



PARETO BANK

Financial Results

Fourth Quarter 2018

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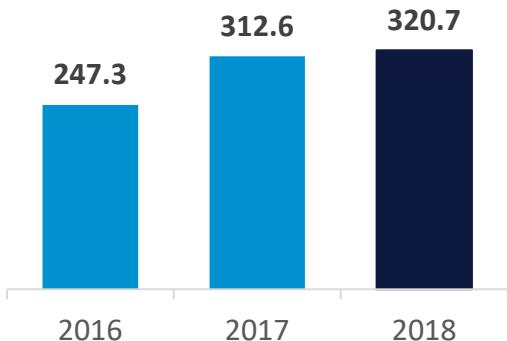
3 BUSINESS AREAS

4 AMBITIONS 2019

KEY FIGURES

Profit after tax

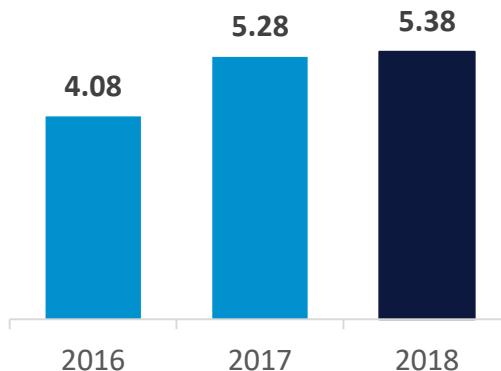
NOKm



Best year ever.
Delivering profits and growth.

Earnings per Share (EPS)

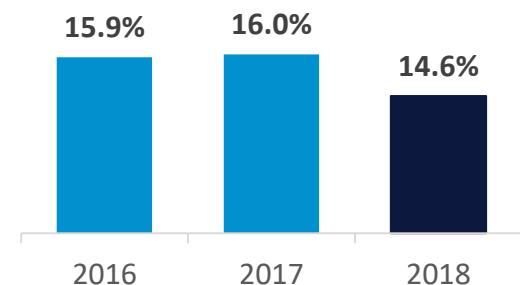
NOK, 58.6m outstanding shares



Increase in EPS due to
solid profits for 2018.

Return on Equity (ROE)

Excluding AT1 capital and interest



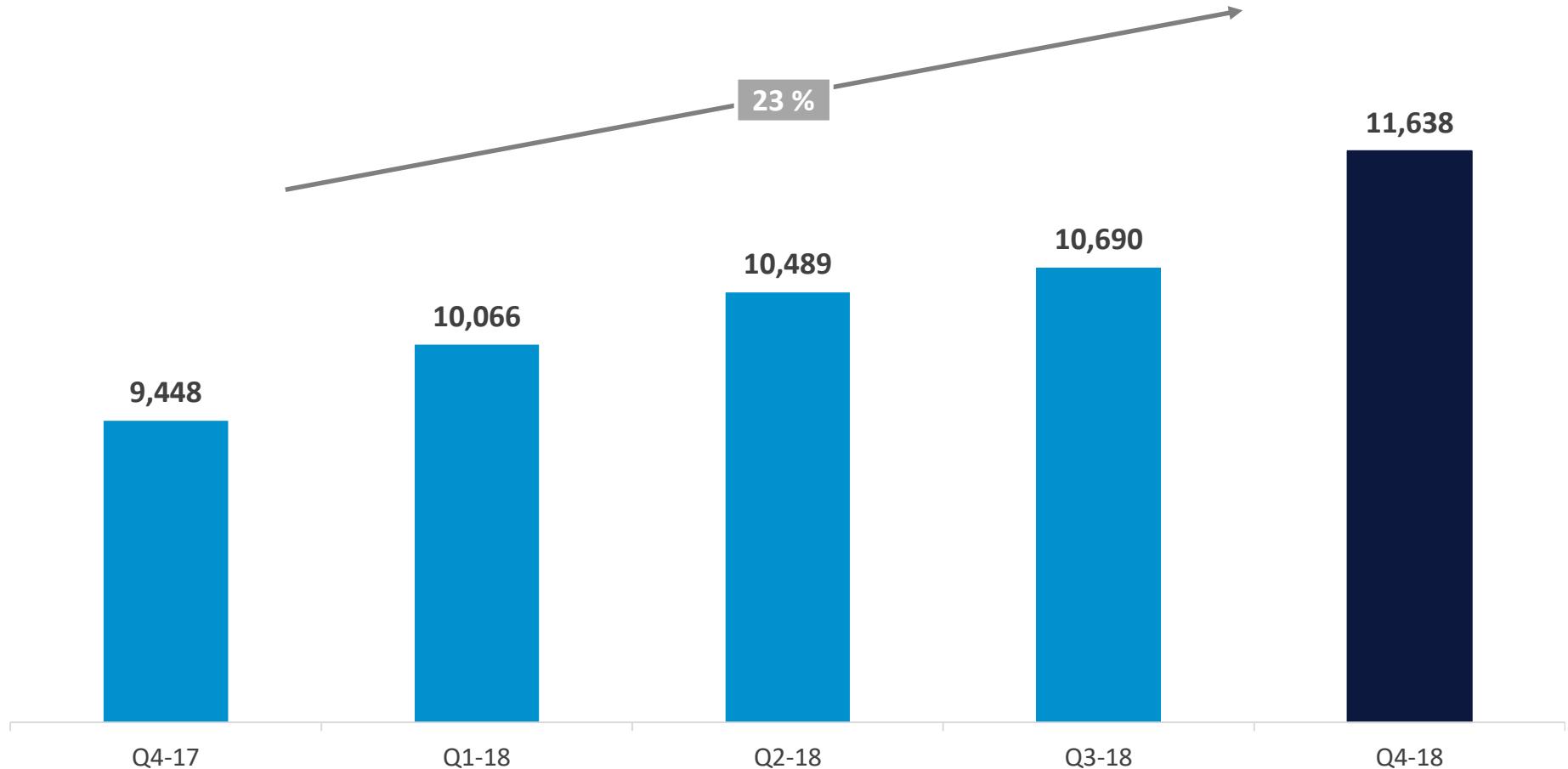
Continued high profitability.
ROE hit by individual write-downs.

STATUS FINANCIAL AMBITIONS

	ACTUAL 2018	AMBITION 2018	
LENDING GROWTH	NOK 2,190m	NOK 1,000m - 1,500m	Record high lending growth. High activity in all areas of real estate financing.
RETURN ON EQUITY	14.6 %	> 15.0 % *	Increase in net interest income. Individual write-downs within real estate.
CAPITAL ADEQUACY	16.1 %	15.7 % **	CET1 ratio over year-end target.

LENDING GROWTH SURPASSES AMBITION

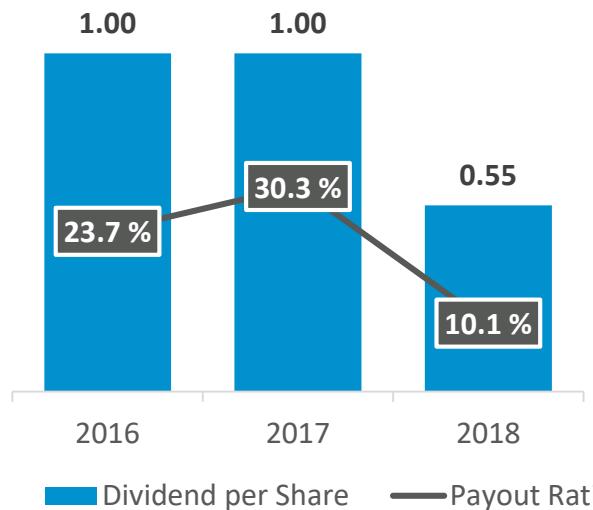
NOKm total lending



PAYOUT RATIO AND LENDING GROWTH

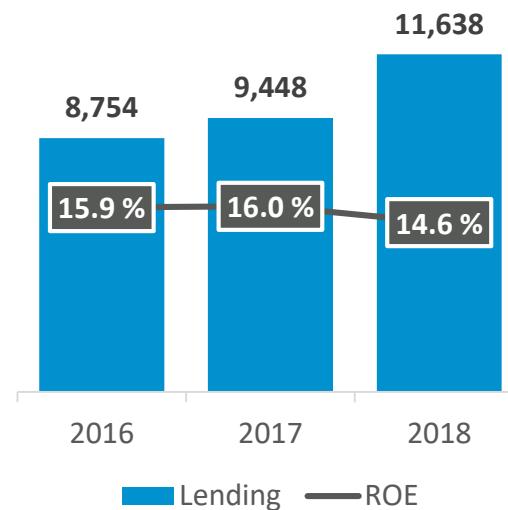
Dividend per Share and Payout Ratio

NOK



Lending and Return on Equity (ROE)

NOKm



- The Board of Directors has suggested a payout ratio of 10 % and 55 øre per share for 2018.
- The payout ratio for 2018 allows for the increase in the Countercyclical Capital Buffer and secures a platform for continued profitable lending growth.
- A flexible dividend policy that accounts for both growth opportunities and capital requirements.

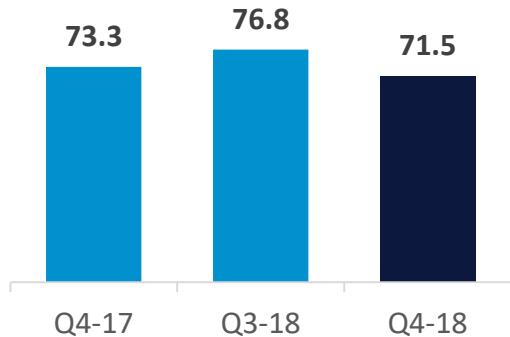
FOURTH QUARTER 2018 HIGHLIGHTS

- 1 Profit after tax NOK 71.5m (NOK 73.3m).
- 2 Return on equity 12.3 % (14.3 %).
- 3 Quarterly write-downs of NOK 23,6m primarily due to individual write-downs within real estate.
- 4 Record-high lending growth of NOK 948m (NOK -422m).
- 5 Improvement in net interest income to NOK 147.0m (NOK 128.3m) due to lending growth and lower surpluss liquidity.
- 6 Pressure on lending margin from Nibor rise and increased lending within commercial property.

QUARTERLY KEY FIGURES

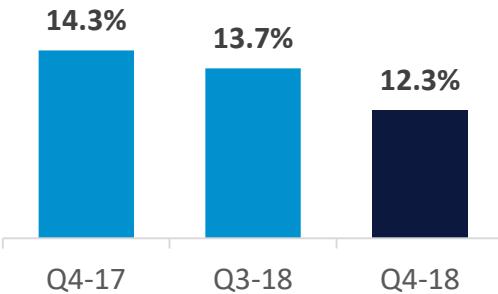
Profit after tax

NOKm



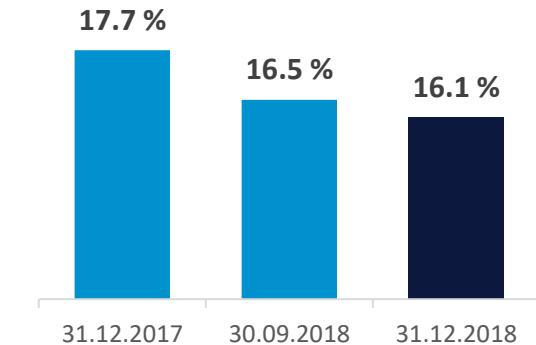
Return on Equity

Excluding AT1 capital and interest



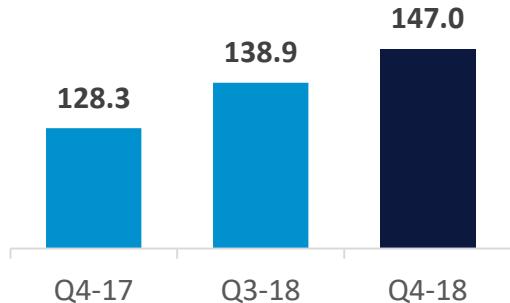
CET1 ratio

Standard model

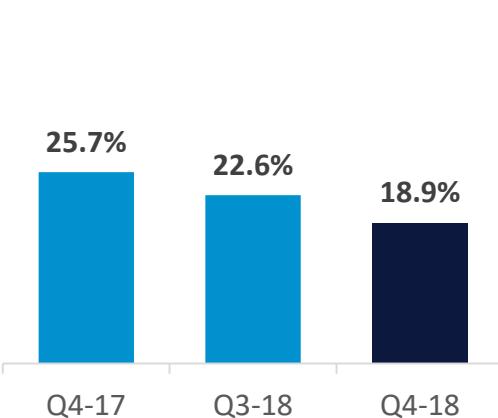


Net interest income (NOKm)

NOKm



Cost/income ratio



Loss ratio

Quarterly write-downs and losses over average net loans

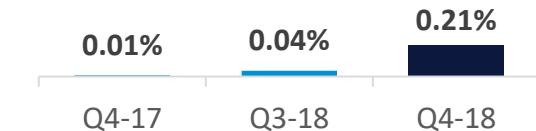


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INCOME STATEMENT

P&L (NOKm)

	Q4-18	Q4-17	2018	2017	
Net Interest income	147.0	128.3	554.4	507.0	Increased lending rates and lending volumes improved net interest income.
Total other operating income	-3.3	2.1	8.8	32.0	The bank's bond portfolio for surplus liquidity is marked to market and generates gains when credit spreads fall and losses when spreads increase. In Q4-18 spreads increased causing a net loss on financial instruments.
Total net income	143.7	130.3	563.2	539.0	
Total other operating expenses	27.1	33.5	118.8	112.6	
Operating result before losses / write-downs	116.6	96.8	444.4	426.4	
Losses / write-downs on loans	23.6	1.0	19.2	11.4	Primarily individual write-downs within real estate.
Operating result before tax	93.0	95.9	425.2	415.0	
Tax payable	21.5	22.6	104.6	102.4	
Profit for the period	71.5	73.3	320.7	312.6	
<i>Earnings per share (NOK)</i>	1.19	1.24	5.38	5.28	
<i>Return on equity</i>	12.3%	14.3%	14.6%	16.6%	
<i>Cost income ratio</i>	18.9%	25.7%	21.1%	20.9%	

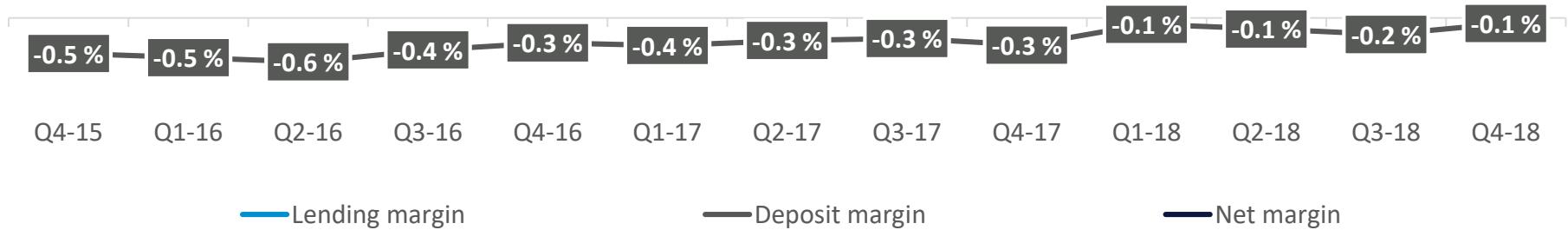
DEVELOPMENT IN MARGINS

Net interest margins

Percent interest income including amortizations and fees over 3M Nibor;
Cost of deposits of average volumes over 3M Nibor (average of end-of-month fixings)



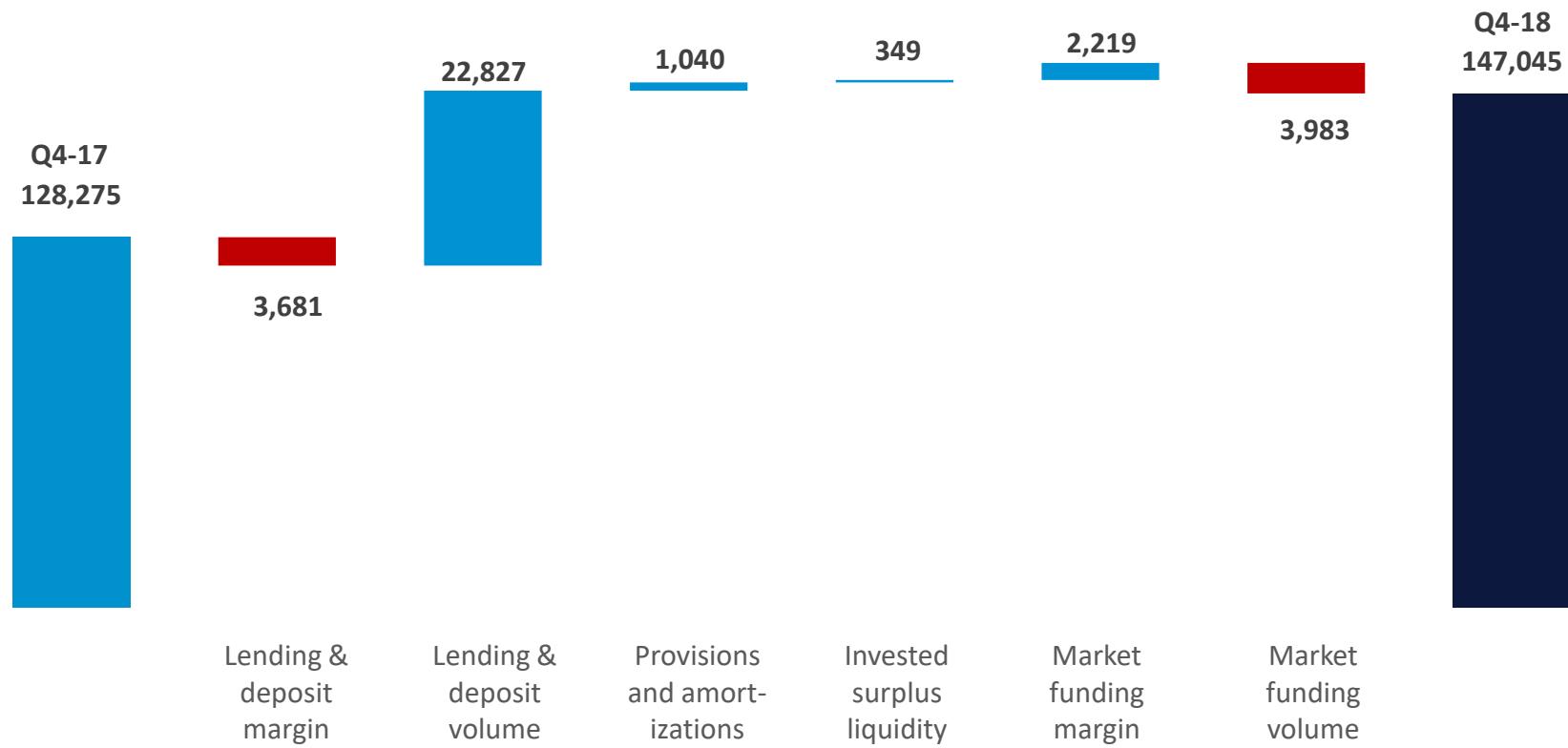
- Lending margin under pressure due to rising Nibor
- Rate hike took effect halfway through the quarter
- Strong margins on corporate financing
- Margin pressure on new real estate loans
- Increased share of commercial property financing
- Increased share of larger, more professional customers



CHANGE IN NET INTEREST INCOME

Net interest income

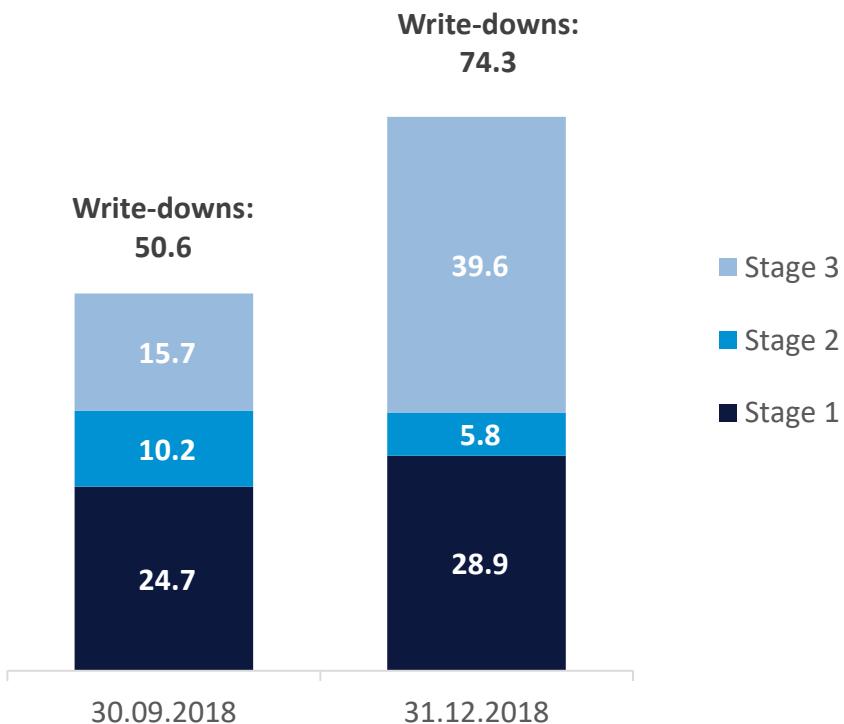
Changes in net interest income over 3M Nibor
NOK 1,000



WRITE-DOWNS AND LOSSES

Write-downs & losses according to IFRS 9

NOKm



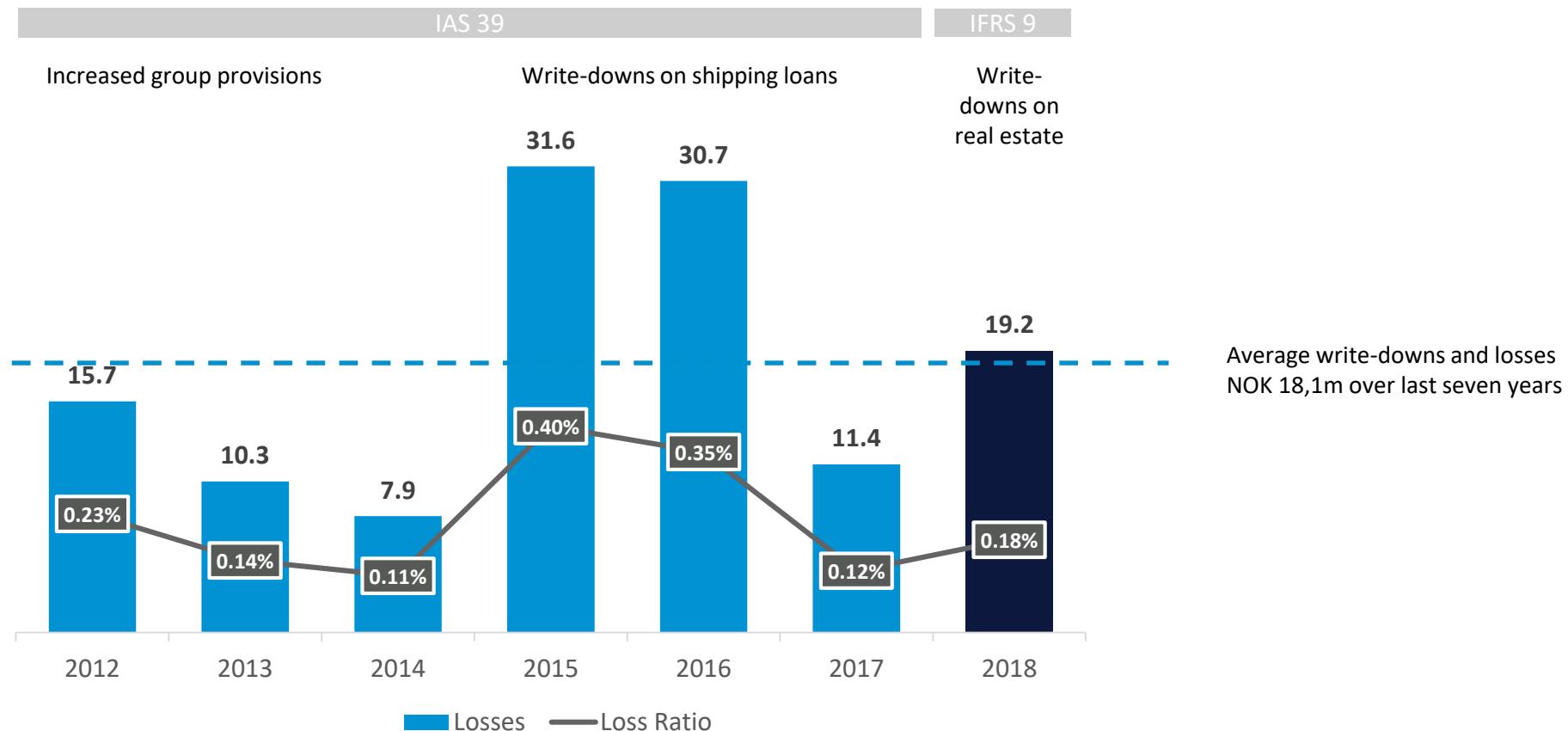
Key comments

- Quarterly write-downs in Q4-18 of MNOK 23.7
- No write-offs in Q4-18
- Stage 1: Increase in write-downs mainly due to lending growth in Q4-18
- Stage 2: Reduction in write-downs due to fewer customers on watch list and changes in risk classifications
- Stage 3: Increase in individual write-downs within real estate

HISTORICAL DEVELOPMENT IN WRITE-DOWNS, LOSSES AND REVERSALS

Write-downs, losses & reversals on loans & guarantees

NOKm



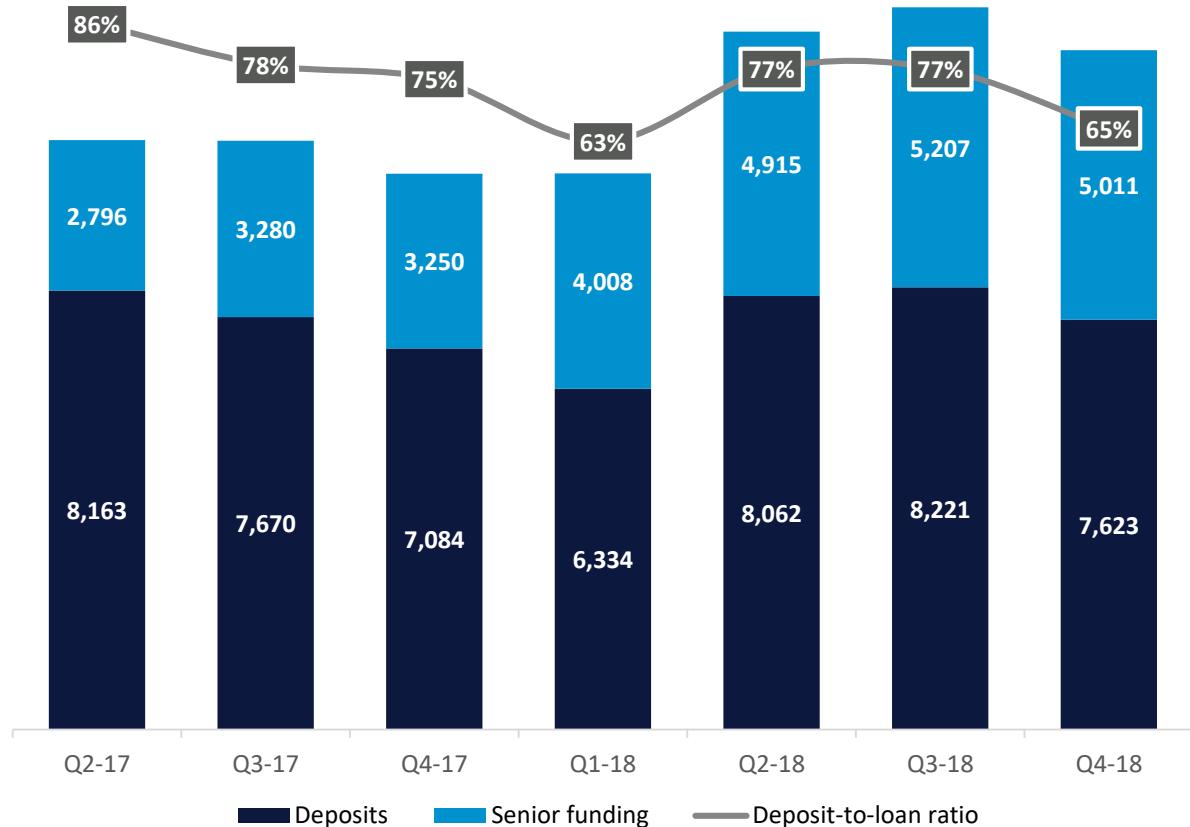
FUNDING

Sources



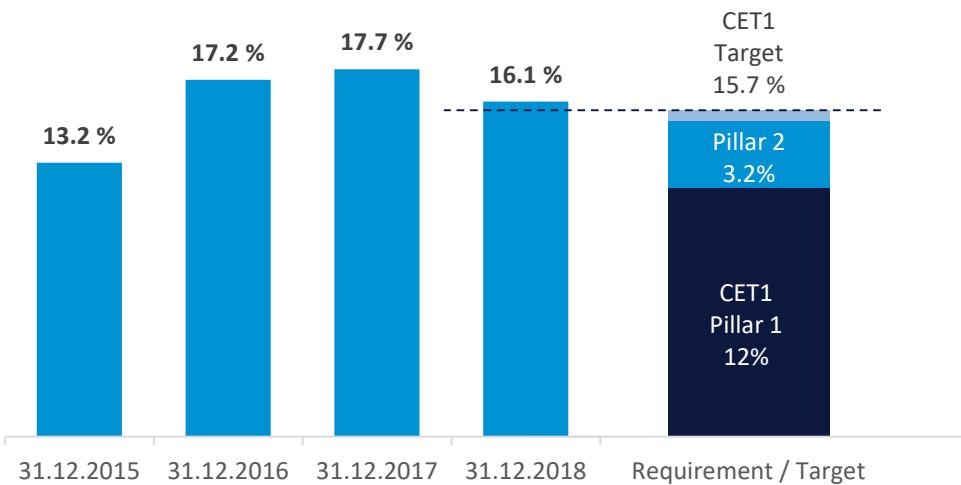
Deposits & senior debt

NOKm / Percent customer deposits of net lending to customers



CAPITAL

Core equity tier 1 ratio (CET1 ratio)



Key comments on capital

- A minimum CET1 ratio requirement of 15.2 % and a CET1 ratio target of 15.7 % as of 31.12.2018
- The Ministry of Finance has decided to increase the Countercyclical Capital Buffer by 0.5 percentage points to 2.50 % as of 31.12.2019
- The Board of Directors has increased the CET1 ratio target to 16.2 % as of 31.12.2019
- Lending volumes and capital ratios can fluctuate from period to period given the nature of the project bank's business
- A strong leverage ratio well above the minimum requirement

Leverage ratio

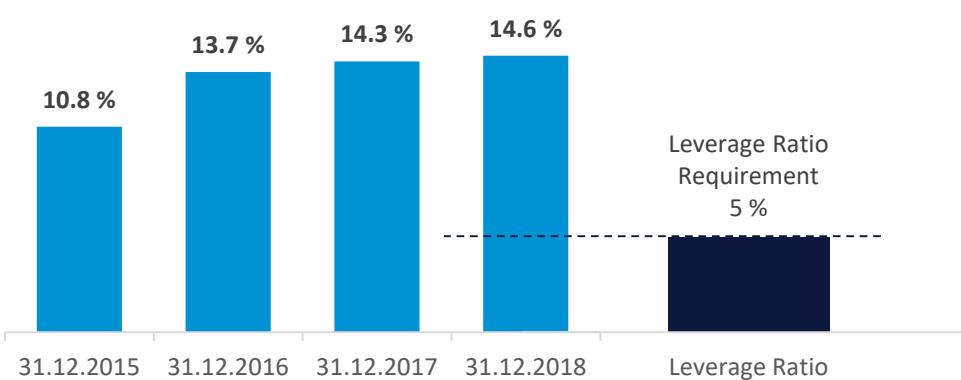


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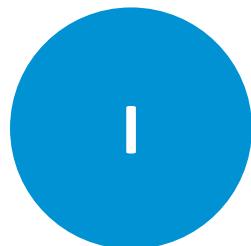
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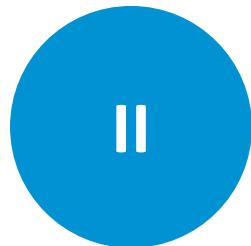
3 BUSINESS AREAS

4 AMBITIONS 2019

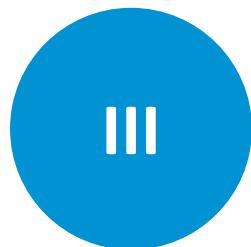
A NICHE PLAYER WITH FOCUS ON NORWEGIAN MEDIUM-SIZED ENTERPRISES



- Reliably indicate how we can meet customer needs
- An efficient credit process
- Decision-making without unnecessary bureaucracy



- We understand our customers' businesses and provide tailor-made solutions
- Always available with a fixed point of contact throughout the credit process
- Customer-driven: 80 % of our employees work with clients



- Highly competent banking specialists with extensive knowledge of Norwegian business
- Generate value by delivering tailor-made solutions fast
- Our prices reflect our expertise

PROJECT FINANCING FOR MEDIUM-SIZED ENTERPRISES IN FOUR MARKET SEGMENTS

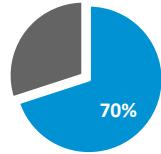
BUSINESS AREAS	FOCUS	CREDITS / CUSTOMERS	EXPOSURE	SWEET SPOT
Real estate	The specialized real estate developer bank for Eastern Norway and larger Norwegian cities.	Property lot financing Building construction facilities Commercial property financing	NOKm 9,851 70 %	NOKm 50-100
Corporate	Positioning Pareto Bank as a provider of tailor-made financing solutions to medium-sized enterprises.	M&A loans Bridge loans Investment loans Working capital facilities	NOKm 1,949 14 %	NOKm 20-100
Securities	A range of customized securities financing products.	Securities financing	NOKm 1,123 8 %	NOKm 5
Shipping & offshore	Norwegian clients and first priority financing of vessels with LTV < 55 %.	Ship owners Family offices Shipping and offshore projects	NOKm 832 6 %	USDm 10-20

GROWTH IN BUSINESS AREAS

NOKm of gross exposure



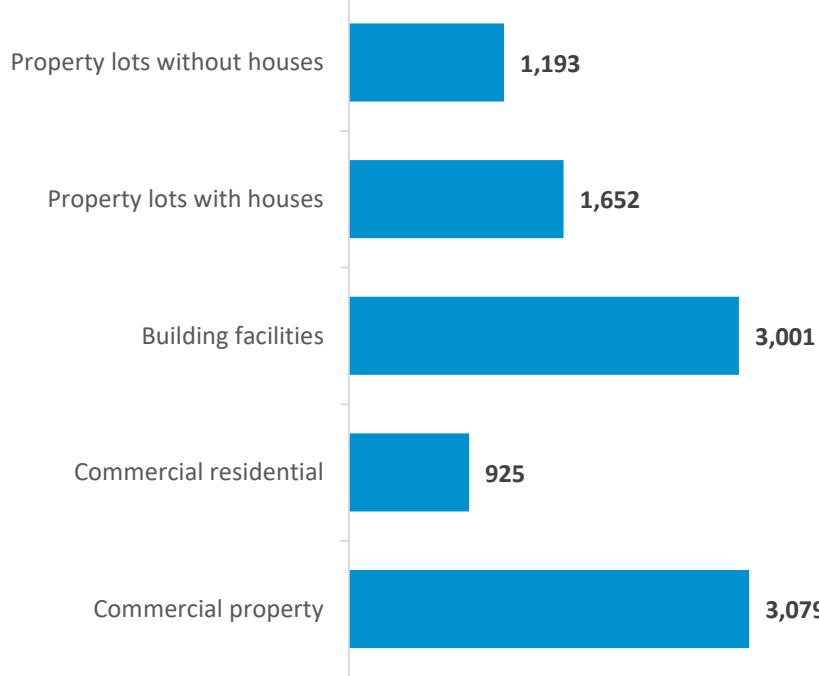
REAL ESTATE | CONTINUED HIGH ACTIVITY



Real estate credit exposure

Σ = NOK 9,851m

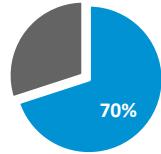
NOKm of gross exposure



Key comments

- Credit exposure growth of NOK 792m in Q4-18 and primarily within commercial real estate.
- Increased sales effort and strengthened competitive position within commercial property financing working together with Eiendomskreditt AS.
- Diversification through an increased share of commercial property loans with longer maturity.
- Activity in commercial property and the newbuild market holding strong in first half of 2019.

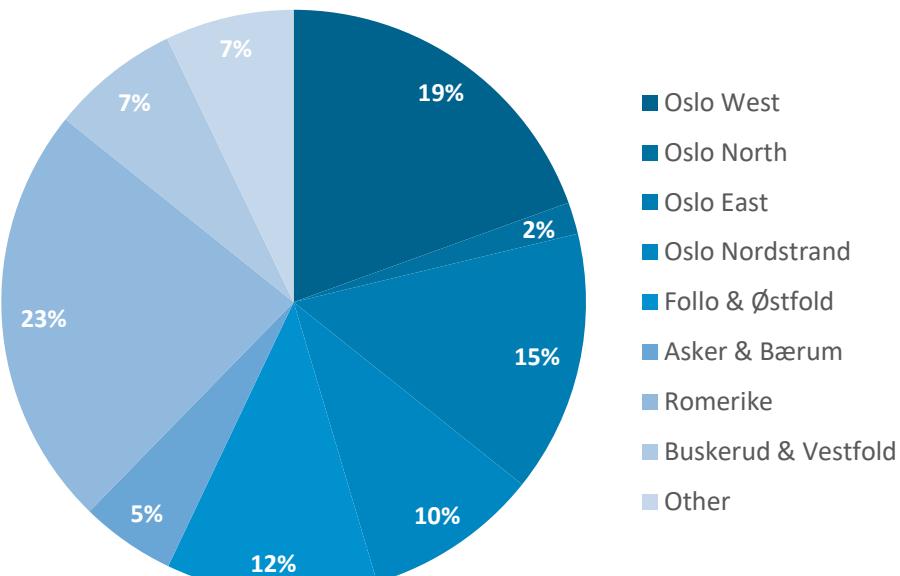
REAL ESTATE | RESIDENTIAL PROPERTY EXPOSURE



Geographical residential property exposure (NOKm)

$\Sigma = \text{NOK } 5,847\text{m}$

NOKm of gross exposure



Largest areas:

Oslo	45 %
Romerike	23 %
Follo & Østfold	12 %

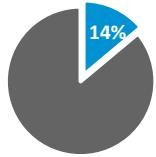
Semi-annually stress testing against a fall in housing prices

- The portfolio is robust against a theoretical stress test and potential loss is limited due to the bank's high presale requirement.
- Approximately 30 % of the projects have presold all units, exposing the bank to little or no market risk.
- 181 (Q2-18: 164) different addresses of which 93 (89) projects or some 34 % of the exposure are within construction of small houses (*småhus*).

Policy

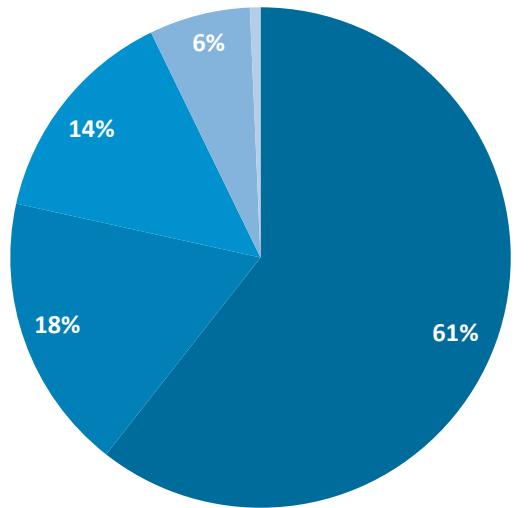
- Presale requirement: if the price of unsold units falls by 50 % compared to the price of presold units, the remaining sales must still be sufficient to cover the bank credit.
- Presale quality: end-users are assessed and qualified.
- Liquidity: tight covenant setting with respect to working capital, liquidity buffers, liquidity reporting.
- Equity: 20 % to 40 % equity contribution to finance a property lot.

CORPORATE | CONTINUED STRONG DEAL FLOW



Corporate financing exposure (NOKm)

$\Sigma = \text{NOK } 1,919\text{m}$



■ Investment loans
■ M&A financing
■ Bridge loan

■ Working capital facilities
■ Guarantees

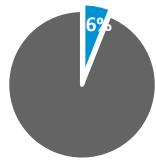
Status

- Credit exposure growth of NOK 168 in Q4-18.
- Deal flow increasing as awareness of Pareto Bank as a financial solution provider for medium-sized businesses improves.
- Pilot testing of the solution *fleksibel driftskreditt* continues. The credit rating model is directly integrated with customer accounting systems. This approach provides opportunities for developing future credit tools and products.

Policy

- Focus on medium-sized corporate transactions (M&A, MBO, LBO) and tailor-made solutions to fit client needs.
- A conservative approach to leverage and strict financial covenants.
- Tenor varies depending on product, and within M&A financing average tenor is 3 to 5 years.

SHIPPING & OFFSHORE | DIVERSIFIED PORTFOLIO



Status

- 16 customers and a total of 25 vessels
- Largest exposure is USD 12.1m and average commitment size is USD 5.7m

Policy

- Target LTV of 50 % and increased profitability
- Norwegian ship owners, majority shareholders and family offices
- Strong balance sheets and high-quality counterparties
- Tonnage with liquid second-hand markets and well-proven designs
- A diversified portfolio where a single segment will normally not exceed 25% of the total S&O exposure
- Maximum S&O exposure is 15 % of the bank's total credit exposure

Shipping & Offshore credit exposure & loan to value

NOKm

$\Sigma = \text{NOK } 832\text{m}$

LTV * Share

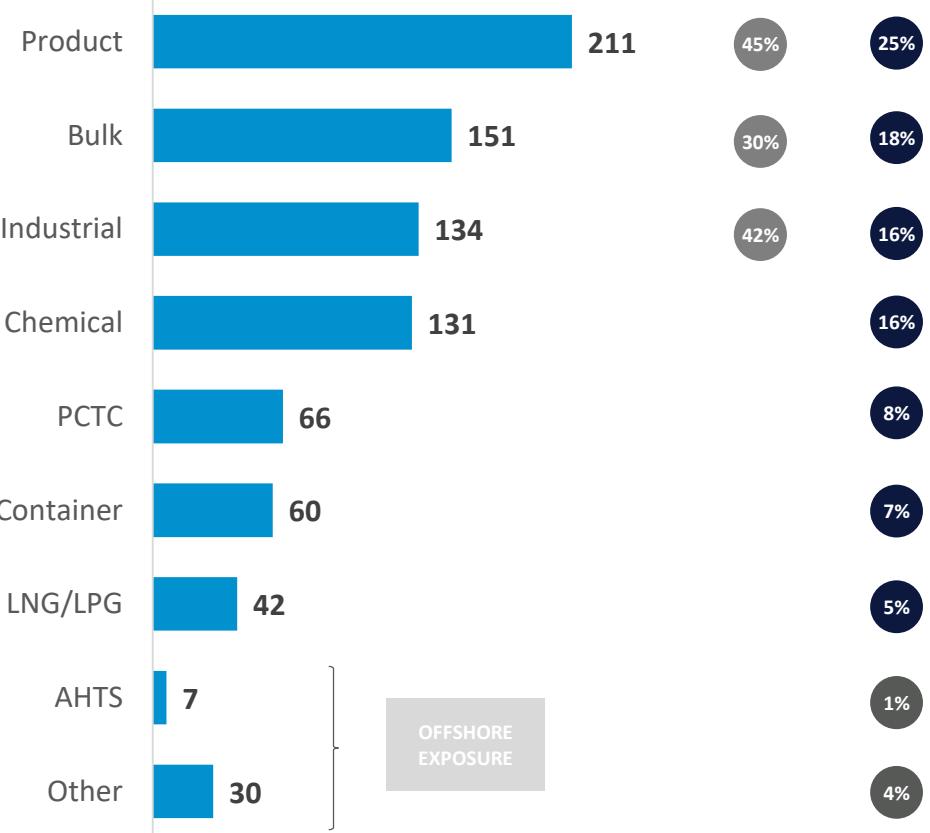


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PROFITABILITY AND GROWTH AMBITIONS 2019

RETURN ON EQUITY 15 %

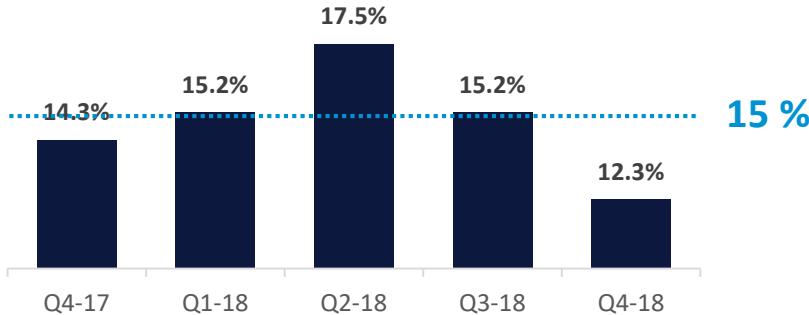
- ROE hit by individual write-downs in Q4-18
- Focus on margins and credit quality with capacity for high growth
- Fluctuations will occur in margins, volumes and write-downs from quarter to quarter

LENDING GROWTH NOK 1,000 – 2,000m

- Record high lending growth in Q4-18
- Continued strong deal flow within real estate, increasing deal flow within corporate financing and increased sales effort within shipping- & offshore financing
- Lending volume and growth can fluctuate from period to period given the nature of the project bank's business

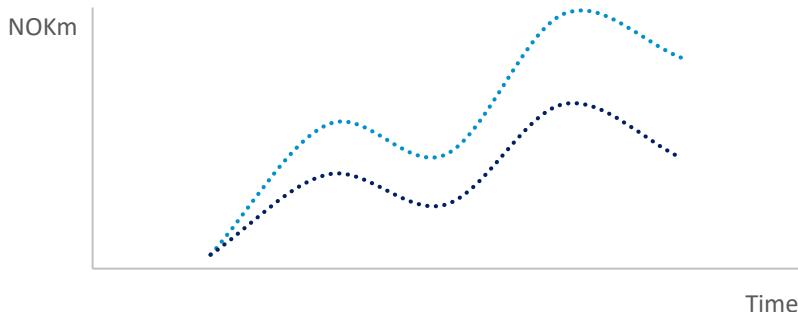
Return on Equity

Excluding AT1 capital and interest



Lending

For illustration only



FINANCIAL AMBITIONS 2019

LENIDNG GROWTH	NOK 1,000- 2,000m	Lending growth within all business areas. Profitability comes first!
RETURN ON EQUITY	15.0%	Cost effective and commercially oriented bank.
CAPITAL ADEQUACY	16.2 %	Well positioned for increased countercyclical capital buffer.
DIVIDEND POLICY	0 - 50 %	Dividend policy allows for flexibility.

APPENDIX

LARGEST SHAREHOLDERS AS OF 3 JANUARY 2019

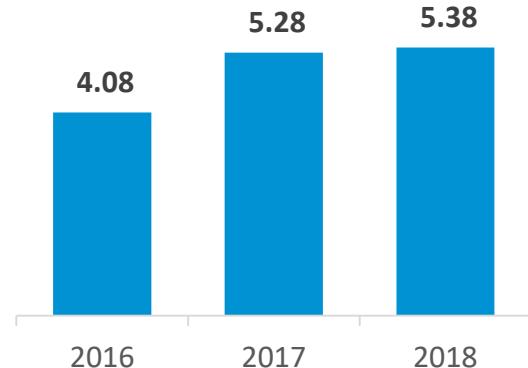
#	Investor	3 January 2019	
		# of shares	% total
1	Pareto AS	9,675,873	16.51%
2	Pecunia Forvaltning AS	6,500,000	11.09%
3	AF Capital Management AS	5,045,998	8.61%
4	K11 Investor AS	2,191,356	3.74%
5	Rune Bentsen AS	2,191,355	3.74%
6	Verdipapirfondet Landkredit Utbytte	2,000,000	3.41%
7	Hjellegjerde Invest AS	1,503,000	2.56%
8	Verdipapirfondet First Generator	1,477,539	2.52%
9	Kolberg Motors AS	1,360,000	2.32%
10	Dragesund Invest AS	1,067,231	1.82%
11	Svemorka Holding AS	1,060,056	1.81%
12	Artel AS	900,820	1.54%
13	Apollo Asset Limited	815,970	1.39%
14	Verdipapirfondet Holdberg Norge	800,000	1.36%
15	Verdipapirfondet Fondsfinans Norge	795,000	1.36%
16	Pactum AS	775,000	1.32%
17	Castel AS	689,779	1.18%
18	Hausta Investor AS	600,000	1.02%
19	Wenaasgruppen AS	500,000	0.85%
19	Bergen Kommunale Pensjonskasse	500,000	0.85%
Sum TOP 20		40,448,977	69.00%
Other shareholders		18,170,711	31%
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 891 shareholders
- The top 10 and 20 investors hold 58 % and 70 % of the shares respectively
- Employees in Pareto Bank own 1.5 %
- Top management in the Pareto Group owns 3.3 %
- All employees are covered by an annual bonus compensation scheme settled in Pareto Bank shares

THE SHARE

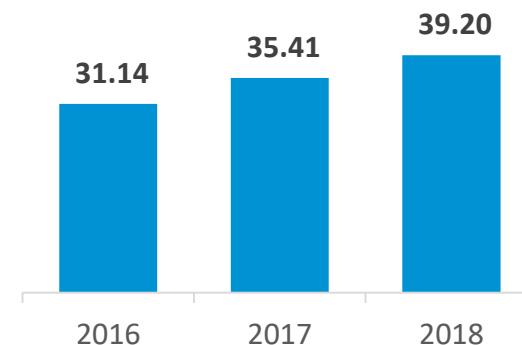
Earnings per share

NOK



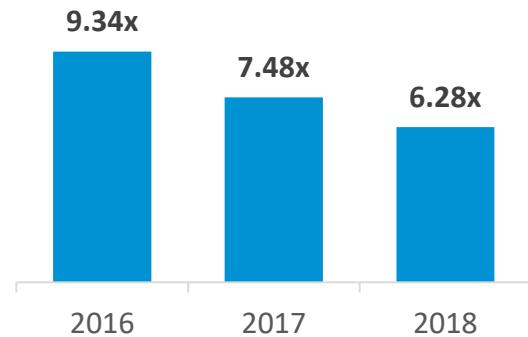
Book equity per share

NOK



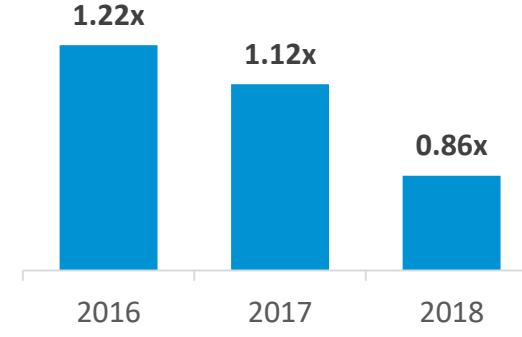
Price / Earnings

NOK, Share price 33.80



Price / Book

NOK, Share price 33.80



QUARTERLY INCOME STATEMENT

P&L (NOKm)

	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17
Net Interest income	147.0	138.8	139.4	129.1	128.3
Total other operating income	-3.3	-1.4	8.6	4.9	2.1
Total net income	143.7	137.5	148.0	134.0	130.3
Total other operating expenses	27.1	31.1	29.6	31.0	33.5
Operating result before losses / write-downs	116.6	106.4	118.4	103.0	96.8
Losses / write-downs on loans	23.6	4.0	-5.9	-2.7	1.0
Operating result before tax	93.0	102.4	124.2	105.6	95.9
Tax payable	21.5	25.6	31.1	26.4	22.6
Profit for the period	71.5	76.8	93.2	79.2	73.3
<i>Earnings per share (NOK)</i>	<i>1.19</i>	<i>1.28</i>	<i>1.57</i>	<i>1.34</i>	<i>1.24</i>
<i>Return on equity</i>	<i>12.3%</i>	<i>13.7%</i>	<i>17.5%</i>	<i>15.2%</i>	<i>14.3%</i>
<i>Cost income ratio</i>	<i>18.9%</i>	<i>22.6%</i>	<i>20.0%</i>	<i>23.1%</i>	<i>25.7%</i>

QUARTERLY BALANCE SHEET

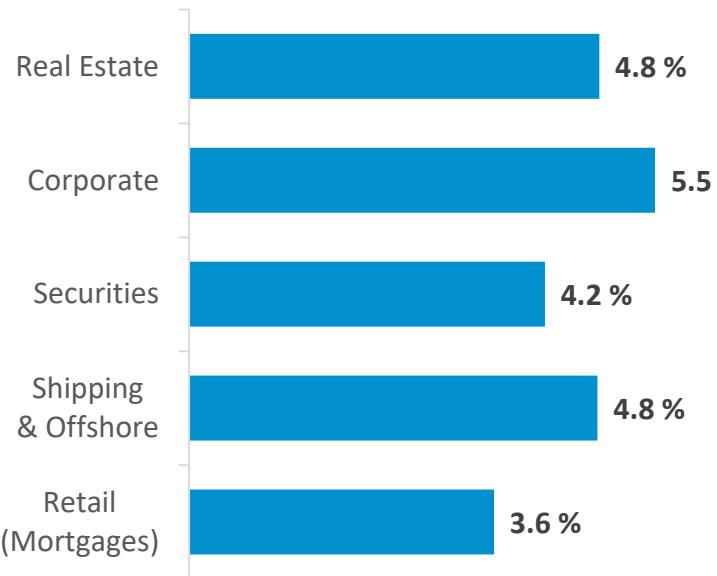
BS (NOKm)

	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17
Loans to credit institutions	320	1,295	1,136	405	357
Loans to customers	11,638	10,690	10,489	10,066	9,448
Bonds and other securities	3,537	4,220	4,031	2,844	3,215
Shareholdings in associated companies	37	35	35	37	36
Other assets	60	80	62	82	49
Total assets	15,592	16,319	15,753	13,434	13,104
Deposits from customers and institutions	7,623	8,258	8,069	6,795	7,284
Senior securities issued	5,011	5,207	4,915	4,008	3,250
Other liabilities	190	156	146	249	173
Tier 2 subordinated securities issued	270	270	270	270	270
Additional tier 1 capital	200	200	200	50	50
Other equity	2,298	2,228	2,153	2,061	2,076
Total liabilities and equity	15,592	16,319	15,753	13,434	13,104

MARGINS AND INTEREST CONTRIBUTION

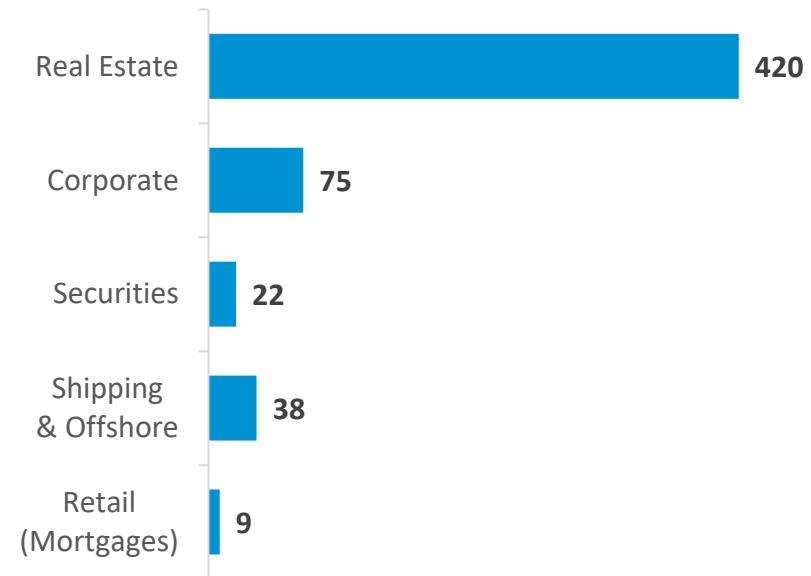
Margins per business area

Estimated annualized margins including commissions, excluding font and back-end fees over 3M Nibor or similar rate



Interest contribution per business area

NOKm, estimated interest contribution including commissions, excluding font and back-end fees over 3M Nibor or similar rate

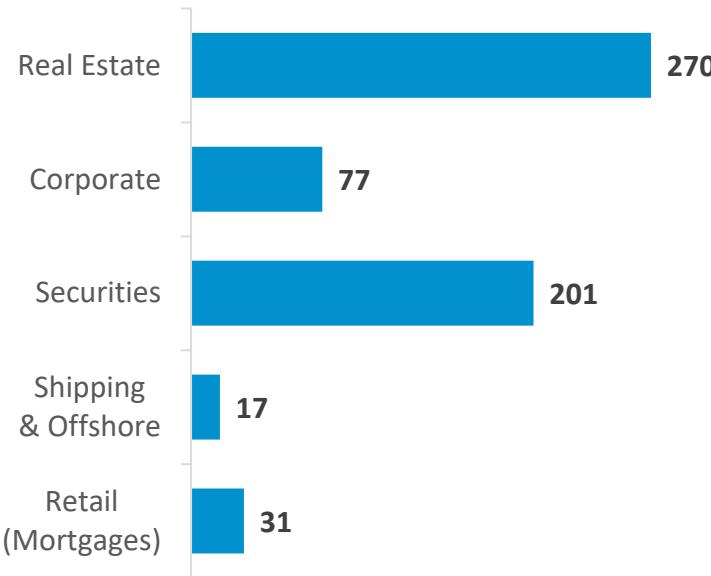


Note segment margins are estimated on the basis of terms of existing loans and will therefore differ from reported total lending margins.

Based on terms as of 31.12.2018 and 3M Nibor of 1,28 %

NUMBER OF CUSTOMERS

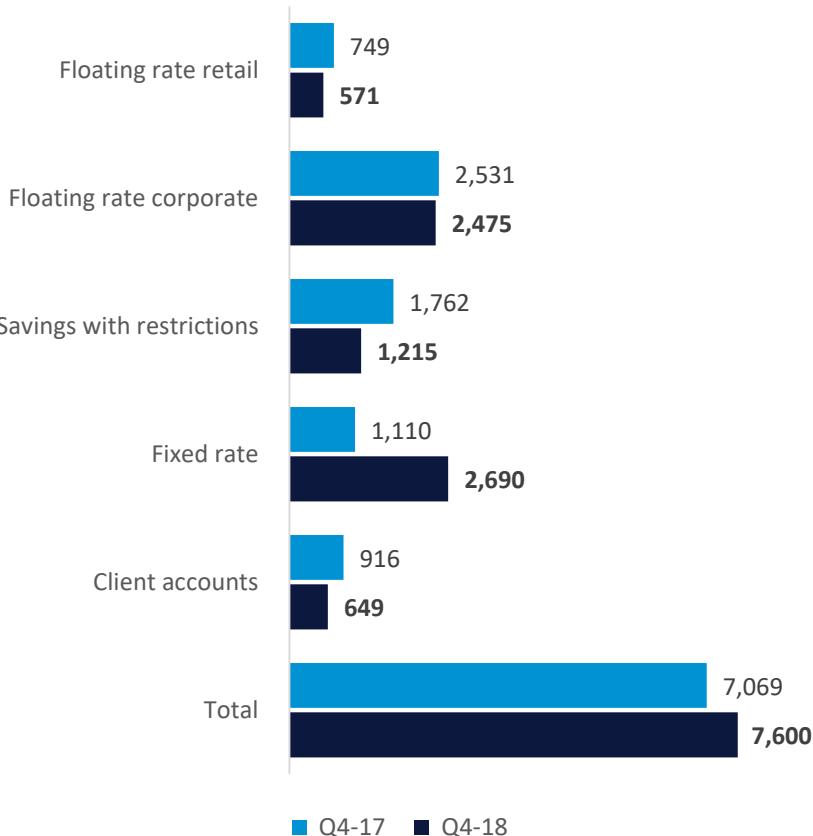
Number of customers per business area



CUSTOMER DEPOSITS

Deposits by product

NOKm



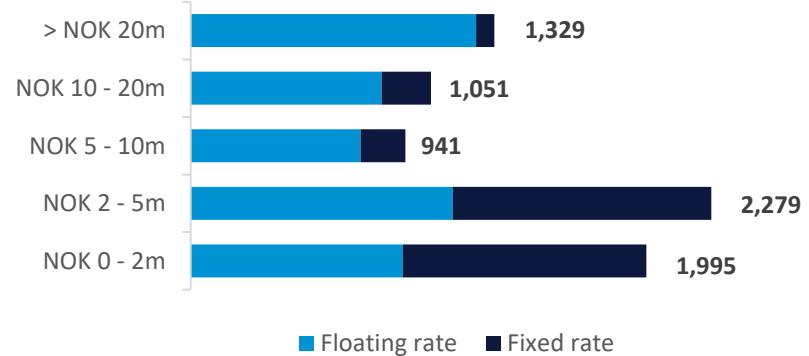
Deposits by type

NOKm



Deposits by size

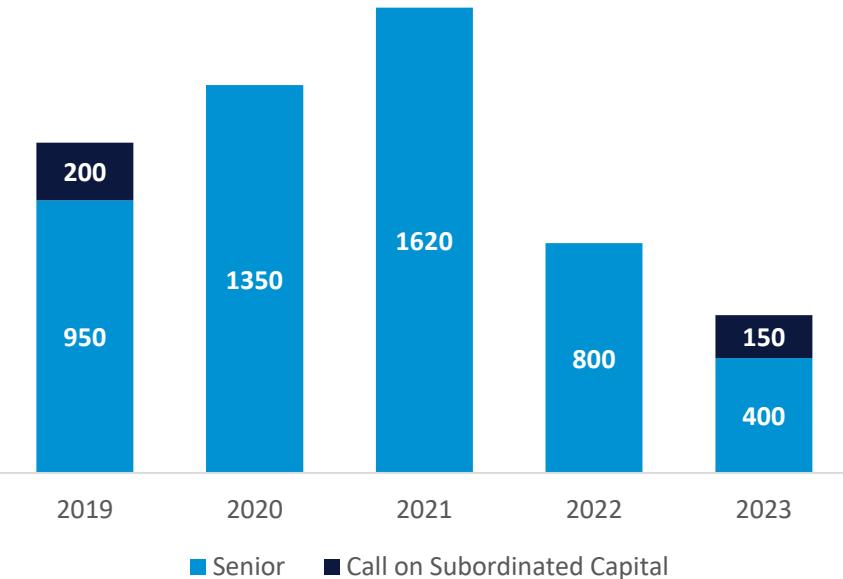
NOKm



MARKET FUNDING

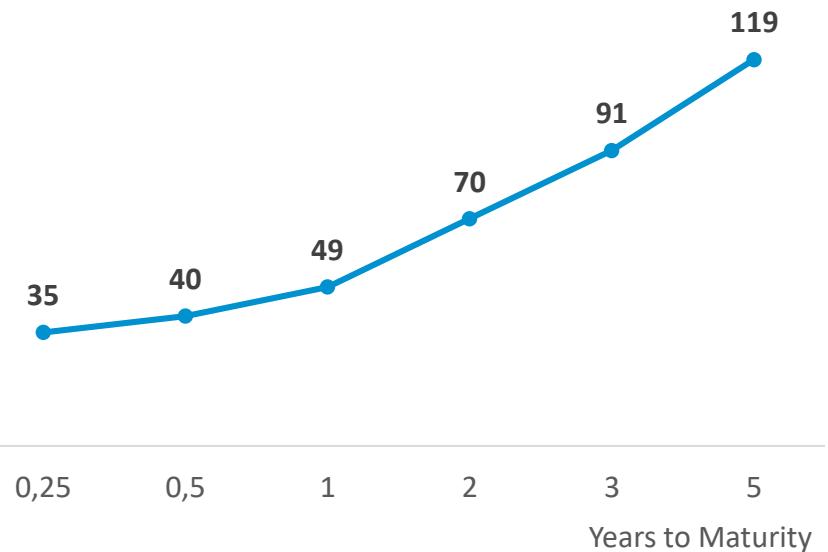
Market funding maturities

NOKm, net of own holdings



Credit spreads

Basis points over 3M Nibor

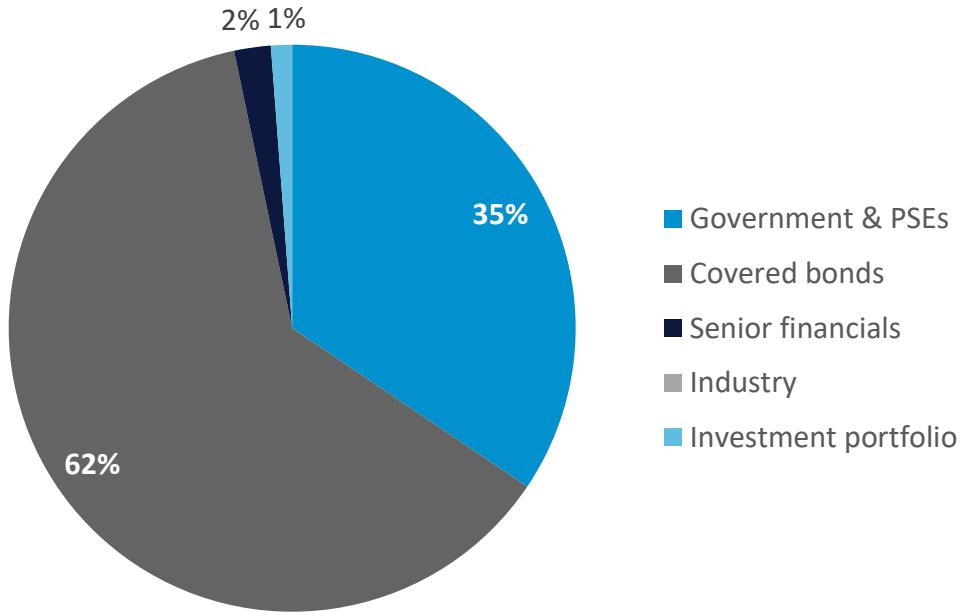


Source: Nordic Bond Pricing

SURPLUS LIQUIDITY

Bond portfolio

Market value of bonds and funds comprising surplus liquidity



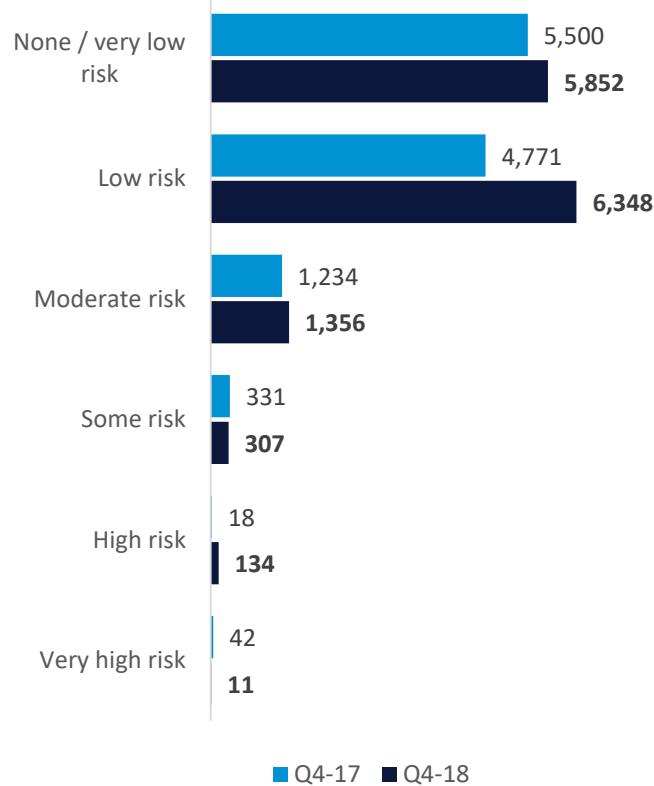
Key comments

- 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
- NOKm 42 invested in high-yield bond funds in the investment portfolio (max limit NOKm 500)

COMMITMENTS BY RISK CLASSIFICATION

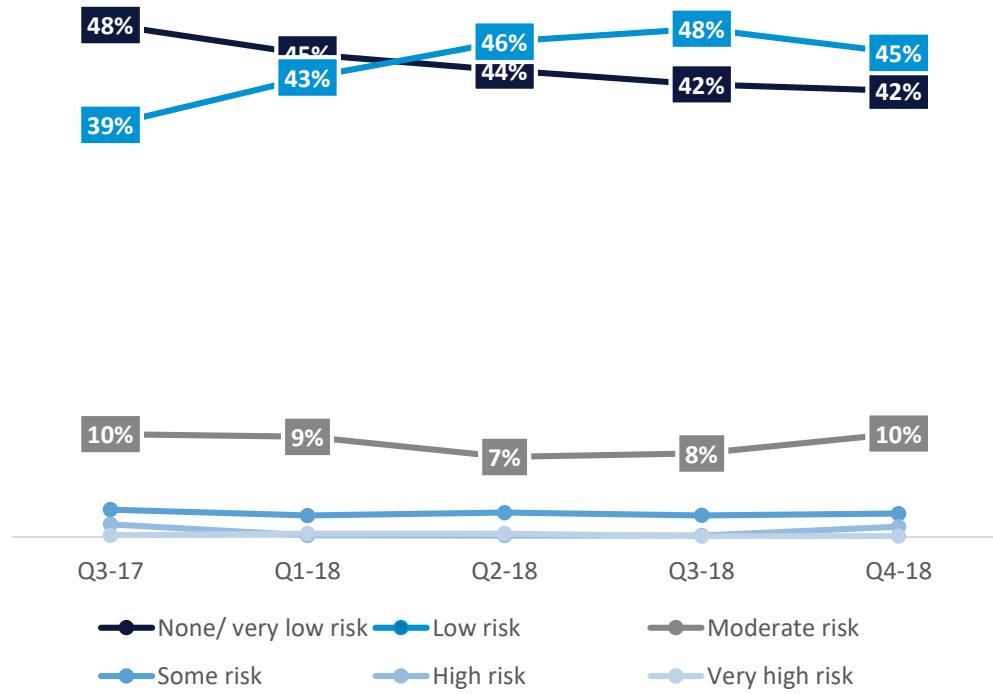
Risk classification

NOKm



Historical risk classification

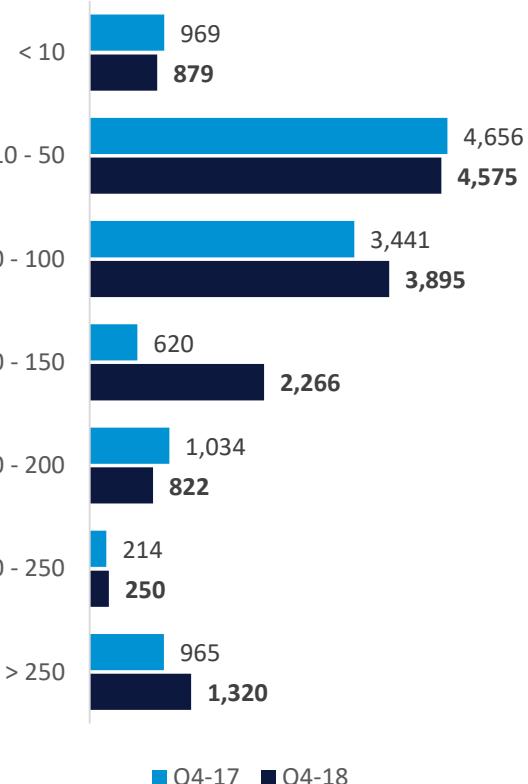
NOKm



COMMITMENTS BY SIZE

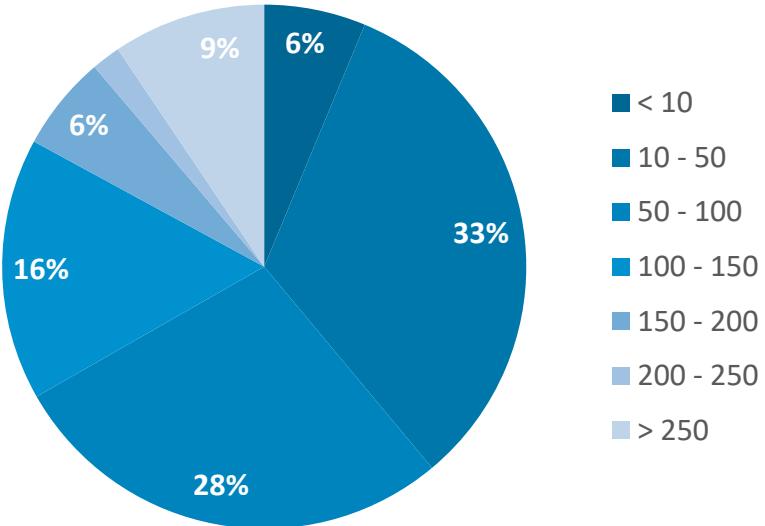
Commitment size per customer

NOKm



Commitment size per customer

Percent of NOKm



- Maximum size on a single customer 10 % of total capital (NOK 270m)
- Maximum size on group / consolidated basis 15 % of total capital (NOK 405m)

 Pareto bank