



PARETO BANK

Financial Results

Third Quarter 2016
1 December 2016
Swedbank

Pareto bank
Prosjektbanken

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HIGHLIGHTS

Pareto bank



Record profit after tax of NOK 68.4m.

Return on Equity of 17.3 %. *

Lending growth NOK 582m on a strong net margin. Lending growth NOK 977m YTD-16 compared to a growth target NOK 800m for 2016.

Attractive business opportunities within real estate financing has led to strong growth.

All growth has taken place within real estate financing, while lending to shipping & offshore has been reduced.

The bank is raising NOK 200m through a guaranteed rights issue and is contemplating an issue of up to NOK 120m in a Tier 2 bond.

The bank expects a CET1 ratio of approximately 17.0 % after raising new capital.

The bank has applied to be listed on Oslo Børs (main listing) in Q4-16.

FINANCIAL TARGETS AND DIVIDEND POLICY

	30.09.2016 STATUS	31.12.2016 TARGET	
ROE	16.4 %	> 15.0 % *	Cost effective and commercially oriented bank
CAPITAL ADEQUACY	14.5 %	15.0 % **	Expect to reach approx. 17.0 % following the rights issue
DIVIDEND POLICY	30-50 %	30-50 % ***	The actual payout ratio will depend on the growth potential within the bank's market
LENDING GROWTH	NOK 977m	NOK 800m	Attractive growth in residential property development on a strong net margin

Note(*): Profit after tax excluding tier 1 interest costs after tax over average core equity tier 1 capital including retained earnings for the period.

Note(**): in line with requirements from the NFSA || Note(***): the actual dividend payout ratio will depend on the potential presence of profitable growth in the future

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NORWAY'S LEADING PROJECT BANK

BUSINESS AREAS	PROJECTS / CREDITS	AREA EXPOSURE	AVG. PRINCIPAL
Real estate	 <ul style="list-style-type: none">1. Construction financing2. Project financing3. Commercial property financing	58 %	NOKm 25-50
Securities & Corporates	 <ul style="list-style-type: none">1. Securities financing2. Bridge financing3. M&A financing	27 %	NOKm 5-30
Shipping & Offshore	 <ul style="list-style-type: none">1. Shipping projects2. Norwegian ship owners3. Family offices	12 %	USDm 5-10

PORTFOLIO COMPOSITION | OVERVIEW *

MAIN BUSINESS AREAS

Real estate

Real estate financing focused on residential property construction in the greater Oslo region

Securities & Corporates

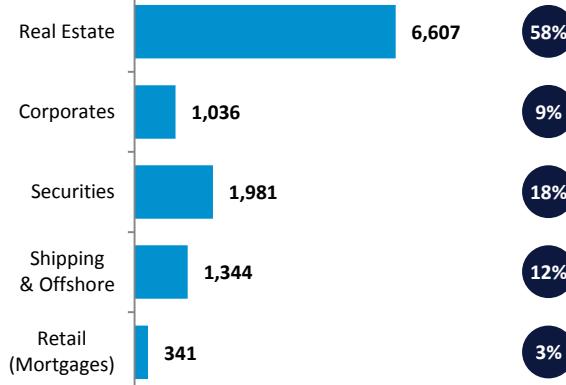
A full scale provider of securities & corporate financing including investment services

Shipping & Offshore

Gradually building a diversified shipping and offshore portfolio

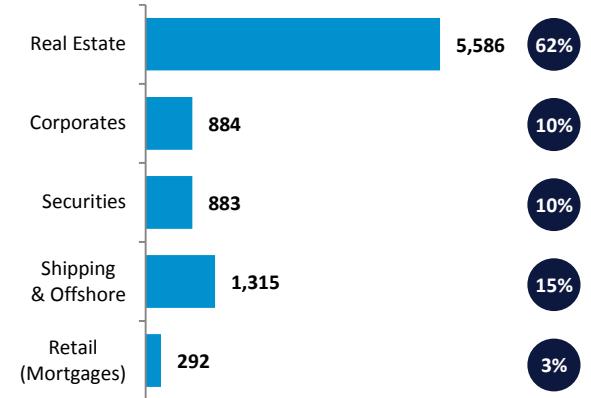
Gross credit exposure (NOKm)

$\Sigma = \text{NOK } 11,309\text{m}$



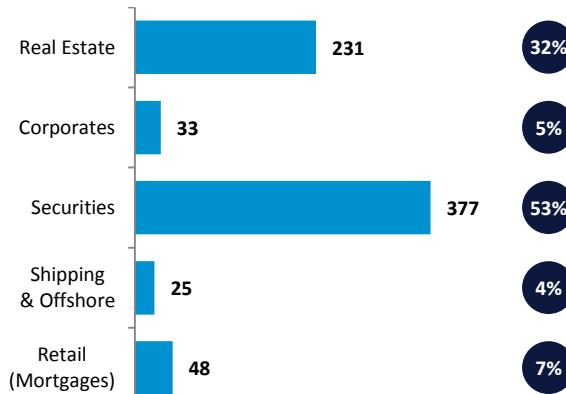
Gross total lending (NOKm)

$\Sigma = \text{NOK } 8,960\text{m}$



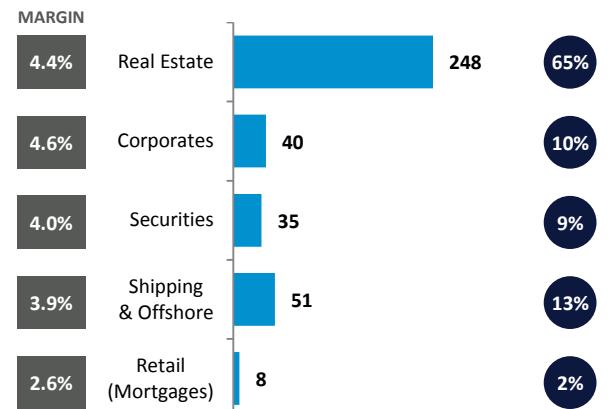
Number of active clients

$\Sigma = \# 715$

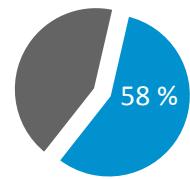


Interest contribution (NOKm) **

$\Sigma = \text{NOK } 382\text{m}$

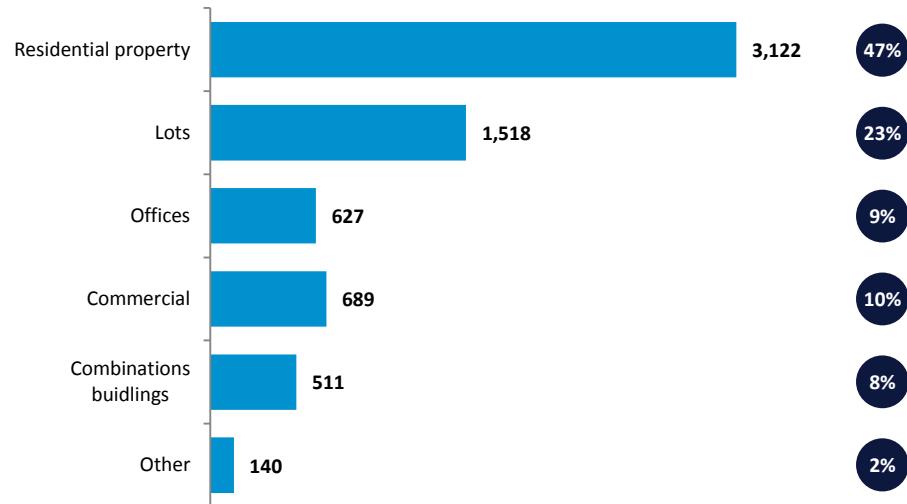


REAL ESTATE | STRONG MARKET POSITION *

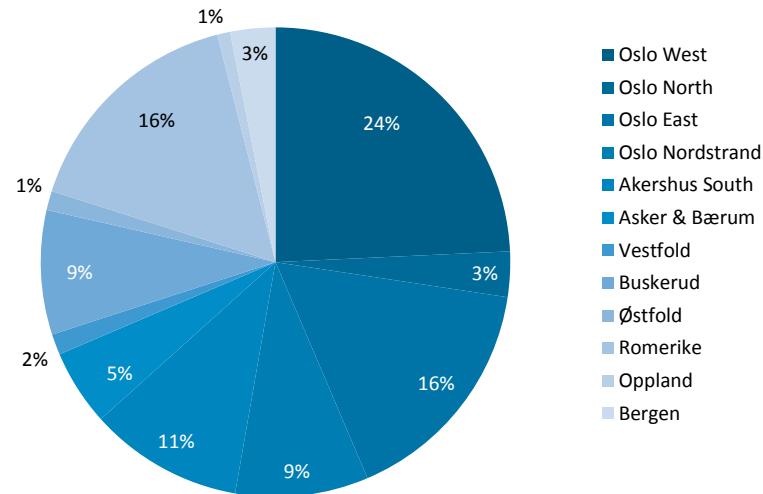


Real Estate credit exposure (NOKm)

$\Sigma = \text{NOK } 6,607\text{m}$



Geographical residential property exposure (NOKm) **

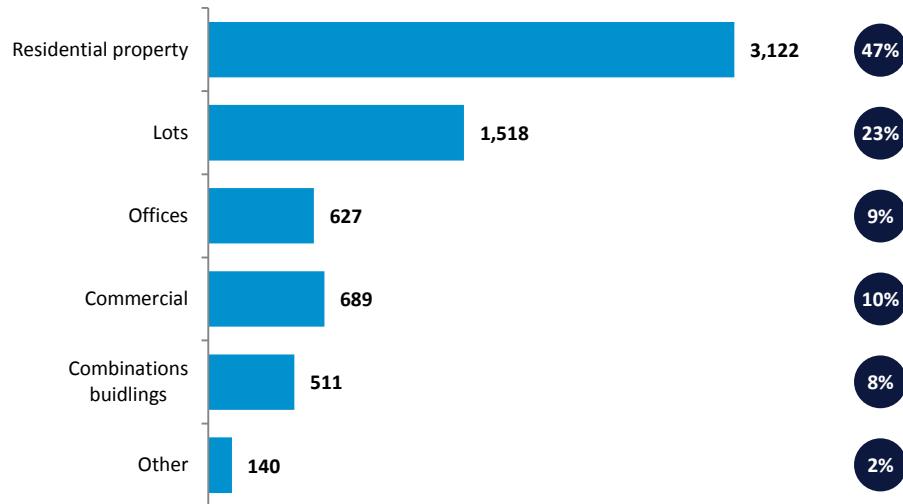


- Strong market position within residential property construction in the Oslo region
- Primarily financing of regulated lots with a potential for property development
- A typical project is composed of lot financing and a building construction facility in the range of NOK 30 - 80m
- Financing of projects for renovation and conversion of commercial property to residential units

REAL ESTATE | ATTRACTIVE BUSINESS OPPORTUNITIES

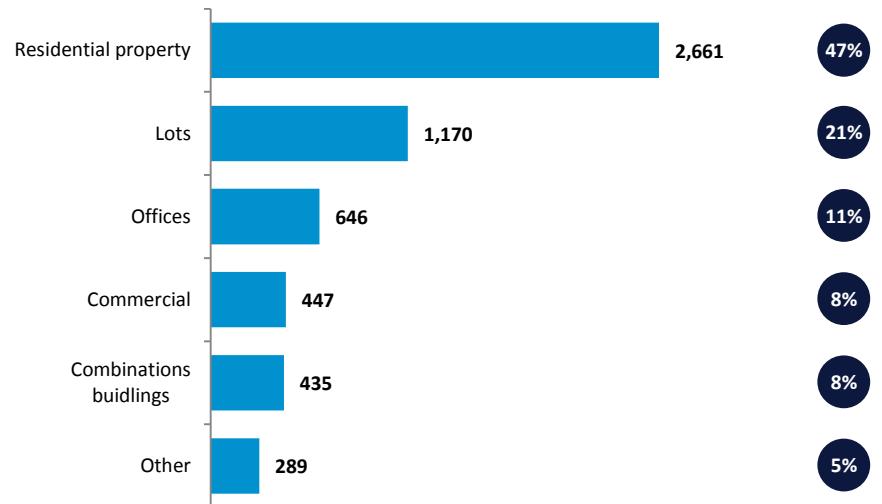
Q3-16: Real Estate credit exposure (NOKm)

$\Sigma = \text{NOK } 6,607\text{m}$



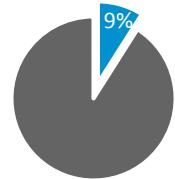
Q4-15: Real Estate credit exposure (NOKm)

$\Sigma = \text{NOK } 5,649\text{m}$



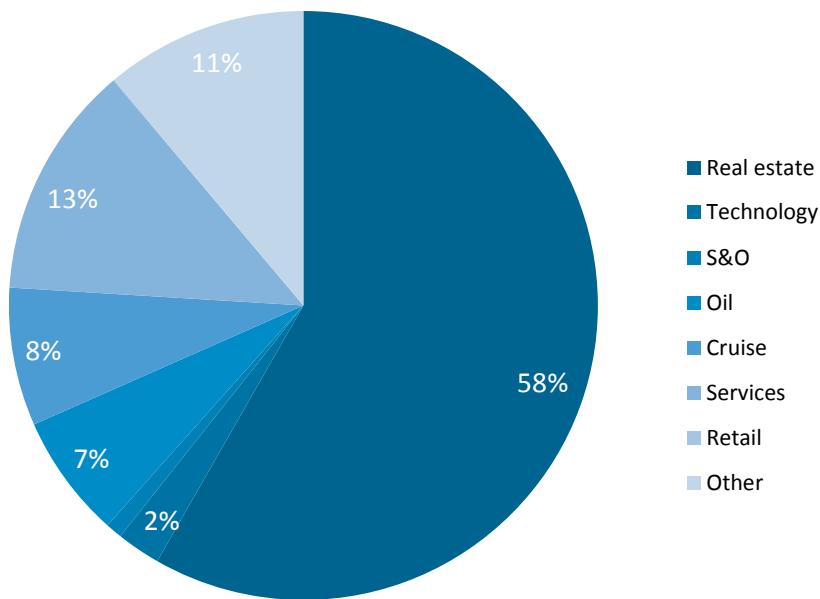
- Attractive business opportunities within residential property development due to historically low interest rates and a strong demand for housing in the Oslo area
- The bank's market risk is softened by a high demand for housing: projects are quickly sold
- High focus on cash covenants to prepare for a potential negative market development

CORPORATE FINANCING *



Total corporate finance exposure by industry (NOKm)

Σ = NOK 1,036m



Corporate financing

Overview

- Total exposure of NOK 1,036m
- 33 customers with credit facilities/guarantees in the range of NOK 1m to NOK 212m
- Exposure to a variety of industries

Products

- Various forms of bridge financing in connection with investments and issues
- M&A financing
- Financing of investments with guarantees from financially sound owners

Time is everything

- Our value proposition lies in the transaction phase of an investment
- Our clients need a professional and dedicated credit team that can efficiently structure tailor-made financing for a specific project

CORPORATE FINANCING | AN OPPORTUNITY

Ambition

- Pareto Bank will become a leading provider of tailor-made and transaction based financing solutions to investors/owners/family offices and small and medium-sized enterprises (SMEs)

What we do

- Bridge financing to wealthy investors, owners, family offices with a specific investment opportunity or funding gap
- M&A and LBO financing to Norwegian small and medium-sized enterprises (SMEs)

Value Proposition: Access to capital and liquidity. Fast.

- Our value proposition lies in the transaction phase of an investment
- We offer a professional and dedicated credit team that quickly and efficiently structures tailor-made financing of specific projects and transactions

The Market: Large and with limited competition

- Tailor-made bridge financing to Norwegian investors is not a focus area for banks
- This is a niche product that represents an opportunity for Pareto Bank with a pure transaction/project focus
- The larger banks allocate capital to private customers and large corporates and transactions
- SMEs represent 99 % of all Norwegian enterprises, but receive little or no attention with regards to transactions from NOK 20 to 200m
- The bond market is no real alternative as the amounts are too small. Transactions are often too large and too complex for local savings banks.

Én av tre søker merker bankenes innstramming

Data fra Norges Bank og Virke viser at bankene har blitt strengere med å gi lån til norske bedrifter. Mandag har Monica Mæland kalt inn til hastemøte.



MONICA MÆLAND: Næringsminister Monica Mæland har møtt inn til et møte om kapitalstramming for norske bedrifter. Under møtet ble det også uttalt at...

Det er stor frustrasjon hos flere av medlemsbedriftene, sier administrerende direktør Morten Berge i Bedriftsforbundet. Foto: Aleksander Nordahl



Source: E24

- Det er stor frustrasjon hos flere av medlemsbedriftene, sier administrerende direktør Morten Berge i Bedriftsforbundet. Foto: Aleksander Nordahl

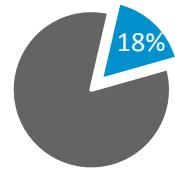
Finans Bank

Frykter kapitaltørke

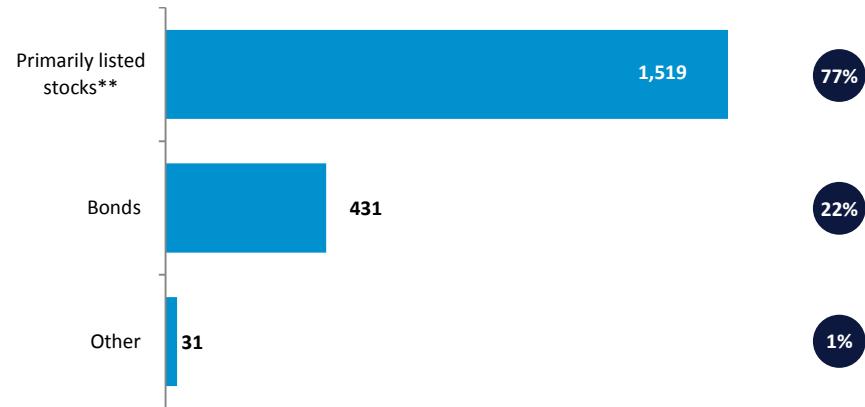
Bedrifter med inntil ti ansatte opplever oftest stengt dør hos bankene. - Mange frykter kapitaltørke i løpet av kort tid, sier leder Morten Berge i Bedriftsforbundet.

Source: DN

SECURITIES FINANCING *



Total securities exposure (NOKm)



Key comments

- A dedicated and highly skilled team of 4 FTE's in addition to the head of securities & corporates
- The main rationale is to take advantage of the opportunities afforded by the bank's link to the Pareto group
- Wide range of securities financing products and investment services
- Customized and flexible financing solutions

Securities financing

Overview

- Total exposure of NOK 1,981m
- 377 customers of which only 48 have a credit facility of above NOK 10m
- Real time follow-up and any breach of margin call / LTV limit must be repaired by the end of next day

Standard products

- Financing of stocks primarily 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.)

Specialized products

- Forwards, total return swaps
- Guarantees in favour of Oslo Stock Exchange for companies in a mandatory offer position

SHIPPING & OFFSHORE | DIVERSIFIED LOANS *

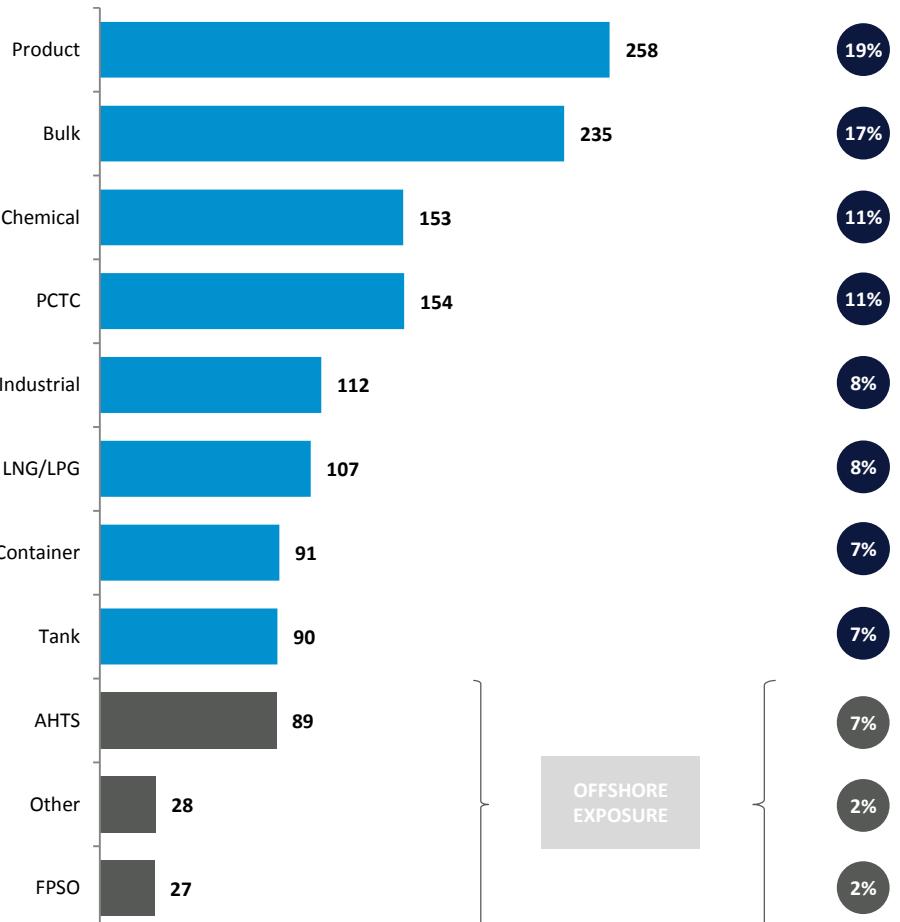


Key comments

- 26 loans financing a total of 36 vessels
- Largest exposure is USD 12.6m; average size USD 6.5m
- At origination only one loan has been approved with a LTV above 60% (albeit with guarantees)
- Currently 10 loans have a LTV above 70 % based on updated valuations as of 30.09.2016: including guarantees from owners/additional security/uncalled capital the number of loans above 70 % LTV drops to 6
- Only 3 loans and one guarantee towards the offshore sector: approx. 1.3 % of total credit exposure
- 3 new loans in 2016
- A dedicated and highly skilled team of 3 FTE's in addition to the head of S&O are responsible for the segment

Total S&O credit exposure (NOKm)

$\Sigma = \text{NOK } 1,344\text{m}$



SHIPPING & OFFSHORE | REVISION OF STRATEGY

Status

- Total credit exposure within Shipping & Offshore has been reduced by NOK 189m from NOK 1,533m (15 % of total exposure) in Q4-15 to NOK 1,344m (12 % of total exposure) in Q3-16
- Exposure to the offshore segments is 1.3 % of total credit exposure
- Three new loans have been granted in 2016 towards solid industrial Norwegian clients
- There is currently little competition from other shipping and offshore banks
- Several shipping markets and most offshore markets are currently at a low point and visibility is poor going forward

Revision of strategy

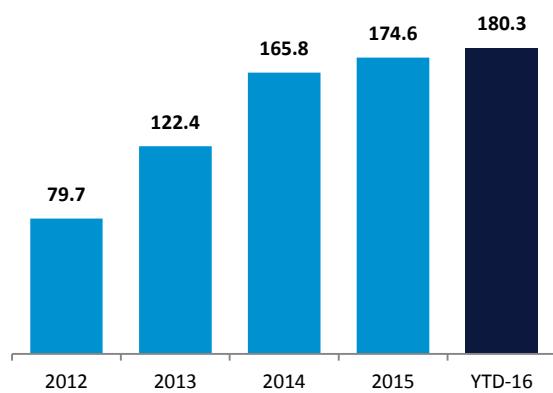
- Management has a critical eye on the bank's shipping & offshore lending activities
- Current strategy is under revision given the negative market outlook in general, the bank's recent experiences and close dialogues with key shareholders
- The strategy revision will be completed by Q1-17
- A more restrictive credit policy already applies and will apply going forward
- Main focus is primarily on Norwegian ship owners and family offices

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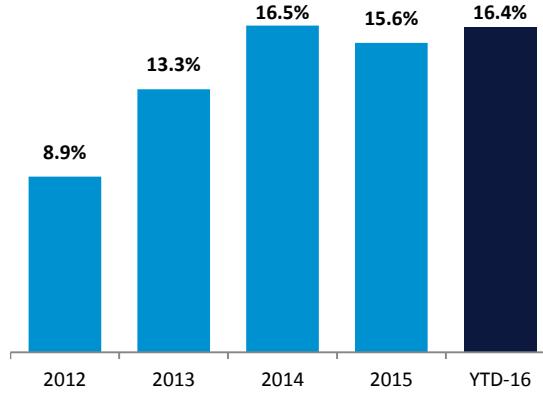
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SOLID FOUNDATION AND STRONG PERFORMANCE

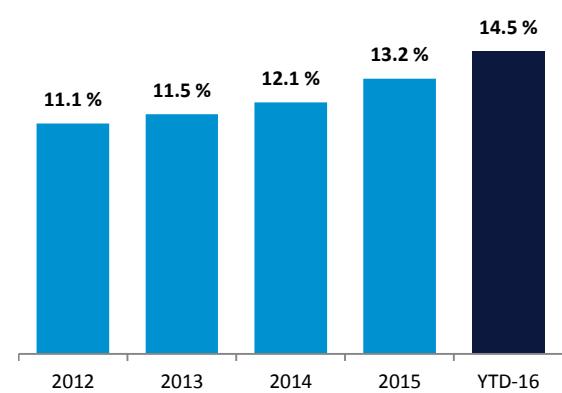
Result after tax (NOKm)



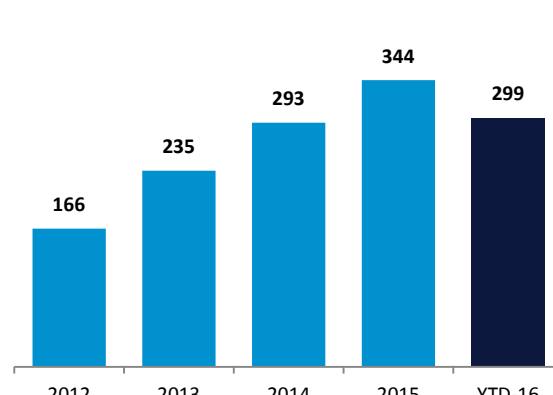
Return on Equity *



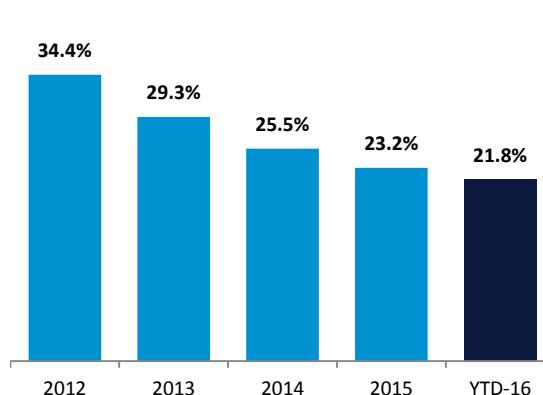
CET1 ratio **



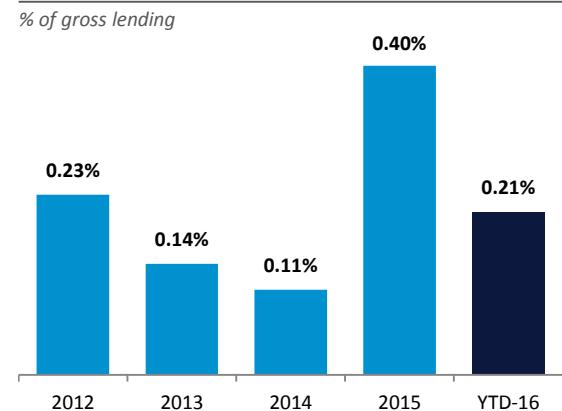
Net interest income (NOKm)



Cost/income ratio

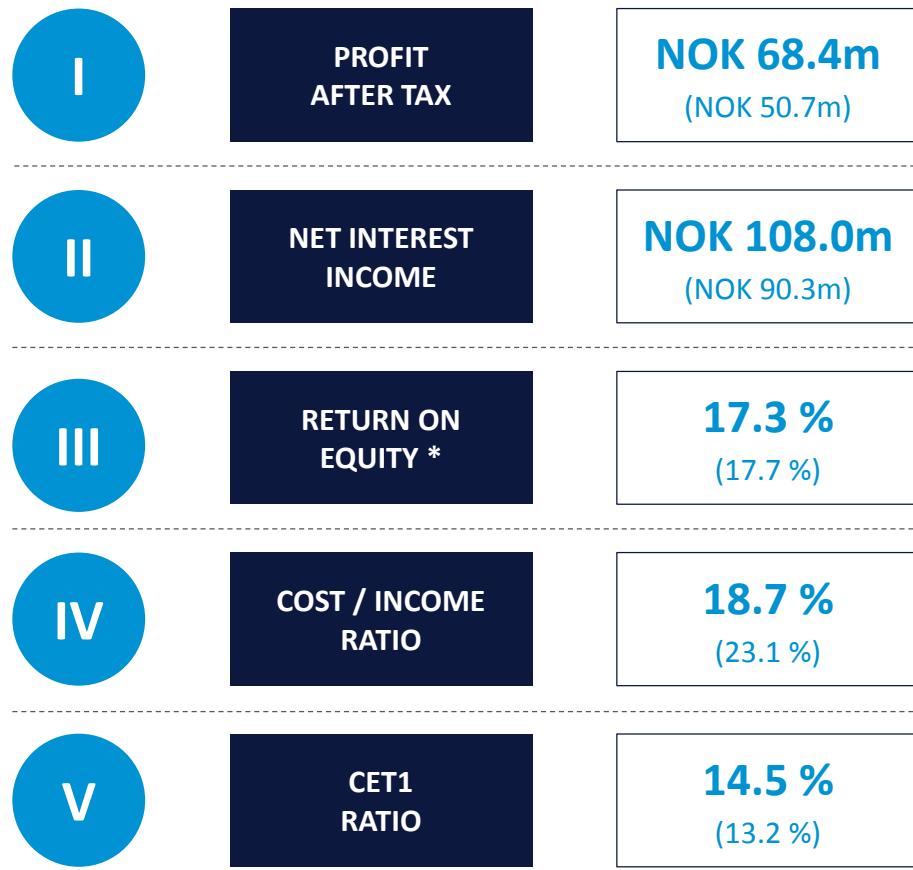


Loss ratio

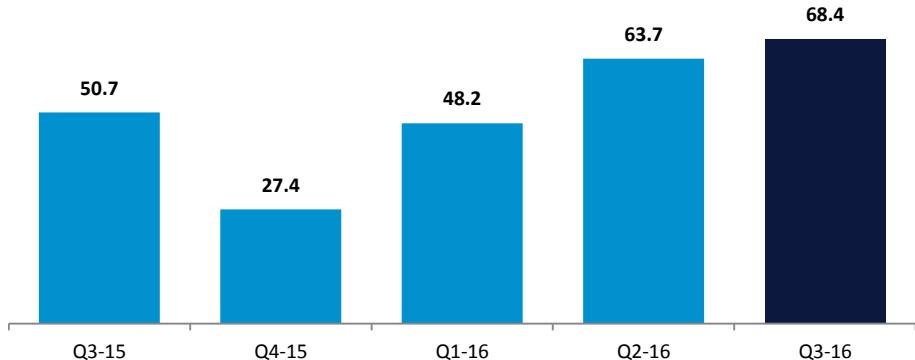


THIRD QUARTER HIGHLIGHTS

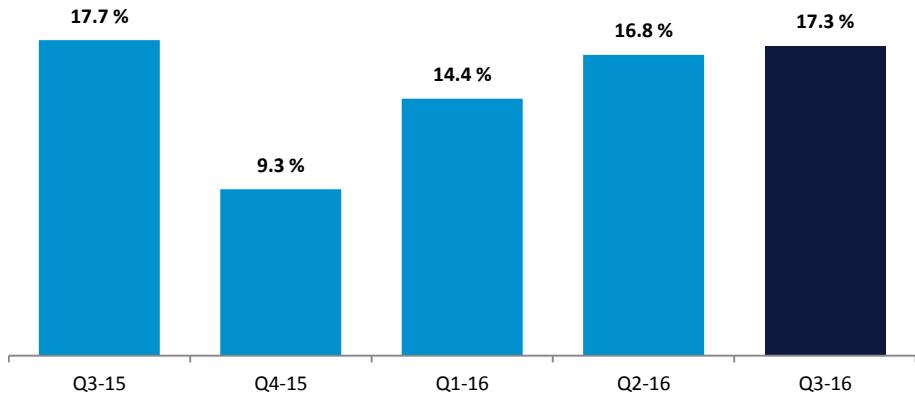
Key figures Q3-16



Profit after tax (NOKm)



Return on Equity *



QUARTERLY INCOME STATEMENT

P&L (NOKm)

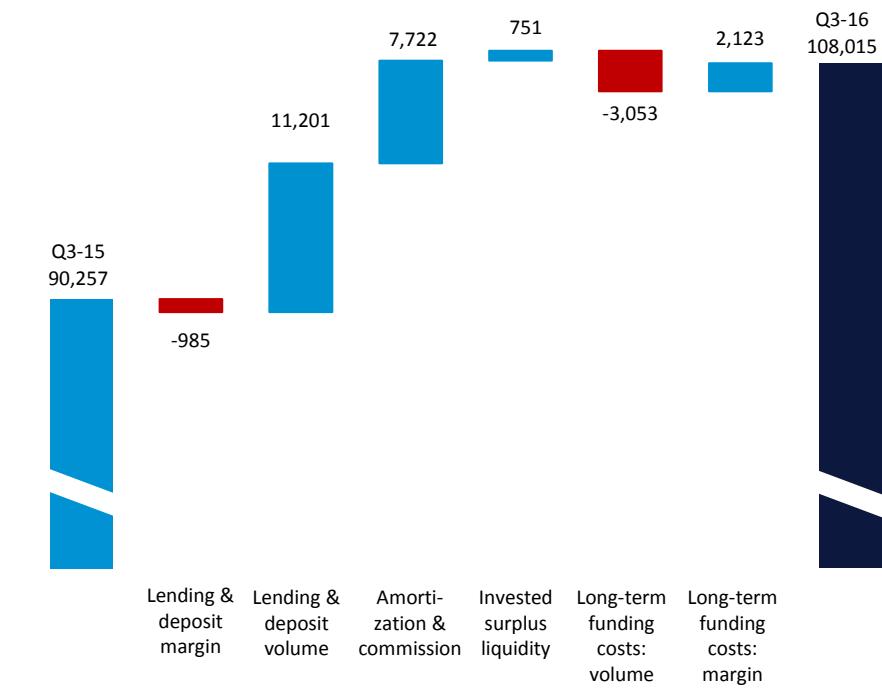
	Q3-16	Q3-15	1.1-30.09 2016	1.1-30.09 2015	2015
Net Interest income	108.0	90.3	298.6	248.2	344.3
Total other operating income	13.3	0.3	33.0	17.8	12.4
Total net income	121.3	90.5	331.6	265.9	356.7
Total other operating expenses	22.7	21.0	72.4	60.0	82.7
Operating result before losses / write-downs	98.6	69.5	259.2	206.0	274.0
Losses / write-downs on loans	7.4	0.0	18.8	4.0	31.6
Operating result before tax	91.2	69.5	240.3	201.9	242.3
Tax payable	22.8	18.9	60.1	54.7	67.7
Result after tax	68.4	50.7	180.3	147.2	174.6
<i>Earnings per share (NOK)</i>	1.32	1.19	3.47	3.46	4.11

Key comments

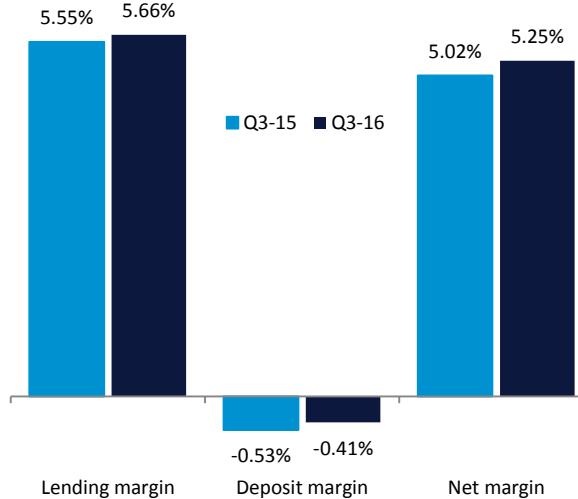
- The principle of assessing financial instruments at fair value may cause profits to fluctuate between quarters
- For Q3-16 total net gains were NOK 10.2m (NOK -2.8m)
- The bank made net write-downs totaling NOK 7.4m (NOK 0.0) in Q3-16
- Of total net write-downs NOK 2.0m where group provisions relating primarily to the shipping portfolio
- NOK 4.2m (NOK 3.5m) was allocated for profit sharing with employees

GROWING NET INTEREST INCOME

Net interest income (NOK 1,000)



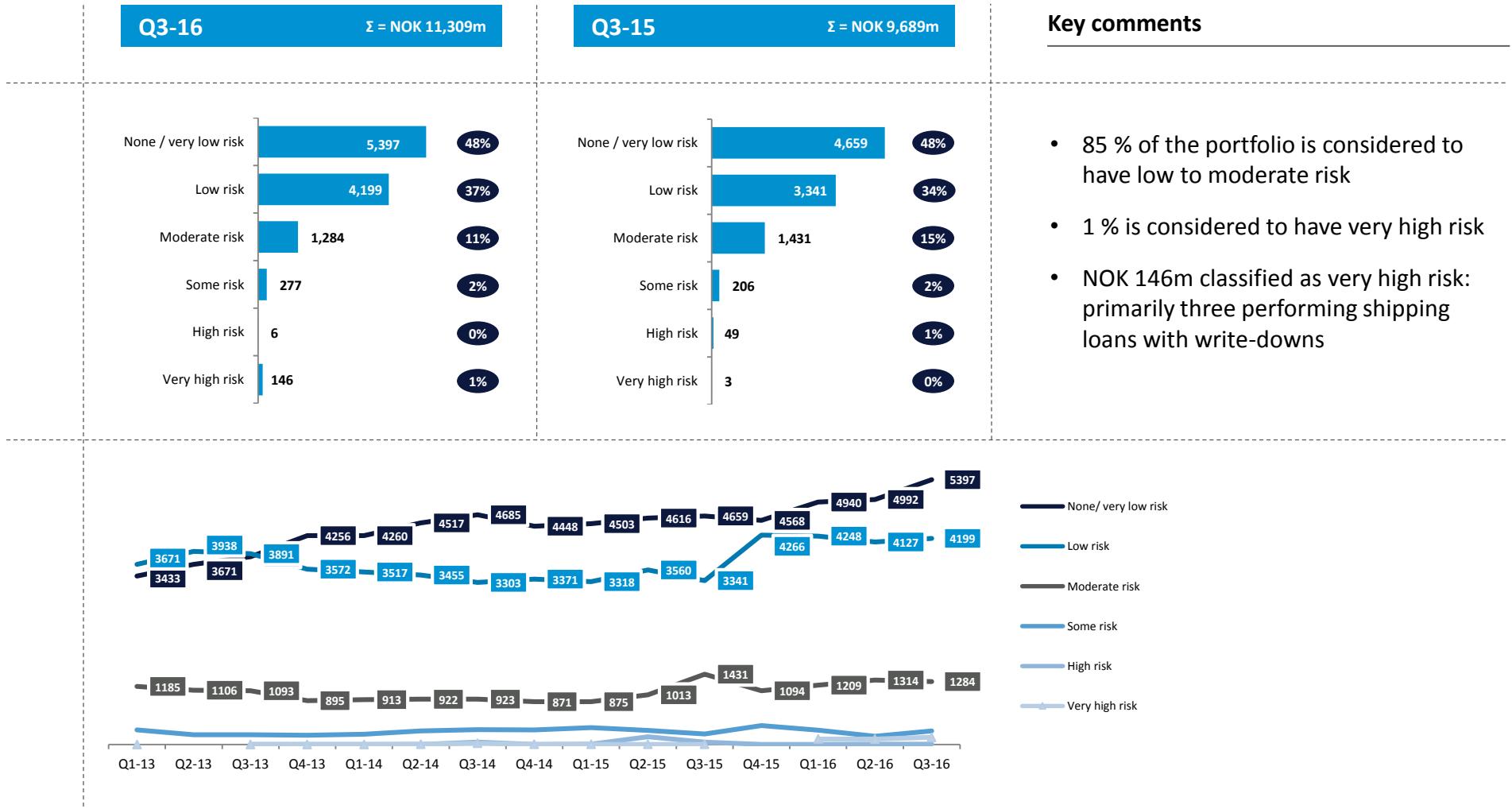
Net interest margins (vs. 3M NIBOR) *



- Increased net interest income due to increased lending and higher amortizations & commissions
- Increased surplus liquidity income
- Increased lending in securities market

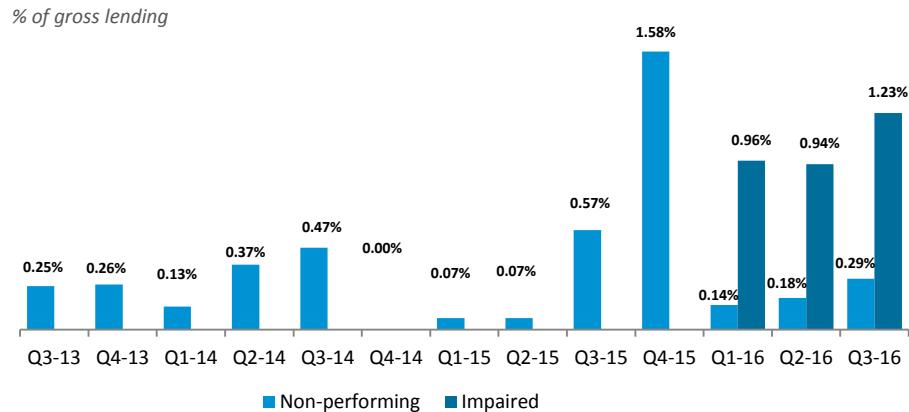
- Net interest margin increased by 0.23 percentage points over the last 12 months
- Improved deposit margin by 0.12 percentage points
- Improved lending margin by 0.11 percentage points

COMMITMENTS BY RISK CLASSIFICATION

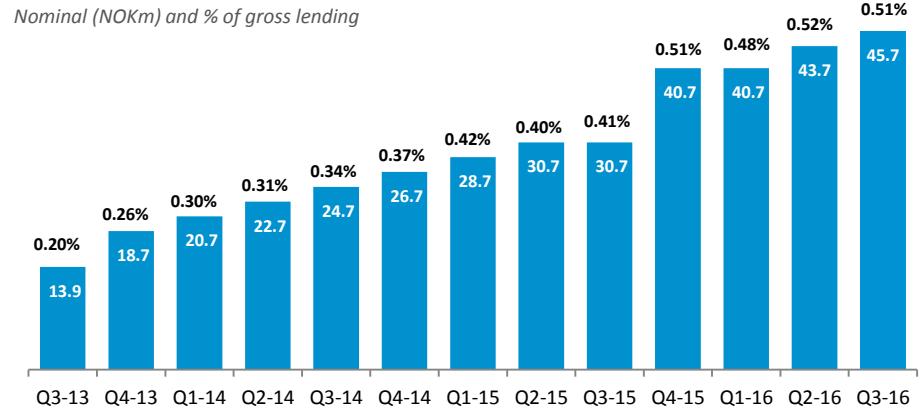


LOAN PORTFOLIO QUALITY

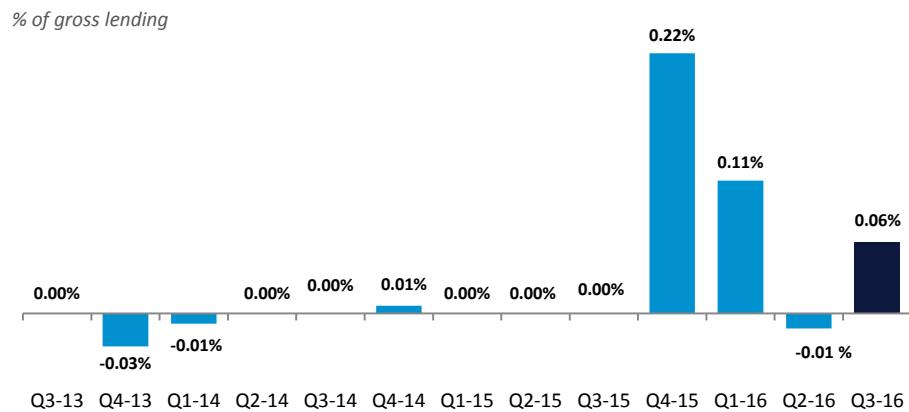
Net non-performing and impaired loans *



Cumulative group provisions



Individual losses/write-downs/reversals on loans & guarantees



- Net non-performing loans were reduced from NOK 126m (1.58 % of gross lending) by the end of Q4-15 to NOK 26 (0.29 %) by the end of Q3-16
- Three impaired shipping loans of net NOK 111m (1.23 %) by the end of Q3-16
- These three loans are performing loans with total write-downs of USD 3.6m/NOK 29m (Q4-15 USD 2m, Q1-16 USD 1m and Q3-16 USD 0.6)
- Group provisions increased with NOK 2m to NOK 45.7m or 0.51 % of gross lending by the end of Q3-16

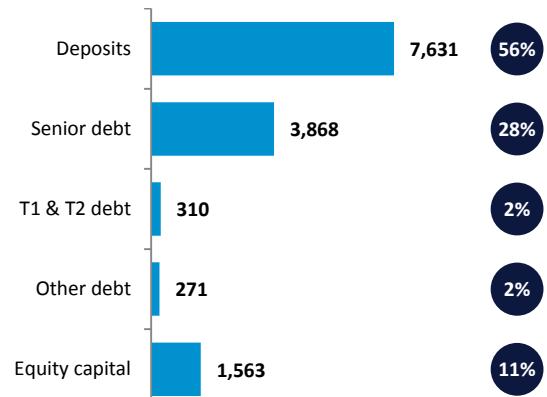
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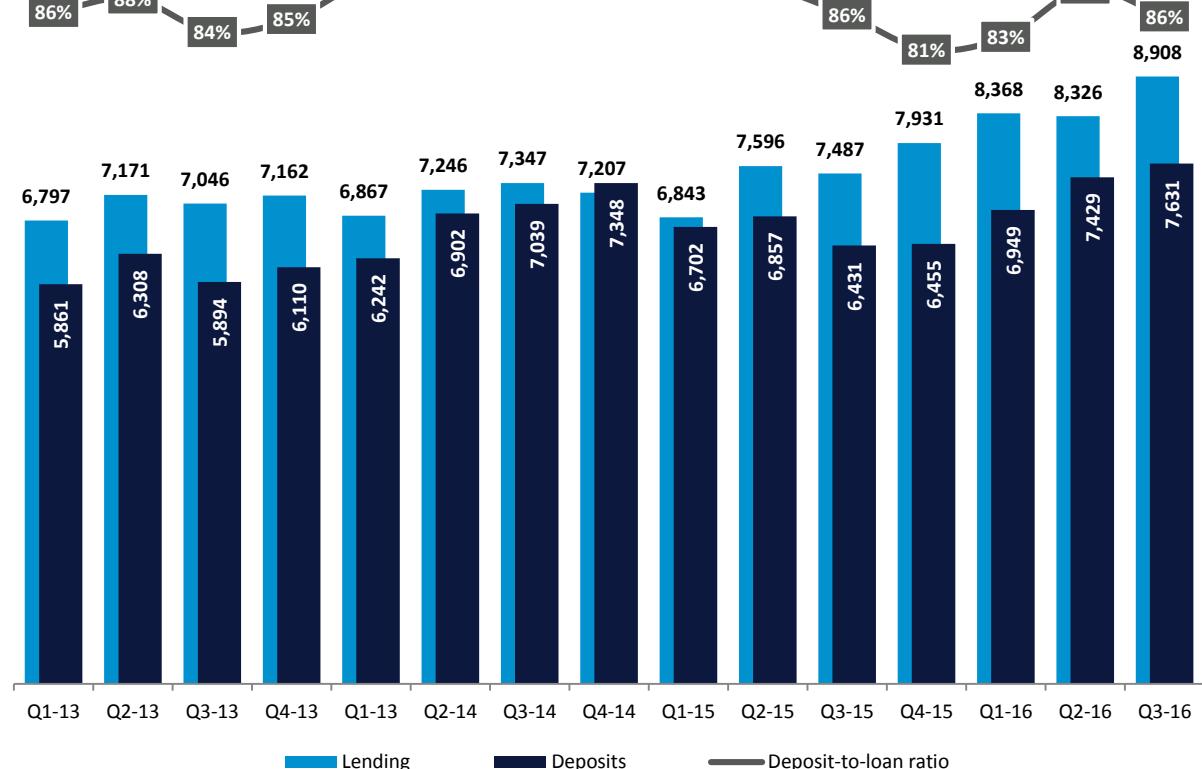
FUNDING | OVERVIEW *

Sources (NOKm)

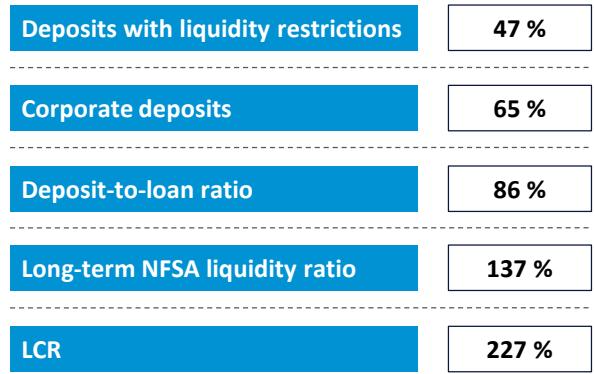
$\Sigma = \text{NOK } 13,643\text{m}$



Historical development in deposits vs. lending (NOKm)

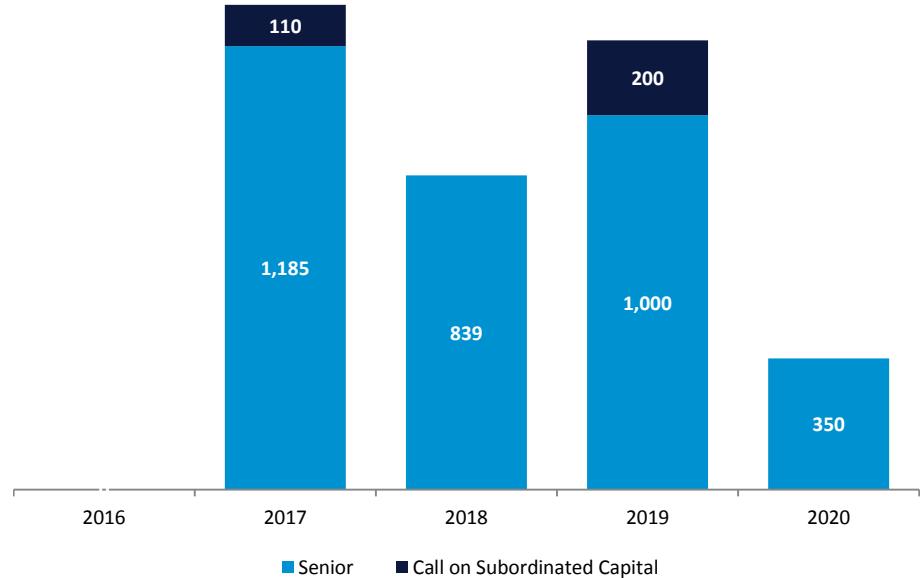


Key ratios

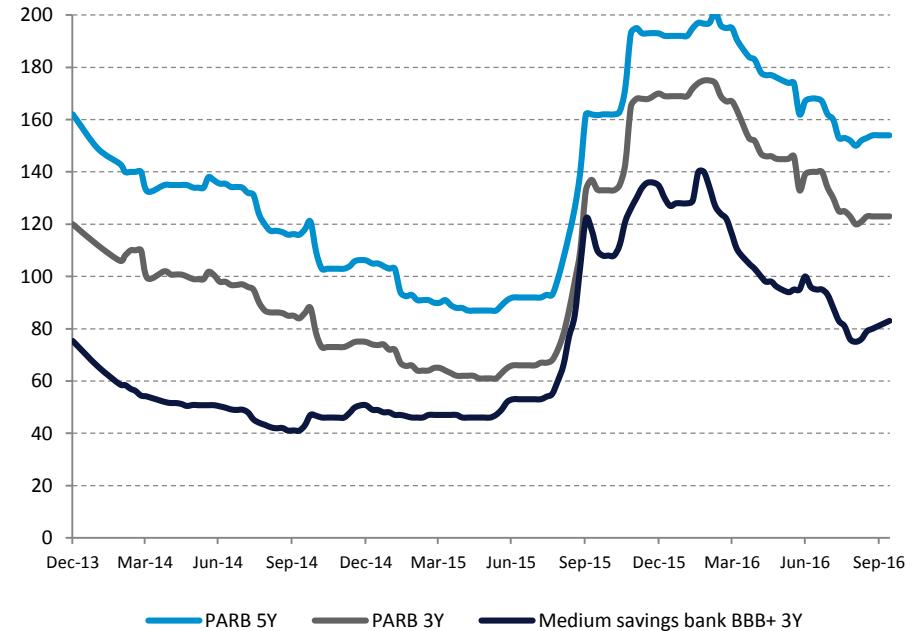


FUNDING | MARKET FUNDING *

Market funding maturities - net of own holdings (NOKm)



Credit spreads (bps)

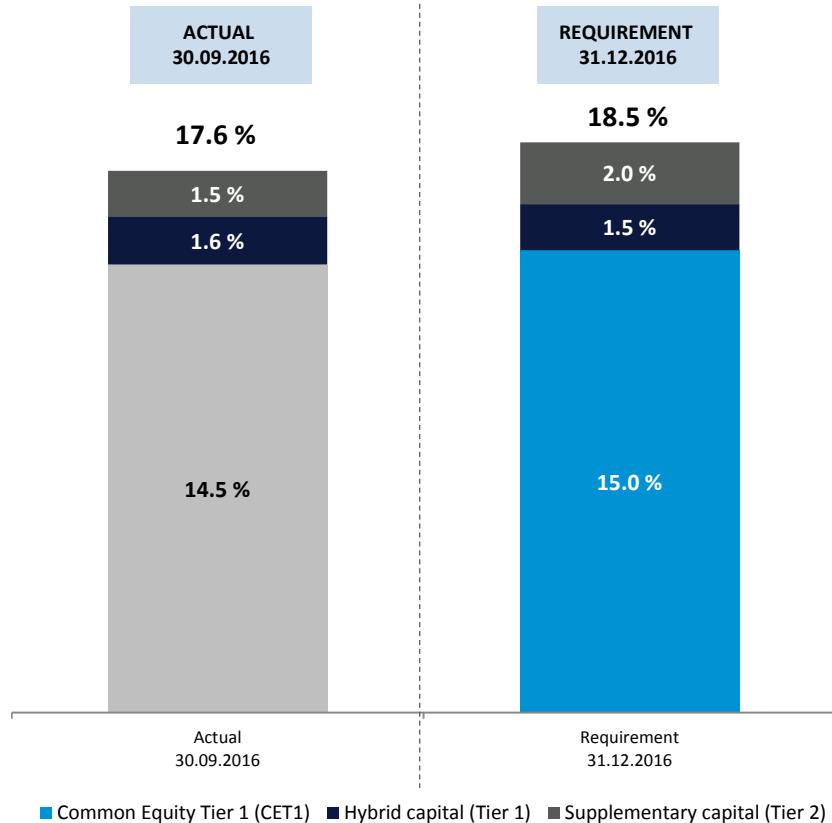


- The bank has eight loans outstanding. The senior bond PARB13 PRO matured on 3 October 2016
- Subordinated capital includes one tier 2 bond and two perpetual tier 1 bonds with five year calls
- The bonds are listed on Nordic ABM and the Oslo Stock Exchange

- The bank issues target spreads on a regular basis
- Senior finance spreads have leveled out after the summer
- Pareto Bank's focus is on continuously improving investor relations through transparent pricing and providing liquidity by market making

CAPITAL RATIOS AND REQUIREMENTS

Pareto Bank capital ratios and requirements *



As of 30.09.2016 the CET1 requirement (Pillar 1) plus Pillar 2 requirement was 13.9 %

Key comments

- The bank's total capital requirement is 18.5 % by end-of-year 2016
- The bank's CET1 requirement is 15.0 % by end-of-year 2016
- Portfolio size can vary substantially due to a high natural redemption rate and lending growth combined with large commitment size
- The bank is raising NOK 200m through a guaranteed rights issue and is contemplating an issue of up to NOK 120m in a Tier 2 bond
- The bank expects a CET1 ratio of approximately 17.0 % after raising new capital.

RIGHTS ISSUE IN COMBINATION WITH TIER 2 BOND

BACKGROUND

At the extraordinary general meeting on 10 October 2016, The Board of Directors' proposed issue of a Tier 2 bond as well as a Tier 1 bond to replace the T1 bond PARB12 failed to win a 2/3 majority of the shareholders. The bank subsequently entered into dialog with its shareholders, which resulted in a broad agreement to issue a Tier 2 bond together with a rights issue. This revised capital plan was approved on the extraordinary general meeting on 24 November 2016.

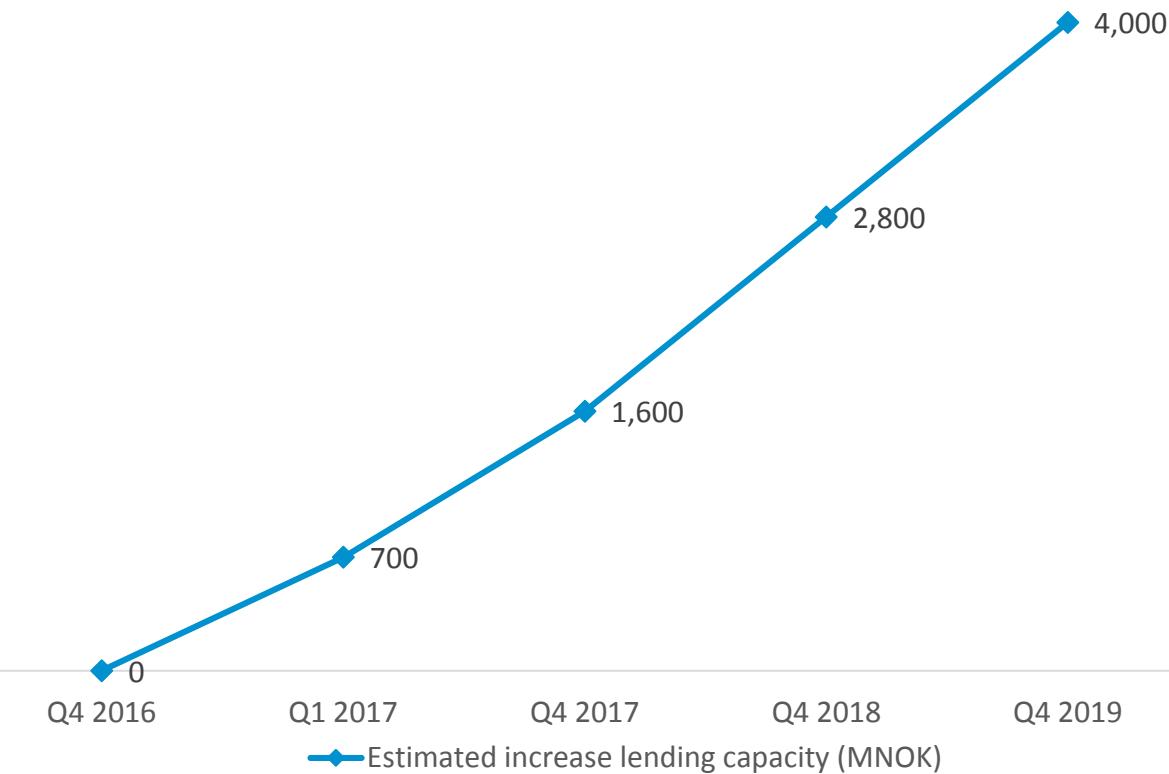
PURPOSE

The rights issue combined with the Tier 2 bond make it possible for the bank to replace its T1 bond PARB12 in March 2017 with equity while also strengthening the bank's core and supplementary capital to establish a platform for continued growth.

GUARANTEED RIGHTS ISSUE

- Net proceeds MNOK 200
- New shares to be issued at a subscription price of NOK 30,- per share
- The bank's existing shareholders have a preferential right to subscribe and be allocated new shares
- The bank has issued 0.1283 transferable subscription rights for each share owned
- The rights issue is guaranteed by a consortium consisting of seven of the bank's largest shareholders. No guarantee commission is to be paid
- The bank's has applied for shares to be transferred to Oslo Børs (main listing)

RIGHTS ISSUE MNOK 200+ TIER 2 BOND MNOK 120

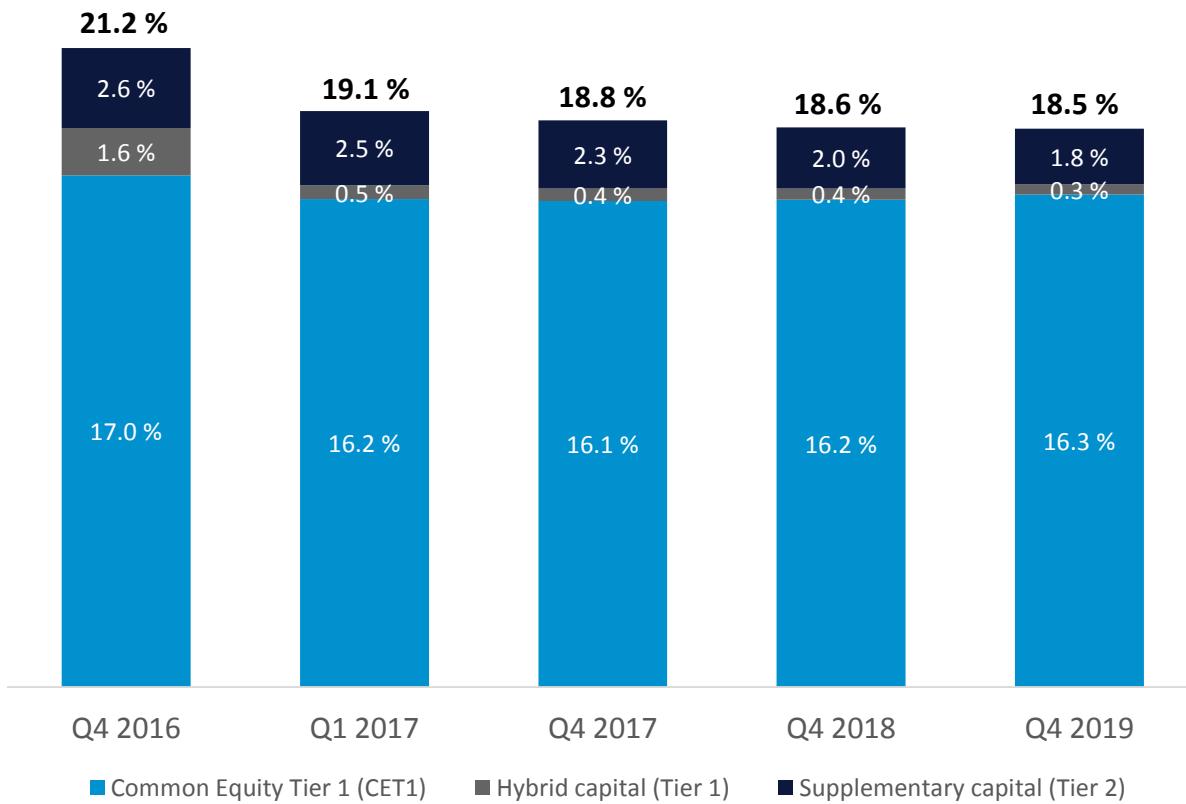


Comments

- + MNOK 120 Tier 2 bond Q4-16
- + MNOK 200 rights issue Q4-16
- ÷ MNOK 110 call T1 bond Q1-17
- = MNOK 210 total increase in capital

- With increased capital, maximum lending capacity increases by up to MNOK 1,600 in 2017 and MNOK 1,200 per year in 2018 and 2019
- A result of both new capital and future retained earnings
- This analysis assumes growth in earnings after tax proportional with lending growth less interest costs for T2 bond after tax and dividend in line with current policy

CAPITAL RATIOS AFTER RIGHTS ISSUE AND T2 BOND



Comments

- Under the assumption that the bank will grow at its maximum capacity (MNOK 1,600 in 2017 and by MNOK 1,200 per year in 2018 and 2019)
- The bank's total capital requirements will under these conditions be satisfied through 2019
- Quota for additional Tier 1 capital is partly available as of 2017
- Pareto Bank has a total capital requirement of 18.5%, a core capital requirement of 16.5% and a core equity capital requirement (CET1) of 15.0%

The logo for Pareto bank, featuring a stylized, thin-lined 'P' character positioned to the left of the word 'Pareto' in a bold, white, sans-serif font.

Pareto bank