



PARETO BANK

Financial Results

First Quarter 2017

Pareto bank
Prosjektbanken

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FIRST QUARTER HIGHLIGHTS

Pareto bank



Profit after tax of NOK 78.3m (NOK 48.2m).

Return on Equity of 16.7 % (15.1 %).*

Net lending growth of NOK 220m in 2017 on a strong net interest margin.

Continued high level of building activity in the Oslo region and increased activity in corporate financing.

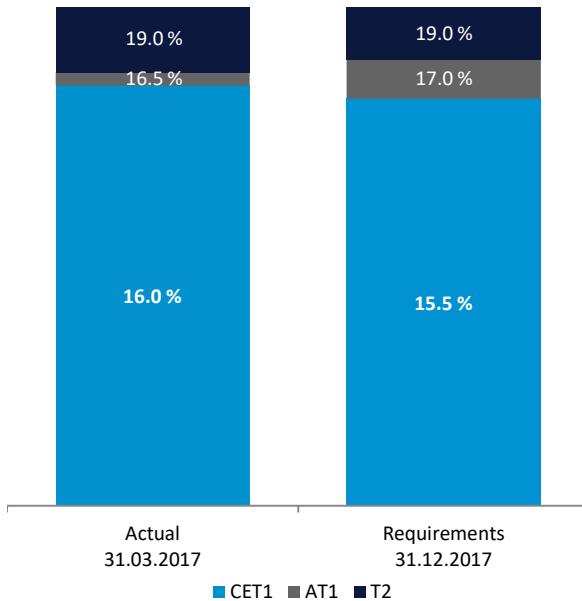
Deposit margins set to improve further following notification of reduction in deposit rates.

Strong CET1 capital ratio of 16.0 % (14.3 %) and capital flexibility through a high natural redemption rate and balance sheet management.

Total assets NOK 14,051m (NOK 12,876m).

STRONG CAPITAL RATIOS

Capital ratios



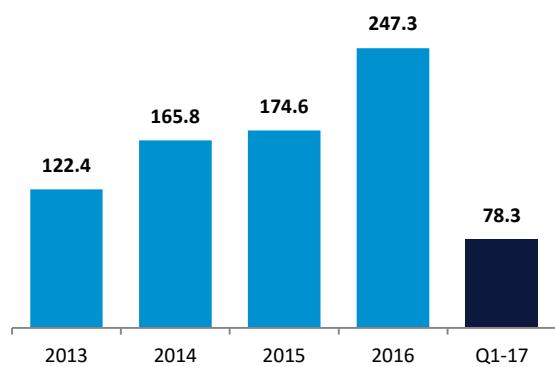
Key comments on capital

- The NFSA requires that Pareto Bank targets a minimum requirement of 15.5 % CET1, 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.
- The bank called an Additional Tier 1 bond in March 2017, resulting in a capital ratio including Additional Tier 1 of 16.5 %.
- Capital ratios do not include retained earnings for the first quarter as the accounts were not audited. Future quarterly reports will be audited and capital ratios will include retained earnings excluding estimated dividends.

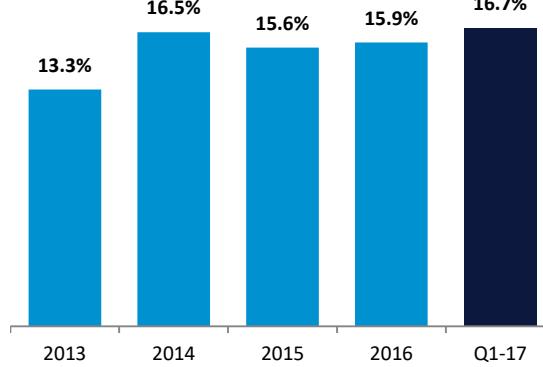
Strengthened CET1 through equity issues
allows for profitable growth

SOLID FOUNDATION AND STRONG PERFORMANCE

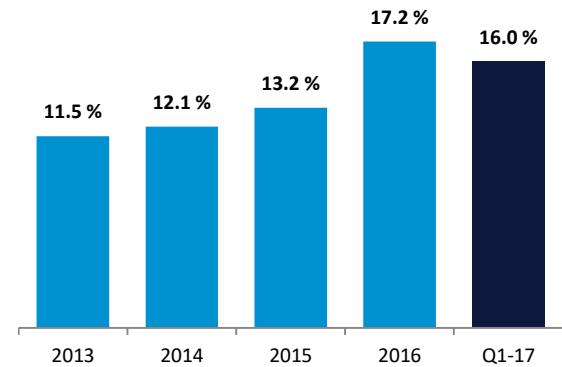
Result after tax (NOKm)



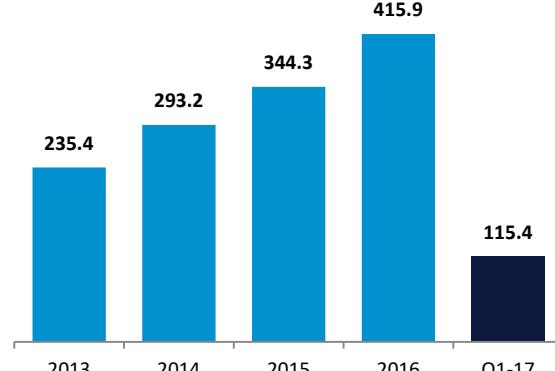
Return on Equity *



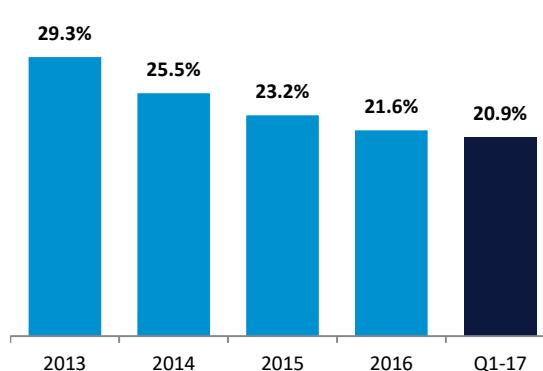
CET1 ratio **



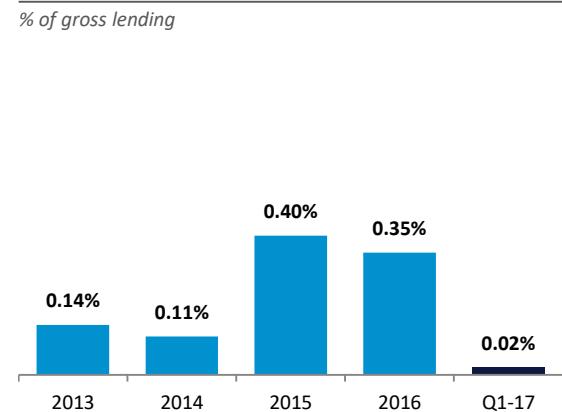
Net interest income (NOKm)



Cost/income ratio



Loss ratio

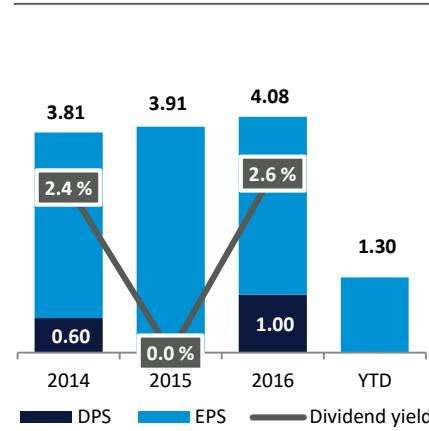


THE SHARE *

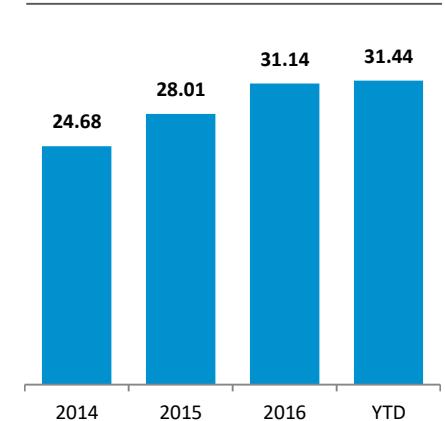
Share price development since March 2014**



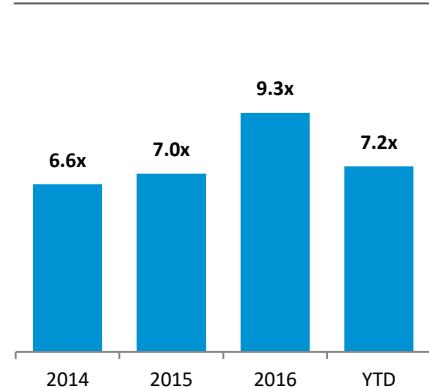
EPS, DPS (NOK) & Dividend Yield



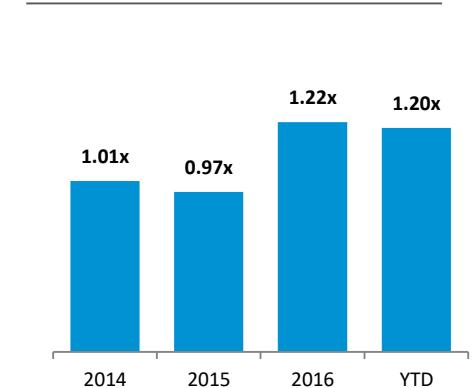
Book equity per share (NOK)



Price / Earnings



Price / Book



LARGEST SHAREHOLDERS AS OF 10.04.2017

#	Investor	10 April 2017	
		# of shares	% total
1	Pareto AS	8,921,873	15.22 %
2	Pecunia Forvaltning AS	5,861,859	10.00 %
3	Saga Tankers ASA	5,052,547	8.62 %
4	Apollo Capital Management	4,875,998	8.32 %
5	Indigo Invest AS	4,382,711	7.48 %
6	Perestroika AS	2,559,666	4.37 %
7	Verdipapirfondet Pareto Investment Fund	2,262,440	3.86 %
8	Kolberg Motors AS	1,131,220	1.93 %
9	GH Holding AS	1,002,012	1.71 %
10	Artel Holding AS	900,820	1.54 %
11	Verdipapirfondet Landkreditt Utbytte	900,000	1.54 %
12	Castel AS	689,779	1.18 %
13	Centennial AS	616,163	1.05 %
14	Ola Rustad AS	585,996	1.00 %
15	Uthalden AS	561,657	0.96 %
16	Eiendomsutvikling Kristiansand AS	519,125	0.89 %
17	Svemorka Holding AS	500,000	0.85 %
18	Profond AS	459,597	0.78 %
19	Thabo Energy AS	452,486	0.77 %
20	AS Clipper	433,845	0.74 %
Sum TOP 20		42,669,794	72.79 %
Other shareholders		15,949,894	27.21 %
Total		58,619,688	100.00 %

- The Company has 58,619,688 shares outstanding
- One class of shares where each share carries one voting right
- Diversified investor base with 719 shareholders
- The top 10 and 20 investors hold 63 % and 73 % of the shares, respectively
- Employees and management in Pareto Bank and top management in the Pareto Group own 2.84 %
- All employees are covered by an annual bonus compensation scheme settled in Pareto Bank shares

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NORWAY'S LEADING PROJECT BANK

BUSINESS AREAS

PROJECTS / CREDITS

AREA EXPOSURE

AVG. PRINCIPAL

Real
estate



Property lot financing
Building construction facilities
Commercial property financing

62 %

**NOKm
25-50**

Corporate &
Securities



Bridge loans
Investment loans
M&A loans
Securities financing

24 %

**NOKm
5-30**

Shipping &
Offshore



Ship owners
Family offices
Shipping and offshore projects

11 %

**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

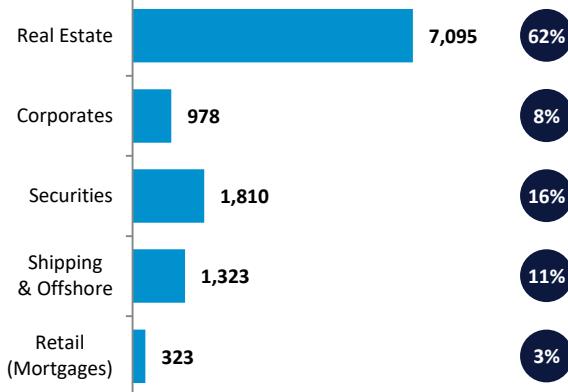
A full scale provider of securities & corporate financing including investment services

Shipping & Offshore

Focus on Norwegian clients, high quality charterers and liquid tonnage

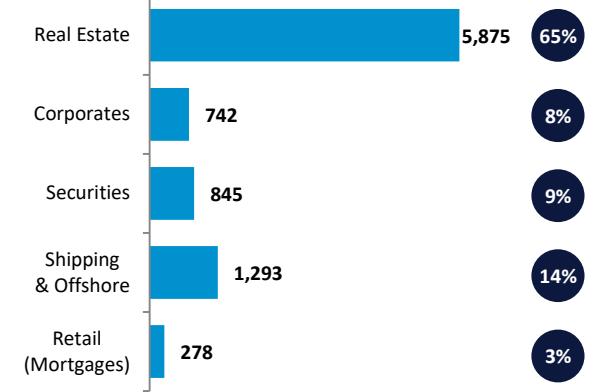
Gross credit exposure (NOKm)

$\Sigma = \text{NOK } 11,529\text{m}$



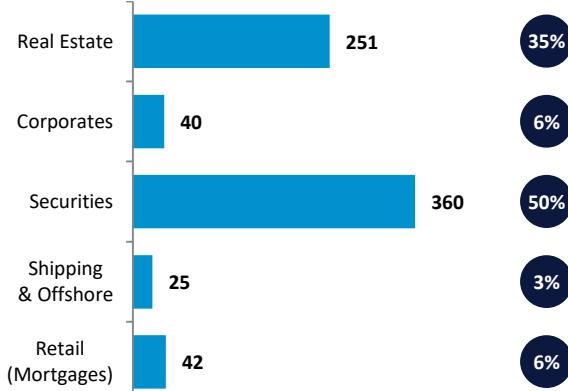
Gross total lending (NOKm)

$\Sigma = \text{NOK } 9,033\text{m}$



Number of active clients

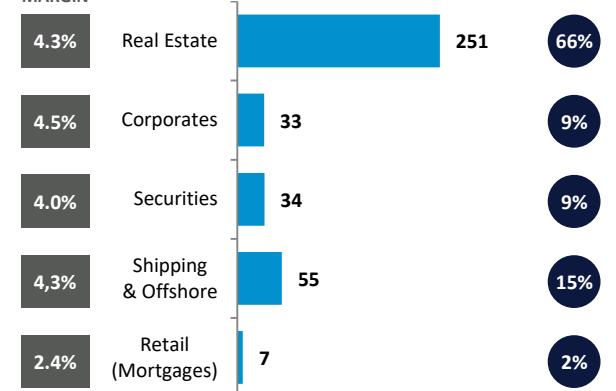
$\Sigma = \# 718$



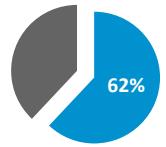
Interest contribution (NOKm) **

$\Sigma = \text{NOK } 380\text{m}$

MARGIN

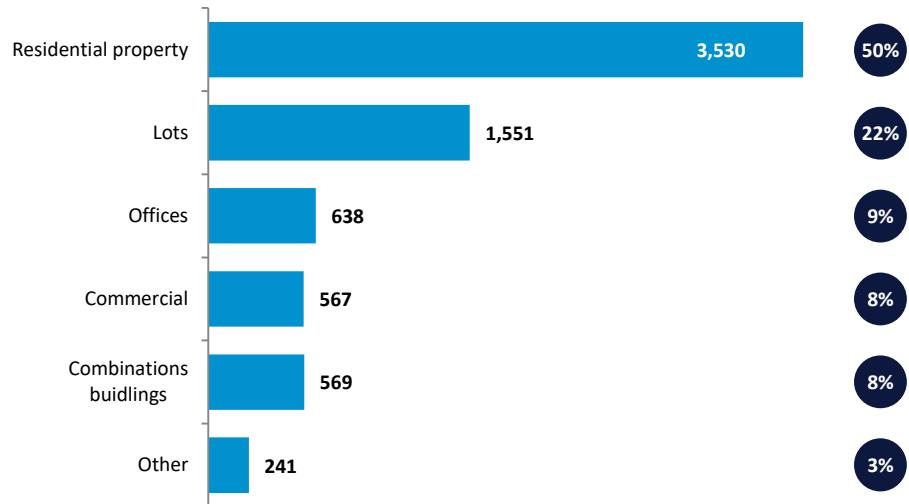


REAL ESTATE | STRONG MARKET POSITION *

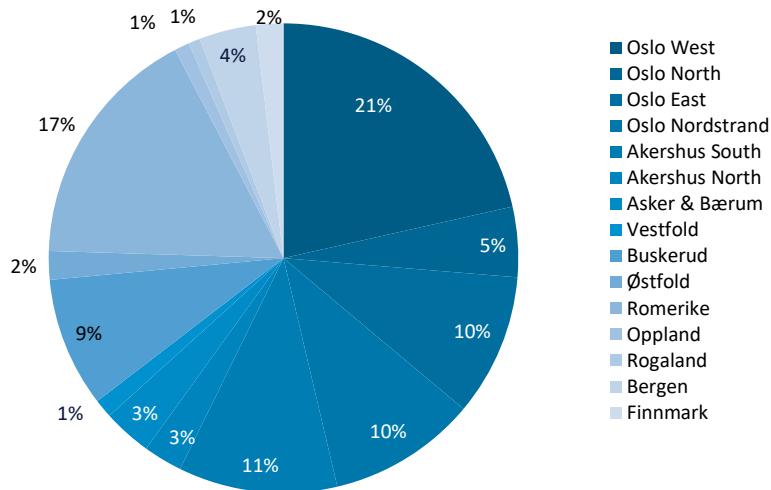


Real Estate credit exposure (NOKm)

$\Sigma = \text{NOK } 7,095\text{m}$

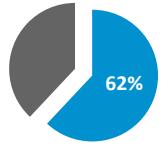


Geographical residential property exposure (NOKm) **



Status

- Strong market position within financing of residential property development in the Oslo region
- Typically financing of regulated property and building construction in the range of NOK 30 - 80m
- Market activity is still high in Oslo due to limited supply, strong demand and historically low interest rates
- Recent regulation restricting mortgage lending may moderate price growth and activity going forward
- Business opportunities within residential property are considered attractive in the short run
- Also financing of conversion projects, renovation projects, commercial property and the like



Real Estate portfolio policy

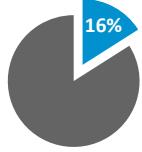
- The bank requires on average 20 % to 40 % equity to finance a property lot purchase
- Primarily financing of regulated lots in Oslo and other well functioning liquid markets purchased for development with a clear exit strategy
- More restrictive in financing projects with long-term exits
- Market risk is reduced by requiring a high level of presale
- 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

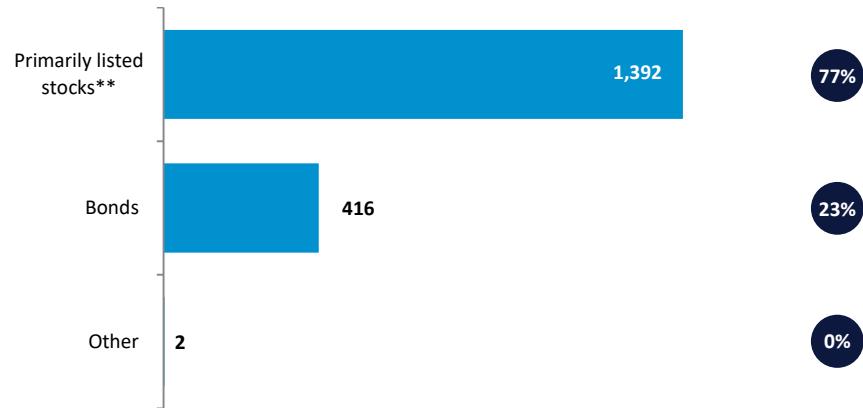


SECURITIES | FOCUS ON CUSTOMIZED SOLUTIONS *



Total securities exposure (NOKm)

$\Sigma = \text{NOK } 1,810\text{m}$



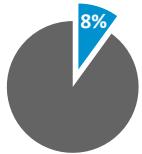
Status

- Pareto Securities' expansion into standardised securities financing in the Norwegian retail market will impact the bank's exposure, and lending volume is expected to decrease by approximately NOK 200 - 400m in 2017
- Lending volume was down by NOK 87.3m in Q1-17
- The bank will continue its focus on customized financing solutions alone and in cooperation with Pareto Securities
- 360 customers of which 46 have a credit facility above NOK 10m
- 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

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

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 (SME's).

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 SME's as the amounts are too small. Transactions are often too large and too complex for local savings banks.

Status

Total exposure of NOK 978m within a variety of industries and 40 customers with credit facilities in the range of NOK 0.6m to NOK 147m.

Products

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.

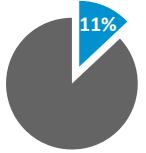
M&A FINANCING

Traditional M&A and LBO financing to Norwegian small and medium-sized enterprises (SME's)

WORKING CAPITAL FACILITIES

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

SHIPPING & OFFSHORE | DIVERSIFIED PORTFOLIO *

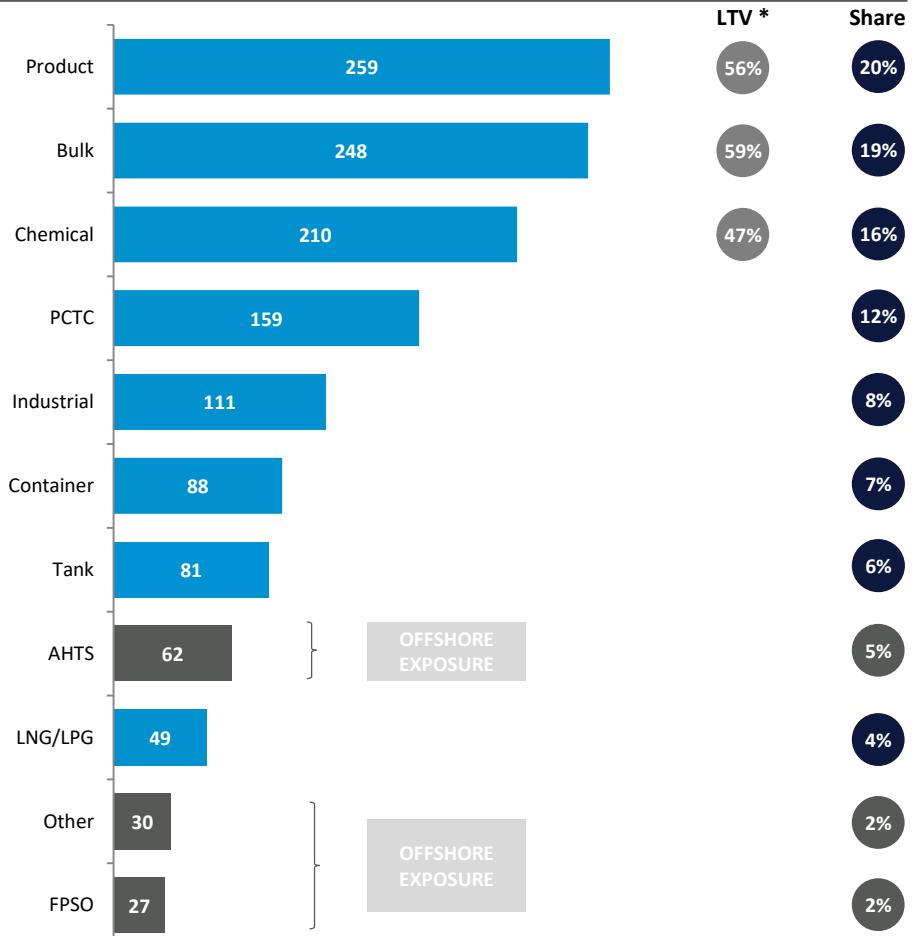


Status

- The bank carefully maintains its exposure to the strong Norwegian shipping and offshore sector within 15 % of the bank's total credit exposure
- The bank has a strong competitive position in markets that are making a gradual recovery
- 25 loans and one guarantee financing a total of 36 vessels
- Largest exposure is USD 11.9m and average size is USD 6.0m
- Only 3 loans and one guarantee towards the offshore sector: approximately 1.0 % of total credit exposure
- Reduction of exposure to LNG og AHTS segments
- One new loan in Q1-17

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

$\Sigma = \text{NOK } 1,323\text{m}$



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 credit exposure within shipping & offshore is 15 % of the bank's total credit exposure

S&O portfolio management

- A diversified portfolio where a single segment will normally not exceed 25% of the total S&O exposure
- 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

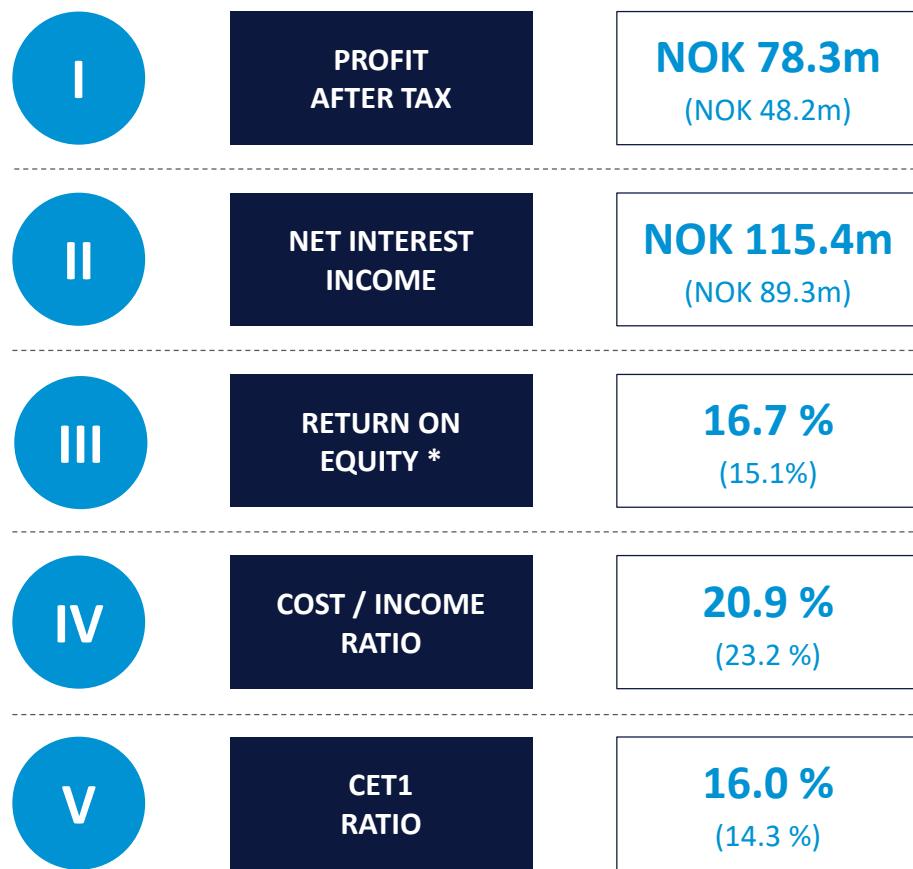


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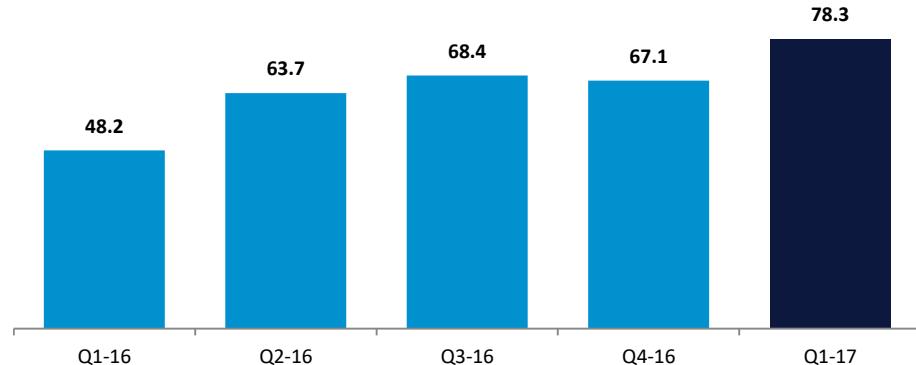
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FIRST QUARTER HIGHLIGHTS

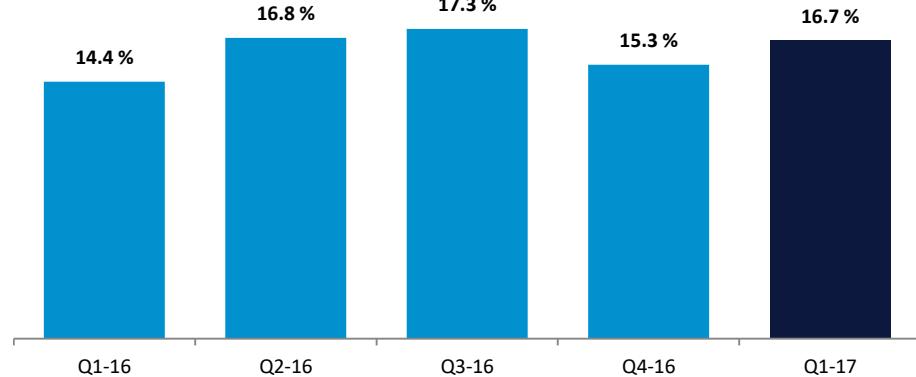
Key figures Q1-17



Profit after tax (NOKm)



Return on Equity *



QUARTERLY INCOME STATEMENT

P&L (NOKm)

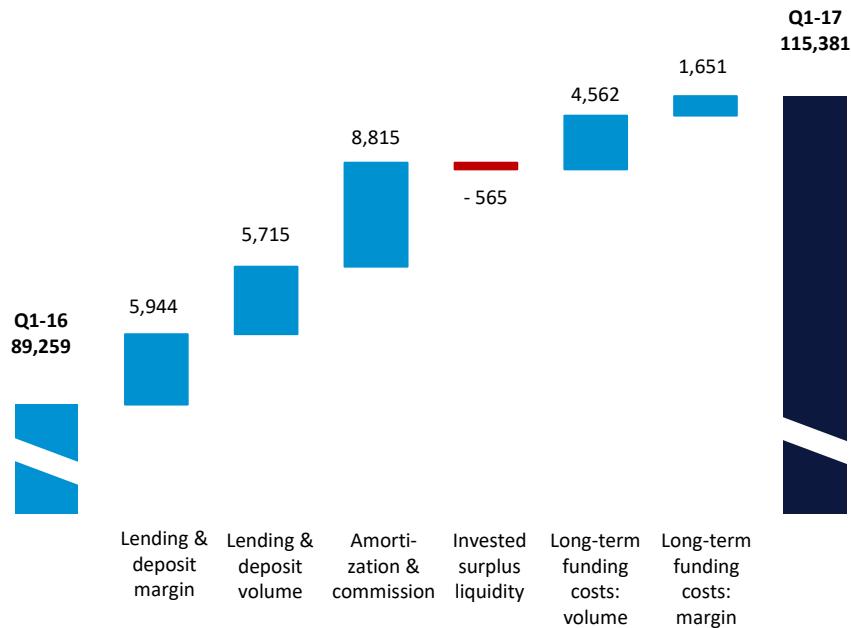
	Q1-17	Q1-16	2016
Net Interest income	115.4	89.3	415.9
Total other operating income	18.9	6.7	42.0
Total net income	134.3	96.0	457.9
Total other operating expenses	28.0	22.3	98.8
Operating result before losses / write-downs	106.2	73.7	359.1
Losses / write-downs on loans	1.8	9.5	30.7
Operating result before tax	104.5	64.2	328.5
Tax payable	26.1	16.1	81.2
Result after tax	78.3	48.2	247.3
<i>Earnings per share (NOK)</i>	1.30	0.93	4.08

Key comments

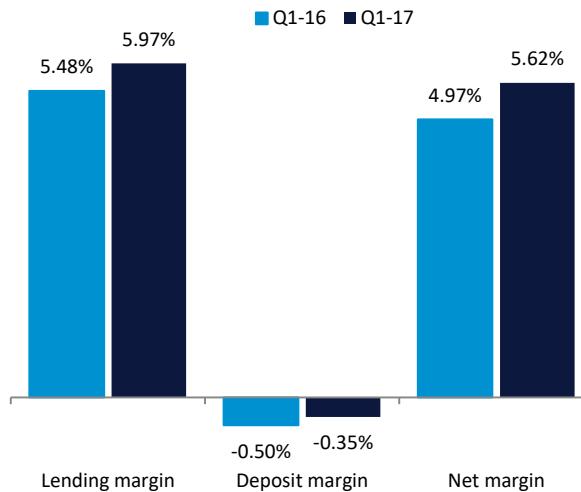
- The principle of assessing financial instruments at fair value may cause profits to fluctuate between quarters.
- For Q1-17 total net gains were NOK 14.3m (NOK 3.9m).
- The fee for The Norwegian Banks' Guarantee Fund for 2016 was charged wholly in Q1-16, while it will be distributed over the accounting year for 2017. The fee for 2017 was NOK 5.7m (NOK 5.7m).
- NOK 3.8m (NOK 3.0m) was allocated for profit sharing with employees. Personal costs were up in Q1-17 due to severance pay and an increased payroll tax.
- Net write-downs totaling NOK 1.8m (NOK 9.5) in Q1-17.
- The bank will publish information in coming quarterly reports concerning asset classification and loss provisioning under IFRS 9.

GROWING NET INTEREST INCOME

Net interest income (NOK 1,000)



Net interest margins (vs. 3M NIBOR) *

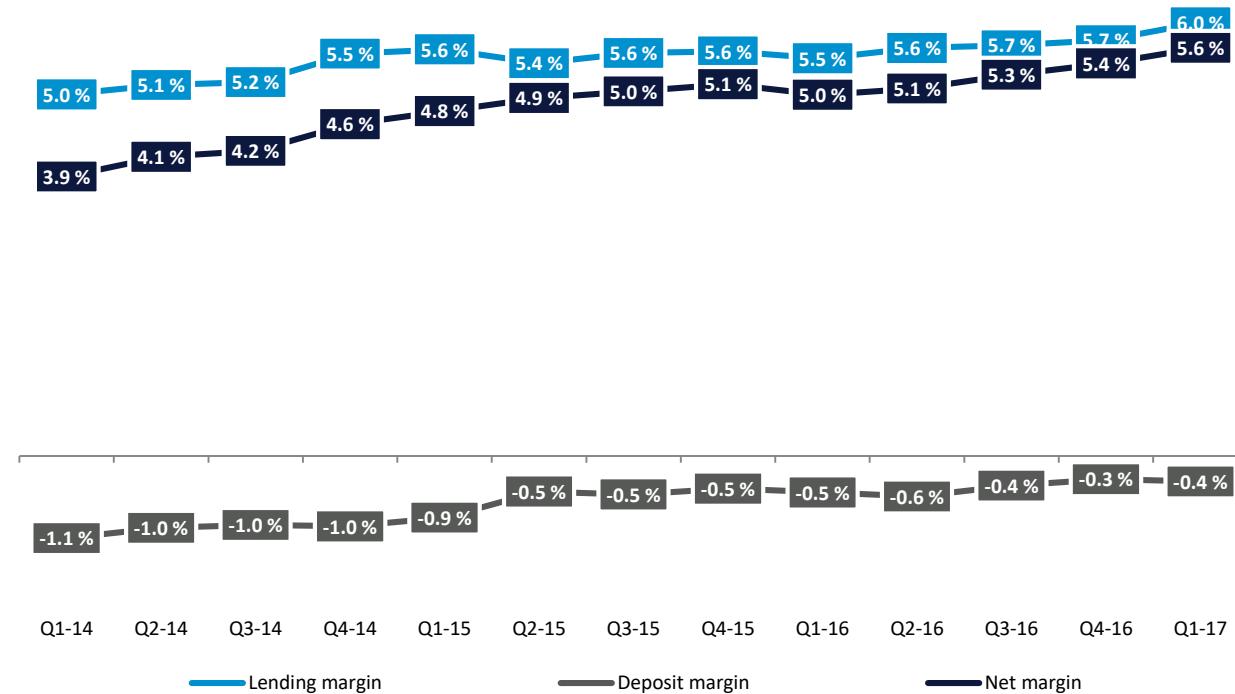


- Increased net interest income due to increased lending, higher margins and higher amortizations & commissions.
- Decreased financing and falling funding margins in securities market.

- Net margin improved by 0.65 percentage points since Q1-16.
- Improved deposit margin by 0.15 percentage points and improved lending margin by 0.49 percentage points.
- Fee for The Norwegian Banks' Guarantee fund for 2016 was charged wholly in Q1-16. If it had been distributed throughout the year the net interest margin for Q1-16 would improve by 0.22 to 5.19.

STRONG MARGINS

Continuously improving net interest margins (vs. 3M NIBOR)



Key comments

- Strong growth on an improved net margin
- High fee income due to turnover
- Improved margin on fixed-rate deposits
- Increased volume of low-margin deposits

STRONG BALANCE SHEET

BS (NOKm)

	Q1-17	Q4-16	Q3-16	Q2-16	Q1-16
Cash and deposits with central banks	57.1	57.1	57.0	752.0	57.0
Lending to and deposits with credit insti	827.4	747.3	1,036.5	202.5	796.0
Net lending to customers	8,973.4	8,753.8	8,907.5	8,325.5	8,368.0
Commercial paper and bonds	4,093.9	3,315.1	3,525.1	3,506.1	3,515.4
Shares and other securities	0.0	0.0	18.2	18.2	8.1
Shareholdings in associated companies	40.3	14.7	-	-	-
Financial derivatives	11.9	12.7	46.3	13.9	73.9
Intangible assets	24.5	24.9	23.9	24.7	25.4
Deferred tax assets	12.0	12.0	25.2	25.2	25.2
Fixed assets	0.7	0.7	0.8	0.8	0.8
Other assets	1.3	0.9	0.5	1.3	1.8
Prepaid costs and retained earnings	8.4	1.6	2.4	2.8	4.2
Total assets	14,050.9	12,940.8	13,643.3	12,873.0	12,875.7
Deposits from credit institutions	307.6	4.1	128.3	0.2	33.7
Deposits from customers	8,524.8	7,646.8	7,631.4	7,429.0	6,949.2
Senior securities issued	2,762.9	2,885.5	3,867.8	3,529.1	4,004.4
Financial derivatives	42.4	55.8	28.2	51.2	37.6
Payable taxes	61.8	63.2	56.4	34.3	71.3
Other liabilities	167.4	5.7	39.1	9.1	19.8
Accrued costs and prepaid income	20.8	24.2	18.9	13.5	14.8
Subordinated loan capital	270.2	270.2	150.2	150.2	150.2
Total liabilities	12,157.9	10,955.6	11,920.4	11,216.6	11,281.0
Equity	703.4	703.4	623.4	623.4	623.4
Other equity	1,139.6	1,121.7	939.5	873.0	811.3
Tier 1 Hybrid loan capital	50.0	160.0	160.0	160.0	160.0
Total equity	1,893.0	1,985.2	1,722.9	1,656.4	1,594.7
Total liabilities and equity	14,050.9	12,940.8	13,643.3	12,873.0	12,875.7

Key comments

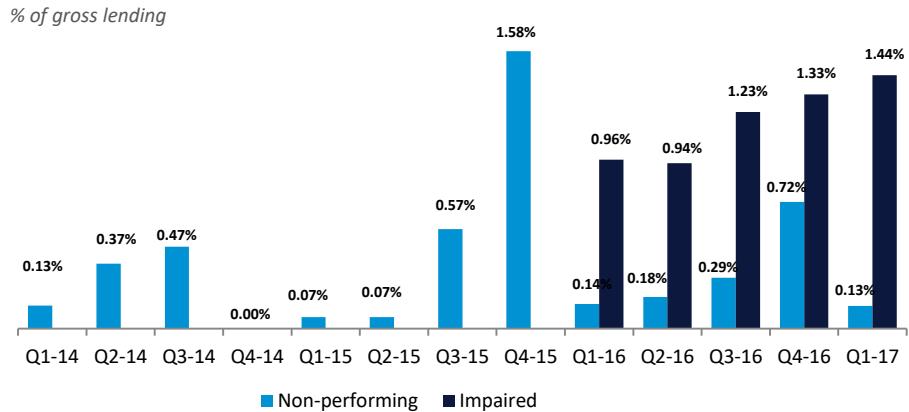
- High turnover rate: approximately 30% of the loan portfolio matures within a year
- High deposit volume and surplus liquidity, focus on reducing liabilities and excess liquidity
- Deposits composed of retail, business and client funds
- The bank will publish information in coming quarterly reports concerning asset classification and loss provisioning under IFRS 9

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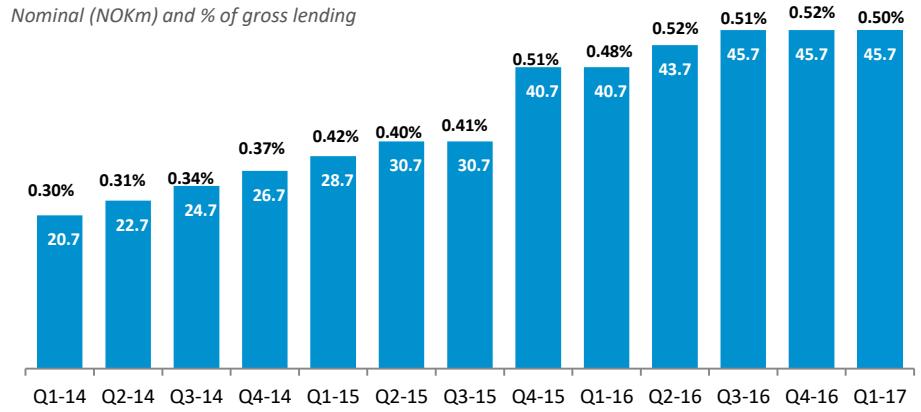
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LOAN PORTFOLIO QUALITY

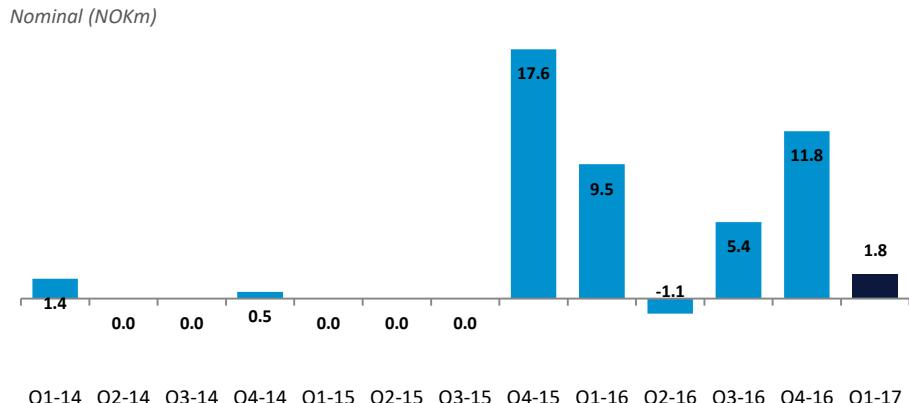
Net non-performing and impaired loans *



Cumulative group provisions

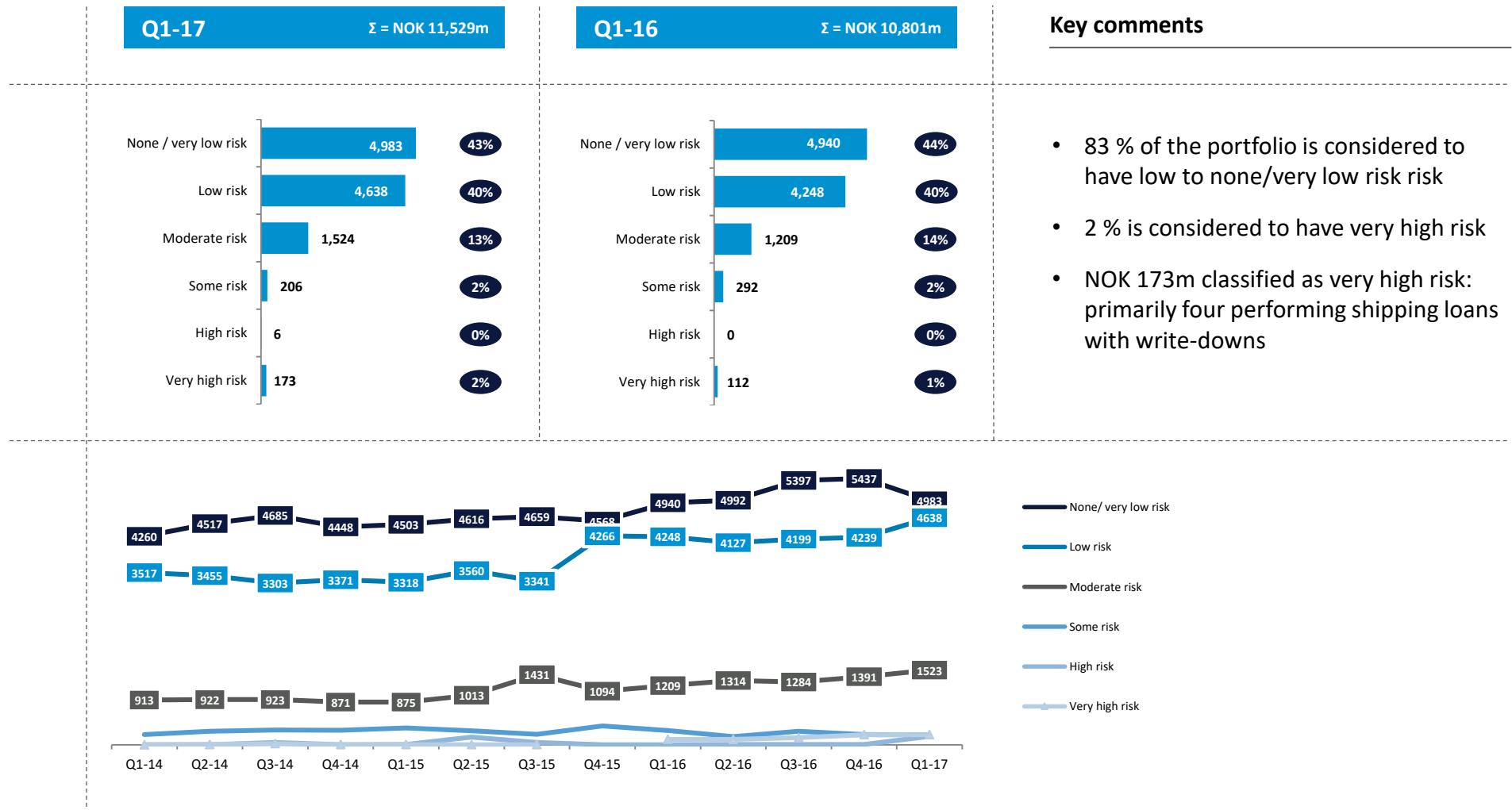


Individual losses/write-downs/reversals on loans & guarantees



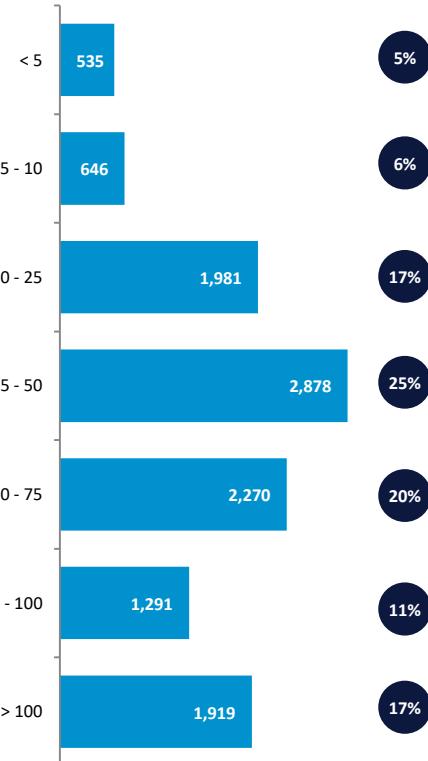
- Net non-performing loans NOK 12m (0.13 %) by the end of Q1-17.
- Four shipping & offshore loans of net NOK 130m (1.44 %) were impaired by the end of Q1-17. These loans are currently performing. They have been written down with in total USD 4.4m/NOK 36.7m.
- Group provisions were unchanged at NOK 45.7m or 0.50 % of gross lending by the end of Q1-17.

COMMITMENTS BY RISK CLASSIFICATION

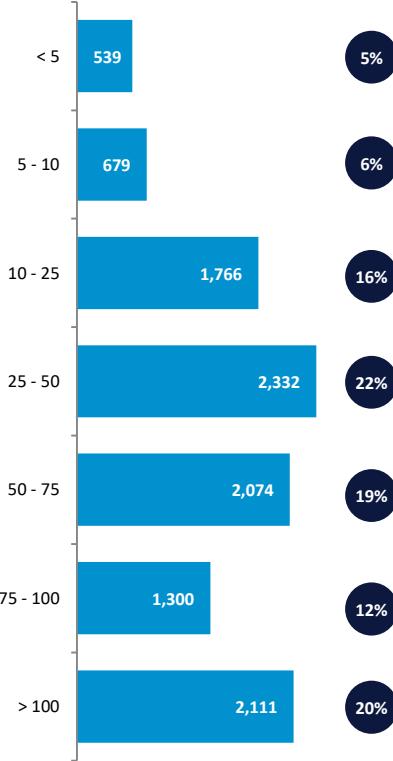


COMMITMENTS BY SIZE

Q1-17 $\Sigma = \text{NOK } 11,529\text{m}$



Q1-16 $\Sigma = \text{NOK } 10,801\text{m}$



Key comments

- A conservative policy with respect to size
- Maximum size on a single customer 10 % of total capital (NOK 206m)
- Maximum size on group / consolidated basis 15 % of total capital (NOK 309m)

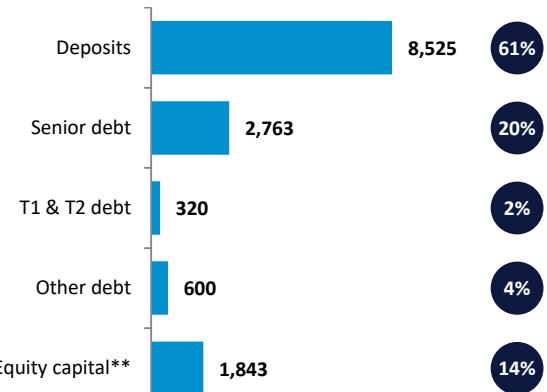
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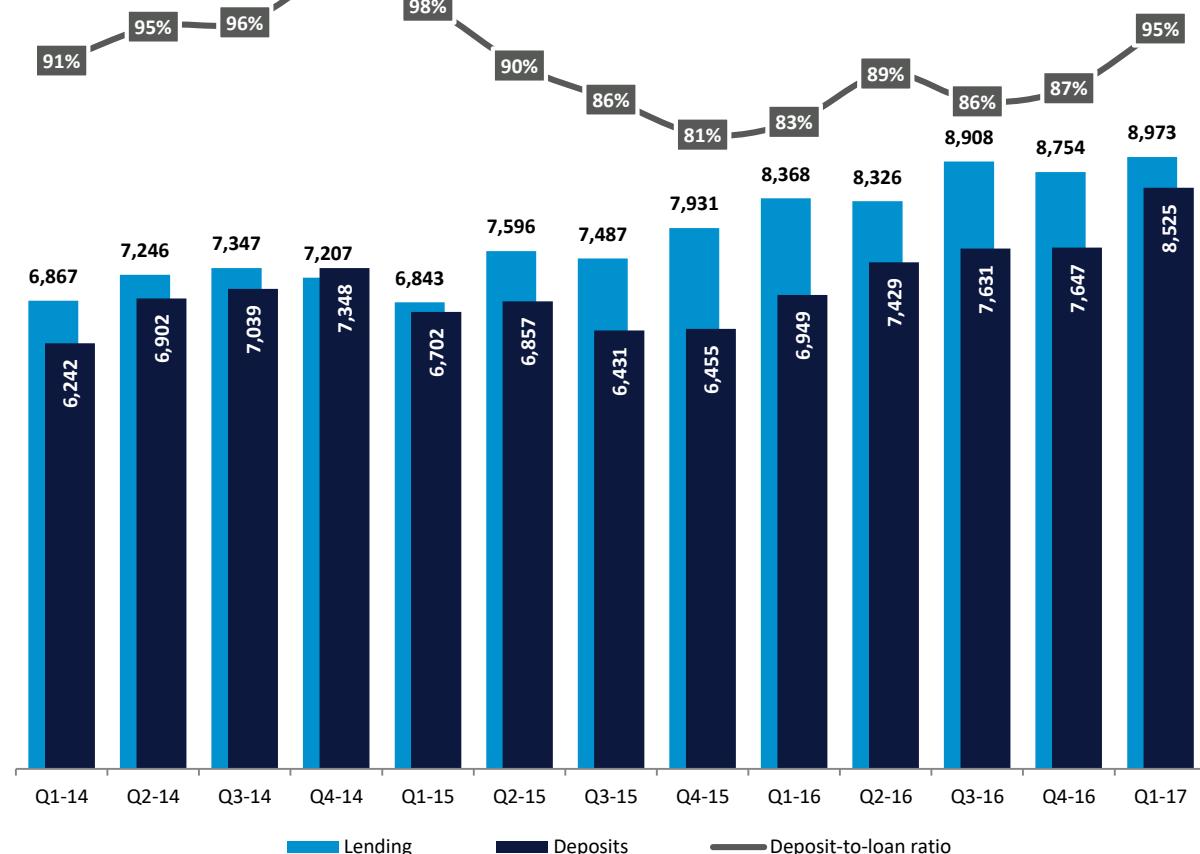
FUNDING | OVERVIEW *

Sources (NOKm)

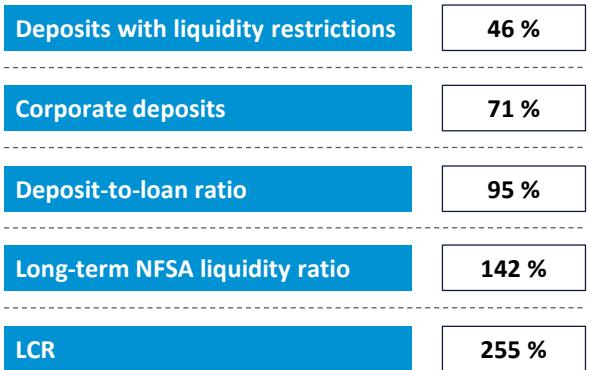
$\Sigma = \text{NOK } 14,051\text{m}$



Historical development in deposits vs. lending (NOKm)

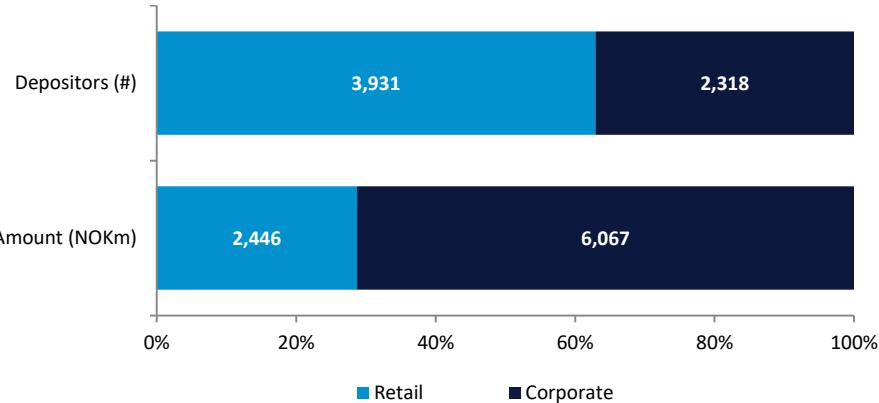


Key ratios

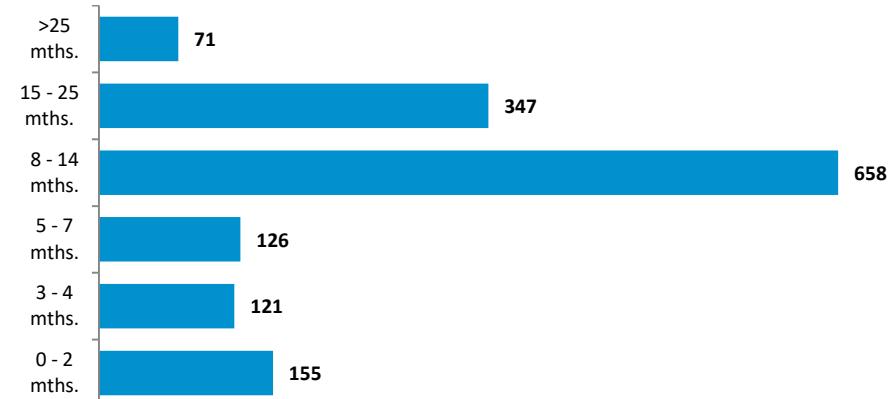


FUNDING | CUSTOMER DEPOSITS *

Deposit allocation

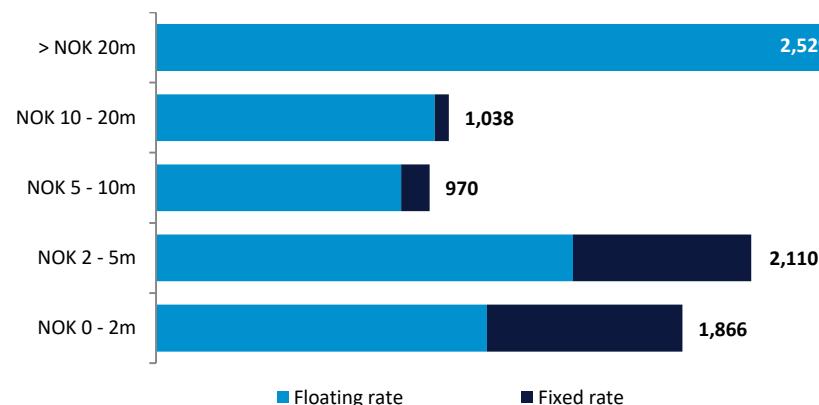


Fixed rate deposits (NOKm) - time to maturity (months) Σ = NOK 1,477m

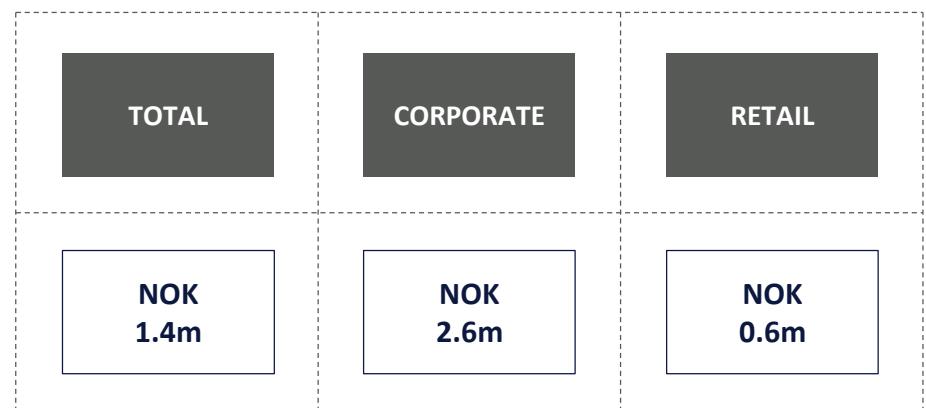


Deposits by size (NOKm)

Σ = NOK 8,512m

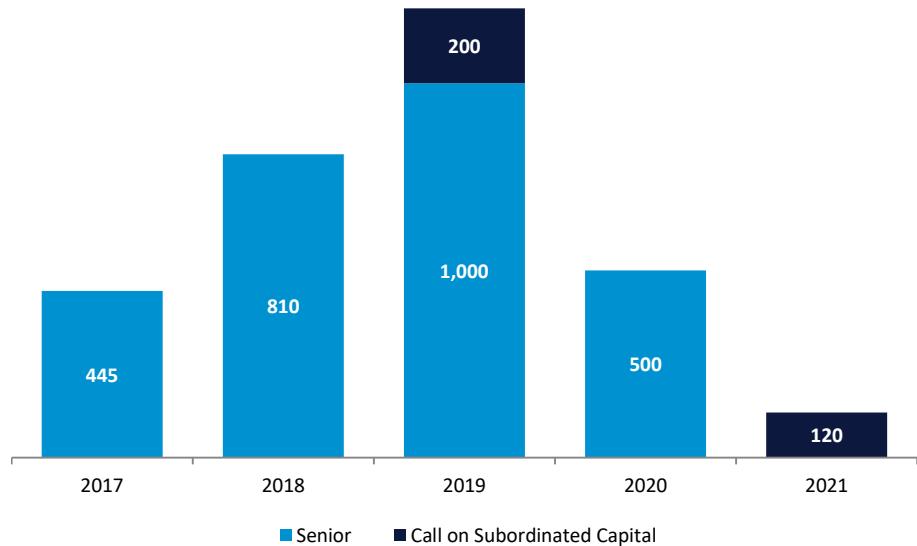


Average deposit per customer (NOK)

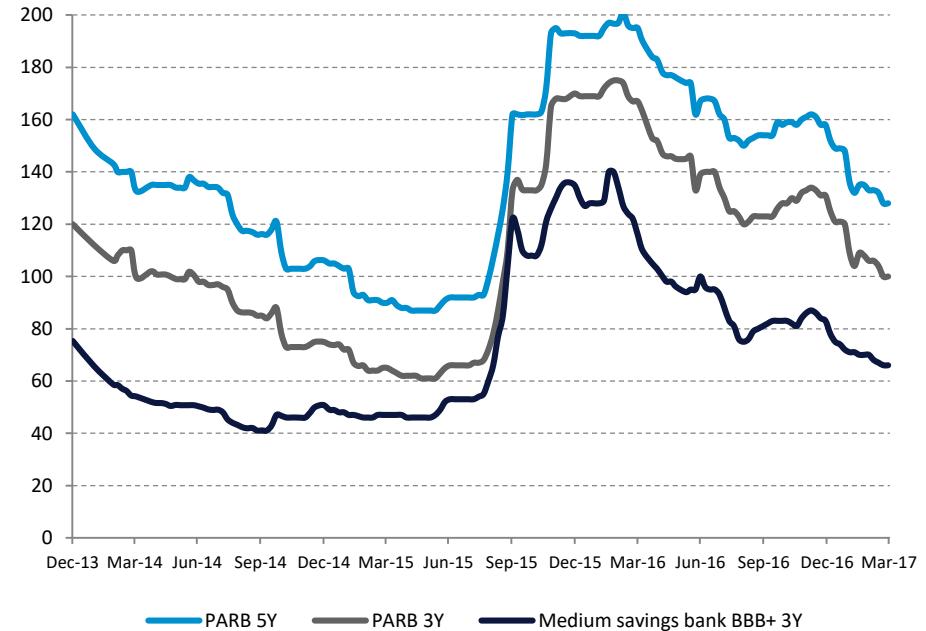


FUNDING | MARKET FUNDING *

Market funding maturities - net of own holdings (NOKm)



Credit spreads (bps)

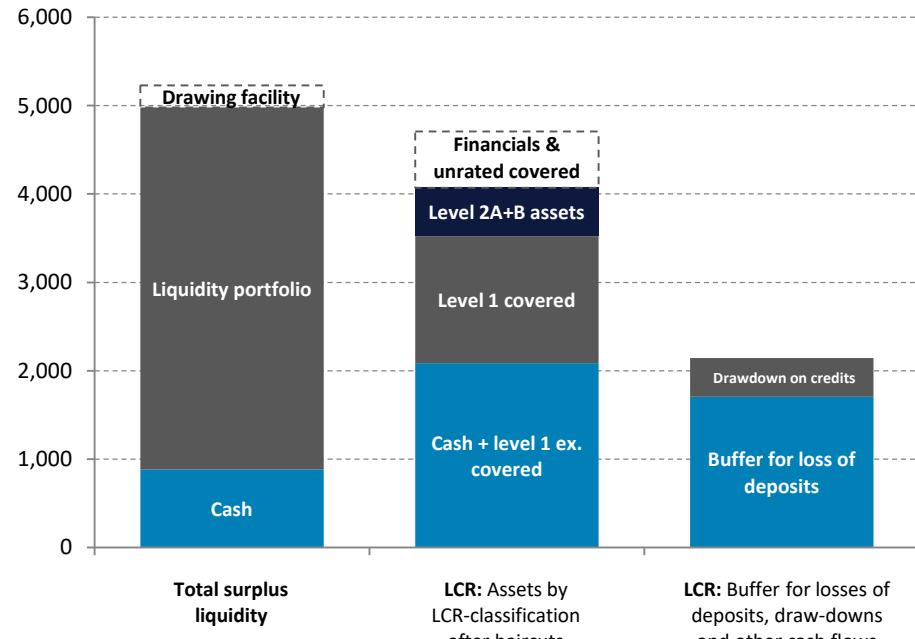


- The bank has six loans outstanding
- Called NOK 110m AT1 bond in March 2017
- The bonds are listed on Nordic ABM and the Oslo Stock Exchange

- There has been good interest in the bank's loans in the quarter, driving spreads lower
- The bank sends out target bid/offer spreads to brokers regularly
- Pareto Bank's focus is on continuously improving investor relations through transparent pricing and providing liquidity by market making

SURPLUS LIQUIDITY *

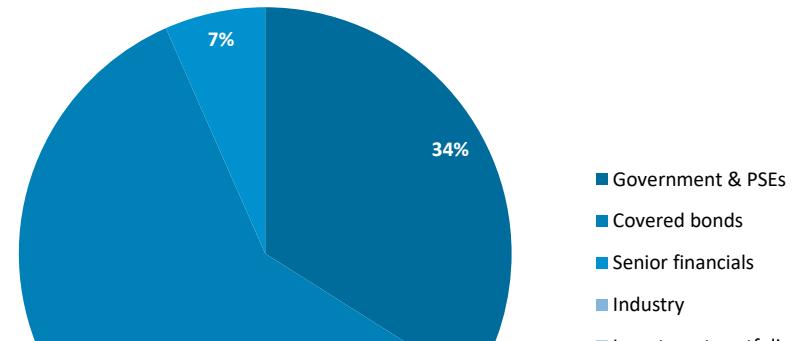
Comfortable liquidity buffer (NOKm)



- The bank's liquidity is comprised of cash and highly liquid bonds
- Liquidity held to meet future bond maturities and short-term lending growth
- The bank has a naturally high LCR due to a high level of deposits in other banks and holdings in government bonds

Bond portfolio (NOKm)

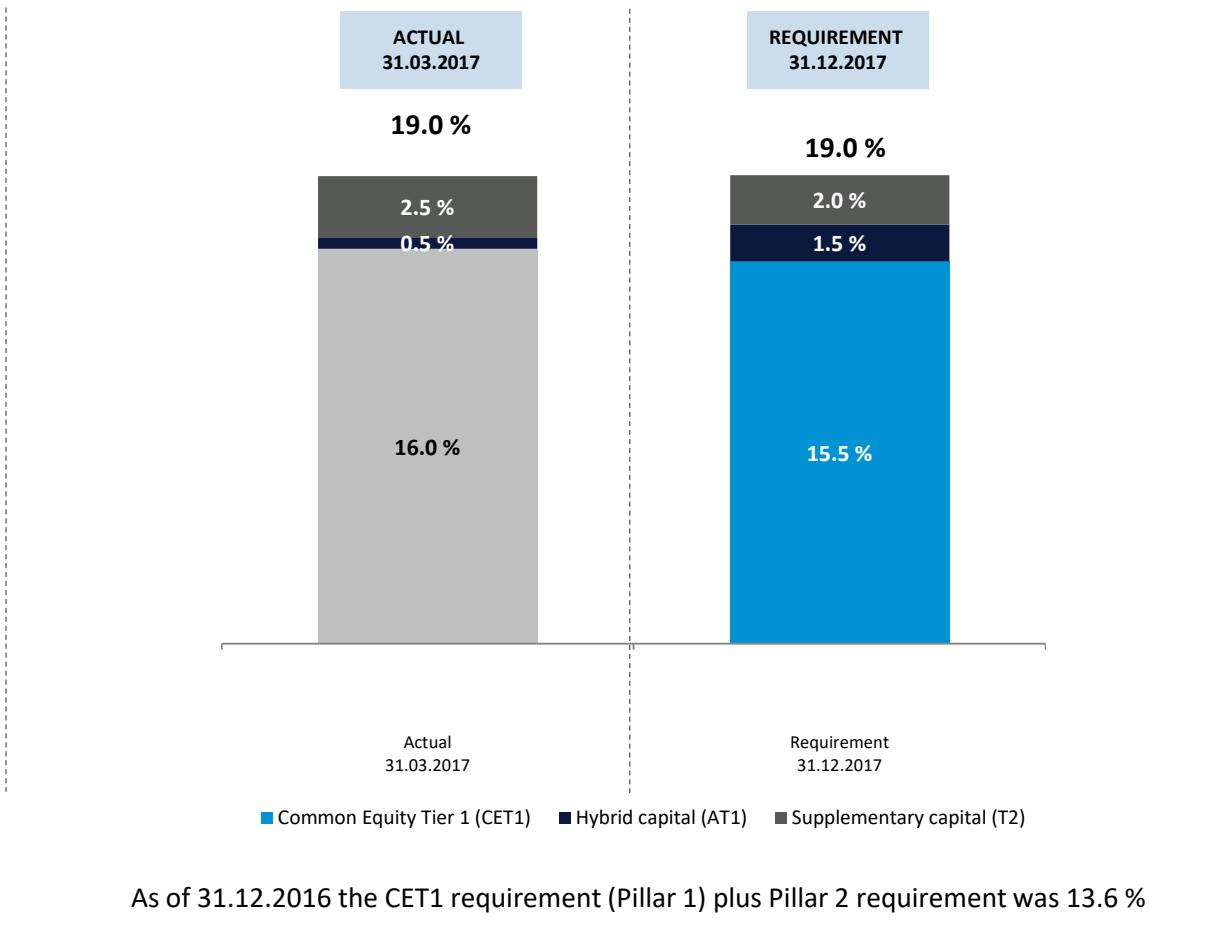
$\Sigma = \text{NOK } 4,094\text{m}$



- High share of government & PSEs aims to reduce credit spread risk and increase short-term liquidity
- Increased share covered bonds, mainly short to medium maturities
- Investment portfolio (max limit NOK 500m - not currently utilized)

CAPITAL RATIOS AND REQUIREMENTS

Pareto Bank capital ratios and requirements *



Key comments

- Rights issue of MNOK 200 in December 2016 has strengthened the bank's CET1 capital significantly
- The bank called NOK 110m in an Additional Tier 1 bond in March
- The bank's CET1 and total capital requirements are 15.5 % and 19.0 % respectively by end-of-year 2017, including the increase in the countercyclical capital buffer
- The minimum requirements are met by a reasonable margin, giving room for growth
- Capital ratios do not include retained earnings for the first quarter as the accounts were not audited. Future quarterly reports will be audited and capital ratios will include retained earnings excluding estimated dividends.

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GROWTH WITH HIGH SOLIDITY

	31.03.2017 STATUS	31.12.2017 TARGET	
LENDING GROWTH	NOK 220m	~NOK 1,000m	Continued growth in residential property development
ROE	16.7 %	> 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

PORTFOLIO GOALS FOR 2017

BUSINESS AREAS	MARKET	STATUS	GROWTH TARGETS
Real estate 	Signs of margin pressure and increased risk-taking	Still strong deal flow High natural repayment rate on loans	Net growth of approximately NOK 600m
Securities & Corporates 	Limited competition within corporate financing	Potential within corporate financing, but decline in securities financing	Net growth of approximately Securities: - NOK 300m Corporates: + NOK 500m
Shipping & offshore 	Little competition and several markets at a low point	A more restrictive credit policy and focus on Norwegian clients	Net growth of approximately NOK 200m

 Pareto bank