



PARETO BANK

Financial Results

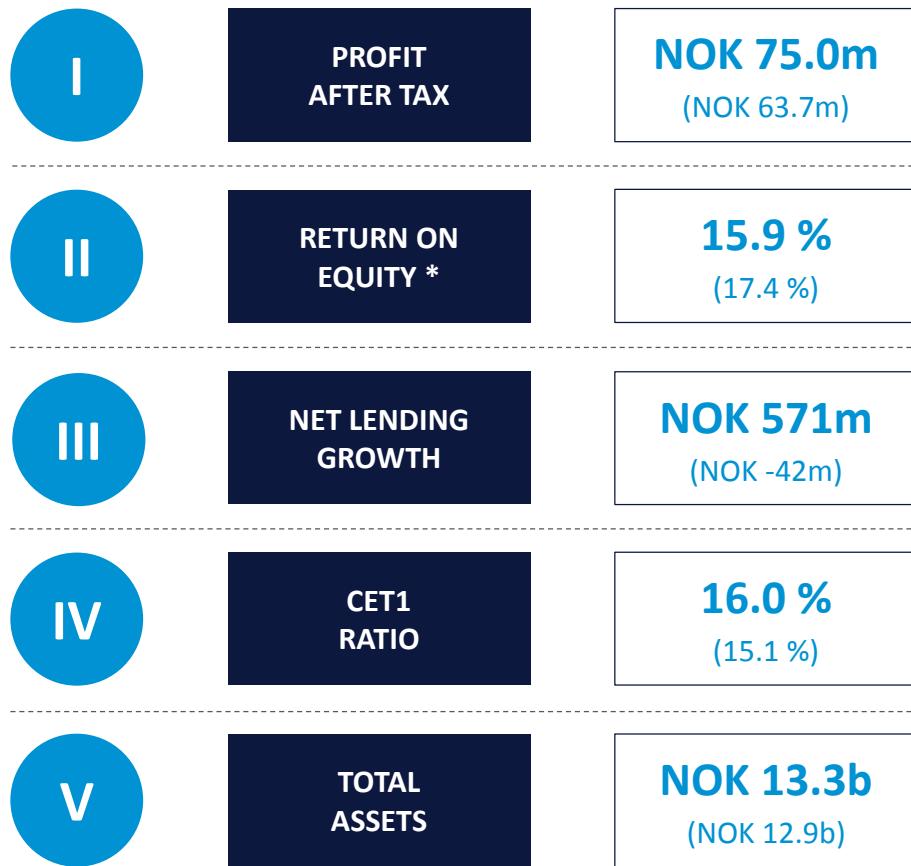
Second Quarter 2017

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SECOND QUARTER HIGHLIGHTS

Key figures Q2-17



Key Value Drivers

High lending growth on a strong net interest margin.

Continued high level of building activity in Oslo and its surroundings, but a more cautious outlook.

High sales activity within corporate financing results in lending growth.

Increased competition and lower volume within standardised securities financing.

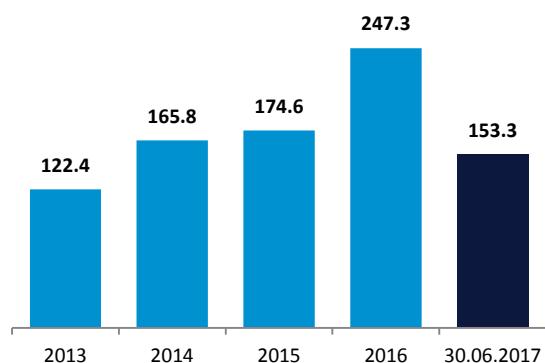
Reduced exposure in Shipping & Offshore due to amortizations, redemptions and stronger NOK.

Improved deposit margin due to reduced deposit rates.

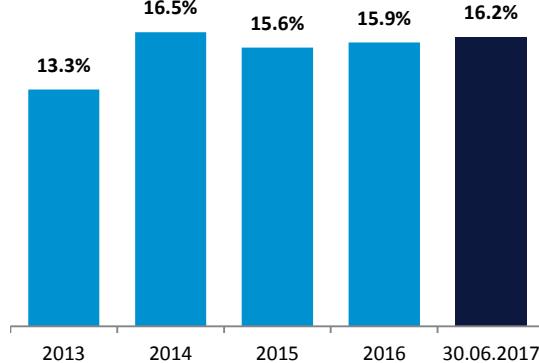
CET1 capital ratio well above target level.

SOLID FOUNDATION AND STRONG PERFORMANCE

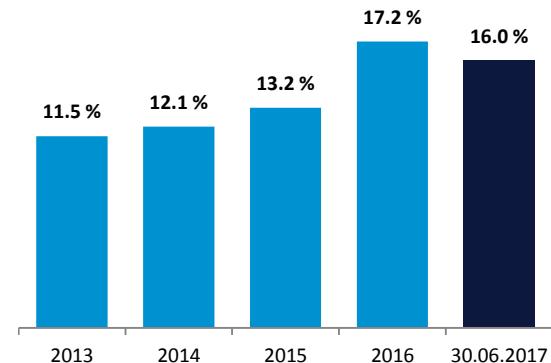
Result after tax (NOKm)



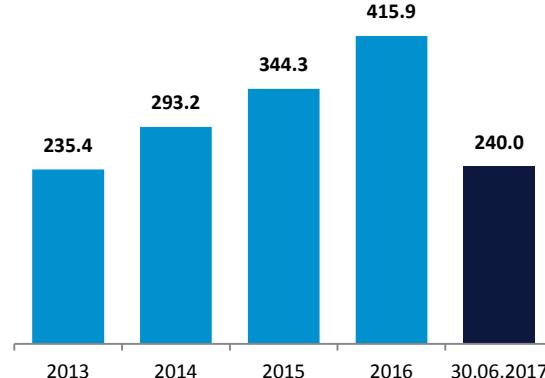
Return on Equity *



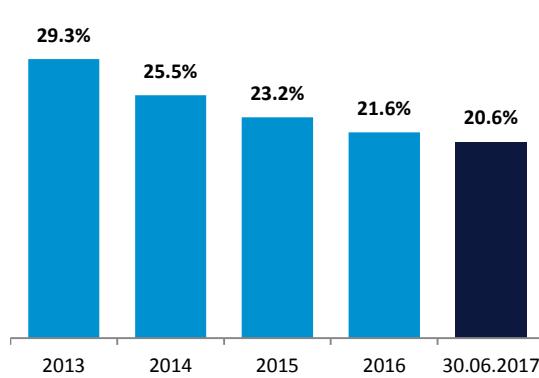
CET1 ratio **



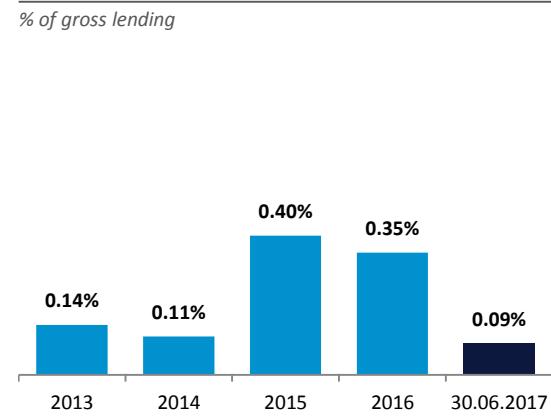
Net interest income (NOKm)



Cost/income ratio



Loss ratio ***



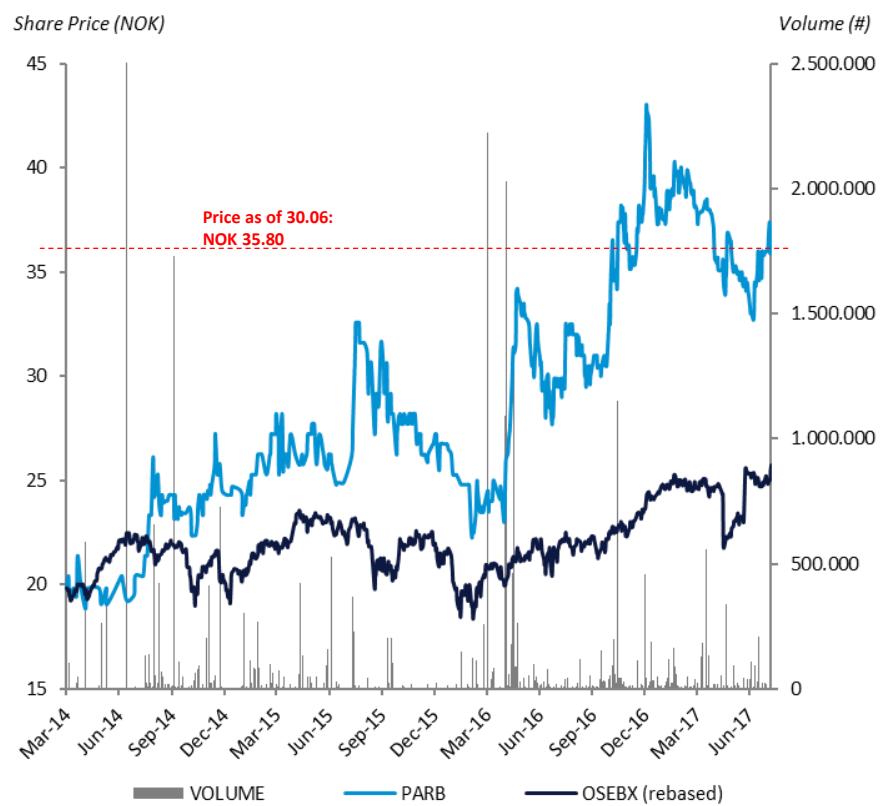
Note(*): Profit after tax excluding additional tier 1 interest costs after tax divided by average common equity tier 1 capital including retained earnings for the period

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

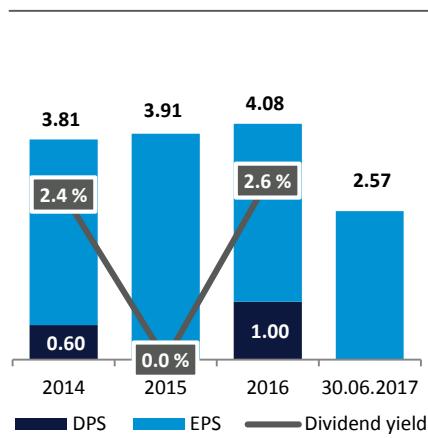
Note(***) : The loss ratio is the sum of individual and group losses and write-downs on loans and guarantees in the period as a percentage of gross lending

THE SHARE

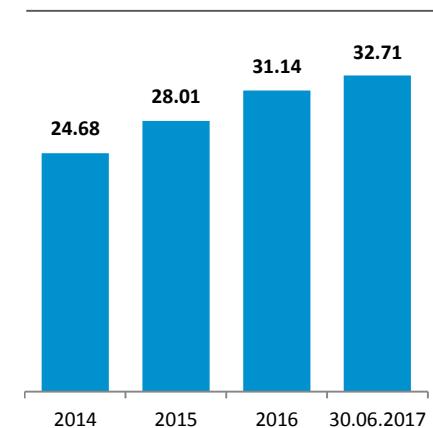
Share price development since March 2014**



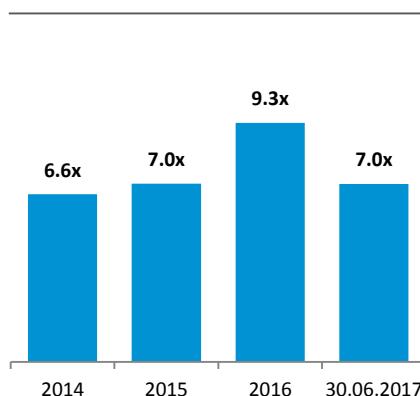
EPS, DPS (NOK) & Dividend Yield *



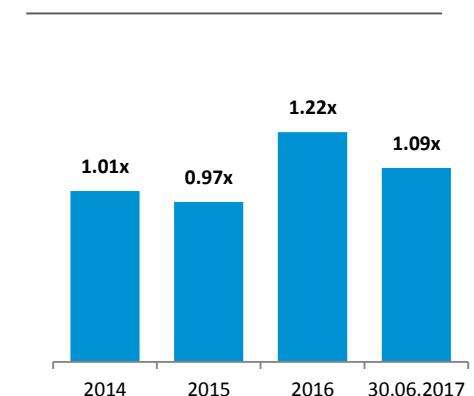
Book equity per share (NOK) *



Price / Earnings *



Price / Book *



LARGEST SHAREHOLDERS AS OF 11.07.2017

#	Investor	11 July 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	2,708,413	4.62 %
7	Verdipapirfondet Pareto Investment Fund	2,262,440	3.86 %
8	Kolberg Motors AS	1,276,220	2.18 %
9	Verdipapirfondet Landkredit Utbytte	1,200,000	2.05 %
10	GH Holding AS	1,002,012	1.71 %
11	Artel Holding AS	900,820	1.54 %
12	Castel AS	689,779	1.18 %
13	Endre Røsjø	650,000	1.11 %
14	Ola Rustad AS	585,996	1.00 %
15	Uthalden AS	562,451	0.96 %
16	Svemorka Holding AS	500,000	0.85 %
17	Thabo Energy AS	452,486	0.77 %
18	AS Clipper	433,845	0.74 %
19	Profond AS	409,597	0.70 %
20	Stenberg Holding AS	381,217	0.65 %
Sum TOP 20		43,110,264	73.54 %
Other shareholders		15,509,424	26.46 %
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 706 shareholders
- The top 10 and 20 investors hold 64 % and 74 % of the shares respectively
- Employees in Pareto Bank own 2.24 %
- Top management in the Pareto Group owns 0.55 %
- 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

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

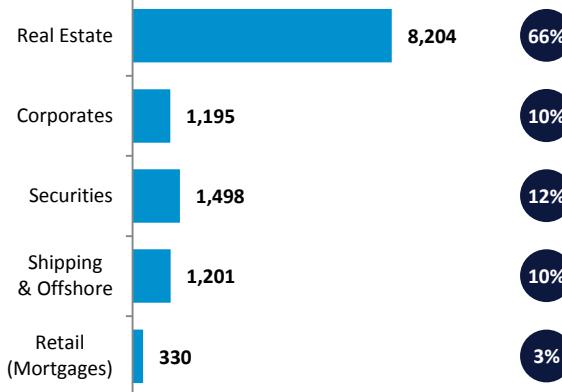
A full scale provider of securities & corporate financing including investment services

Shipping & Offshore

Focus on Norwegian clients, high quality charterers and liquid tonnage

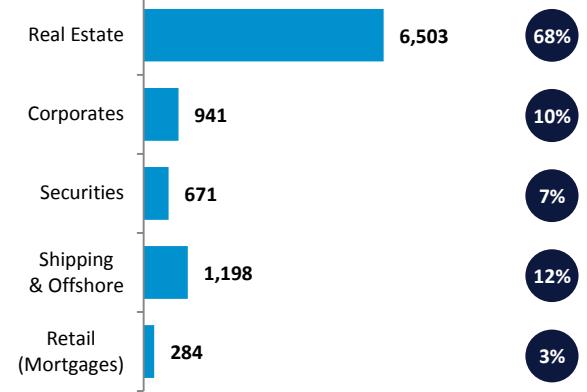
Gross credit exposure (NOKm)

$\Sigma = \text{NOK } 12,428\text{m}$



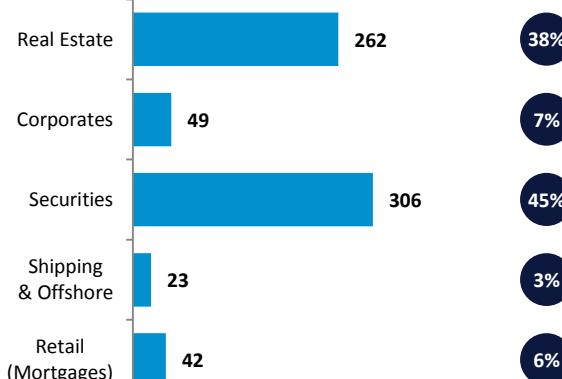
Gross total lending (NOKm)

$\Sigma = \text{NOK } 9,597\text{m}$



Number of active clients

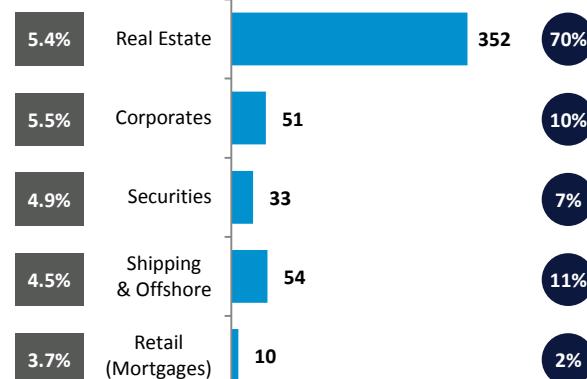
$\Sigma = \# 682$



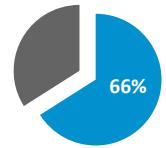
Interest contribution (NOKm) **

$\Sigma = \text{NOK } 500\text{m}$

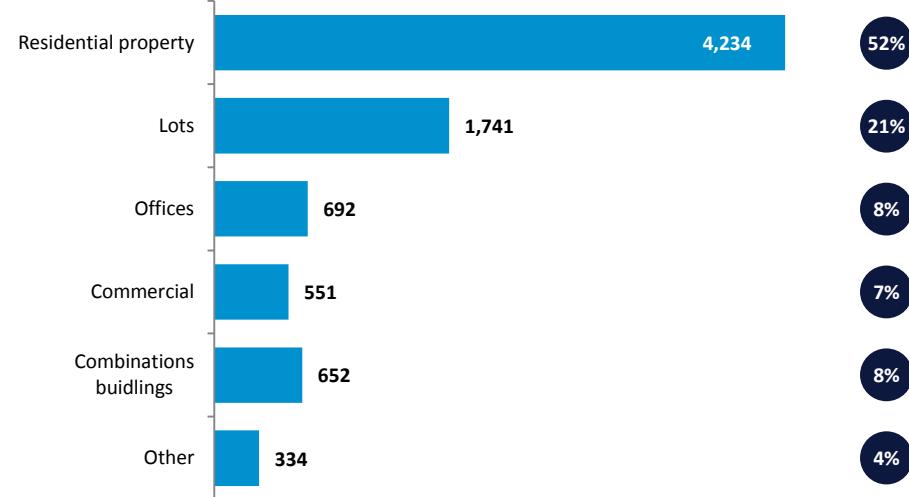
Margin over interbank rate **



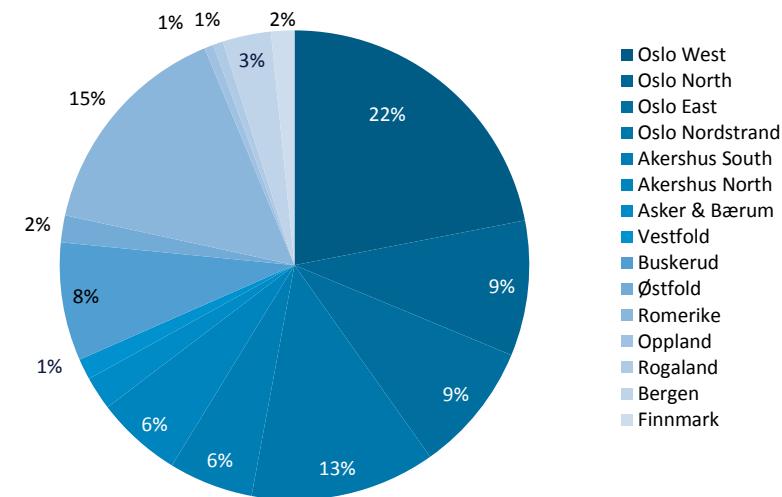
REAL ESTATE | STRONG MARKET POSITION



Real Estate credit exposure (NOKm) *

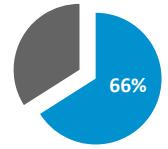


Geographical residential property exposure (NOKm) **



Status

- Strong market position within financing of residential property development in the Oslo region
- Continued high level of building activity in Oslo and its surroundings, but a more cautious outlook
- Recent regulation restricting mortgage lending in Oslo seems to moderate price growth and activity, while a low interest rate stimulates demand
- 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
- Also financing of conversion projects, renovation projects, commercial property and the like

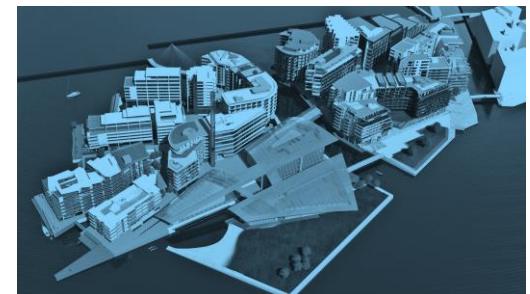


Real Estate portfolio policy

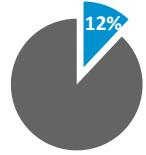
- On average 20 % to 40 % equity to finance a property lot purchase
- Primarily financing of regulated lots in Oslo and other well functioning liquid markets purchased for development with a clear exit strategy
- Market risk is reduced by requiring a high level of presale on building construction facilities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

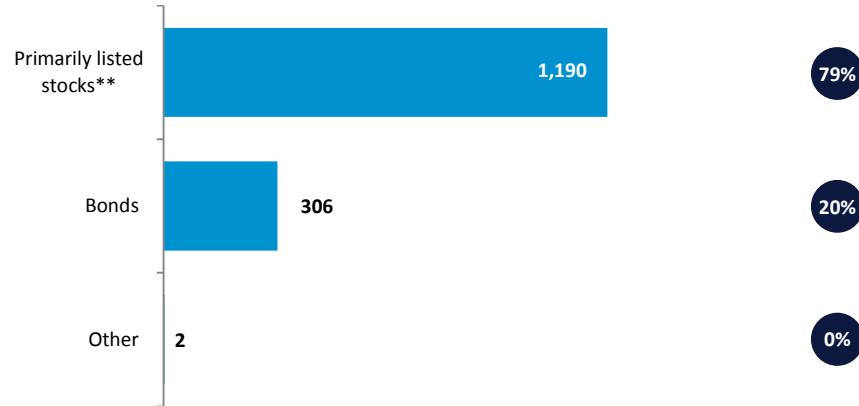


SECURITIES | FOCUS ON CUSTOMIZED SOLUTIONS



Total securities exposure (NOKm) *

$\Sigma = \text{NOK } 1,498\text{m}$



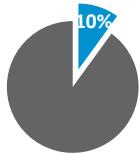
Products

- 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.

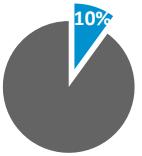
INVESTMENT LOANS

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

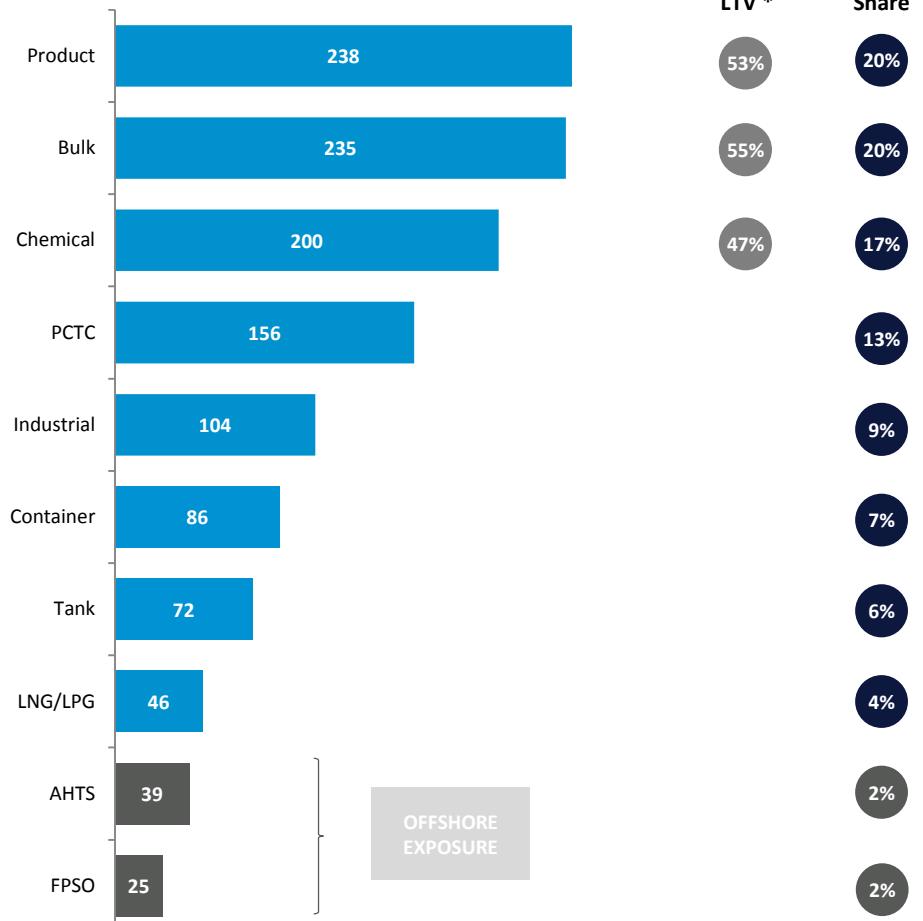


Status

- 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



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QUARTERLY INCOME STATEMENT

P&L (NOKm)

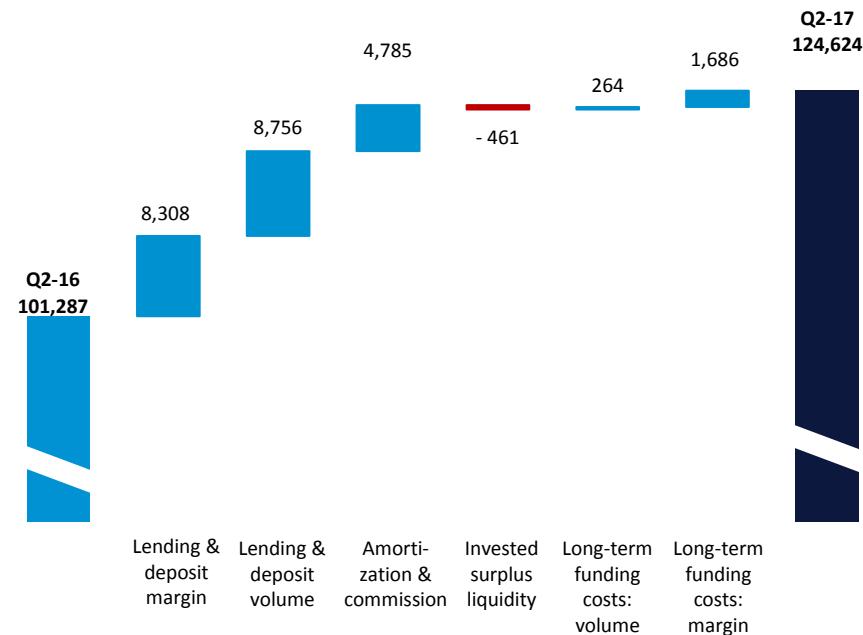
	Q2-17	Q1-17	Q4-16	Q3-16	Q2-16
Net Interest income	124.6	115.4	117.3	108.0	101.3
Total other operating income	7.8	18.9	9.0	13.3	13.0
Total net income	132.5	134.3	126.4	121.3	114.2
Total other operating expenses	26.8	28.0	26.4	22.7	27.4
Operating result before losses / write-downs	105.6	106.2	100.0	98.6	86.8
Losses / write-downs on loans	6.4	1.8	11.8	7.4	2.0
Operating result before tax	99.2	104.5	88.1	91.2	84.9
Tax payable	24.2	26.1	21.1	22.8	21.2
Result after tax	75.0	78.3	67.1	68.4	63.7
<i>Earnings per share (NOK)</i>	1.27	1.30	1.11	1.32	1.23

Key comments

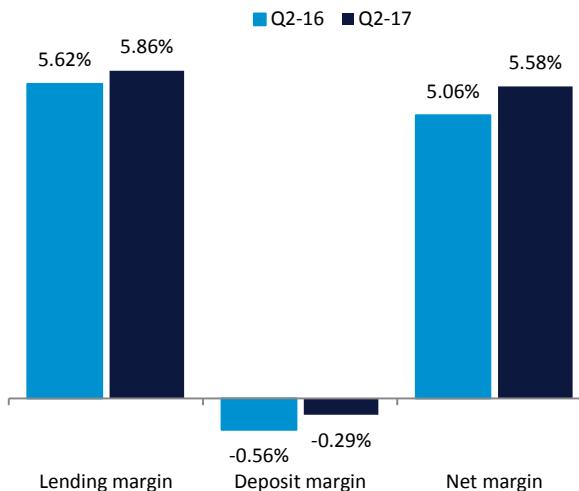
- High lending margins and fee income, lower funding costs and low losses were key drivers for profits in Q2-17
- The principle of assessing financial instruments at fair value may cause profits to fluctuate between quarters
- For Q2-17 total net gains were NOK 4.1m (NOK 7.8m)
- The fee for The Norwegian Banks' Guarantee Fund for 2017 will be distributed over the accounting year. This amounts to NOK 1.4m for Q2-17.
- NOK 3.8m (NOK 3.4m) was allocated for profit sharing with employees
- Net write-downs totaling NOK 6.4m (NOK 2.0m) in Q2-17
- 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) *

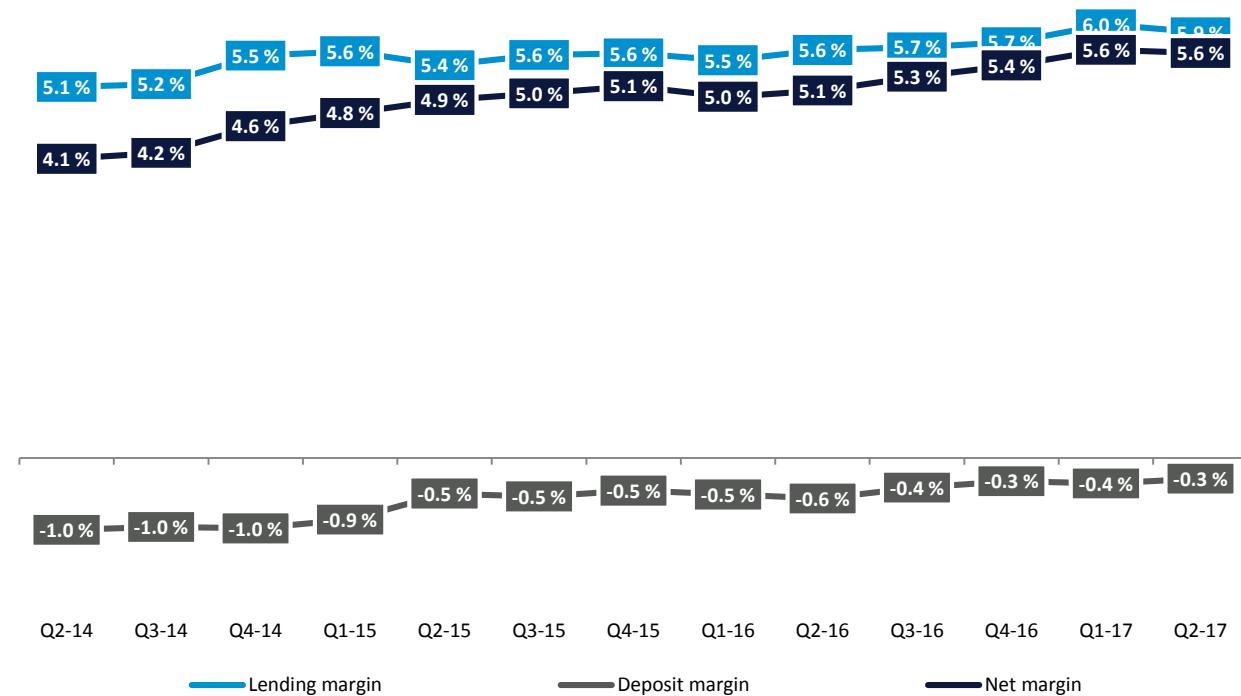


- Increased net interest income due to increased lending, higher margins and higher amortizations & commissions
- Decreased financing and falling funding margins in securities market

- Net interest margin improved by 0.52 percentage points
- Biggest driver was improved deposit margin which increased 0.27 percentage points due to reduced interest on deposits
- The fee for The Norwegian Banks' Guarantee fund for 2016 was charged wholly in Q1-16. Had it been distributed throughout 2016 the lending margin for Q2-16 would have fallen to 5.56

STRONG MARGINS

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



Key comments

- Strong growth on an strong net margin
- High fee income driven by high activity in real estate
- Reduced interest rates on business deposits
- Lower average interest rates on fixed-rate deposits

STRONG BALANCE SHEET

BS (NOKm)

	Q2-17	Q1-17	Q4-16	Q3-16	Q2-16
Deposits with credit institutions	350.2	884.5	804.3	1,093.5	954.5
Loans to customers	9,544.0	8,973.4	8,753.8	8,907.5	8,325.5
Bonds and other securities	3,308.8	4,093.9	3,315.1	3,543.3	3,524.3
Shareholdings in associated companies	40.0	40.3	14.7	-	-
Other assets	66.8	58.8	52.9	99.1	68.7
Total assets	13,309.7	14,050.9	12,940.8	13,643.3	12,873.0
Deposits	8,163.9	8,832.4	7,650.9	7,759.7	7,429.2
Senior securities issued	2,796.4	2,762.9	2,885.5	3,867.8	3,529.1
Other liabilities	111.8	292.4	148.9	142.7	108.1
Tier 2 subordinated securities issued	270.2	270.2	270.2	150.2	150.2
Additional tier 1 capital	50.0	50.0	160.0	160.0	160.0
Other Equity	1,917.5	1,843.0	1,825.2	1,562.9	1,496.4
Total liabilities and equity	13,309.7	14,050.9	12,940.8	13,643.3	12,873.0

Key comments

- High turnover rate: approximately 30% of the loan portfolio matures within a year
- Surplus liquidity fell in Q2-17 to target levels, reducing total assets
- 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

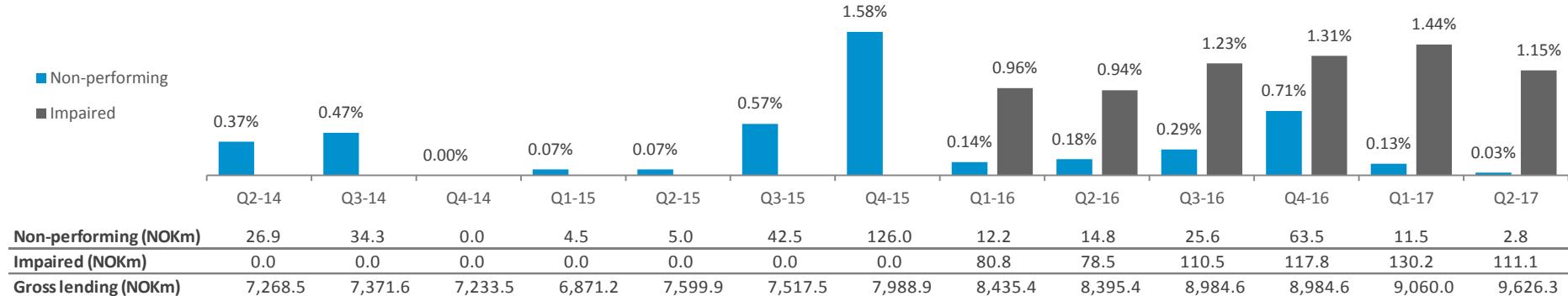
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LOAN PORTFOLIO QUALITY

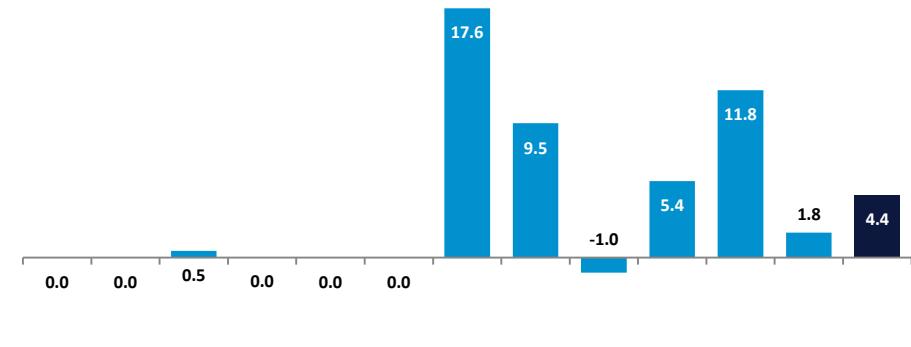
Net non-performing and impaired loans *

% of gross lending



Individual losses, write-downs and reversals on loans & guarantees

Nominal (NOKm)

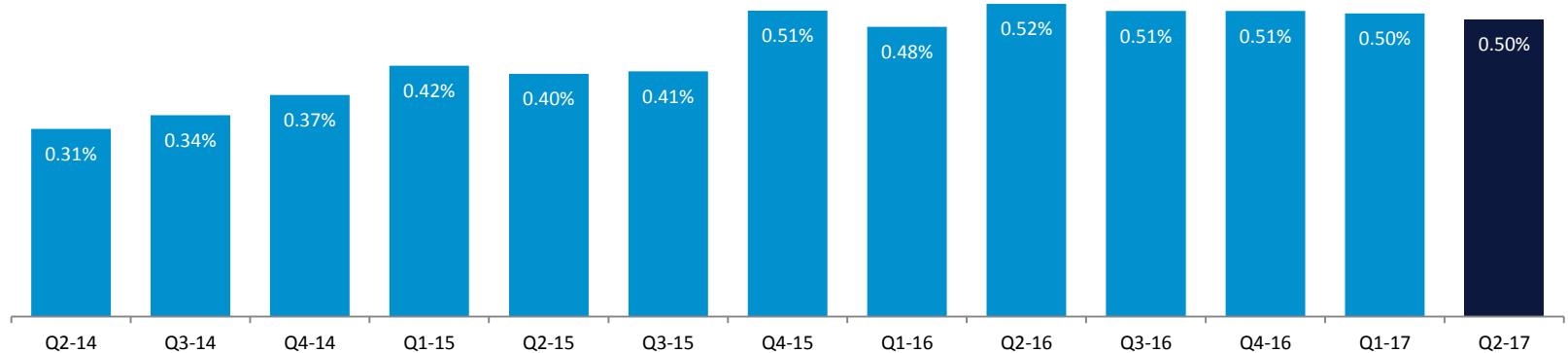


- Net non-performing loans NOK 3m (0.03 %) by the end of Q2-17
- Three shipping & offshore loans of net NOK 111m (1.15 %) were impaired by the end of Q2-17
- These loans are performing and they have been written down with in total USD 3.6m/NOK 30.4m

GROUP PROVISIONS

Cumulative group provisions

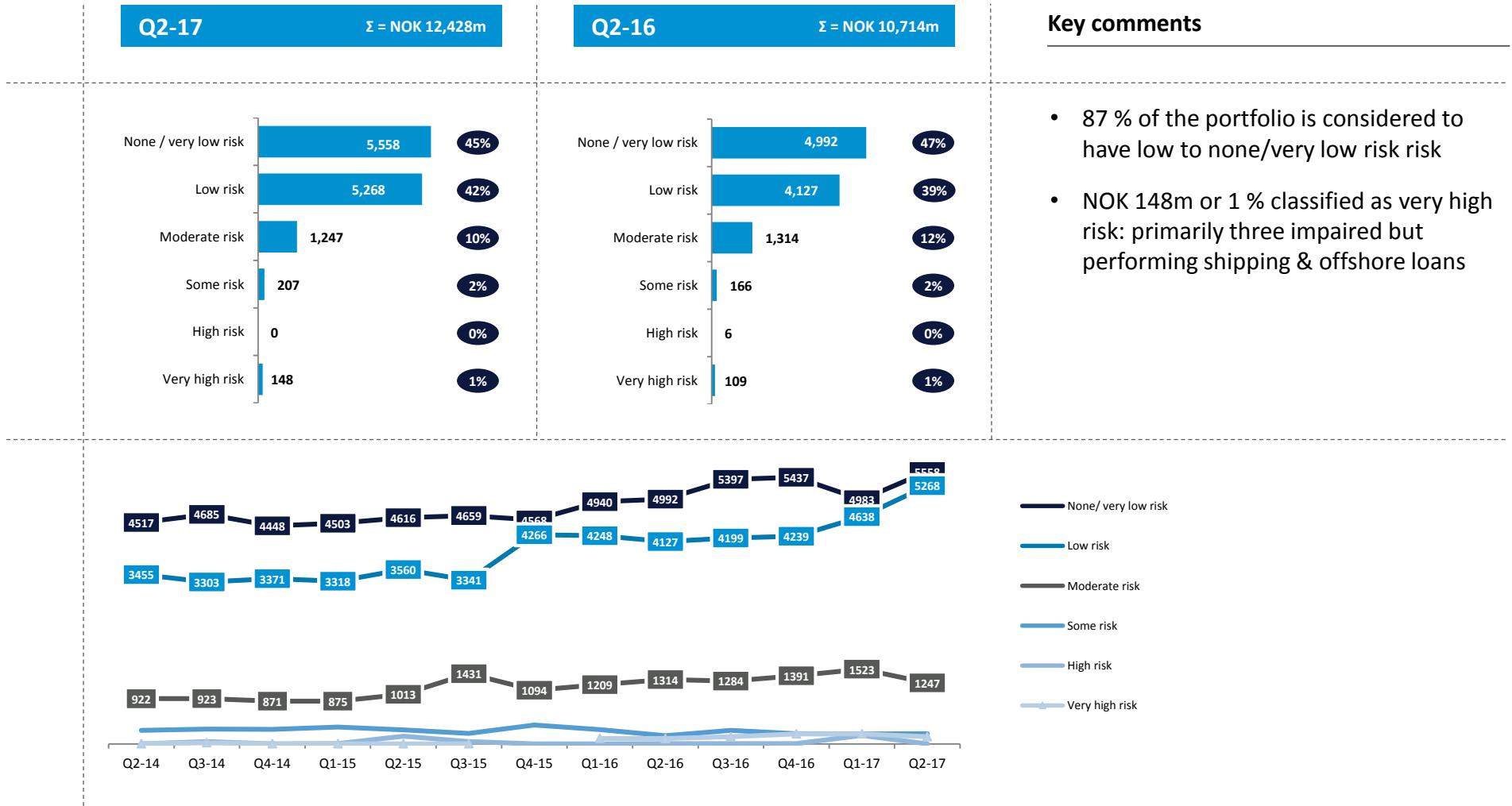
% of gross lending



Group provisions (NOKm)	22.7	24.7	26.7	28.7	30.7	30.7	40.7	40.7	43.7	45.7	45.7	45.7	47.7
Gross lending (NOKm)	7,268.5	7,371.6	7,233.5	6,871.2	7,599.9	7,517.5	7,988.9	8,435.4	8,395.4	8,984.6	8,984.6	9,060.0	9,626.3

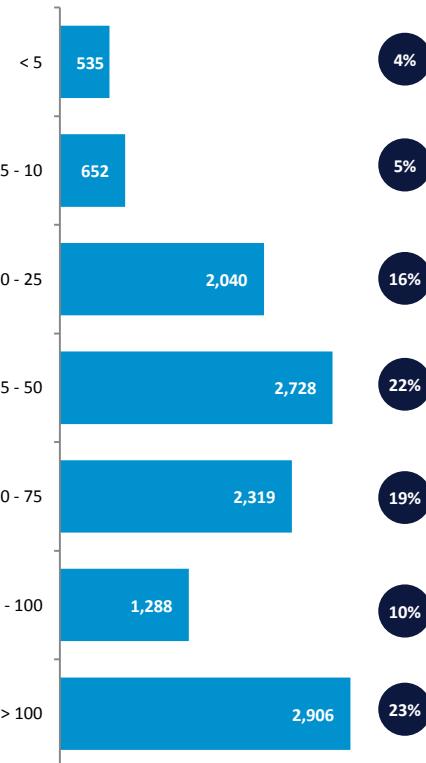
- Group provisions were increased by NOK 2m to NOK 47.7m or 0.50 % of gross lending by the end of Q2-17
- Group provisions are based on uncertainty in housing prices in Oslo and ship values within certain segments

COMMITMENTS BY RISK CLASSIFICATION

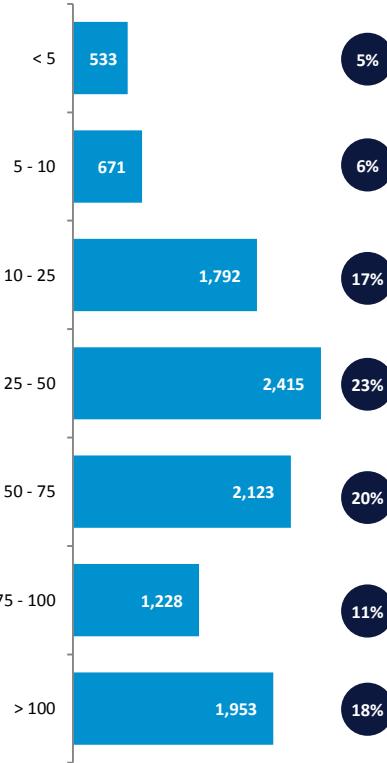


COMMITMENTS BY SIZE

Q2-17 $\Sigma = \text{NOK } 12,428\text{m}$



Q2-16 $\Sigma = \text{NOK } 10,714\text{m}$



Key comments

- A conservative policy with respect to size
- Maximum size on a single customer 10 % of total capital (NOK 216m)
- Maximum size on group / consolidated basis 15 % of total capital (NOK 325m)

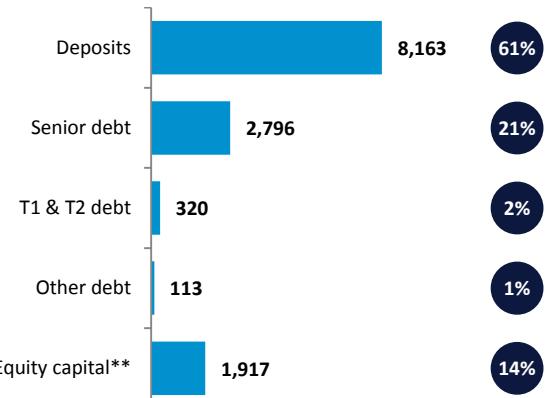
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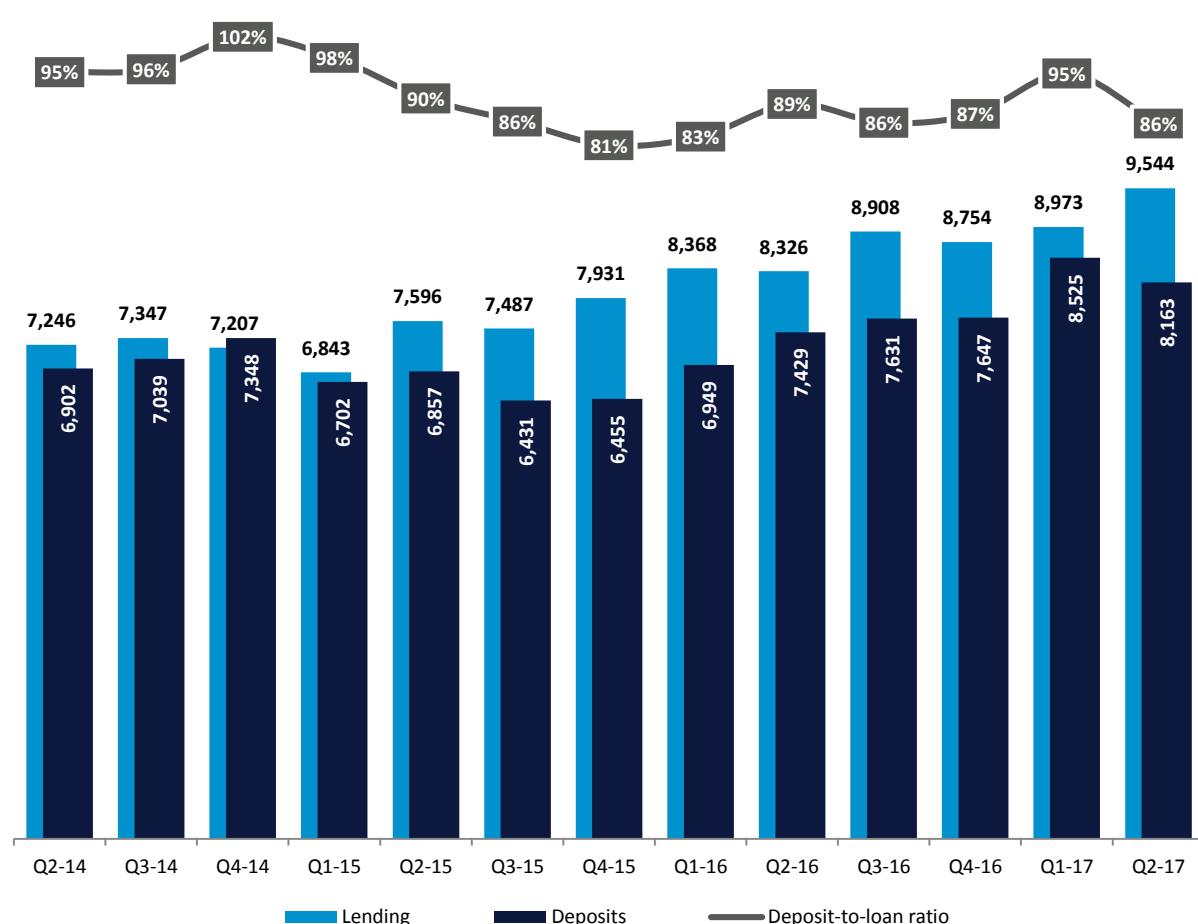
FUNDING | OVERVIEW *

Sources (NOKm)

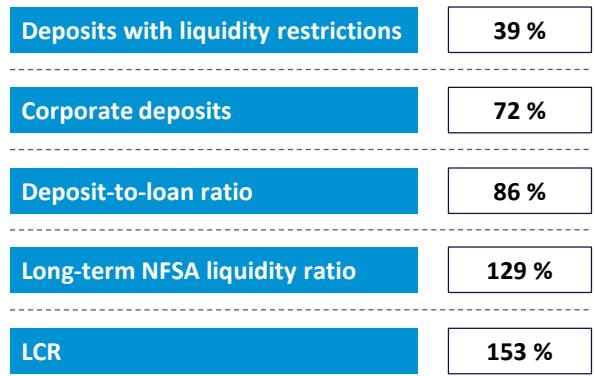
$\Sigma = \text{NOK } 13,310\text{m}$



Historical development in deposits vs. lending (NOKm)



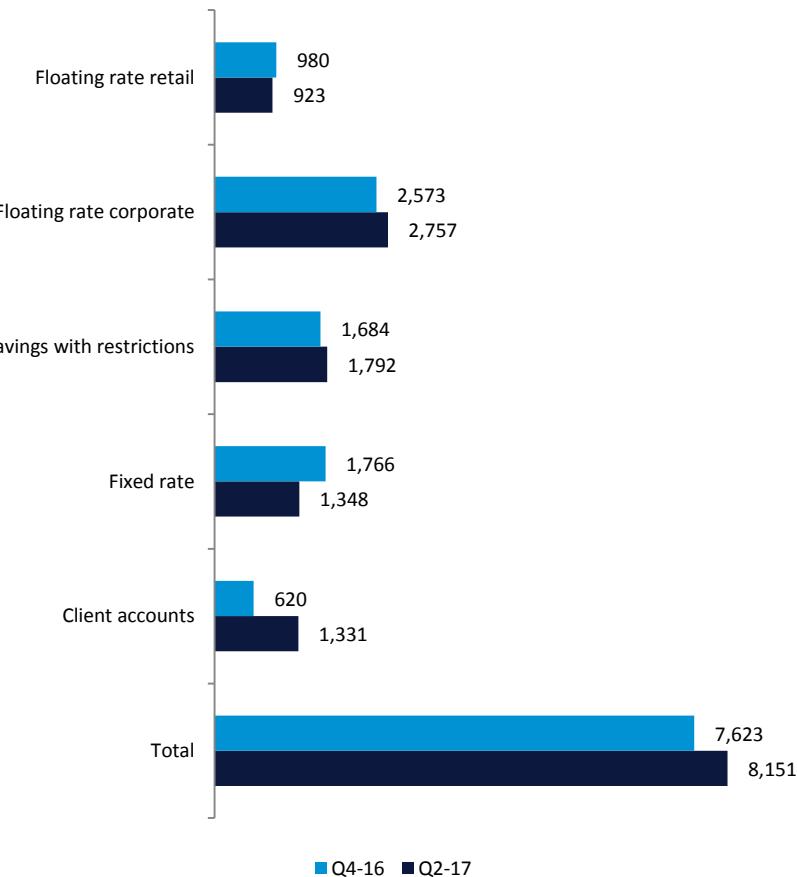
Key ratios



FUNDING | CUSTOMER DEPOSITS *

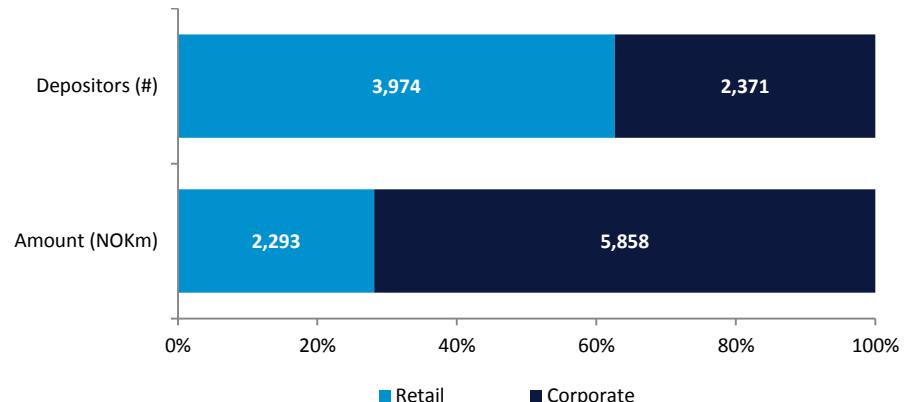
Deposits by product

$\Sigma = \text{NOK } 8,151\text{m}$



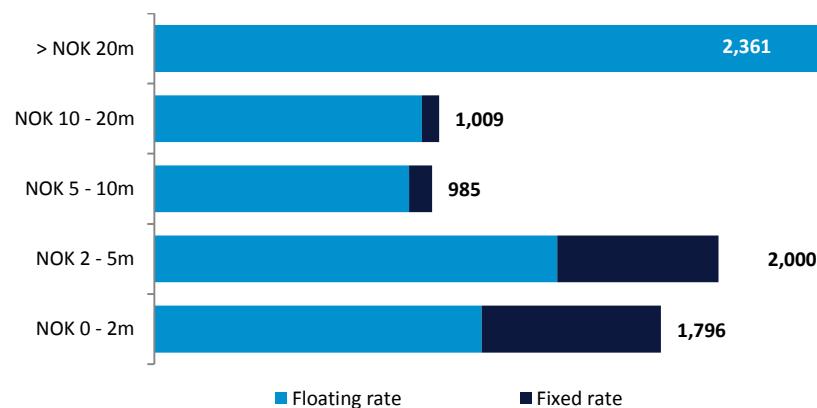
Deposits by type

$\Sigma = \text{NOK } 8,151\text{m}$



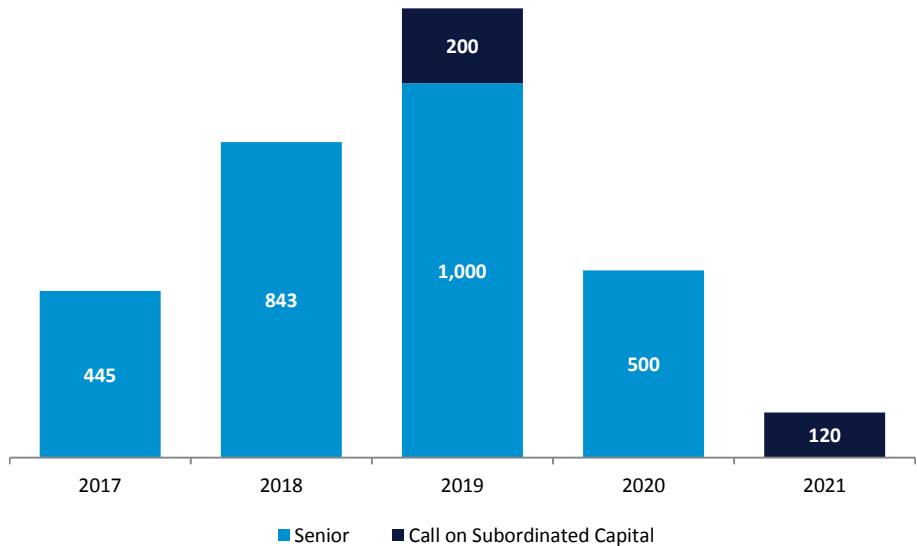
Deposits by size (NOKm)

$\Sigma = \text{NOK } 8,151\text{m}$

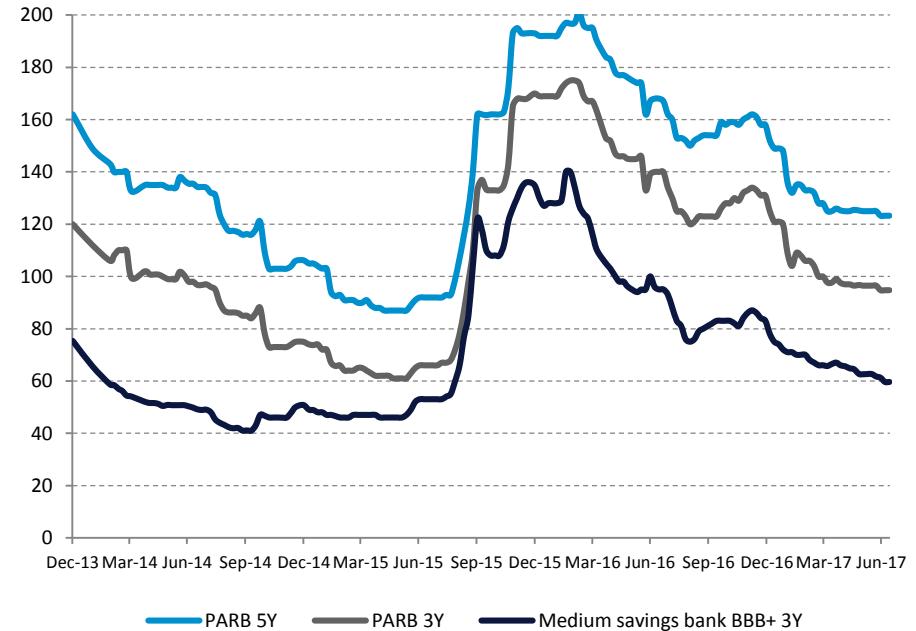


FUNDING | MARKET FUNDING

Market funding maturities - net of own holdings (NOKm) *



Credit spreads (bps)

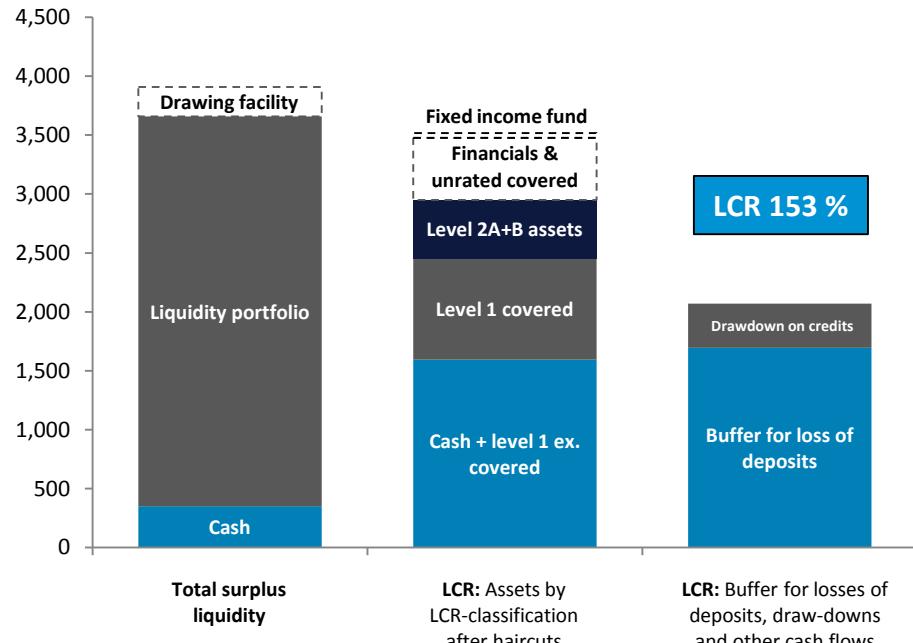


- The bank has six loans outstanding
- The bonds are listed on Nordic ABM and the Oslo Stock Exchange

- 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

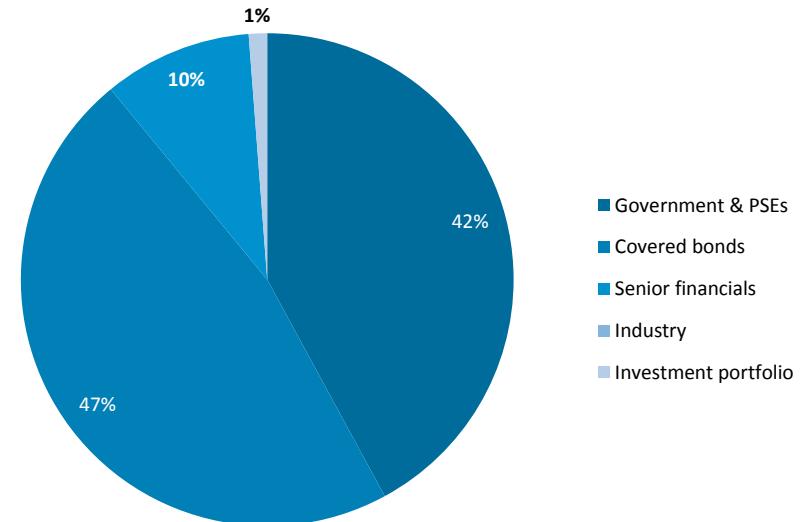
SURPLUS LIQUIDITY

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)



- High share of government & PSEs to reduce credit spread risk and increase short-term liquidity
- Large share covered bonds, mainly short to medium maturities
- NOK 40m invested in high-yield bond funds in the investment portfolio (max limit NOK 500m)

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

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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	15.9 %	> 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