
PARETO BANK

Investordag

Nordic Challenger Banks

Second Quarter 2017

PARETO BANK AT A GLANCE

- 1 A specialist within project financing: fast, flexible and with an entrepreneurial spirit.
- 2 Focus on financing of real estate, corporates & securities and shipping & offshore.
- 3 A core part of the business is financing of residential property development.
- 4 Expansion into corporate financing of SME's and maintenance of position within shipping & offshore.
- 5 Total lending of NOK 9,544m and total assets of NOK 13,310m by the end of Q2-17.
- 6 Profitable and cost efficient with profits after tax of NOK 153m and ROE 16.2 % by the end of Q2-17.

NORWAY'S LEADING PROJECT BANK

BUSINESS AREAS	PROJECTS / CREDITS	AREA EXPOSURE	AVG. PRINCIPAL
Real estate 	Property lot financing Building construction facilities Commercial property financing	66 %	NOKm 25-50
Corporate & Securities 	M&A loans Bridge loans Investment loans Securities financing	22 %	NOKm 5-30
Shipping & Offshore 	Ship owners Family offices Shipping and offshore projects	10 %	USDm 5-10

PORTFOLIO COMPOSITION | OVERVIEW *

MAIN BUSINESS AREAS

Real estate

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

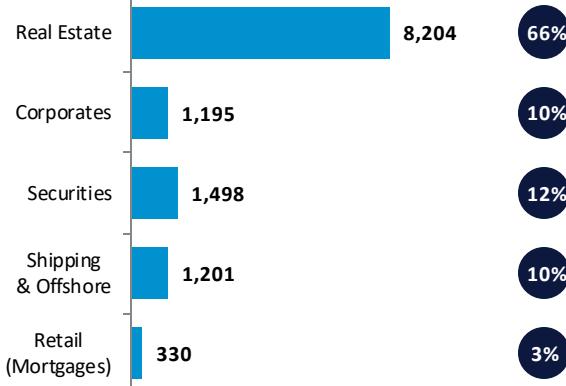
Securities & Corporates

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

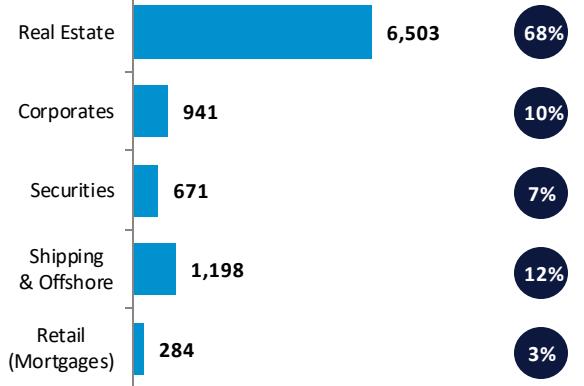
Shipping & Offshore

Focus on Norwegian clients, high quality charterers and liquid tonnage

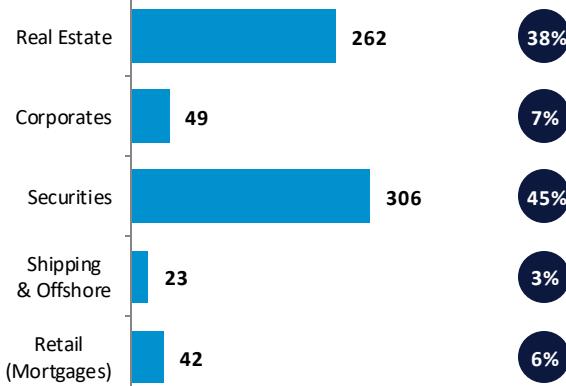
Gross credit exposure (NOKm) Σ = NOK 12,428m



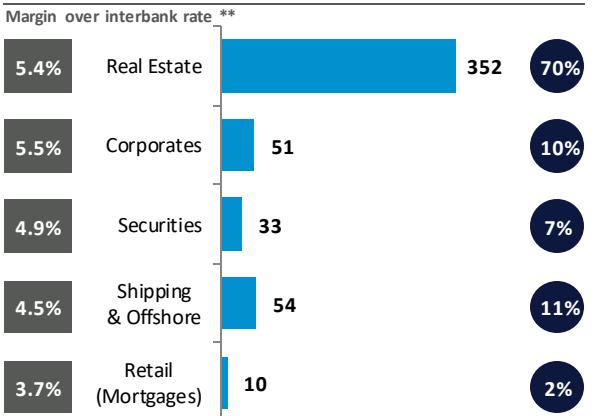
Gross total lending (NOKm) Σ = NOK 9,597m



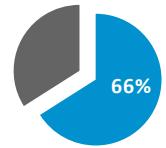
Number of active clients Σ = # 682



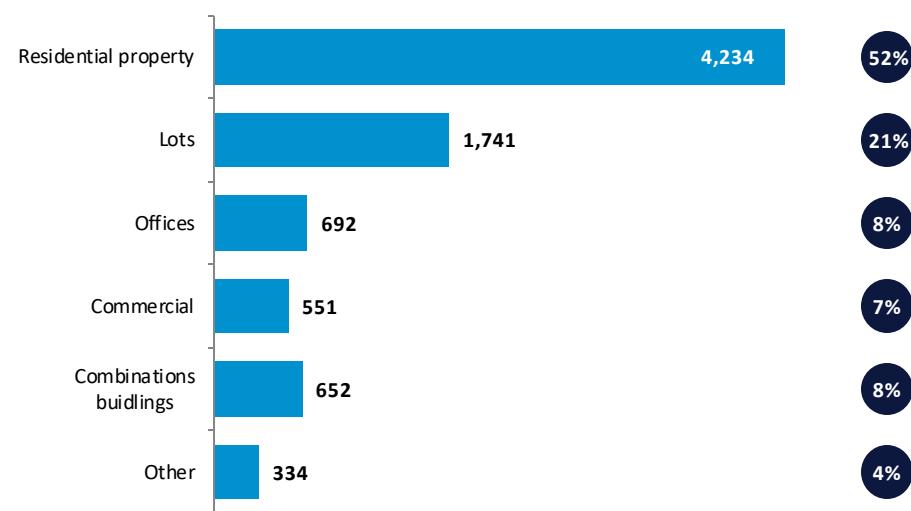
Interest contribution (NOKm) ** Σ = NOK 500m



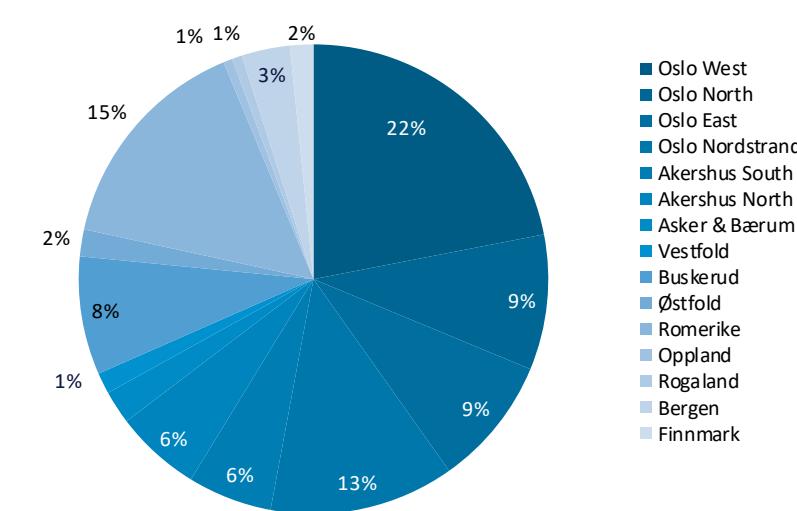
REAL ESTATE | STRONG MARKET POSITION



Real Estate credit exposure (NOKm) *

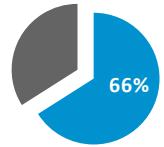


Geographical residential property exposure (NOKm) **



Status

- Strong market position within financing of residential property development in the Oslo region
- Also financing of conversion projects, renovation projects and commercial property
- Regulation restricting mortgage lending in Oslo have led to lower demand and housing prices, while a low interest rate stimulates demand
- A change in market sentiment and a more differentiated market with some segments more affected than others
- A more restrictive attitude towards projects with long-term exits and continued focus on a high level of presales, adequate liquidity buffers and 20 % to 40 % equity contribution



Real Estate portfolio policy

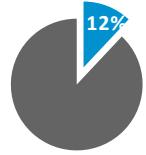
- On average 20 % to 40 % equity to finance a property lot purchase
- Primarily financing of regulated lots in Oslo and other well functioning liquid markets purchased for development with a clear exit strategy
- Market risk is reduced by requiring a high level of presale on building construction facilities
- 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

Real Estate portfolio management

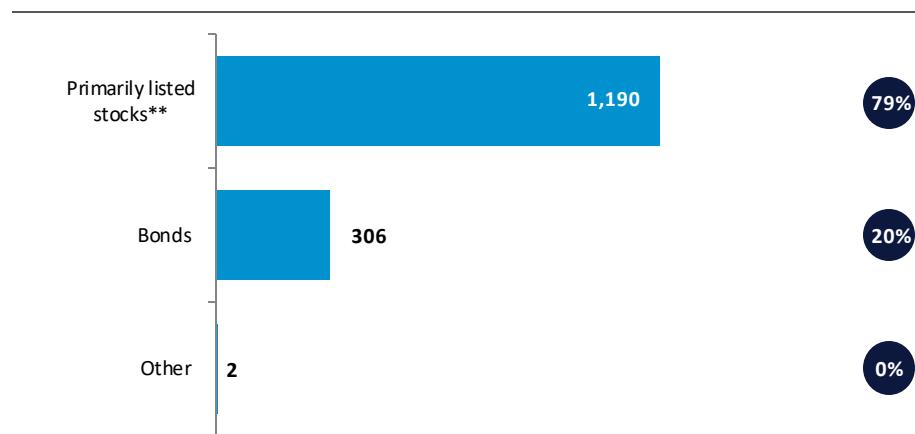
- In-house regulatory skills of the housing market is essential for a good credit decision process
- Tight project management from the bank throughout the entire project
- External third-party professional building inspectors work on behalf of the bank to follow up every project on a monthly basis
- Primarily turnkey projects to minimise cost overruns
- Portfolio stress-tested semi-annually for exposure to housing prices



SECURITIES | FOCUS ON CUSTOMIZED SOLUTIONS



Total securities exposure (NOKm) *



Products

- A wide range of securities financing products and investment services
- Financing of stocks primarily on Oslo Stock Exchange
- Financing of short trades on Oslo Stock Exchange
- Financing of high yield bonds mainly arranged by Pareto Securities
- Financing of funds (stocks, bonds, etc.)
- Forwards, total return swaps and guarantees in favour of Oslo Stock Exchange for companies in a mandatory offer position

Status and policy

- Pareto Securities' expansion into standardised securities financing in the Norwegian retail market will have an impact on the bank's exposure, and lending volume is expected to decrease by approximately NOK 200 - 400m in 2017
- Lending volume was down by NOK 261m in the first half of 2017
- The bank will continue its focus on customized financing solutions alone and in cooperation with Pareto Securities
- LTV / Leverage of 0 % to 80 % on exchange listed stocks
- Leverage of high-yield bond portfolios require LTV of about 50 % in addition to certain portfolio requirements
- Securities are followed up in real time, and any breach of LTV limit must be repaired by the end of the next day

CORPORATES | A MARKET WITH OPPORTUNITIES



Ambition

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

Value Proposition: Access to capital and liquidity. Fast.

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

The larger banks allocate capital to private customers and large corporates and transactions, and the bond market is no real alternative to SMEs as the amounts are too small. Transactions are often too large and too complex for local savings banks.

Status

Total exposure of NOK 1,195m within a variety of industries and 49 customers with credit facilities in the range of NOK 0.4m to NOK 153m.

Products

M&A FINANCING

Traditional M&A and LBO financing to Norwegian small and medium-sized enterprises (SMEs).

BRIDGE LOANS

Bridging of liquidity for clients who have both bought and sold assets, but not timed the cash flow.

INVESTMENT LOANS

Financing of equity for a client who backs the investment with a guarantee from a financially solid mother company.

WORKING CAPITAL FACILITIES

Working capital facilities, but normally short term in combination with a bridge financing.

SHIPPING & OFFSHORE | DIVERSIFIED PORTFOLIO

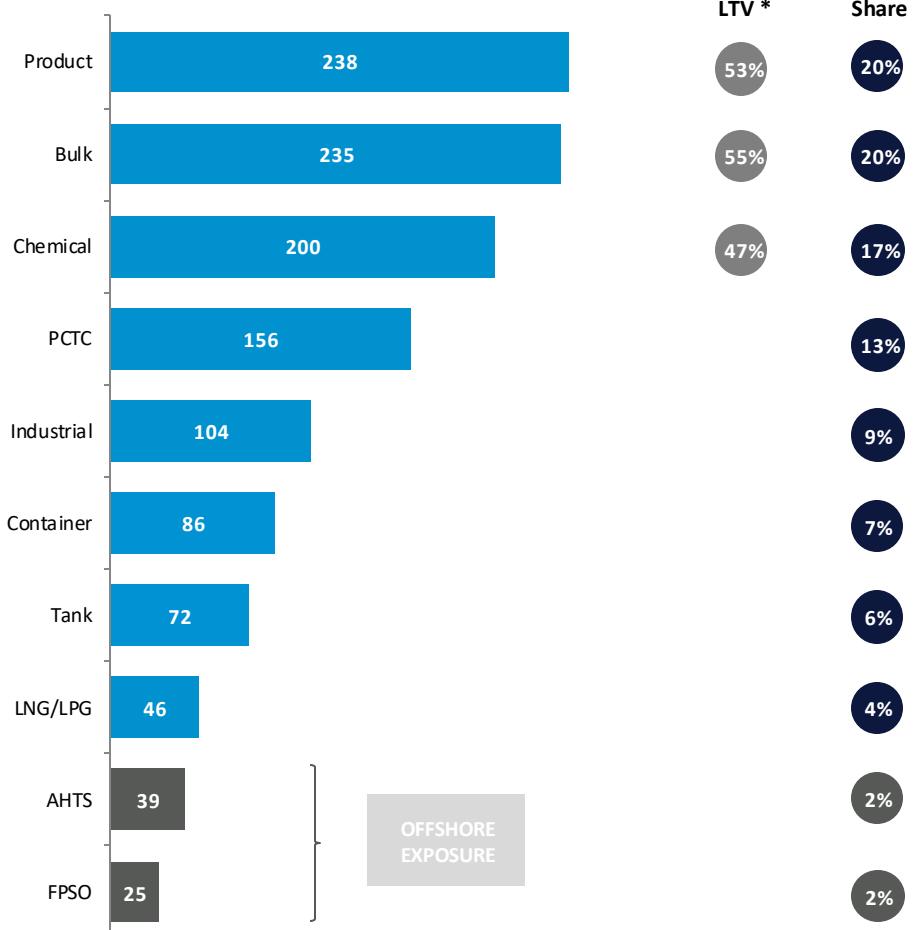


Status

- A diversified portfolio where a single segment will normally not exceed 25% of the total S&O exposure
- The bank has a strong competitive position in markets that are making a gradual recovery
- 23 customers and a total of 37 vessels
- Largest exposure is USD 15.0m and average commitment size is USD 6.0m
- Only 2 commitments towards the offshore sector: approximately 0.5 % of total credit exposure
- One new loan in Q1-17, no new loans in Q2-17

Total S&O credit exposure & Loan to value (NOKm) *

$\Sigma = \text{NOK } 1,201\text{m}$



SHIPPING & OFFSHORE | POLICY



S&O portfolio policy

- Careful growth within the strong Norwegian shipping and offshore sector
- Clients should be based in Norway and have extensive experience and expertise in operations and maintenance
- Minimum equity of 45 %
- High quality charterer with transparent books and tonnage with liquid second-hand markets and well-proven designs
- Maximum S&O credit exposure is 15 % of the bank's total credit exposure

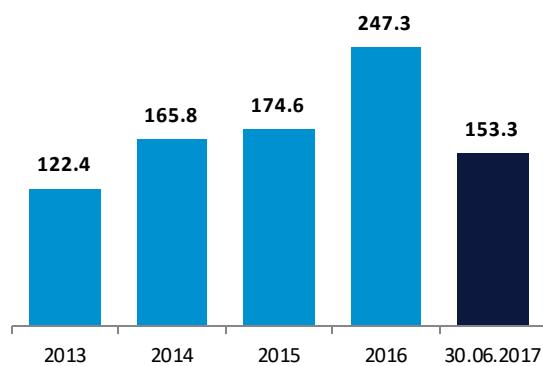
S&O portfolio management

- Equity analysts and specialists in the Pareto Group are information sources
- Use of expertise regarding valuations, marine insurance and technical assessments
- Individual valuations obtained from independent and reputable shipbrokers every third month
- Continuously monitoring vessel values via VesselsValue.com
- Tight covenant setting are essential: Each loan is assessed on a quarterly basis by "loan-to-value" (LTV) and "minimum cash"
- Immediate measures upon breach

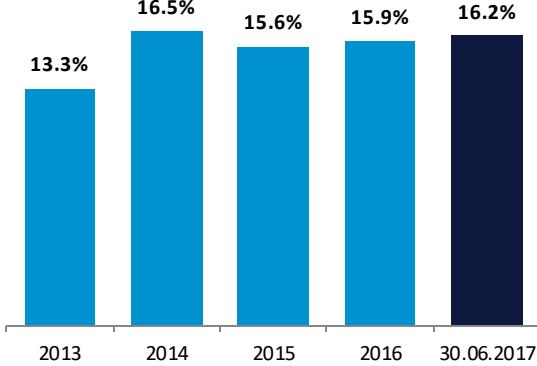


SOLID FOUNDATION AND STRONG PERFORMANCE

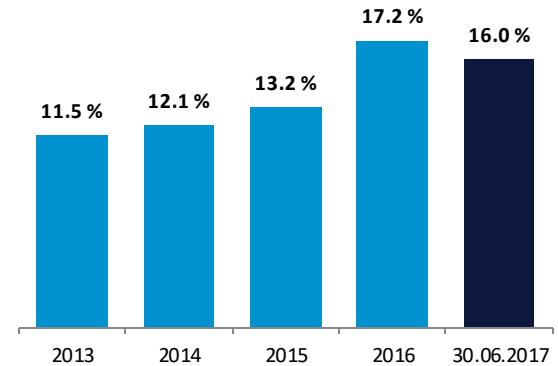
Result after tax (NOKm)



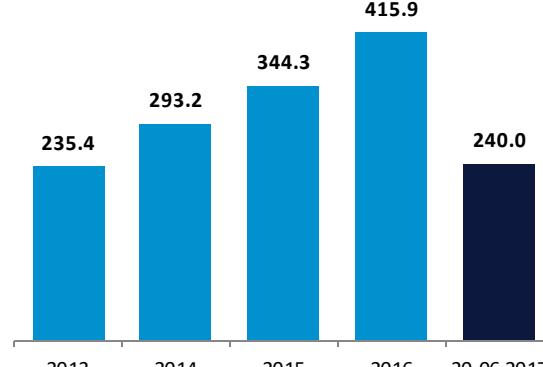
Return on Equity *



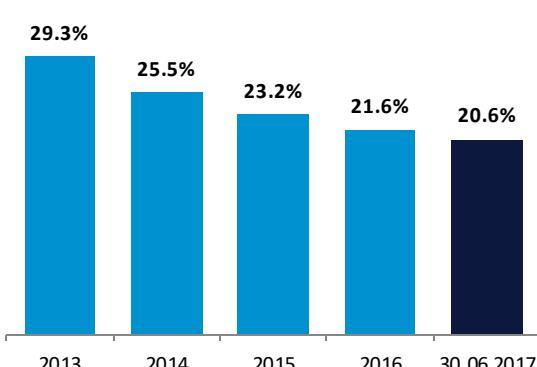
CET1 ratio **



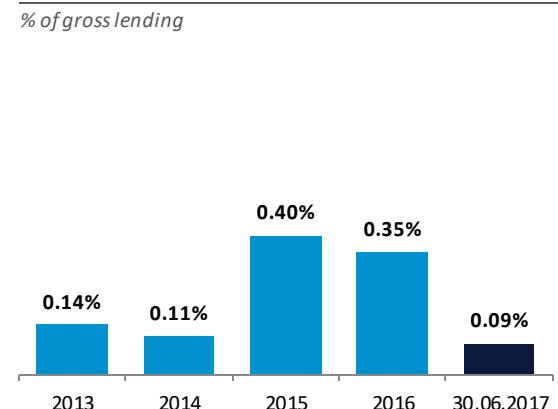
Net interest income (NOKm)



Cost/income ratio



Loss ratio ***



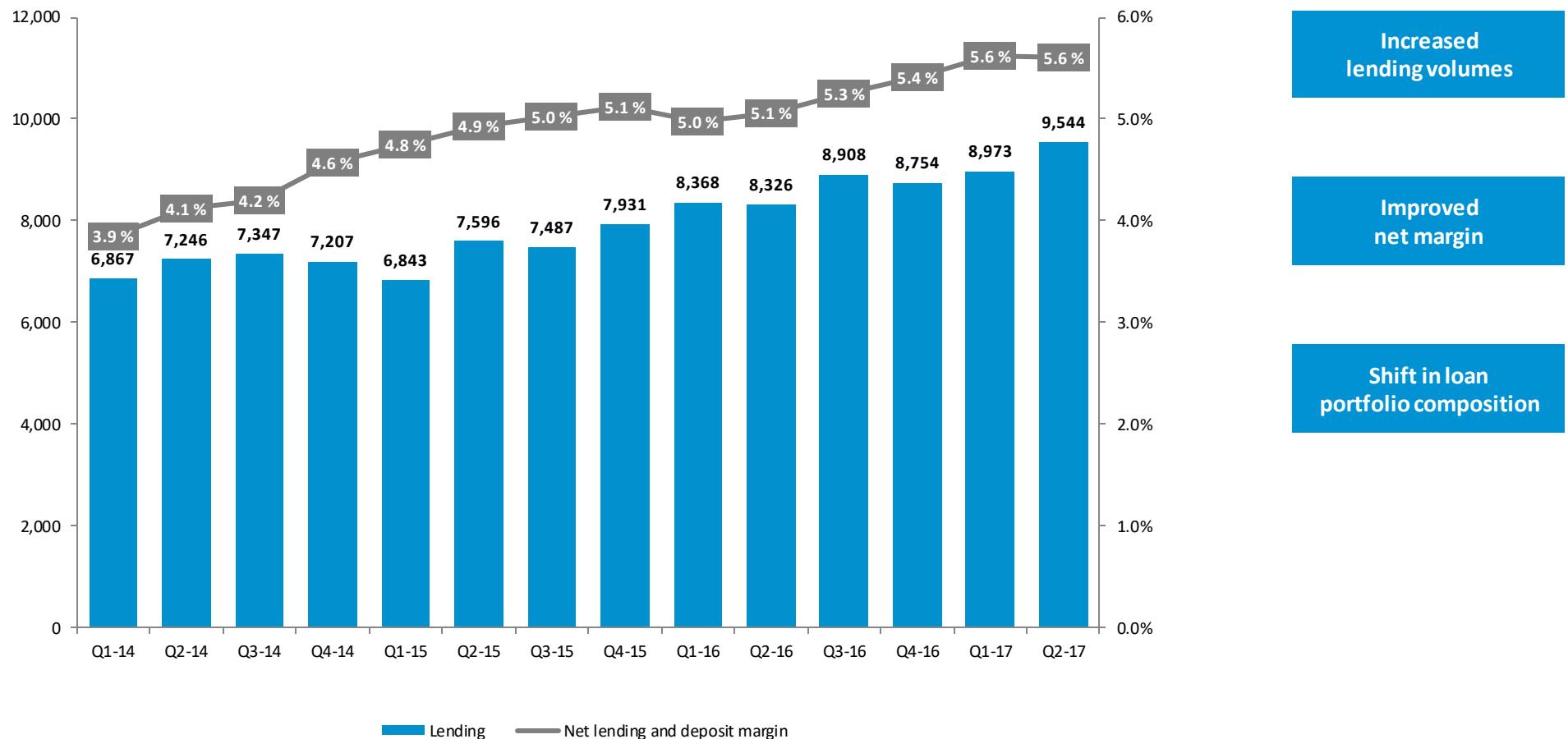
Note(*): Profit after tax excluding additional tier 1 interest costs after tax divided by average common equity tier 1 capital including retained earnings for the period

Note(**): The calculation of CET1 ratio is based on the standard method and not on the IRB approach

Note(***) : The loss ratio is the sum of individual and group losses and write-downs on loans and guarantees in the period as a percentage of gross lending

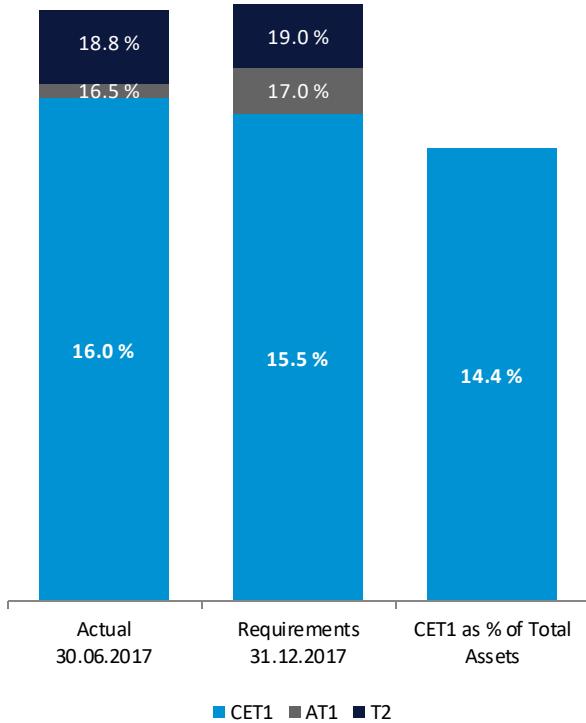
LENDING GROWTH AT INCREASED MARGINS

Historical development in lending (NOKm) and margins (vs. 3M NIBOR)



STRONG CAPITAL RATIOS

Capital ratios



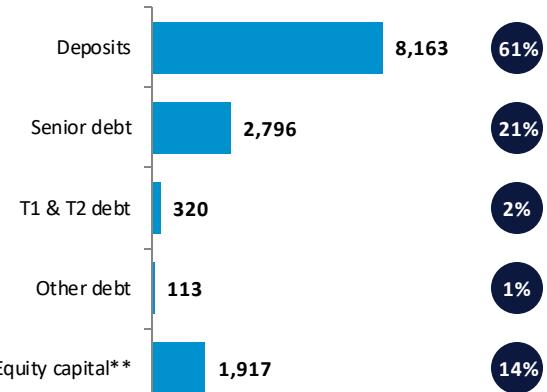
Key comments on capital

- The NFSA requires that Pareto Bank targets a minimum of 15.5 % CET1 by the end of 2017, including the increase in the countercyclical capital buffer to 2.0 %
- The bank's Pillar 2 and total capital requirements are expected to be reviewed by the NFSA in a formal SREP evaluation during 2017
- The bank's ICAAP for 2016 resulted in a minimum CET1 ratio of 14.8 %, including a Pillar 2 requirement of 2.3 % and a management buffer of 0.5 %
- The bank has strengthened its solidity through capital issues in 2016

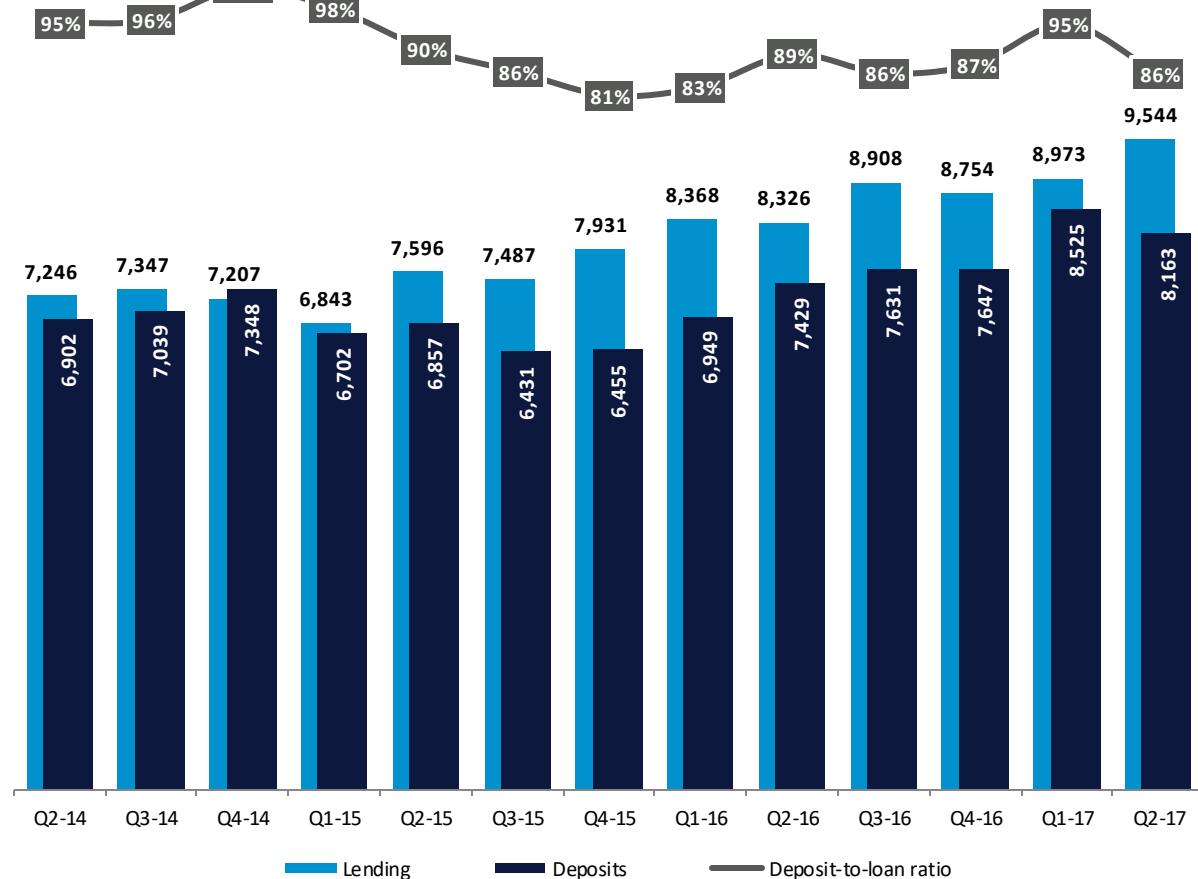
FUNDING OVERVIEW *

Sources (NOKm)

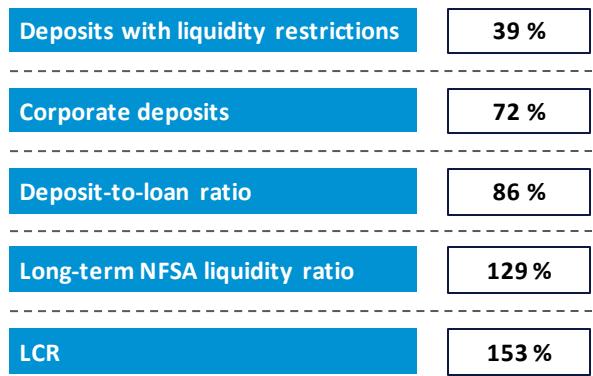
$\Sigma = \text{NOK } 13,310\text{m}$



Historical development in deposits vs. lending (NOKm)



Key ratios



STATUS FINANCIAL TARGETS 2017

	30.06.2017 STATUS	31.12.2017 TARGET	
LENDING GROWTH	NOK 790m	~NOK 1,000m	Continued growth in residential property development
ROE	16.2 %	> 13.0 % *	Lending growth on high margins and cost efficiency yield high returns
CAPITAL ADEQUACY	16.0 %	15.5 % **	High earnings, balance sheet management and two equity issues ensure solidity
DIVIDEND POLICY	30-50 %	30-50 %	The payout ratio will depend on the growth potential within the bank's market

STATUS PORTFOLIO GOALS 2017

BUSINESS AREAS	MARKET	STATUS 30.06.2017	GROWTH TARGETS 2017
Real estate 	More cautious outlook due to recent regulation of mortgage lending	Net growth of approximately NOK 1,017m	Net growth of approximately NOK 600m
Securities & Corporates 	A market with opportunities: tailor-made transaction-based financing to SMEs	Net growth of approximately Securities: - NOK 261m Corporates: + NOK 208m	Net growth of approximately Securities: - NOK 300m Corporates: + NOK 500m
Shipping & offshore 	Several markets making a gradual recovery, limited competition and cautious growth	Net growth of approximately - NOK 178m	Net growth of approximately NOK 200m

 Pareto bank