



# PARETO BANK

## Financial Results

First Quarter 2018

# TABLE OF CONTENTS

**1 HIGHLIGHTS AND FINANCIALS**

**2 BUSINESS AREAS**

**3 AMBITIONS FOR 2018**

# FIRST QUARTER 2018 HIGHLIGHTS

---

- 1 Profit after tax NOK 79.2m (NOK 78.3m).
- 2 Return on equity 15.2 % (16.7 %).
- 3 Strong net interest income of NOK 129.1m (NOK 115.4m).
- 4 Net lending growth of NOK 618.2m (NOK 219.7m), primarily within Real Estate financing and Corporate financing.
- 5 Real Estate activity holding up. Housing prices in Oslo and the surrounding regions have levelled out and increased in the first quarter.
- 6 Strong deal flow in Corporate financing is materializing.
- 7 Launching a new digital solution to provide working capital for SMEs.

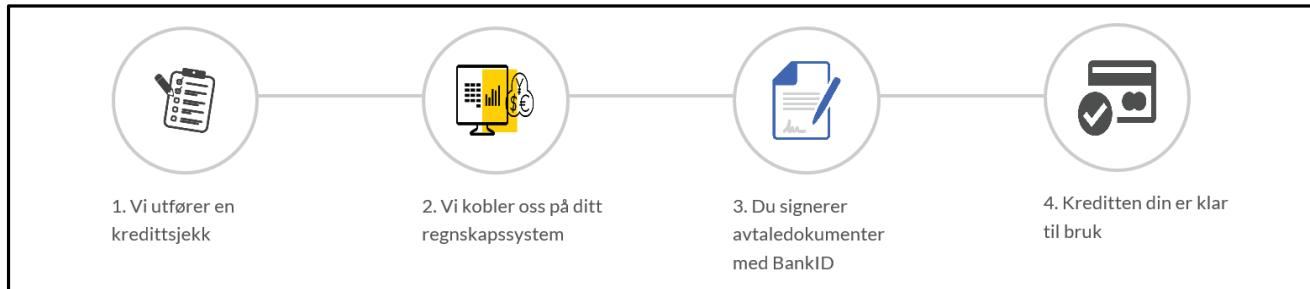
# CORPORATES | LAUNCH OF NEW PRODUCT FOR NORWEGIAN SMEs

## New product

- “Fleksibel driftskredit” is a credit facility based on receivables (factoring) as collateral
- Easy to use, flexible and with transparent pricing
- The product complements the bank’s corporate finance product portfolio while diversifying its risk
- A first step towards a wider range of services for Norwegian SMEs
- Pilot period with first customers in Q2-18

## New digital approach

- Full integration with leading cloud based accounting systems
- Credit rating model based on public data and real time accounting information
- Superior risk management due to real time accounting information
- 100 % digital application and on-boarding process with short response time



# INCOME STATEMENT

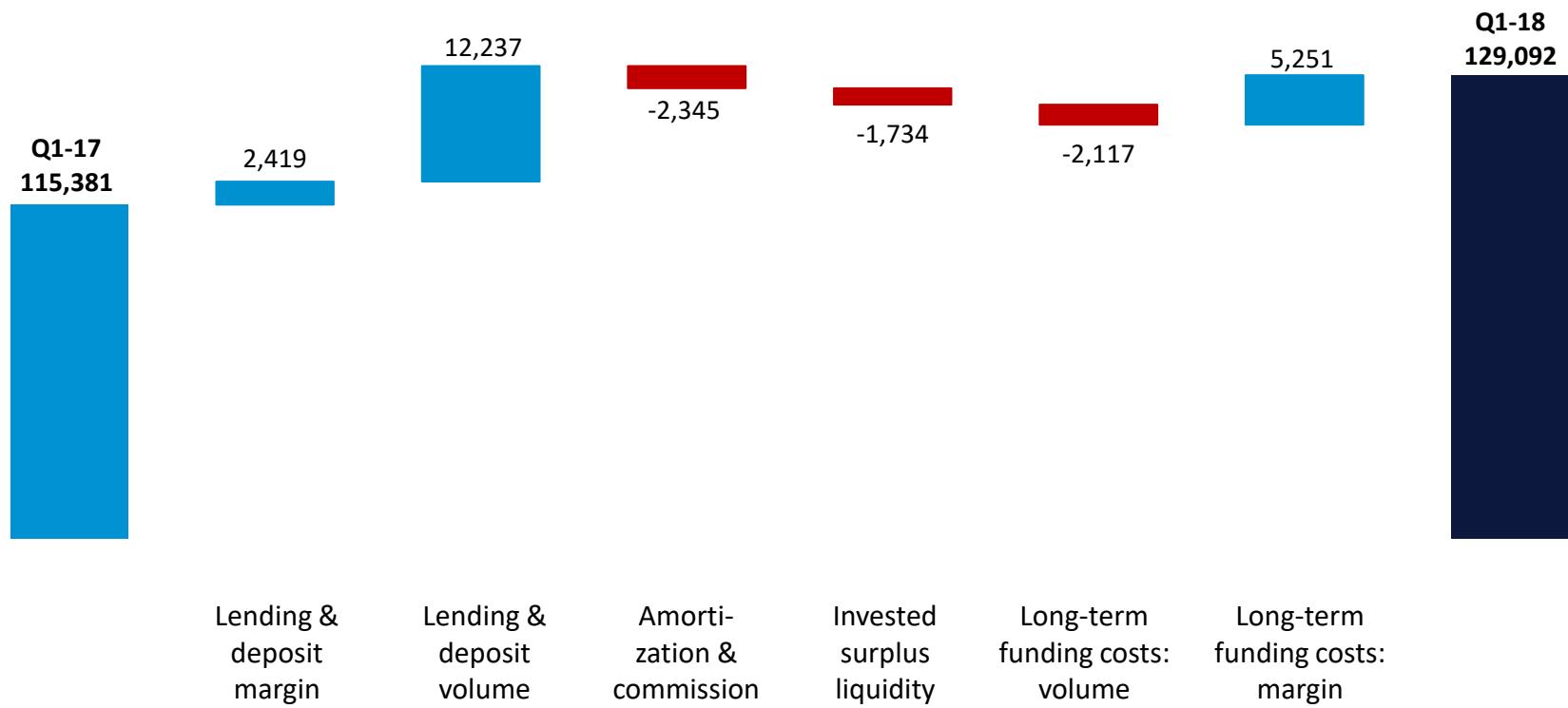
---

## P&L (NOKm)

	Q1-18	Q1-17	2017	
Net Interest income	129.1	115.4	507.0	Continued good net interest income due to lending growth. High fee income due to short loan maturity and natural turnover.
Total other operating income	4.9	18.9	32.0	Other income in Q1-17 was high by comparison due to extraordinarily high gains on the bank's bond portfolio in 2017.
<b>Total net income</b>	<b>134.0</b>	<b>134.3</b>	<b>539.0</b>	
<b>Total other operating expenses</b>	<b>31.0</b>	<b>28.0</b>	<b>112.6</b>	
Operating result before losses / write-downs	103.0	106.2	426.4	
Losses / write-downs on loans	-2.7	1.8	11.4	Reversal of write-downs under IFRS 9 due to a lower level of impaired loans.
<b>Operating result before tax</b>	<b>105.6</b>	<b>104.5</b>	<b>415.0</b>	
Tax payable	26.4	26.1	102.4	
<b>Profit for the period</b>	<b>79.2</b>	<b>78.3</b>	<b>312.6</b>	
<i>Earnings per share (NOK)</i>	1.34	1.30	5.28	
<i>Return on equity</i>	15.2%	16.7%	15.9%	
<i>Cost income ratio</i>	23.1%	20.9%	20.9%	

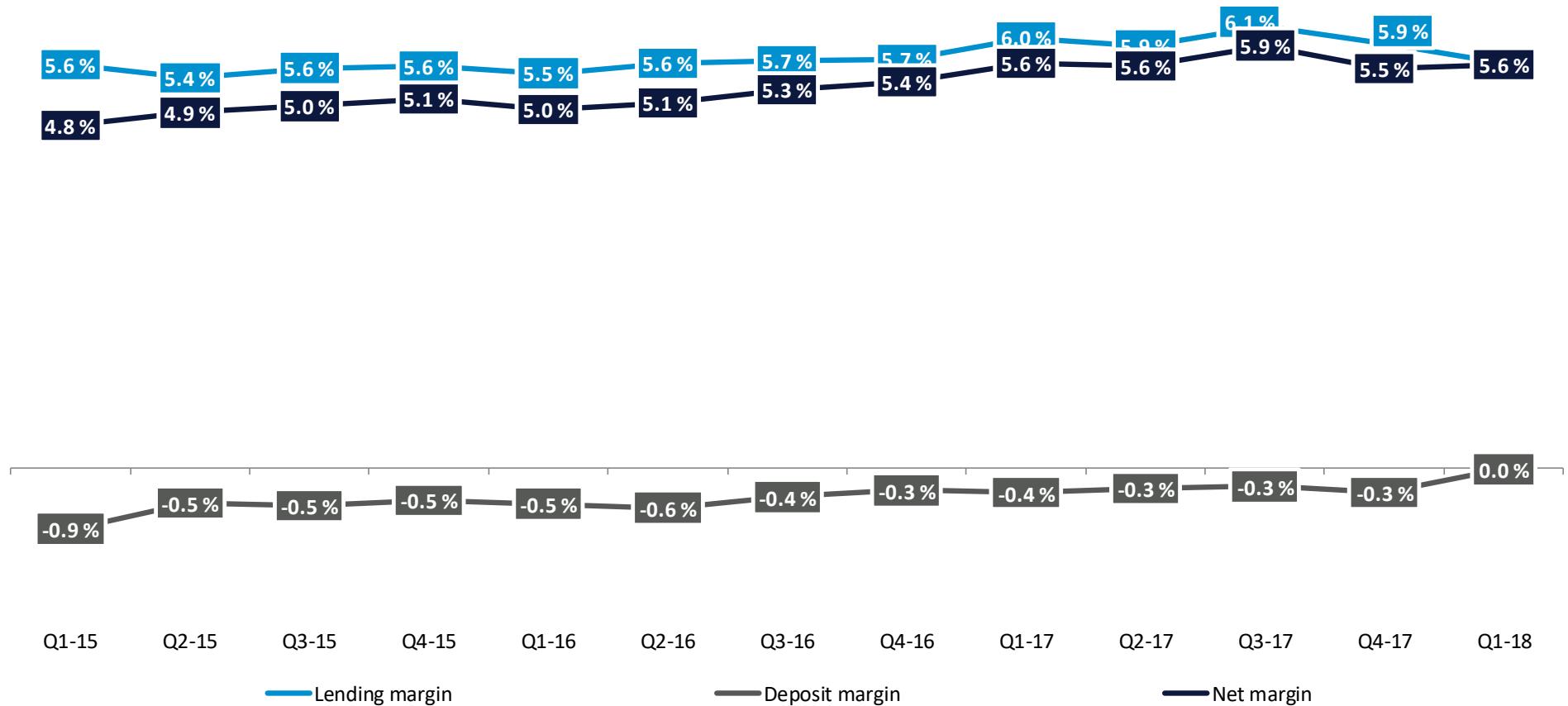
# GROWING NET INTEREST INCOME

Net interest income (NOK 1,000)



# STRONG MARGINS

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

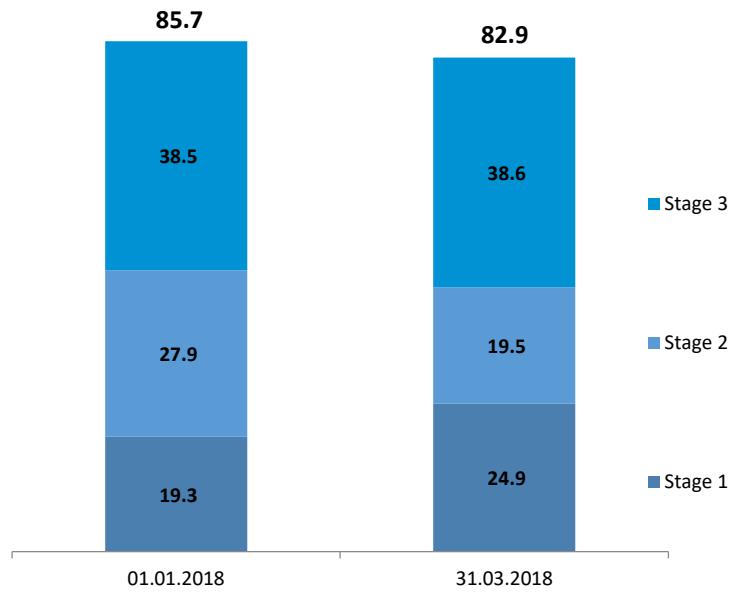


# LOAN PORTFOLIO QUALITY

---

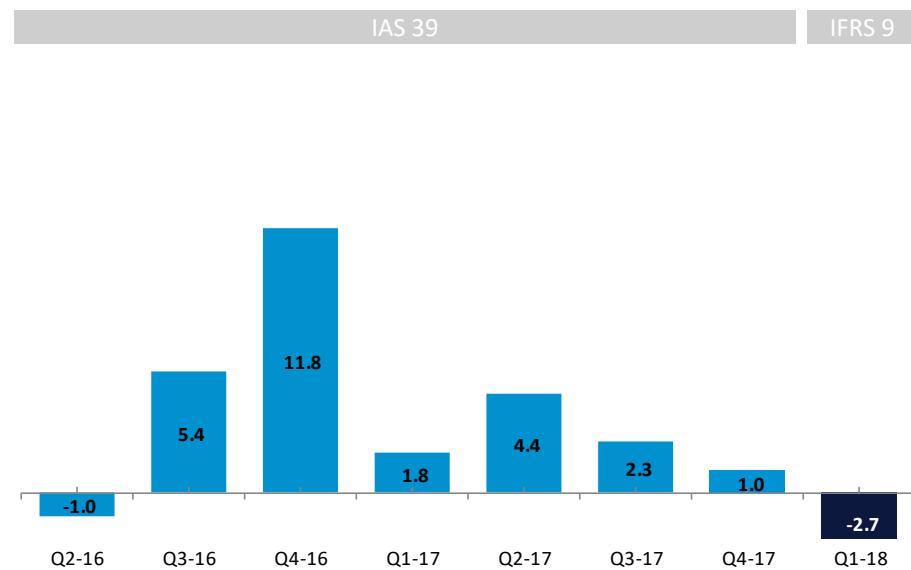
## Loss allowances according to IFRS 9

Nominal (NOKm)



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

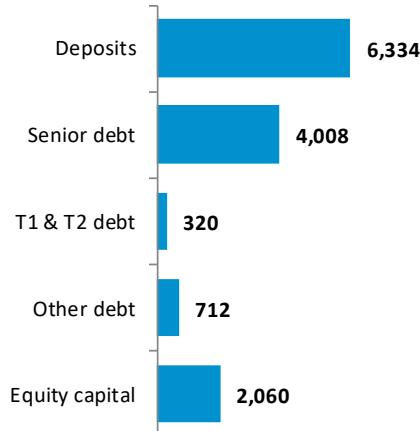
Nominal (NOKm)



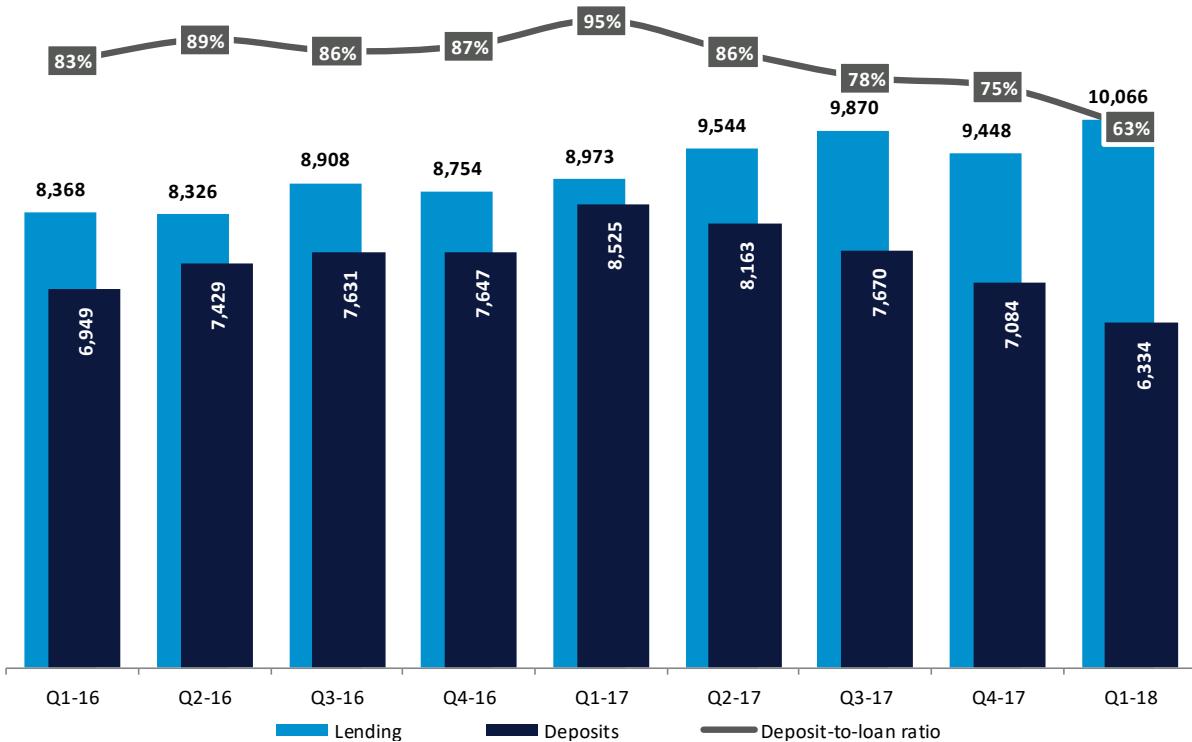
# FUNDING | OVERVIEW

## Sources (NOKm)

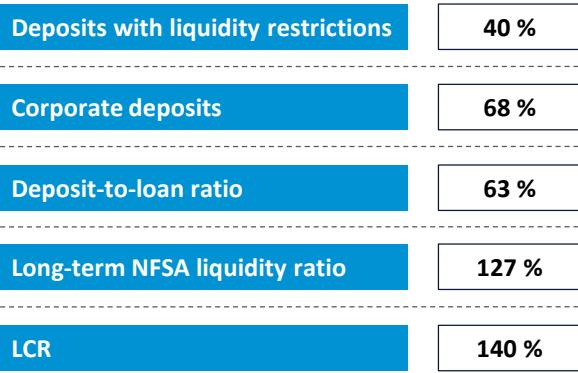
$\Sigma = \text{NOK } 13,434\text{m}$



## Historical development in deposits vs. lending (NOKm)

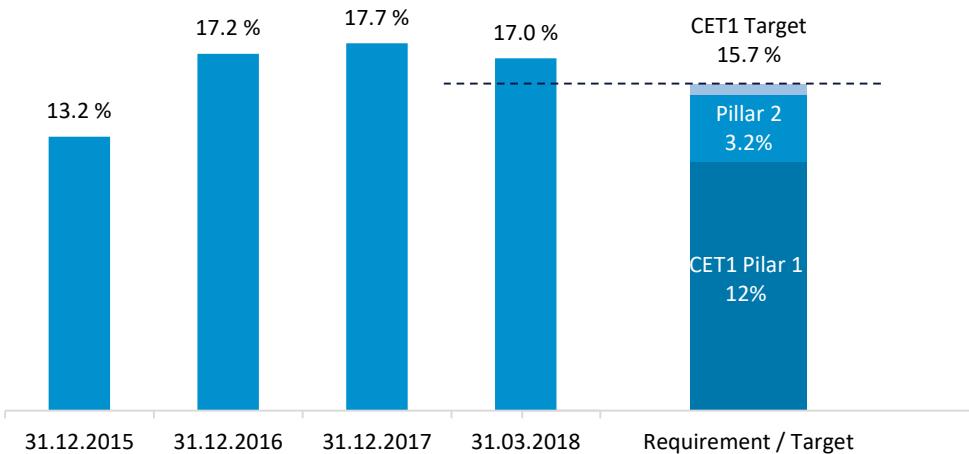


## Key ratios



# CAPITAL REQUIREMENTS

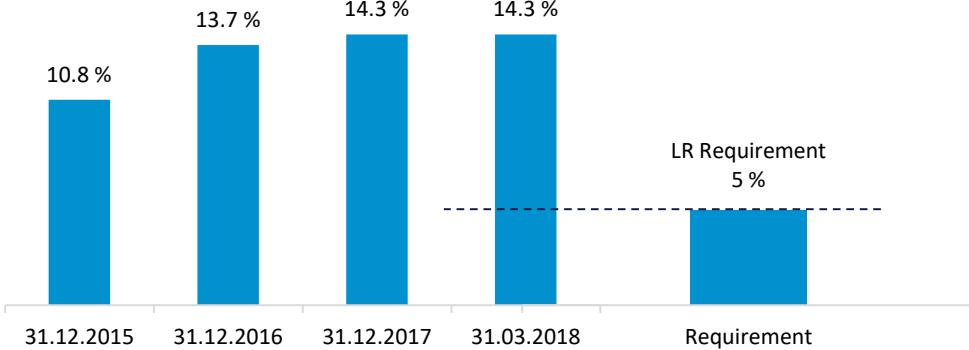
## Core equity tier 1 ratio (CET1 ratio)



## Key comments on capital

- The bank's minimum CET1 ratio requirement is 15.2 %.
- The board has set a CET1 ratio target of 15.7 % as of 31.12.2018.
- The bank has the ability to manage its balance sheet to meet capital targets.
- The bank has a strong leverage ratio.

## Leverage ratio



# TABLE OF CONTENTS

**1 HIGHLIGHTS AND FINANCIALS**

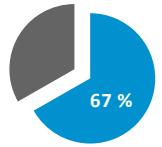
**2 BUSINESS AREAS**

**3 AMBITIONS FOR 2018**

# NORWAY'S LEADING PROJECT BANK

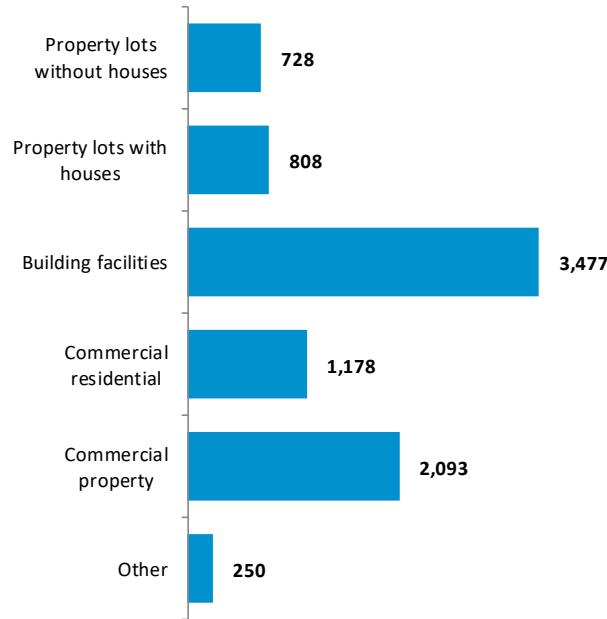
BUSINESS AREAS	PROJECTS / CREDITS	EXPOSURE	AVG. PRINCIPAL
<b>Real estate</b>	Property lot financing Building construction facilities Commercial property financing	<b>NOKm 8,415</b> <b>67 %</b>	<b>NOKm</b> <b>30</b>
<b>Corporates</b>	M&A loans Bridge loans Investment loans Working capital facilities	<b>NOKm 1,744</b> <b>14 %</b>	<b>NOKm</b> <b>30</b>
<b>Securities</b>	Securities financing	<b>NOKm 1,254</b> <b>10 %</b>	<b>NOKm</b> <b>5</b>
<b>Shipping &amp; offshore</b>	Ship owners Family offices Shipping and offshore projects	<b>NOKm 1,006</b> <b>8 %</b>	<b>USDm</b> <b>5-15</b>

# REAL ESTATE | ACTIVITY IS HOLDING UP



## Real estate credit exposure (NOKm)

$\Sigma$  = NOK 8,535m

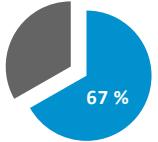


## Key comments

- Continued strong deal flow has resulted in real estate credit exposure growth of NOK 626m in Q1-18
- Most of the growth took place within residential property development where the exposure increased by NOK 431m in Q1-18
- Slower sale of new housing projects combined with a high natural turnover rate on loans can hamper deal flow and growth in last half of 2018

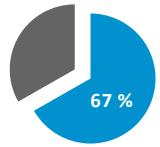
# REAL ESTATE | MANAGING CREDIT RISK

---



- ✓ Focus on presale, liquidity buffers and adequate equity contribution
- ✓ Presale requirement: if the price of unsold units falls by 50 % compared to the price of presold units, the sales amount must still be sufficient to cover the bank credit
- ✓ Presale quality: end-users are assessed and qualified
- ✓ Tight covenant setting with respect to working capital, liquidity buffers, liquidity reporting
- ✓ 20 % to 40 % equity contribution to finance a property lot purchase
  
- ✓ Restrictive attitude towards financing of projects with long-term exits
- ✓ Approximately 50 % of the financed property lots are with rental income as they are utilized for residential purposes.
- ✓ Approximately 50 % of project exposure is in the small house segment (94 out of 150 projects)
- ✓ A high natural turnover rate on loans is in general risk mitigating

# REAL ESTATE | RESIDENTIAL PROPERTY EXPOSURE



## A diversified portfolio \*

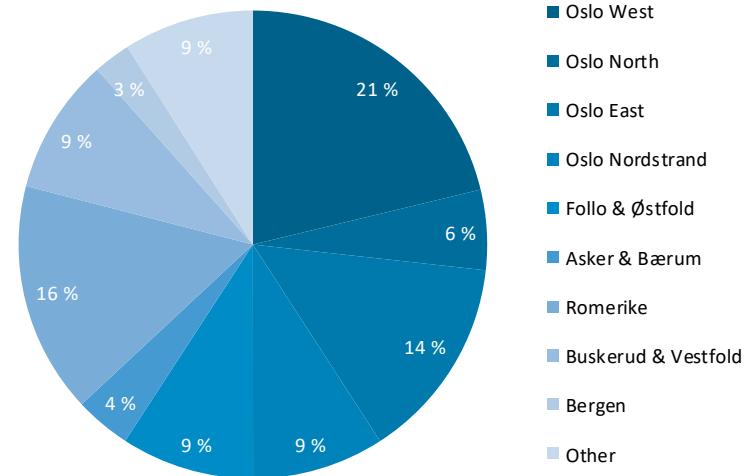
- The residential property exposure is diversified by geographic area, project type and size
- The portfolio is made up of 150 different addresses with an average project size of NOK 41m
- 94 projects are construction of small houses (*småhus*), while the rest are apartment projects. Exposure to small house projects amounts to approximately 50 %
- Apartments vary from large, exclusive units to smaller units.

## Market observations

- A differentiated market in Oslo: demand for small apartments (50 square meters or less) is low due to regulation (*boliglånsforskriften*) and high supply
- Continued demand for small houses (*småhus*)
- Housing prices in Oslo and the surrounding regions have levelled out and have increased in the first quarter

## Geographical residential property exposure (NOKm)

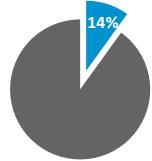
$\Sigma = \text{NOK } 6,444\text{m}$



### Largest areas:

Oslo	50 %
Akershus & Østfold	29 %
Buskerud & Vestfold	9 %

# CORPORATES | STRONG DEAL FLOW



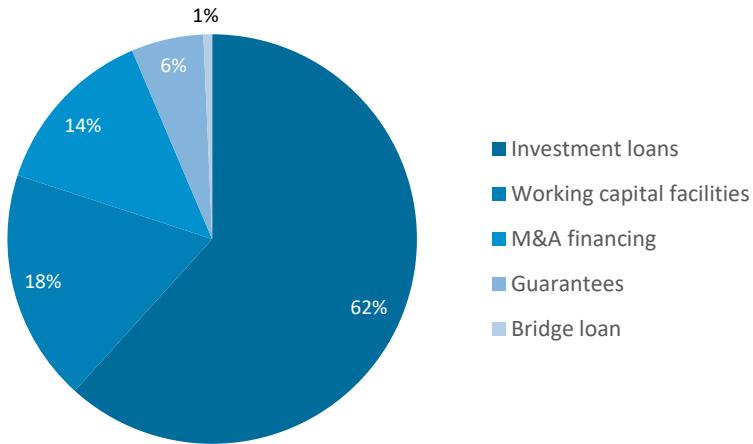
## Status

Total exposure of NOK 1,744m within a variety of industries. 61 customers with credit facilities in the range of NOK 0.1m to NOK 150m.

Total exposure increased by NOK 283m in Q1 2017.

Investment loans comprise 62 % of total exposure.

More M&A financing is expected going forward.



## Products

### INVESTMENT LOANS

Financing of investments for a client who backs the investment with a financially solid parent company.

### M&A FINANCING

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

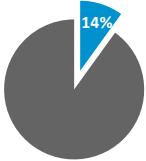
### BRIDGE LOANS

Bridging of liquidity for clients who have both bought and sold assets, but not timed the cash flow. Short term financing until a more permanent funding source is in place.

### WORKING CAPITAL FACILITIES

Normally given in combination with other loans. Client pays a commitment fee for access to a credit line that can be drawn to meet short-term borrowing needs.

# CORPORATES | MARKET AND STRATEGY



---

## Market observations

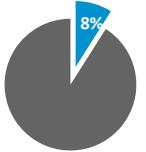
- Limited competition within corporate financing for small and medium-sized Norwegian enterprises (SMEs)
- Large banks allocate capital to private customers, large corporates and large transactions
- The bond market is no real alternative for SMEs as the amounts are too small
- Transactions are often too large or complex for local savings banks

---

## Strategy

- Main focus on corporate transactions (M&A, MBO, LBO)
- Focus on SMEs with revenue between NOK 20m to NOK 500m
- Tailor-made solutions to fit client needs
- Thorough fundamental credit analyses of all companies
- Focus on business model, financials, corporate governance and management and no specific sector or industry criteria
- A conservative approach to leverage and strict financial covenants
- Tenor varies depending on product. Within M&A financing an average tenor of 3 to 5 years

# SHIPPING & OFFSHORE | DIVERSIFIED PORTFOLIO

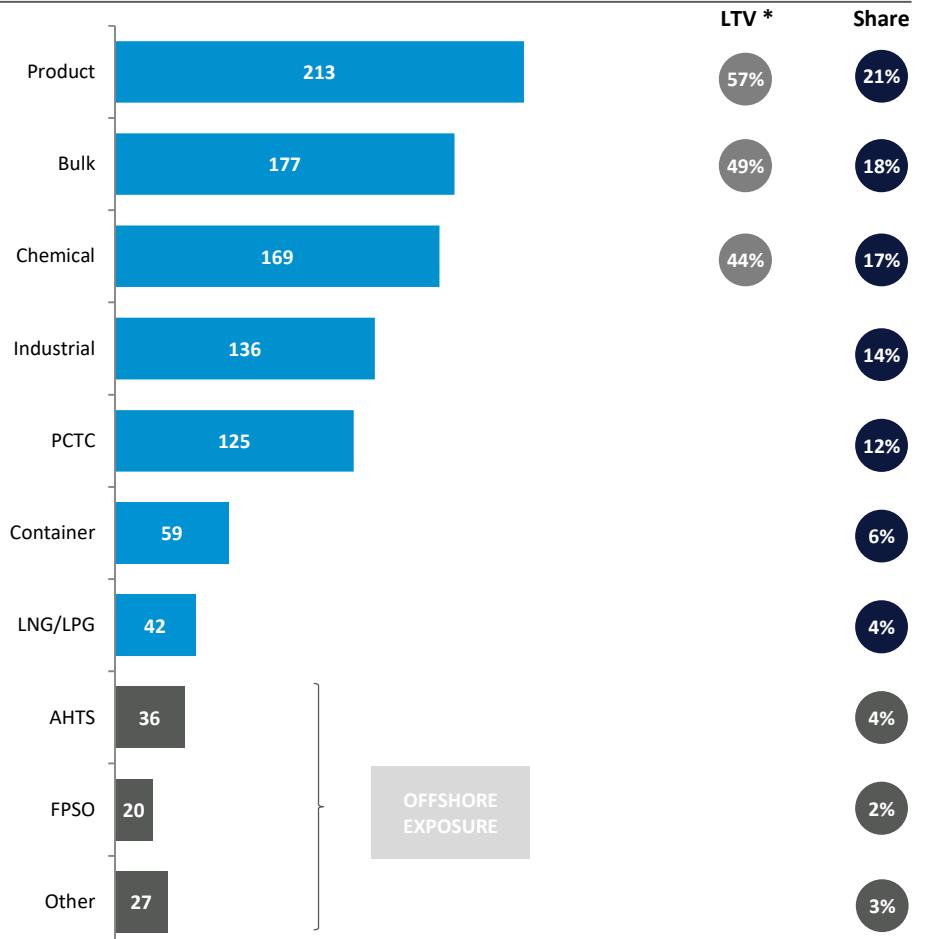


## Status

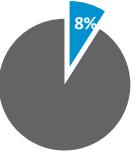
- 21 customers and a total of 32 vessels
- Largest exposure is USD 13.4m and average commitment size is USD 5.9m
- Two commitments towards the offshore sector equalling approximately 0.4 % of total credit exposure
- A diversified portfolio where a single segment will normally not exceed 25 % of the total S&O exposure
- Maximum S&O credit exposure is 15 % of the bank's total credit exposure

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

$\Sigma = \text{NOK } 1,005\text{m}$



# SHIPPING & OFFSHORE | MARKET AND STRATEGY



## Market observations

- Right time to increase profitability
- Few banks are currently supporting clients and offering financing in Pareto Bank's targeted segment
- Several shipping markets look promising
- Growth ambition in 2018 is subject to attractive opportunities

## Strategy

- Target higher profitability
- Target LTV of 50 %
- Norwegian ship owners, majority shareholders and family offices
- Owners with strong balance sheets and high-quality counterparties
- Tonnage with liquid second-hand markets and well-proven designs
- Higher loan amounts on average to fund modern tonnage and multiple vessels
- Tight covenant setting with respect to minimum value clauses and working capital
- Strategy is revised annually to reflect market development and ensure dynamic risk management



# TABLE OF CONTENTS

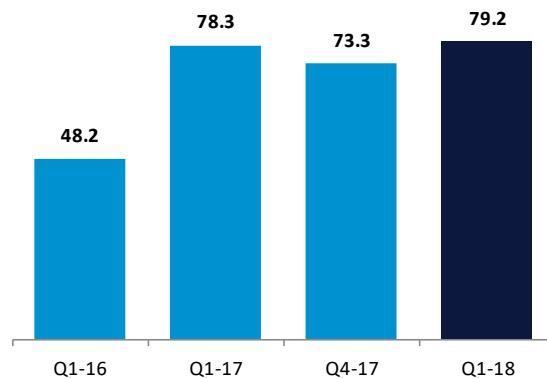
**1 HIGHLIGHTS AND FINANCIALS**

**2 BUSINESS AREAS**

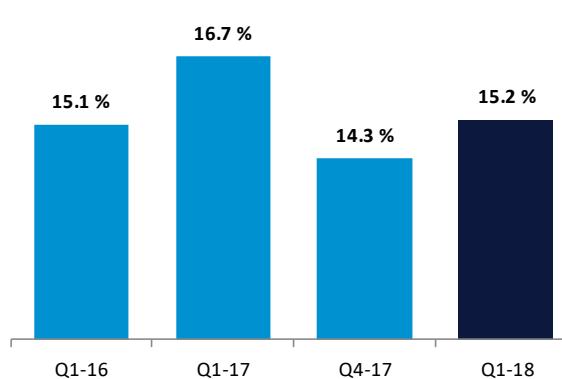
**3 AMBITIONS FOR 2018**

# SOLID FOUNDATION AND STRONG PERFORMANCE

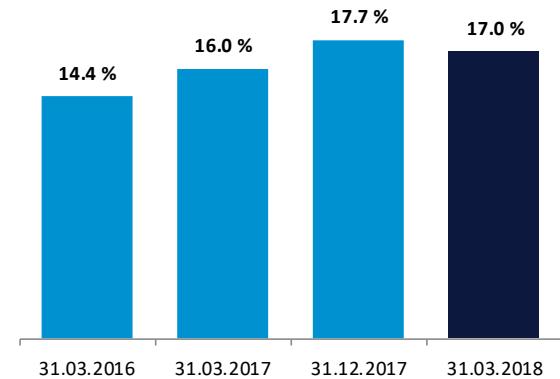
**Result after tax (NOKm)**



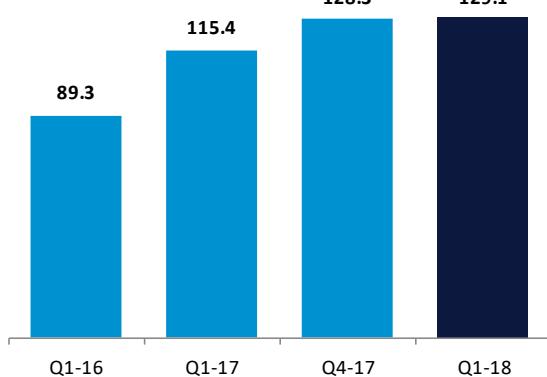
**Return on Equity \***



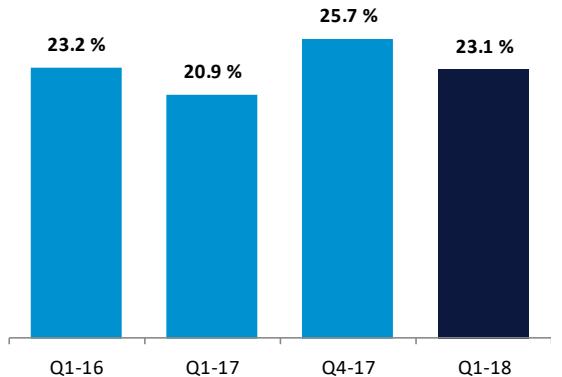
**CET1 ratio \*\***



**Net interest income (NOKm)**

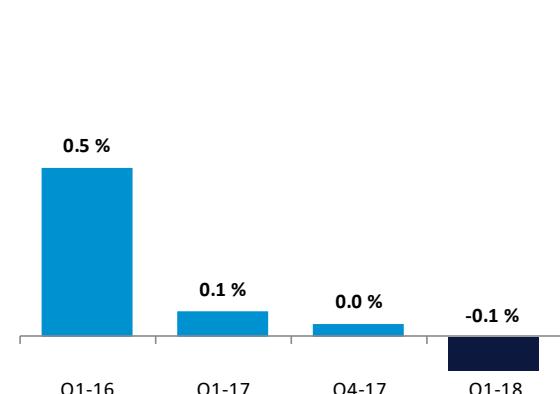


**Cost/income ratio**



**Loss ratio \*\*\***

*% of average gross lending*



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 annualized sum of losses and write-downs on loans and guarantees in the period as a percentage of average gross lending

# REVISED FINANCIAL TARGETS

	31.03.2018 STATUS	31.12.2018 TARGET	
LENDING GROWTH	<b>NOK 618m</b>	<b>~NOK 1,000m</b>	Activity holding up and continued growth in residential property. High activity materializing in increased corporate lending.
ROE	<b>15.2 %</b>	<b>&gt; 14.0 % *</b>	Growth on high margins with cost efficiency increases profitability.
CAPITAL ADEQUACY	<b>17.0 %</b>	<b>15.7 % **</b>	Solid capital base for long-term growth. High loan turnover can cause volumes to vary throughout the year.
DIVIDEND POLICY	<b>30 %</b>	<b>30-50 %</b>	The payout ratio depends on the growth potential within the bank's markets.

# WELL POSITIONED WITH GROWTH ON STABLE MARGINS

---

## STRONG LENDING GROWTH

- Net lending growth NOK 618m on a stable, high net interest margin of 5.6 %
- Real estate activity holding up with net growth of NOK 626m
- Strong deal flow in corporate finance and lending growth of NOK 138m

## STABLE HIGH PROFITABILITY

- Return on equity 15.2 %
- Cost efficient with a C/I ratio of 23.1 %
- High portfolio quality and reduction in non-performing loans

## STRONG CAPITAL POSITION

- CET1 ratio 17.0 % and leverage ratio 14.3 %
- Dynamic balance sheet management
- High natural turn-over rate on loans

# APPENDIX

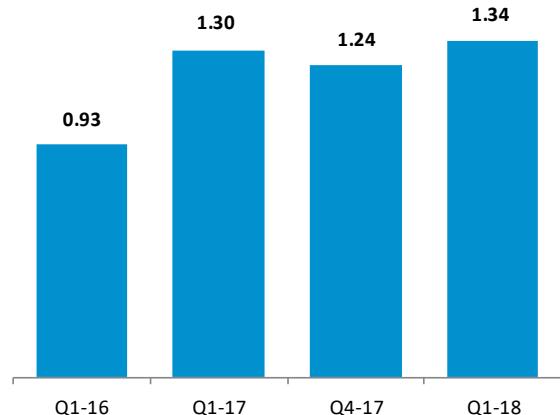
# LARGEST SHAREHOLDERS AS OF 09.04.2018

#	Investor	09 April 2018	
		# of shares	% total
1	Pareto AS	8,921,873	15.22 %
2	Pecunia Forvaltning AS	8,013,650	13.67 %
3	Apollo Capital Management	5,545,998	9.46 %
4	Saga Tankers ASA	5,052,547	8.62 %
5	Indigo Invest AS	4,382,711	7.48 %
6	Verdipapirfondet First Generator	2,157,907	3.68 %
7	Verdipapirfondet Landkredit Utbytte	1,500,000	2.56 %
8	Kolberg Motors AS	1,360,000	2.32 %
9	Artel AS	900,820	1.54 %
10	Castel AS	689,779	1.18 %
11	Uthalden AS	612,451	1.04 %
12	Solan Capital AS	590,000	1.01 %
13	Svemorka Holding AS	500,000	0.85 %
14	Dragesund Invest AS	471,214	0.80 %
15	Thabo Energy AS	452,486	0.77 %
16	AS Clipper	433,845	0.74 %
17	Profond AS	409,597	0.70 %
18	Stenberg Holding AS	381,217	0.65 %
19	Belvedere AS	374,999	0.64 %
20	Oscar Finans AS	368,820	0.63 %
<b>Sum TOP 20</b>		<b>43,119,914</b>	<b>73.56 %</b>
<b>Other shareholders</b>		<b>15,499,774</b>	<b>26.44 %</b>
<b>Total</b>		<b>58,619,688</b>	<b>100 %</b>

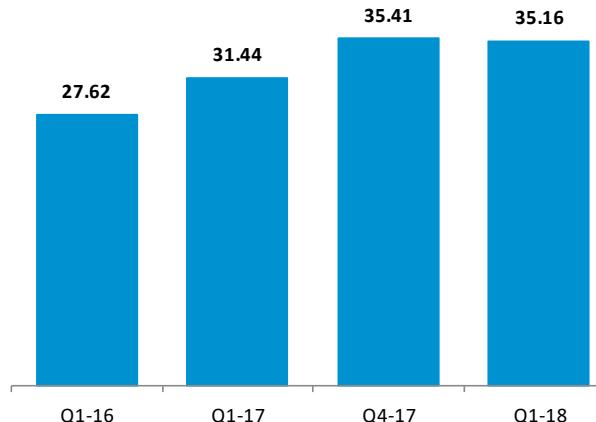
- The Company has 58,619,688 shares outstanding
- One class of shares where each share carries one voting right
- Diversified investor base with 868 shareholders
- The top 10 and 20 investors hold 65.7 % and 73.5 % of the shares respectively
- Employees in Pareto Bank own 2.1 %
- Top management in the Pareto Group owns 2.3 %
- All employees are covered by an annual bonus compensation scheme settled in Pareto Bank shares

# THE SHARE

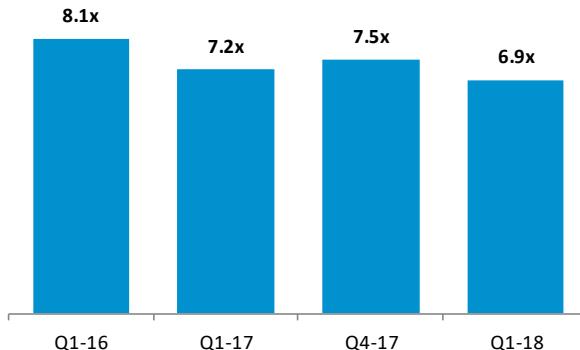
Earnings per share (NOK)



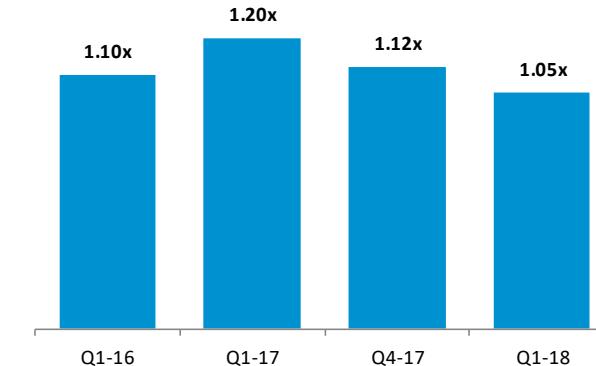
Book equity per share (NOK)



Price / Earnings



Price / Book



# QUARTERLY INCOME STATEMENT

---

## P&L (NOKm)

	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17
Net Interest income	129.1	128.3	138.7	124.6	115.4
Total other operating income	4.9	2.1	3.2	7.8	18.9
<b>Total net income</b>	<b>134.0</b>	<b>130.3</b>	<b>141.9</b>	<b>132.5</b>	<b>134.3</b>
 <b>Total other operating expenses</b>	 <b>31.0</b>	 <b>33.5</b>	 <b>24.2</b>	 <b>26.8</b>	 <b>28.0</b>
Operating result before losses / write-downs	103.0	96.8	117.7	105.6	106.2
 Losses / write-downs on loans	 (2.7)	 1.0	 2.3	 6.4	 1.8
<b>Operating result before tax</b>	<b>105.6</b>	<b>95.9</b>	<b>115.4</b>	<b>99.2</b>	<b>104.5</b>
 Tax payable	 26.4	 22.6	 29.4	 24.2	 26.1
<b>Profit for the period</b>	<b>79.2</b>	<b>73.3</b>	<b>86.0</b>	<b>75.0</b>	<b>78.3</b>
 <i>Earnings per share (NOK)</i>	 1.34	 1.24	 1.46	 1.27	 1.30

# QUARTERLY BALANCE SHEET

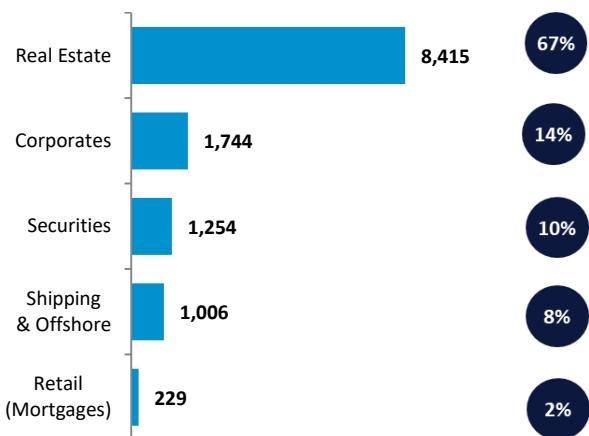
---

BS (NOKm)

	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17
Loans to credit institutions	405	357	165	350	884
Loans to customers	10,066	9,448	9,870	9,544	8,973
Bonds and other securities	2,802	3,174	3,331	3,309	4,094
Shareholdings in associated companies	37	36	42	40	40
Other assets	124	90	68	67	59
<b>Total assets</b>	<b>13,434</b>	<b>13,104</b>	<b>13,475</b>	<b>13,310</b>	<b>14,051</b>
Deposits	6,334	7,084	7,693	8,164	8,832
Senior securities issued	4,008	3,250	3,280	2,796	2,763
Other liabilities	711	374	178	112	292
Tier 2 subordinated securities issued	270	270	270	270	270
Additional tier 1 capital	50	50	50	50	50
Other equity	2,061	2,076	2,003	1,917	1,843
<b>Total liabilities and equity</b>	<b>13,434</b>	<b>13,104</b>	<b>13,475</b>	<b>13,310</b>	<b>14,051</b>

# OVERVIEW PORTFOLIO COMPOSITION

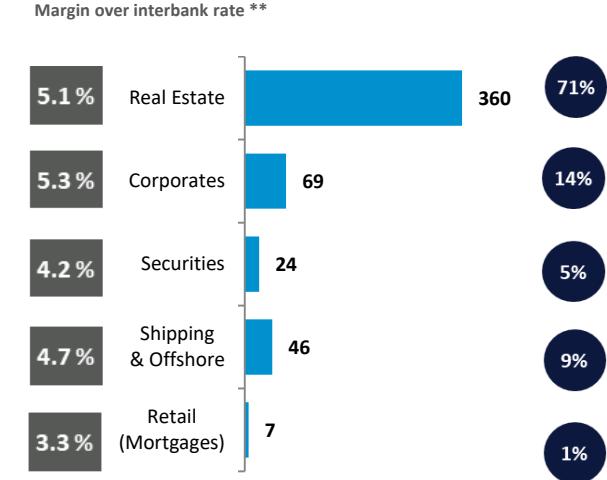
## Gross credit exposure (NOKm) Σ = NOK 12,605m



## Number of active clients Σ = # 610



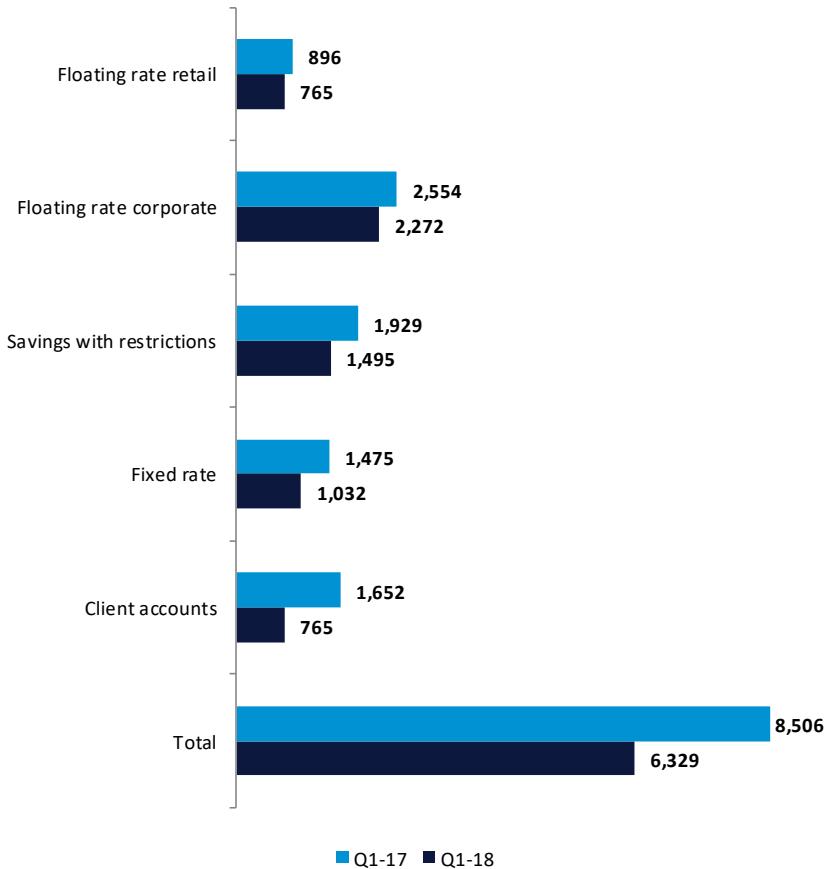
## Interest contribution (NOKm) \* Σ = NOK 506m



# FUNDING | CUSTOMER DEPOSITS

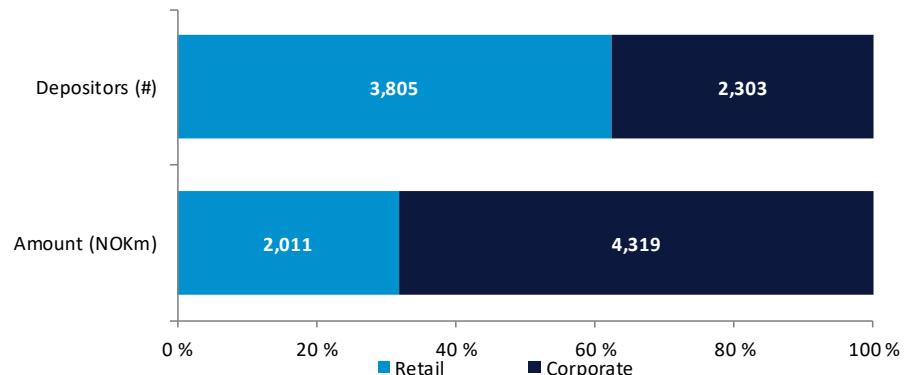
## Deposits by product

$\Sigma = \text{NOK } 6,329\text{m}$



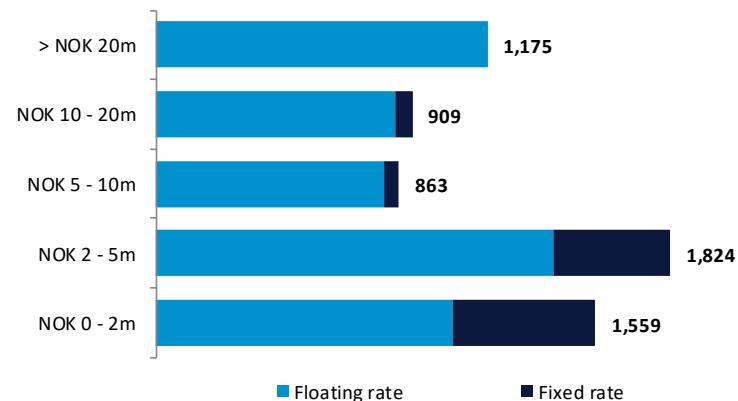
## Deposits by type

$\Sigma = \text{NOK } 6,329\text{m}$



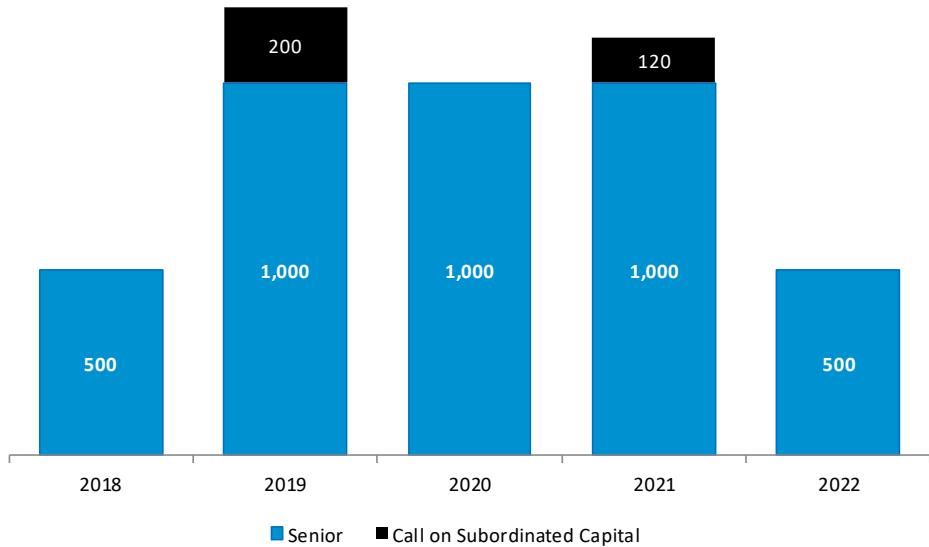
## Deposits by size (NOKm)

$\Sigma = \text{NOK } 6,329\text{m}$

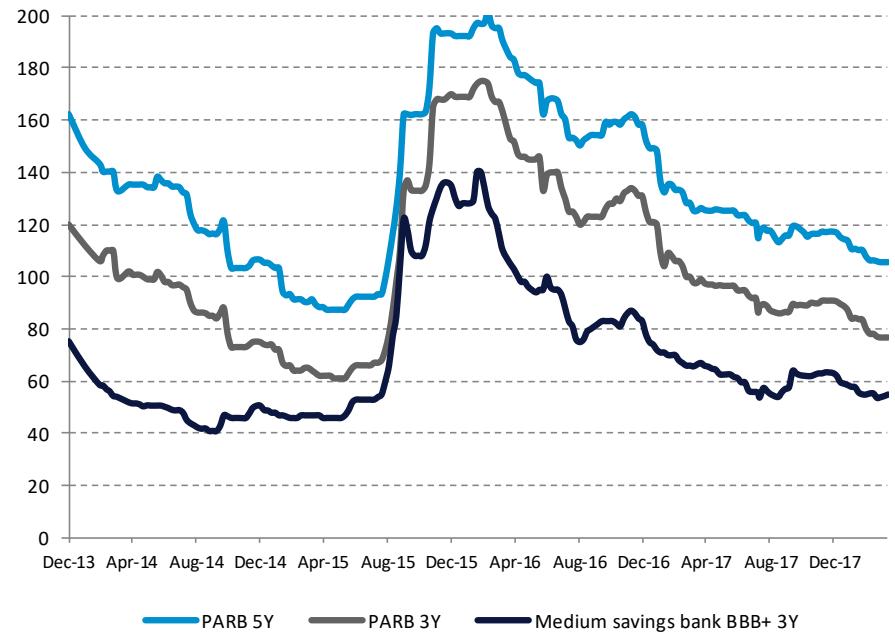


# FUNDING | MARKET FUNDING

Market funding maturities - net of own holdings (NOKm)



Credit spreads (bps)



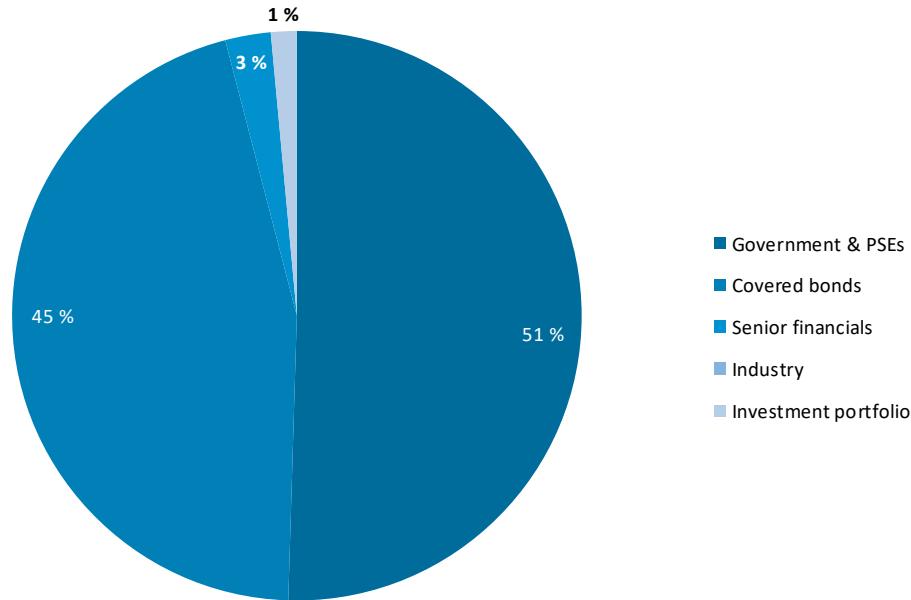
- The bank has eight loans outstanding with maturities up to five years
- The bonds are listed on Nordic ABM and the Oslo Stock Exchange

- 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

## Bond portfolio (NOKm)

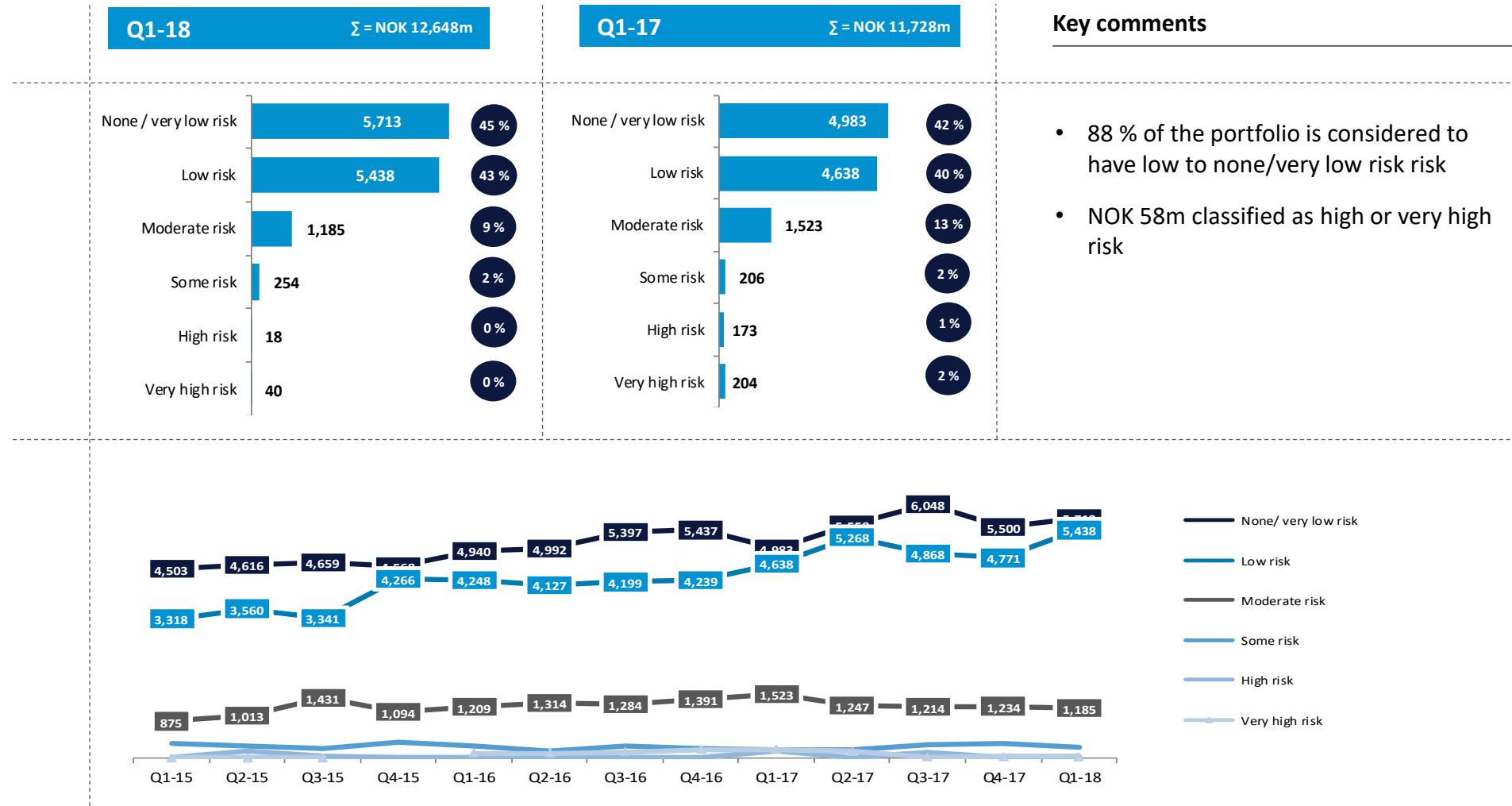
$\Sigma = \text{NOK } 2,844\text{m}$



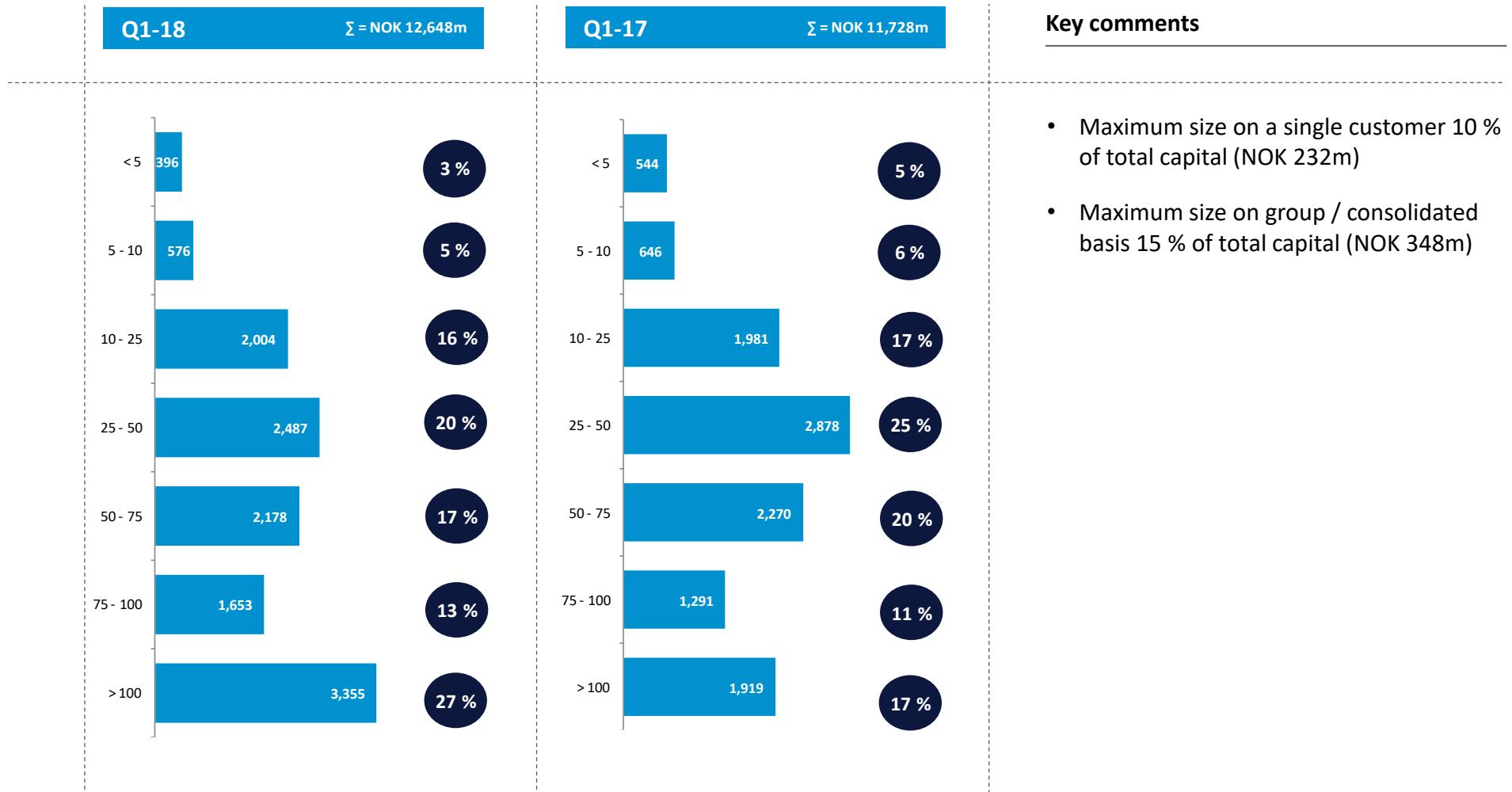
## Key comments

- The bank's liquidity is comprised of cash and highly liquid bonds
- High share of government & PSEs to reduce credit spread risk and increase short-term liquidity
- Large share of covered bonds, mainly short to medium maturities
- NOK 42m invested in high-yield bond funds in the investment portfolio (max limit NOK 500m)

# COMMITMENTS BY RISK CLASSIFICATION



# COMMITMENTS BY SIZE



 Pareto bank