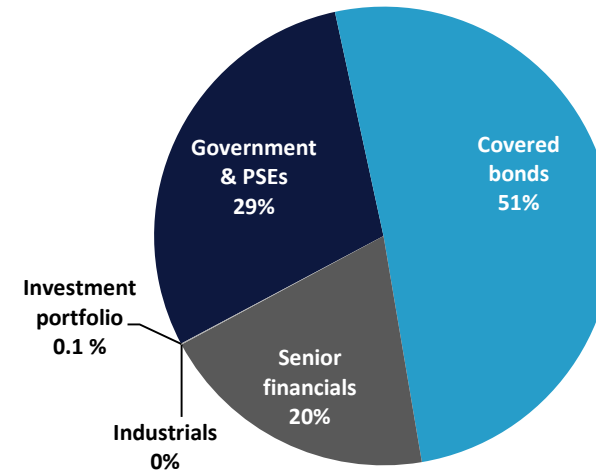
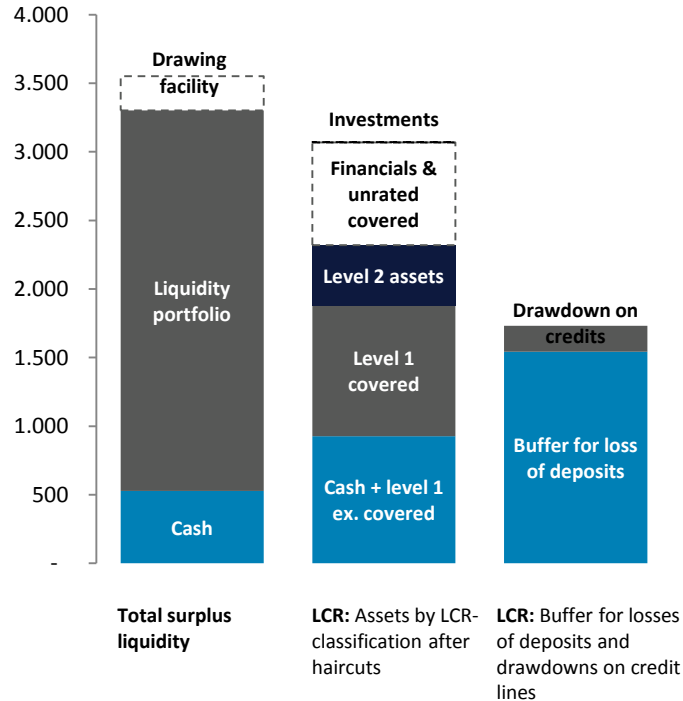


Credit spreads

Better investor relations and more transparent pricing helps the bank place more senior debt in the market. However, senior financial credit margins rose considerably through September and were at the end of the third quarter close to 2012 levels.

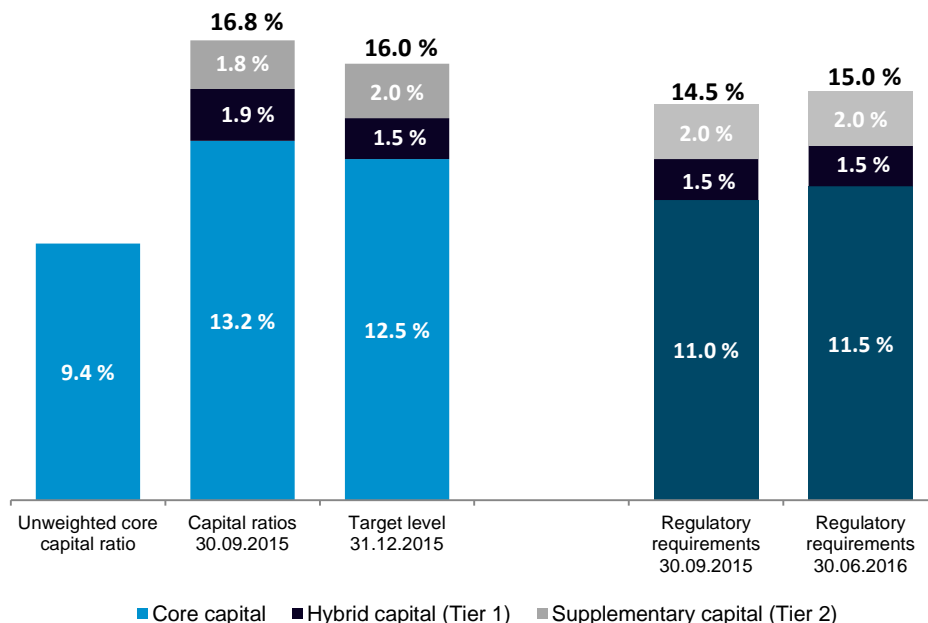
(Sources: NBP, Pareto Bank)

SURPLUS LIQUIDITY



The bond portfolio consists of a liquidity portfolio of mainly AAA securities, an investment portfolio (maximum limit NOK 500 million of which 0.4% 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.

End of June 2016, the countercyclical capital buffer requirement increases by 0.5 percentage points to 1.5 per cent.

According to a new circular from the Norwegian FSA, the new pillar 2 capital requirement must be met with common equity tier 1 (CET1).

Overall, this suggests intensified common equity requirements for Pareto Bank.

In light of the new circular, Pareto Bank will estimate the pillar 2 capital requirements and reevaluate its capital targets.

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

The payout ratio will however take into consideration the bank's capital situation, regulatory requirements and prospects for profitable growth.

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STRENGTHENING CORE CAPITAL

	Core capital (MNOK)	Core capital ratio	ROE
30.09.2015	1,108.9	13.17%	17.1%
31.12.2014	999.9	12.13%	15.6%
31.12.2013	869.3	11.52%	12.7%
31.12.2012	785.5	11.07%	8.6%

In 2016, the countercyclical capital buffer requirement will be increased by 0.5 percentage points to 1.5 per cent.

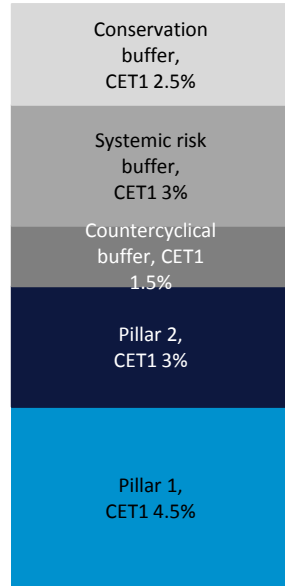
According to a new circular from the Norwegian FSA, the new pillar 2 capital requirement must be met with common equity.

Overall, this suggests intensified common equity requirements for Pareto Bank.

Strengthening core capital through:

- High return on equity
- Low lending growth
- Low dividend payments

REASSESSING CAPITAL TARGETS



Pillar 1	4.5 %
+ Buffer requirements	7.0 %
= Sum Pillar 1	11.5 %
+ Pillar 2	x.x %
= Sum Pillar 2	xx.x %

The CET1 target of 12.5 percent will be reassessed as a result of the increasing the countercyclical capital buffer requirement next year.

Pareto Bank will estimate the pillar 2 capital requirements (ICAAP) and assess the impacts of the estimate. The FSA will make its own assessment of the bank's pillar 2 capital requirements (SREP).

LONG TERM 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 bank's capital targets will be reassessed as a result of stricter capital requirements.

In the short term, higher common equity requirements may have consequences for return on equity, lending growth and dividends.

STATUS GROWTH AMBITIONS FOR 2015

BUSINESS AREA	COMPETITORS	CUSTOMERS	MARKET	GROWTH TARGETS	STATUS
REAL ESTATE FINANCING	DNB, Nordea, Handelsbanken.	Real estate developers and property investors.	Still good deal flow, but a high natural rate of redemptions of building loans.	Net growth approx. NOK 200 million	MNOK -114
CORPORATE AND SECURITIES FINANCING	Brokers, DNB, Nordea and SEB.	Private investors, owners and companies.	Potential customized corporate financing.	Net growth ca. NOK 200 million	MNOK 210
SHIPPING & OFFSHORE FINANCING	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	MNOK 320

 Pareto bank