



Good Q2 results fully in line with expectations

This morning Merkur Bank has reported good Q2 results which were fully in line with our expectations. Net profit increased by 10% yoy to EUR 1.1m (PAS: EUR 1.1m). Key earnings driver was a higher net interest income which benefited from a higher loan portfolio (+5% since 12 2018). The bank has confirmed its full-year target of once again increasing EPS but cautioned that net interest income growth would slow down in H2 2019. Discussions with Bank Schilling regarding a takeover are ongoing. We leave our earnings estimates unchanged and confirm our Buy rating with a target price of EUR 10.50 as the shares remain attractively valued with a 2020e P/B of 1.0x (adj. P/B: 0.7x) and an expected ROE of 7.4%. Dividend yield remains attractive with almost 4%.

Net interest income with strong development

Net interest income increased by 35% yoy to EUR 9.9m which was partially a base effect (in Q2 2018 loan fees were still reported under commission income) but mainly due to the strong loan portfolio growth (+5% year-to-date). Total revenues (incl. commission income) were up by 25% yoy to EUR 10.2m. Costs increased by 6% yoy to EUR 5.84m. This resulted in a pretax profit of EUR 3.9m, up by 48% yoy, a very strong performance.

Talks with Bank Schilling continue

According to the Merkur Bank's CEO, Dr. Marcus Lingel, the talks with Bank Schilling regarding a takeover are ongoing. Talks are held in an open and trusting atmosphere. From a strategic point of view we would see such a deal positively as it would help MB to strengthen its private banking activities and thus to better diversify its earnings.

EURm	2016	2017	2018	2019e	2020e
M.cap.	38	45	46	53	53
NII	23	23	29	38	38
Other inc.	1	1	1	1	1
Op.costs	(23)	(24)	(24)	(26)	(26)
L.losses	2	(0)	(0)	(1)	(1)
Net profit	3	3	4	4	4
EPS	0.61	0.60	0.64	0.67	0.69
EPS adj	0.61	0.60	0.64	0.67	0.69
P/E	10.9	13.0	12.7	13.9	13.5
P/B	0.84	0.93	0.93	1.02	0.98
Yield (%)	3.9	3.8	3.9	3.6	3.7
ROE (%)	7.5	7.4	7.5	7.5	7.4

Source: Pareto

Target price (EUR)	10.5
Share price (EUR)	9.3

Ticker	MBKG.DE, MBK GY
Sector	Banks
Shares fully diluted (m)	5.7
Market cap (EURm)	53

Performance



Source: Factset

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Exhibit 1: Q2 2019

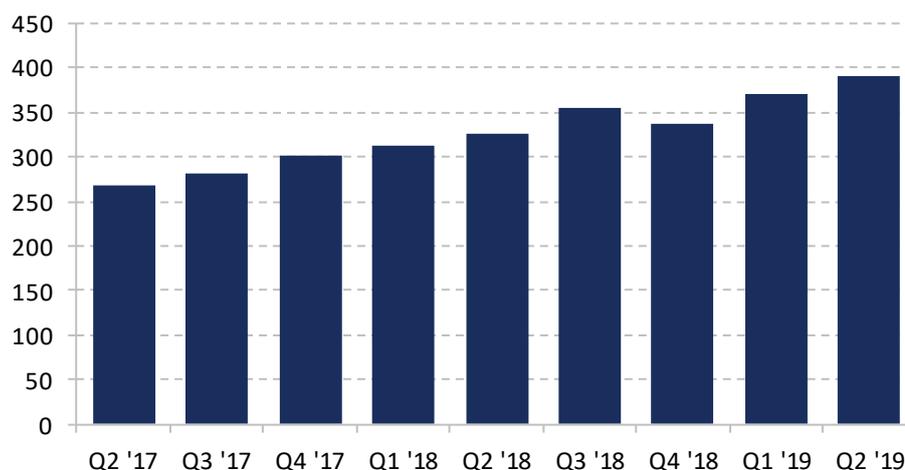
EUR m	Q2 '19	Q2 '19e	Q2 '18	yoy	Consensus	delta
Revenues	10.2	10.0	8.0	27%	na	na
<i>of which NII</i>	9.9	9.0	6.6	49%	na	na
Expenses	6.3	6.0	5.5	15%	na	na
<i>CIR</i>	62.3%	60.0%	68.4%	-606 BP	na	na
Risk provis.	0.0	0.5	0.2	na	na	na
EBT	3.8	3.5	2.4	63%	na	na
Net income	1.1	1.1	1.0	10%	na	na

Source: Pareto, Merkur Bank

KPIs with positive development

Merkur Bank has managed to increase its assets under custody by 5% qoq to EUR 390m, in H1 the increase amounted even to 16%. Total loan volume increased by 5% since 12 2018 to EUR 1.2bn. Average loan volume increased by 23% yoy in H1 2019 to EUR 1.18bn which led to the strong increase in the net interest income. Net interest growth rates should however come down in H2 2019 according to the bank which would be only logical as loan volume growth should come down in H2 2019 as well. New business in residential developer finance was up by 21% yoy to EUR 581m in H1 2019, a very strong development.

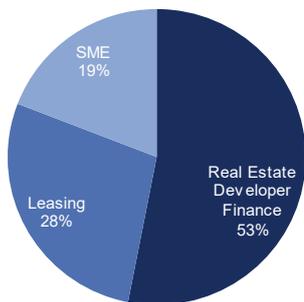
Exhibit 2: Development of assets under custody (EUR m)



Source: Pareto Securities Research, Merkur Bank

Exhibit 3: Investment Case in Charts

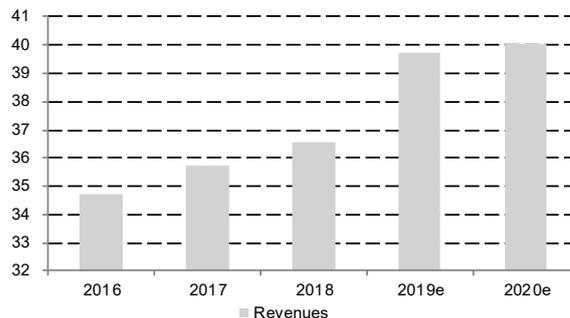
Loan portfolio split by business unit (12 2018)



Commercial Real Estate Developer Financing business is Merkur Bank's key revenue pillar.

Source: Merkur Bank, Pareto Research

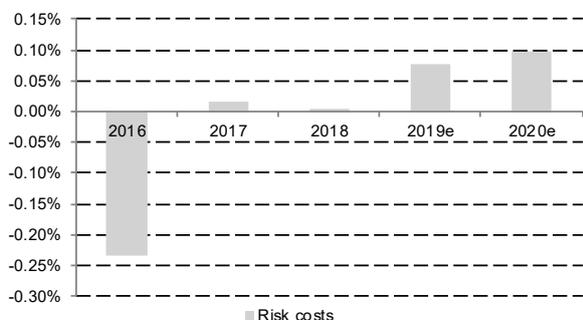
Revenues should grow ...



The strong revenues growth in 2019e should mainly result from an expected strong increase of the loan volume.

Source: Merkur Bank, Pareto Research

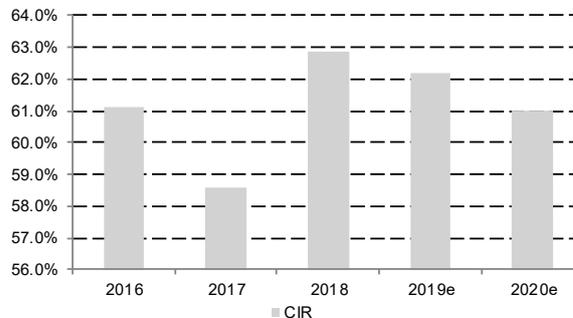
... while risk costs should remain low



Risk costs should remain on low level as we expect the benign commercial real estate environment to continue.

Source: Merkur Bank, Pareto Research

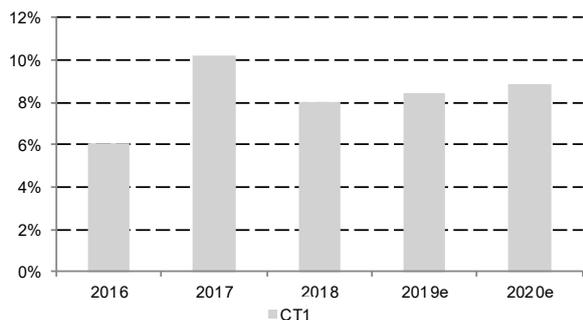
Efficiency is solid with a CIR of slightly above 60%



CIR is at relatively low level. We see however no room for further improvement as Merkur Bank is already operating quite efficiently.

Source: Merkur Bank, Pareto Research

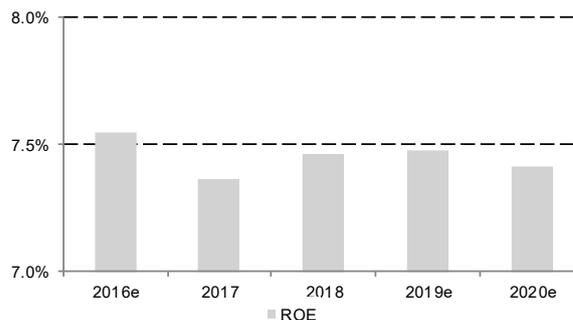
Capitalization on sufficient level



With an estimated CT1 ratio of 10% in 2018 we see Merkur Bank sufficiently capitalized.

Source: Merkur Bank, Pareto Research

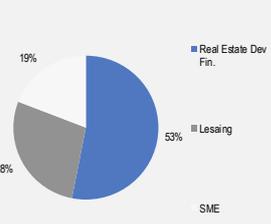
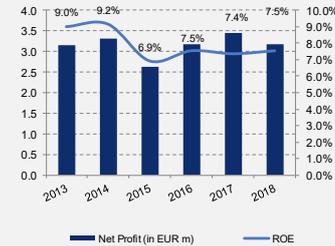
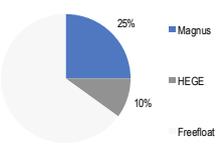
Solid Profitability



With an expected ROE of around 7.5% for 2019e Merkur Bank has a solid profitability.

Source: Merkur Bank, Pareto Research

Exhibit 4: At a Glance

Company Profile	 <p>MERKUR BANK</p> <p>MERKUR Bank is a private bank, located in Munich, focusing on corporate and retail banking. While it has expanded its retail banking activities in recent years, residential real estate developer finance remains its most important business. MERKUR Bank has the legal status of a KGaA and is listed on the Munich stock exchange.</p>							
Business Focus	Merkur Bank offers residential real estate developer finance, leasing and classical loans to its customers with a clear focus on developer loans. Total corporate loans amount to around EUR 1.15bn.			In Retail / Private Banking Merkur Bank offers retail banking services both online and through its four branches to its customers. It has more than EUR 300m assets under custody.				
Customers	Merkur Bank's customer are SME customers. While in real estate financing they comprise different real estate investors, they include traditional SME in the other segments.			Merkur Bank's customers are classical retail customers which should be somewhat more affluent than the average retail customer.				
Regional Focus	Regional Focus in real estate developer finance is Munich and to a lesser extent Stuttgart and Nuremberg.			Regional Focus is Bavaria, Thuringia and Saxony with the branches being located in Munich, Jena, Plauen and Auerbach.				
Market share/positioning	Merkur Bank's market share should be insignificant overall but in its core market Munich Merkur Bank should be among the established players in its niche.			Merkur Bank's market share in the German retail banking market insignificant.				
Drivers	Apart from the general macroeconomic development in Germany, the overall demand for housing in Munich and thus new construction activity is the key driver for Merkur Bank's revenues.			We see two developments which should be beneficial for Merkur Bank: 1) The ongoing branch closures of the market leaders (savings and mutual banks) should continue to be beneficial for Merkur Bank as it should help it to further grow its assets under custody, 2) The low interest rate environment forces people to invest its assets into riskier assets which should be beneficial for banks/asset managers offering asset management services.				
Asset Quality	We do not have any NPL figures for Merkur Bank but based upon the current very favorable housing market in Munich, particularly the high demand for new housing, and the company's statement we assume that NPLs are currently on low levels. Clearly, a deterioration of the housing market in Munich should lead to rising NPLs.							
Capitalization	With a CT1 ratio of 10% (2018; Pareto estimate) and total capital ratio of 15.3% Merkur Bank fulfills the regulatory requirements but capitalization, unlike in the years before the CT1 ratio, is not a weak spot anymore for Merkur Bank, i.e. the bank should be able to take advantage of future growth opportunities.							
Strategy & Guidance	Strategy: (I) Merkur Bank intends to further increase its AuC to increase revenues in retail/private banking to become less dependent from the real estate business (II) Further improve its capitalization to be able to make use of the business opportunities in the housing market in Munich		Guidance 2019: no concrete earnings guidance published		EPS y/y 0.67 9.1%	Pareto Estimates na na	Consensus na na	
2018	Revenues (EURm) y/y	36.6 2.4%	CIR	62.9%	Net Profit (EURm) ROE	3.7 7.5%	EPS 5Y hist. CAGR	1.1%
New bus. & Portfolio Split	Loan Portfolio split 			Development AuC 		Group financial development 		
Shareholder structure & management	CEO  Dr. Marcus Lingel CEO & personal liability partner <ul style="list-style-type: none"> • Dr. Lingel joined Merkur Bank's management board in 2005 • He joined Merkur Bank in 2000 after having finished his studies and having worked for a large private bank in the corporate banking unit 		Board member  Claus Herrmann Board member <ul style="list-style-type: none"> • Mr. Herrmann joined Merkur Bank in 1999 and became a board member in 2002 • Mr. Herrmann has gained bank experience in different savings banks and other mid-sized banks 		Shareholder structure 			
# of employees FY 2018	191							

Source: Pareto Securities Research, Merkur Bank

PROFIT & LOSS (fiscal year) (EURm)	2015	2016	2017	2018	2019e	2020e
Net interest income	22	23	23	29	38	38
Net fee and commission income	10	10	12	7	2	2
Operating income	33	35	36	37	40	40
Staff costs	(13)	(13)	(13)	(14)	(14)	(14)
Other expenses	(9)	(9)	(10)	(10)	(11)	(11)
Depr.	(1)	(1)	(1)	(1)	(1)	(1)
Operating expenses	(23)	(23)	(24)	(24)	(26)	(26)
Operating profit before losses	10	11	12	12	14	14
Net loan losses	(2)	2	(0)	(0)	(1)	(1)
Pre-tax profit	8	13	12	12	13	13
Tax expense	(3)	(4)	(4)	(5)	(5)	(5)
Net profit	4	9	7	7	8	8
Minority interests	(2)	(6)	(4)	(3)	(4)	(4)
Net profit attributable	3	3	3	4	4	4
BALANCE SHEET (EURm)	2015	2016	2017	2018	2019e	2020e
Current assets	72	121	141	98	113	117
Gross loans	813	847	888	1,152	1,175	1,198
Other assets and accruals	87	65	64	103	87	87
Total assets	973	1,033	1,094	1,353	1,374	1,402
Deposits from credit institutions	84	74	62	68	63	58
Deposits from the public	800	846	905	1,152	1,175	1,199
Certificates and bond loans	-	-	-	-	-	-
Other liabilities accruals and allocat.	19	26	32	37	30	33
Subordinated loan capital	31	41	46	46	54	59
Equity	39	46	48	50	52	54
Total debt and equity	973	1,033	1,094	1,353	1,374	1,402
Average total assets		1,003	1,063	1,223	1,363	1,388
PER SHARE DATA & VALUATION (EUR)	2015	2016	2017	2018	2019e	2020e
Avg. no. of shares	5	5	6	6	6	6
End. no. of shares	5	6	6	6	6	6
Price	5.9	6.7	7.9	8.2	9.3	9.3
Market cap.	31	38	45	46	53	53
EPS reported	0.51	0.61	0.60	0.64	0.67	0.69
EPS adj.	0.51	0.61	0.60	0.64	0.67	0.69
BVPS	7.5	8.0	8.4	8.8	9.1	9.5
DPS	0.22	0.26	0.30	0.32	0.34	0.35
P/E	11.6	10.9	13.0	12.7	13.9	13.5
P/E adj.	11.6	10.9	13.0	12.7	13.9	13.5
P/B	0.8	0.8	0.9	0.9	1.0	1.0
Dividend Yield	3.7%	3.9%	3.8%	3.9%	3.6%	3.7%
KEY RATIOS	2015	2016	2017	2018	2019e	2020e
Net interest margin	2.39%	2.30%	2.16%	2.39%	2.75%	2.73%
Net interest margin (int.-bearing assets)	2.63%	2.62%	2.53%	2.71%	3.04%	3.04%
Cost/Income	67%	64%	63%	63%	62%	61%
Loan losses (bps annualised)	0	(0)	0	0	0	0
ROE		7.5%	7.4%	7.5%	7.5%	7.4%
ROA	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
RORWA	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%

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Appendix A

Disclosure requirements pursuant to the Norwegian Securities Trading Regulations section 3-10 (2) and section 3-11 (1), letters a-b

The below list shows companies where Pareto Securities AS - together with affiliated companies and/or persons – own a portion of the shares exceeding 5% of the total share capital in any company where a recommendation has been produced or distributed by Pareto Securities AS.

Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
Helgeland Sparebank	2,010,630	9.63%	SpareBank 1Østfold Akersl	1,140,010	9.20%
Pareto Bank ASA	12,862,966	18.53%	Sparebanken Vest	4,508,279	7.64%

Pareto Securities AS or its affiliates own as determined in accordance with Section 13(d) of the US Exchange Act, 1% or more of the equity securities of:

Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
Helgeland Sparebank	2,010,630	9.63%	SpareBank 1Østfold Akersl	1,140,010	9.20%
Pareto Bank ASA	12,862,966	18.53%	Sparebanken Møre	311,739	3.15%
Selvaag Bolig ASA	2,174,147	2.32%	Sparebanken Sør	460,689	2.94%
SpareBank 1BV	1,639,640	2.61%	Sparebanken Vest	4,508,279	7.64%
SpareBank 1Nord-Norge	1,899,924	1.89%	Totens Sparebank	79,246	1.29%
SpareBank 1SMN	1,878,192	1.45%			

Pareto Securities AS may hold financial instruments in companies where a recommendation has been produced or distributed by Pareto Securities AS in connection with rendering investment services, including Market Making.

Please find below an overview of material interests in shares held by employees in Pareto Securities AS, in companies where a recommendation has been produced or distributed by Pareto Securities AS. "By material interest" means holdings exceeding a value of NOK 50 000.

Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings
AF Gruppen	0	1,675	Gjensidige Forsikring	0	7,711	REC Silicon	0	357,742
Aker	0	702	Golden Ocean Group	0	1,919	SailMar	0	130
Aker BP	0	8,480	Grieg Seafood	0	784	Sandnes Sparebank	0	23,832
AKVA Group	0	2,100	Helgeland Sparebank	0	4,127	Scatec Solar	0	35,735
American Shipping Compar	0	3,105	Höegh LNG	0	6,509	Schibsted ASA B Aksjer	0	357
Archer	0	60,770	Jæren Sparebank	0	500	Seadrill	0	14,772
Atea	0	450	Komplett Bank	0	117,387	Selvaag Bolig	0	5,000
Atlantic Sapphire	0	5,305	Kongsberg Gruppen	0	5,901	SpareBank 1BV	0	17,700
Austevoll Seafood	0	5,815	KWS	75	75	SpareBank 1Nord-Norge	0	26,500
Avance Gas	0	5,051	Lerøy Seafood	0	36,210	SpareBank 1Ringerike Hadr	0	500
Axactor	0	8,963	Magseis Fairfield	0	12,659	SpareBank 1SMN	0	15,490
BASF	270	270	Mowi	0	1,979	SpareBank 1SR-Bank	0	29,391
B2Holding	0	5,639	NORBIT	0	19,968	Sparebank 1Østfold Akersl	0	450
Bonheur	0	46,535	Nordic Semiconductor	0	6,000	SpareBank 1Østlandet	0	4,041
Borr Drilling	0	923	Norsk Hydro	0	126,345	Sparebanken Møre	0	6,550
BRABank	0	1,371,000	Northern Drilling	0	6,060	Sparebanken Sør	0	43,380
BWLPG	0	2,069	Norwegian Air Shuttle	0	68,437	Sparebanken Vest	0	2,219
DNB	0	35,206	Norwegian Energy Compan	0	350	Sparebanken Øst	0	1,500
DNO	0	33,678	Ocean Yield	0	33,967	Stolt-Nielsen	0	900
Entra	0	14,362	Odfjell Drilling	0	3,944	Storebrand	0	5,565
Equinor	0	8,788	Okeanis Eco Tankers	0	1,738	Subsea 7	0	5,990
Europris	0	10,850	Orkla	0	20,164	Telenor	0	2,311
Fjord1	0	51,550	Panoro Energy	0	5,670	TGS-NOPEC	0	2,085
Fjordkraft Holding	0	4,132	Pareto Bank	0	977,841	XXL	0	9,929
Flex LNG	0	1,138	Pioneer Property	0	2,050	Yara International	0	17,450
Frontline	0	13,003	Protector Forsikring	0	14,567	Zenterio	0	78,865

This overview is updated monthly (last updated 15.07.2019).

*Analyst holdings refer to positions held by the Pareto Securities AS analyst covering the company.

Appendix B

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letters e-f, ref the Securities Trading Act Section 3-10

Overview over issuers of financial instruments where Pareto Securities AS have prepared or distributed investment recommendation, where Pareto Securities AS have been lead manager/co-lead manager or have rendered publicly known not immaterial investment banking services over the previous 12 months:

2020Bulkers	Floatel	Northmill Group AB
Avanzia Bank	Genel Energy	Odfjell
African Petroleum Corporation	Gfinity Plc	OKEA
Agder Energi	GG. St. Kongensgade 100 og 106	Okea AS
American Tanker	Gulf Keystone Petroleum	Okeanis Eco Tankers
Andfjord Salmon	Hafslund E-CO	Otliga Group
APC Forsikringsmæglere A/S	Herttha BSC GmbH	Panoro Energy
Arnarfax	HKN Energy Ltd	Pareto Bank
Avida Holding AB	Hunter Group	Petroleum Geo-Services
Bank Norwegian	Hörmann Industries	PetroTal
Belships	Ice Group	Pioneer Public Properties Finland Oy
Bluewater Holding	Jactel AS	Point Resources AS
CentralNic Group	Klavness Ship Holding	Questa Energy Corporation
DNO ASA	Lundin Petroleum	Rødovre Port Holding A/S
Dof Subsea AS	Magseis	Shamaran Petroleum
Eco Atlantic Oil and Gas	Monobank ASA	Sparebank 1 Østlandet
Exmar NV	Navig8	Sparebanken Vest
FFS Bidco	NGEX Resources	Union Maritime Limited
Flex LNG	Norbit Group	Vantage Drilling

This overview is updated monthly (this overview is for the period 30.06.2018 – 30.06.2019).

Appendix C

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11(4)

Distribution of recommendations

Recommendation	% distribution
Buy	66%
Hold	31%
Sell	4%

Distribution of recommendations (transactions*)

Recommendation	% distribution
Buy	100%
Hold	0%
Sell	0%

* Companies under coverage with which Pareto Securities Group has on-going or completed public investment banking services in the previous 12 months

This overview is updated monthly (last updated 15.07.2019).

Appendix D

This section applies to research reports prepared by Pareto Securities AB.

Disclosure of positions in financial instruments

The beneficial holding of the Pareto Group is 1 % or more of the total share capital of the following companies included in Pareto Securities AB's research coverage universe: None

The Pareto Group has material holdings of other financial instruments than shares issued by the following companies included in Pareto Securities AB's research coverage universe: None

Disclosure of assignments and mandates

Overview over issuers of financial instruments where Pareto Securities AB has prepared or distributed investment recommendation, where Pareto Securities AB has been lead manager or co-lead manager or has rendered publicly known not immaterial investment banking services over the previous twelve months:

Azelio	Green Landscaping Holding	Jetpak Top Holding AB	ShaM aran Petroleum
Bionvent	IRRAS AB	Sedana Medical	
Climeon			

Members of the Pareto Group provide market making or other liquidity providing services to the following companies included in Pareto Securities AB's research coverage universes:

Cavotec	Saltängen Property Invest	Sedana Medical	Tethys Oil
Cibus Nordic Real Estate	SciBase Holding	ShaM aran Petroleum	Vostok Emerging Finance
Isofol Medical			

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: None
This overview is updated monthly (last updated 15.07.2019).

Appendix E

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter d, ref the Securities Trading Act Section 3-10

Designated Sponsor

Pareto Securities acts as a designated sponsor for the following companies, including the provision of bid and ask offers. Therefore, we regularly possess shares of the company in our proprietary trading books. Pareto Securities receives a commission from the company for the provision of the designated sponsor services.

2G Energy *	Freenet	MAX Automation SE	SCOUT24
Aixtron *	Gesco *	Merkur Bank	Siemens Healthineers AG
Baywa	GFT Technologies *	MLP *	SMT Scharf AG *
Biotest *	Gigaset *	MOBOTIX AG	Surteco Group *
Brenntag	Heidelberg Pharma *	OVB Holding AG	Szygy AG *
CORESTATE Capital Holding S.A.	Hypoport AG	Procredit Holding *	TAKKT AG
Daldrup & Söhne	init	PSI SOFTWARE AG *	Vapiano
Demire	Intershop Communications AG	PWO *	va-Q-tec *
Epigenomics AG*	Leifheit	RIB Software *	Viscom *
Euromicron AG *	Logwin *	S&T AG *	windeln.de
Eyemaxx Real Estate	Manz AG *	Schaltbau Holding AG	

* The designated sponsor services include a contractually agreed provision of research services.

Appendix F

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter g, ref the Securities Trading Act Section 3-10

Sponsored Research

Pareto Securities has entered into an agreement with these companies about the preparation of research reports and—in return—receives compensation.

Adler Modemaerkte	First Sensor	MAX Automation SE	OVB Holding AG
Baywa	Godewind Immobilien AG	Intershop Communications AG	Schaltbau Holding AG
BB Biotech	Hypoport AG	Merkur Bank	Siegfried Holding AG
comdirect	init	MOBOTIX AG	Vapiano
Daldrup & Söhne	Leifheit	OHB SE	
Eyemaxx Real Estate			

This overview is updated monthly (last updated 15.07.2019).