

PARETO BANK

Financial Results – Fourth Quarter 2021



 Pareto bank

Highlights

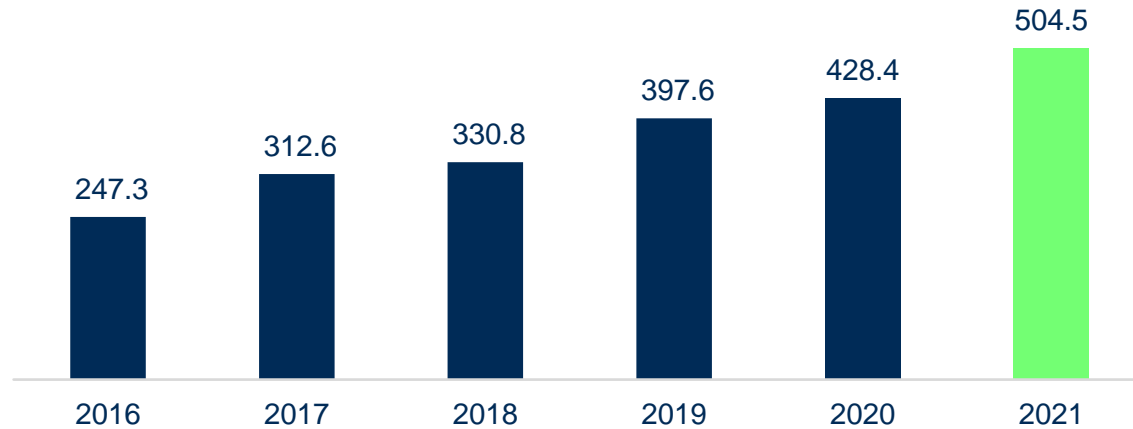
Financials

Business Areas

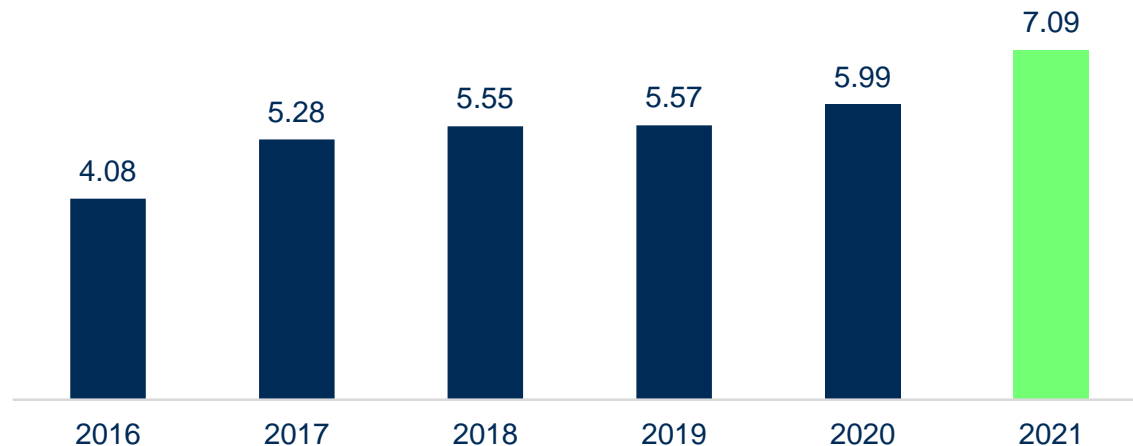
Outlook & Ambitions

DELIVERING ON FINANCIAL AMBITIONS IN 2021

Profit after tax (NOKm)



Earnings per share (NOK)

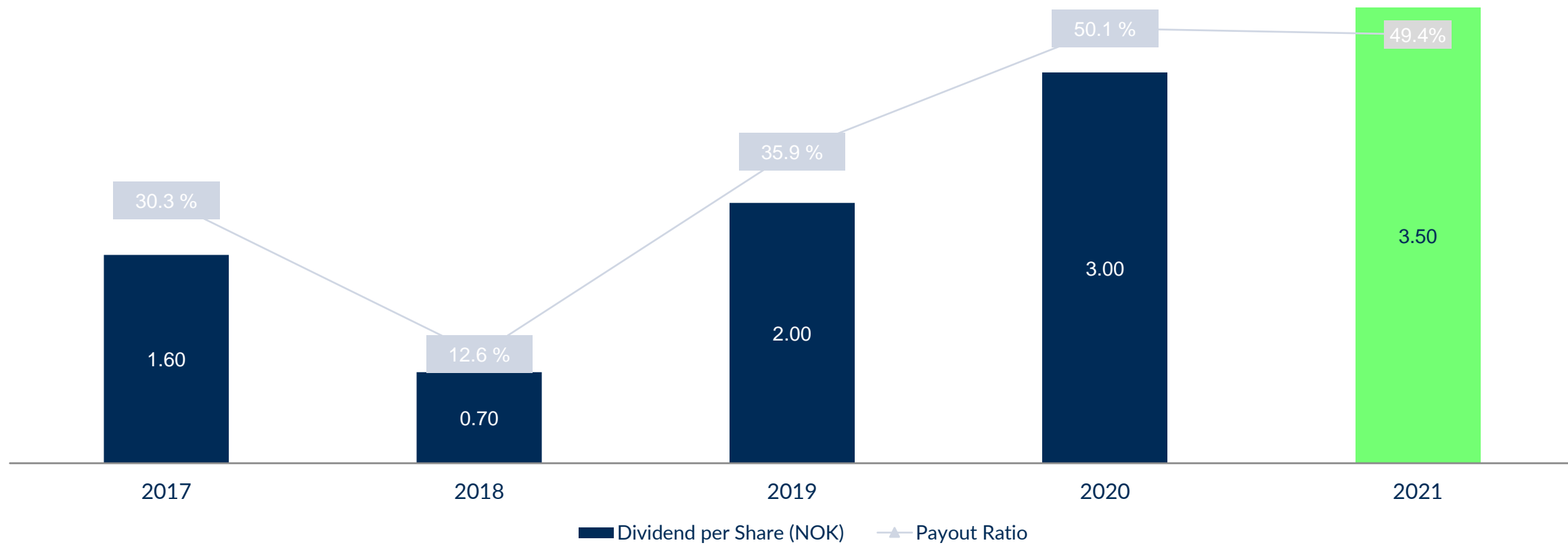


Profitability and dividend in line with ambitions

- Record high profit after tax for 2021 of NOK 504.5m (NOK 428.4m in 2020).
- Earnings per share NOK 7.09 (NOK 5.99).
- Return on equity after tax at 14.0 % in line with long-term ambition.
- The Board has proposed a dividend of NOK 3.50 per share of 2021 profits, corresponding to a payout ratio of 49.4 % and in line with dividend policy.
- Lending climbed by NOK 1,144m (NOK 1,500m).
- Pareto Bank continues to expand in its niche markets of real estate, corporate and ship financing.
- Net interest margin increased to 5.7 % (5.5 %).
- Operational efficiency continues to be strong at 19.1 % (19.2 %).
- Reversal of model-based impairments in 2021.
- A positive and supportive culture has ensured a motivated team that has performed impressively despite continued challenging circumstances.

DIVIDEND FOR 2021

Proposed dividend of NOK 3.50 per share



FOURTH QUARTER 2021

Highlights

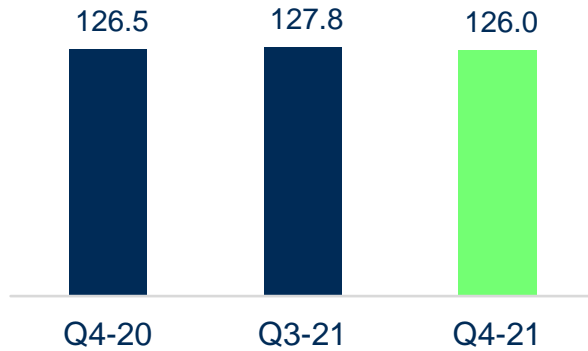
- Profit after tax NOK 126.0m (NOK 126.5m).
- Return on equity after tax 13.5 % (14.8 %).
- Net interest income NOK 214.5m (NOK 191.0m).
- Excellent cost efficiency. Cost/income ratio at 18.4 % (20.0 %).
- Strong activity led to lending growth of NOK 617.7m to NOK 15,805m (NOK 14,661m). Growth was strongest in corporate and commercial property financing.
- Impairments and losses NOK 11.1m (reversal of NOK 1.5m). Unchanged macroeconomic scenarios in the IFRS 9 impairment model.



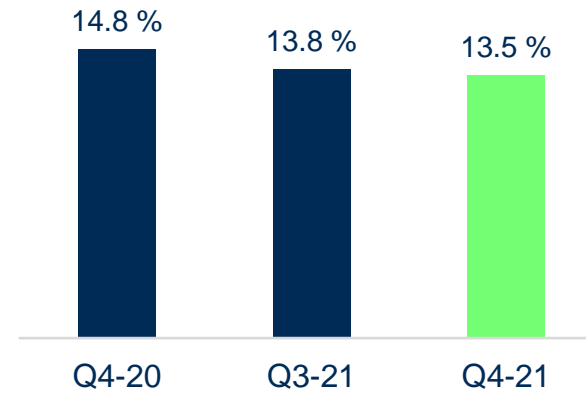
Lars Erik Næss, Corporate financing

KEY FIGURES

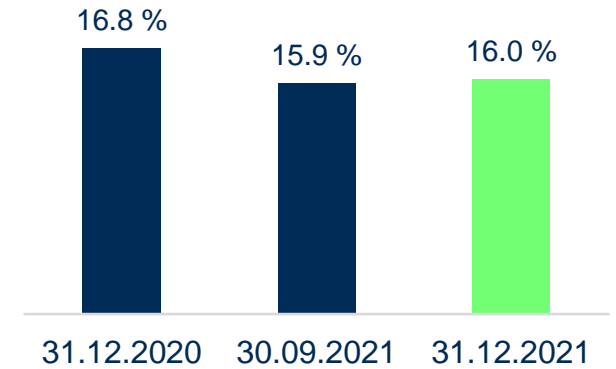
Profit after tax (NOKm)



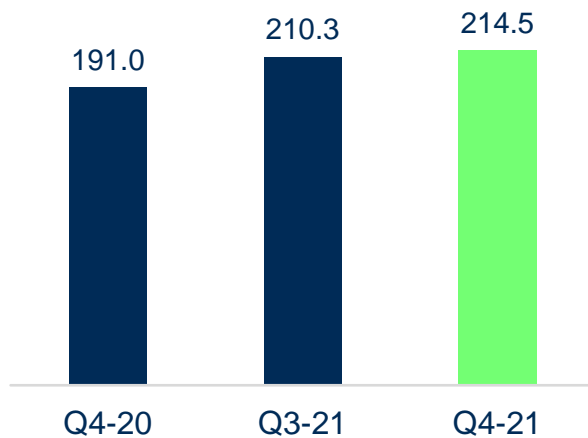
Return on Equity *



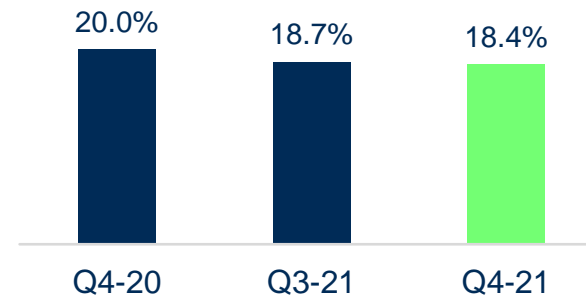
CET1 ratio



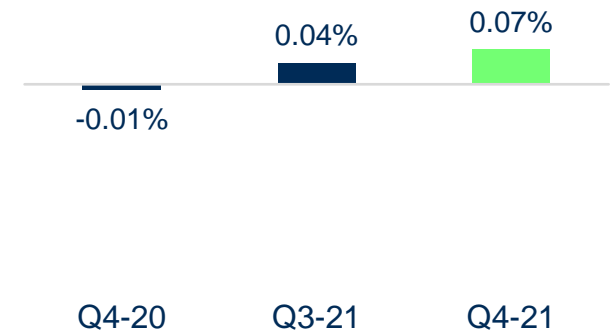
Net interest income (NOKm)



Cost/Income ratio



Loss ratio **



*) Excluding AT1 hybrid bonds and corresponding interest costs.
**) Quarterly impairments and losses over average net loans.

Highlights

Financials

Business Areas

Outlook & Ambitions

INCOME STATEMENT

P&L (NOKm)

	Q4-21	Q4-20	2021	2020
Net interest income	214.5	191.0	838.3	746.9
Net other operating income	3.0	13.7	12.3	7.6
Total net income	217.6	204.6	850.7	754.5
Total operating expenses	40.1	40.9	162.4	144.5
Operating profit before impairments and losses	177.5	163.7	688.3	610.0
Impairments and losses on loans and guarantees	11.1	-1.5	20.1	44.8
Pre-tax operating profit	166.4	165.2	668.2	565.1
Tax expense	40.4	38.7	163.6	136.8
Profit for the period	126.0	126.5	504.5	428.4
Earnings per share (NOK)	1.77	1.77	7.09	5.99
Return on equity	13.5 %	14.8 %	14.0 %	13.0 %
Cost/income ratio	18.4 %	20.0 %	19.1 %	19.2 %

Best net interest income ever for a single quarter.

Lending grew by NOK 618m in Q4-21 (NOK 787m), largely in the end of the quarter.

Increased market funding costs due to higher interest rate.

Other operating income was relatively high in Q4-20 due to income from partly owned companies and positive valuation of financial instruments.

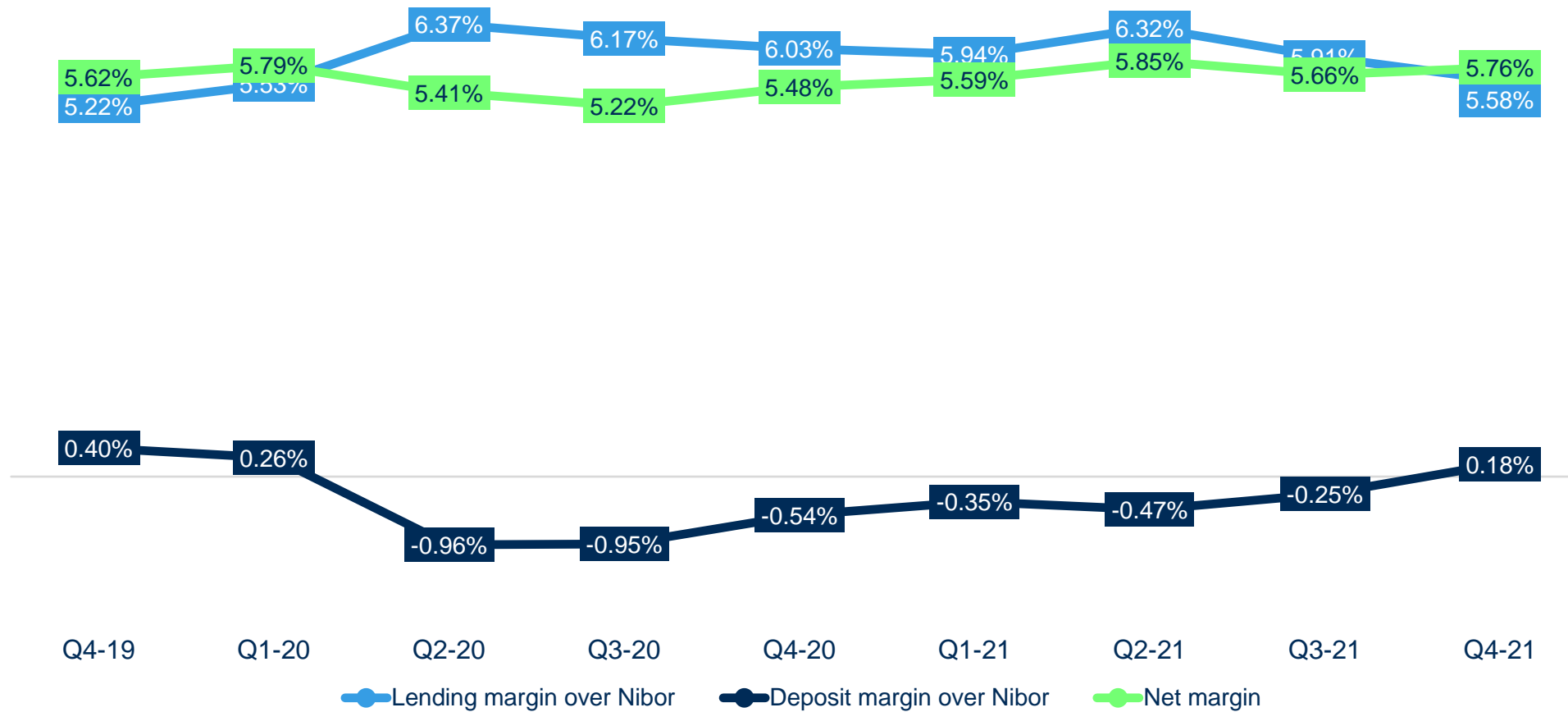
Moderate costs. Set off NOK 7.3m (NOK 7.8m) for employee bonus in Q4-21 and NOK 28.8m (NOK 24.4m) in 2021 all together. Improved cost efficiency compared to Q4-20.

Moderate cost increase in 2022 preparing for further growth.

Model-based impairments in stage 1 and 2 increased by NOK 7.0m. Impairments and losses in stage 3 grew by NOK 4.1m.

Profitability compared to Q4-20 was good when taking into account valuations and impairments. Net interest margin and cost efficiency are improved in Q4-21 compared to Q4-20.

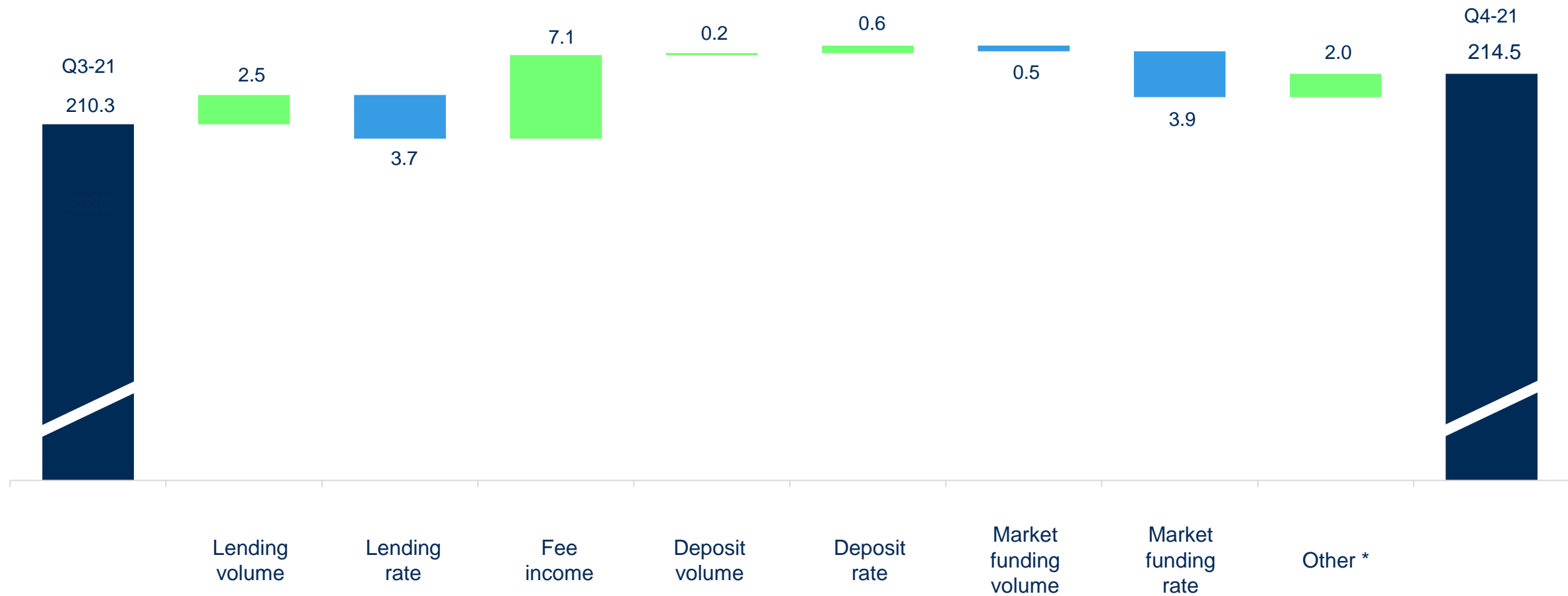
NET INTEREST MARGIN



Comments

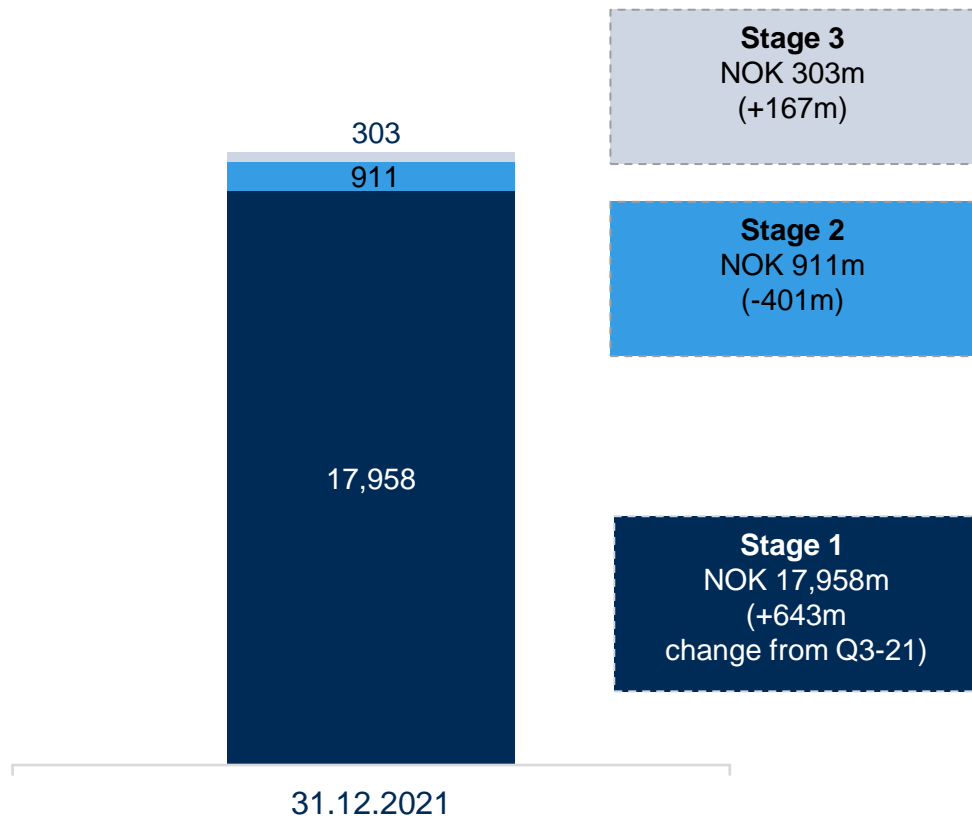
- Increase in market rates has put pressure on lending margin and lifted deposit margin.
- Fee income NOK 44.8m (NOK 38.9m) in Q4-21.
- Increase in lending rates in effect near end of year. Loans with reference rates follow the market.
- Keeping deposit rates stable.
- Expect improved margin and net interest income in Q1-22.

QUARTERLY CHANGE IN NET INTEREST INCOME (NOKm)

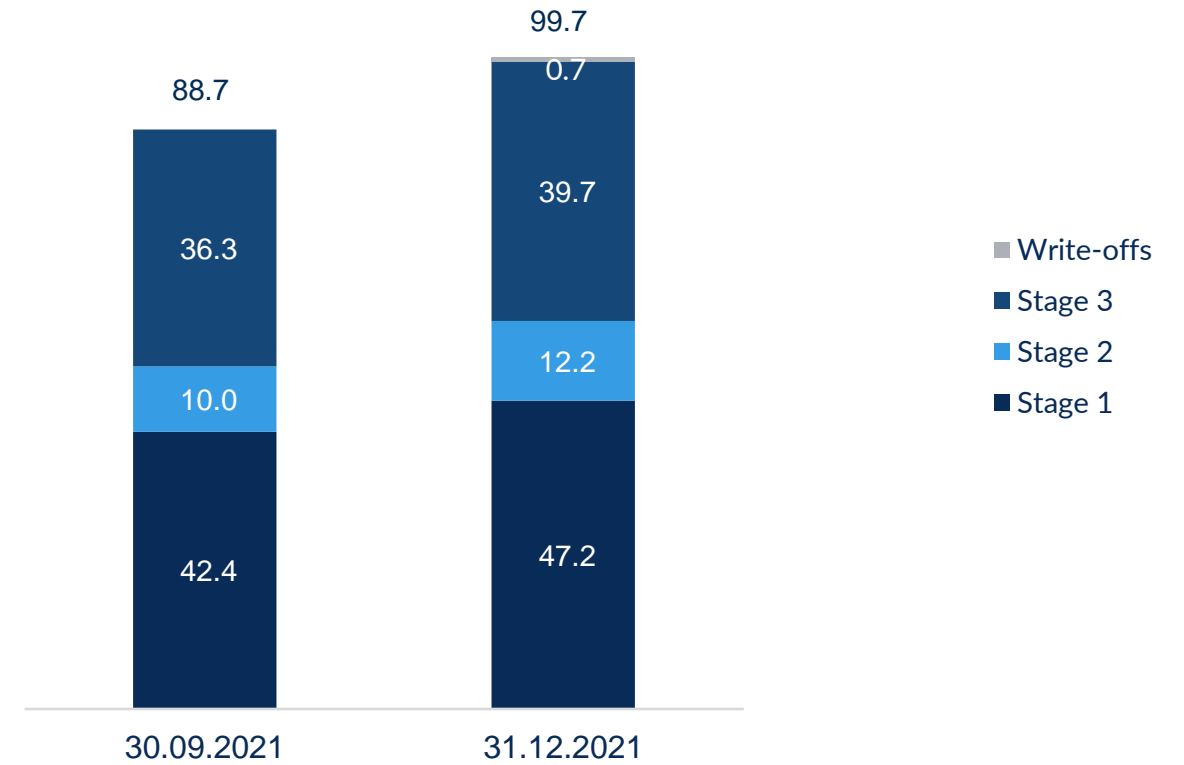


IMPAIRMENTS BY STAGE

Credit exposure by IFRS9 stage (NOKm)

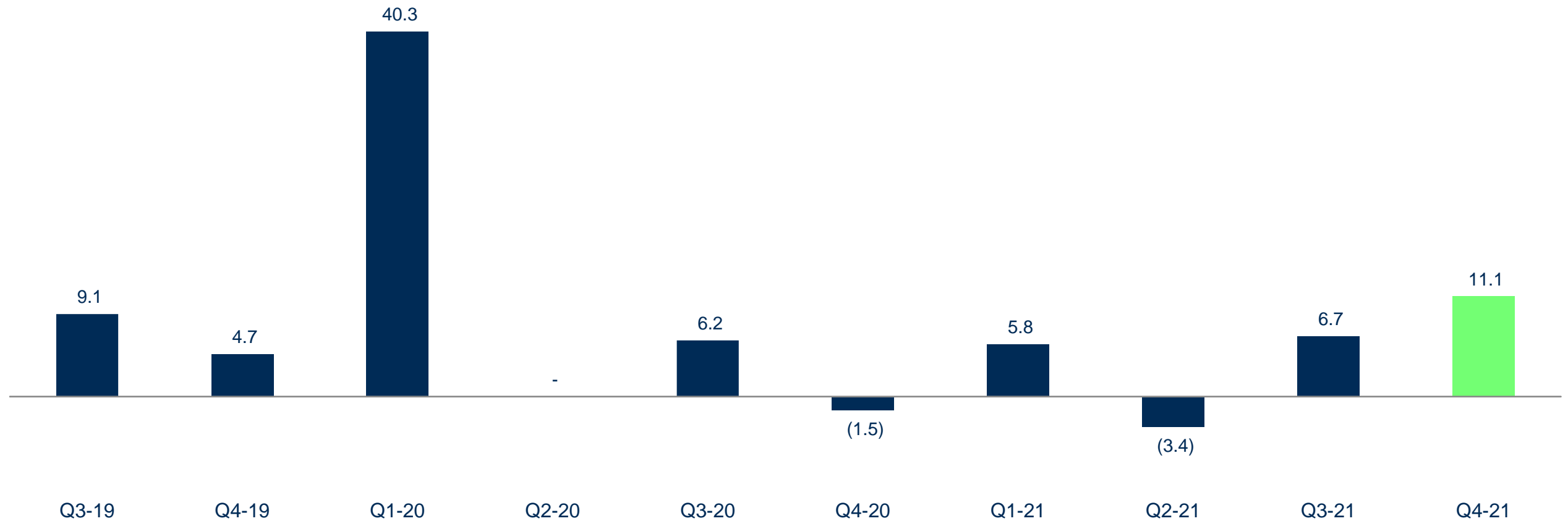


Impairments and losses by stage (NOKm)



CREDIT QUALITY

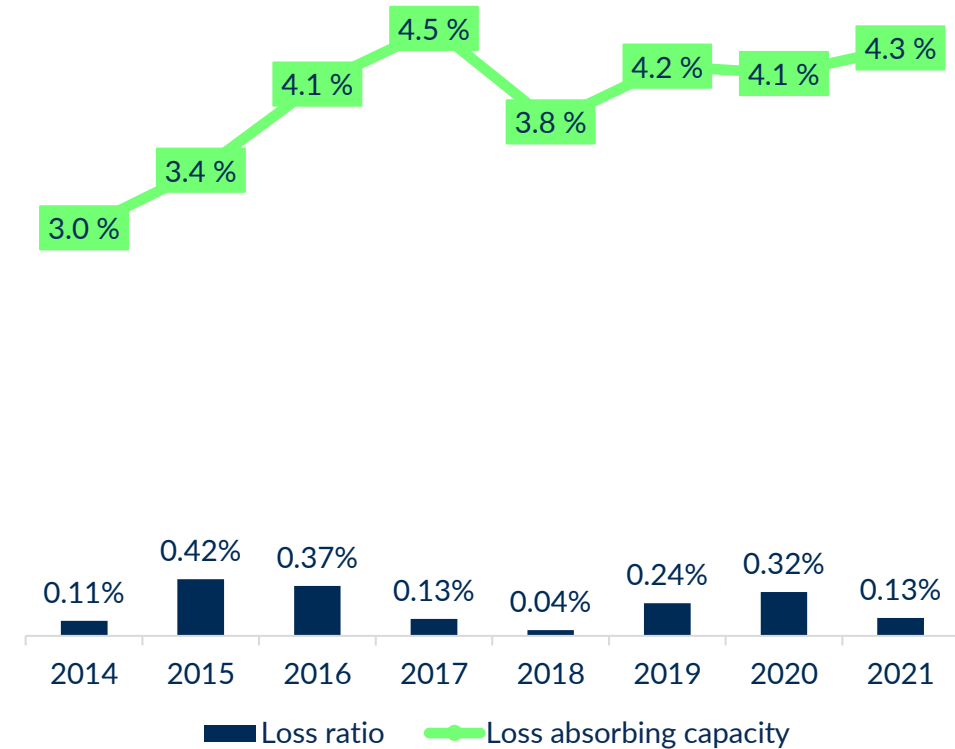
Historical impairments and losses (NOKm)



PROFITABILITY PROTECTS AGAINST LOSSES

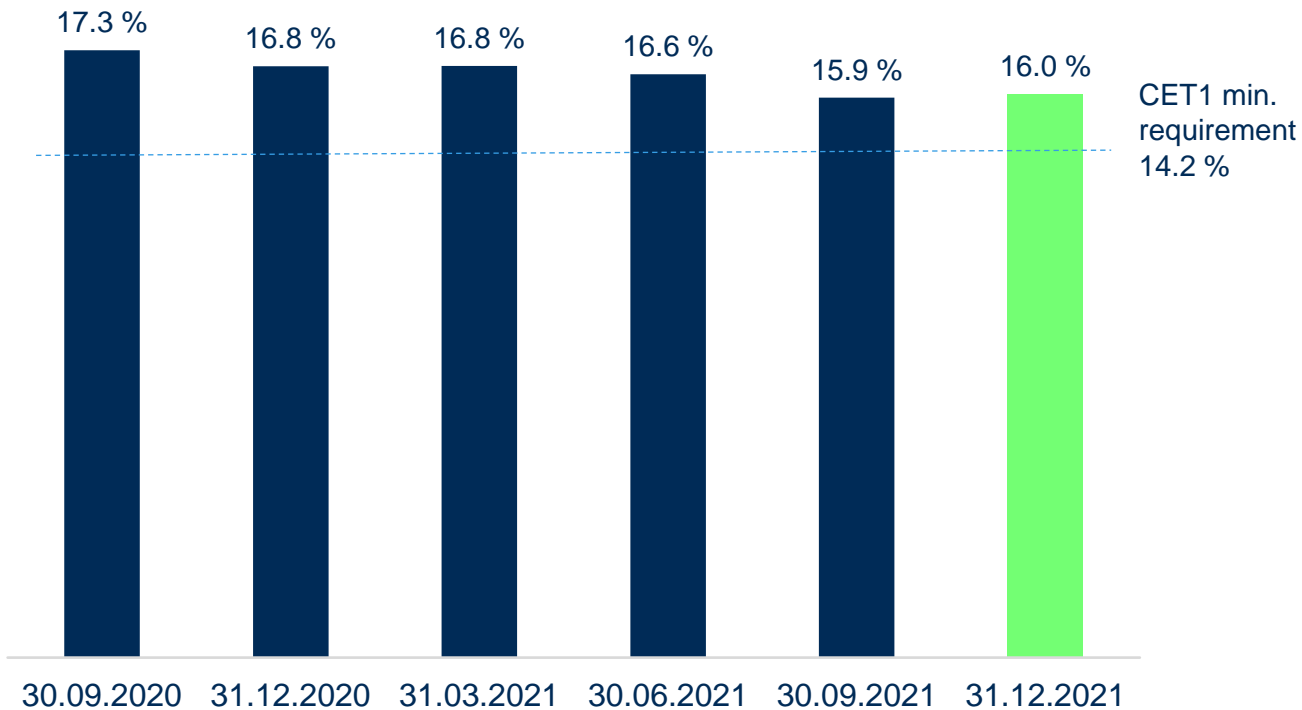
- Profitability remains strong, and is the first line of defence against losses.
- Profits can absorb losses of up to 4.3 % of gross lending.
- Loss ratio has largely been less than 0.3 % during the past years.
- Good track record on credit quality even during challenging times.
- Centralized credit decisions and dynamic credit policy has led to low losses.

Loss absorbing capacity



SOLIDITY AND CAPITAL REQUIREMENTS

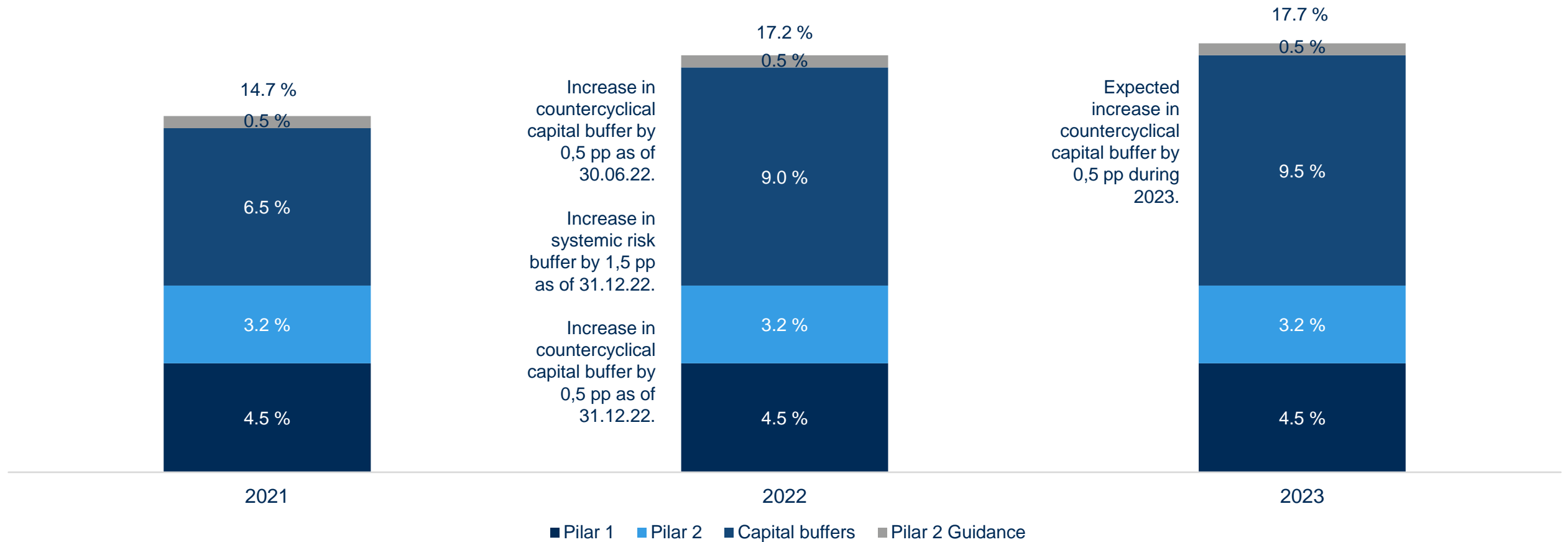
Core Equity Tier 1 Ratio (CET1)



- Expecting an updated pillar 2 requirement from the Norwegian FSA in the first half of 2022.
- The Board of Directors will set a CET1 target when the pillar 2 requirement has been determined.
- SMB discount phase 2 is expected to lift CET1 by approximately 2 percentage points when implemented in 2022.
- Buffer requirements will increase by a total of 2.5 percentage points during 2022.
- Strong leverage ratio of 16.0 % at 31.12.2021 and equal to CET1. Risk weighting of commitments are primarily 100 % or more.

EXPECTED CHANGES TO CET1 REQUIREMENT

Assuming unchanged Pillar 2 requirement



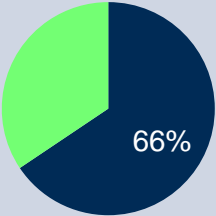
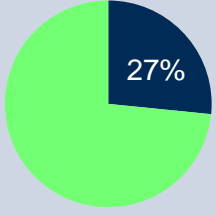
Highlights

Financials

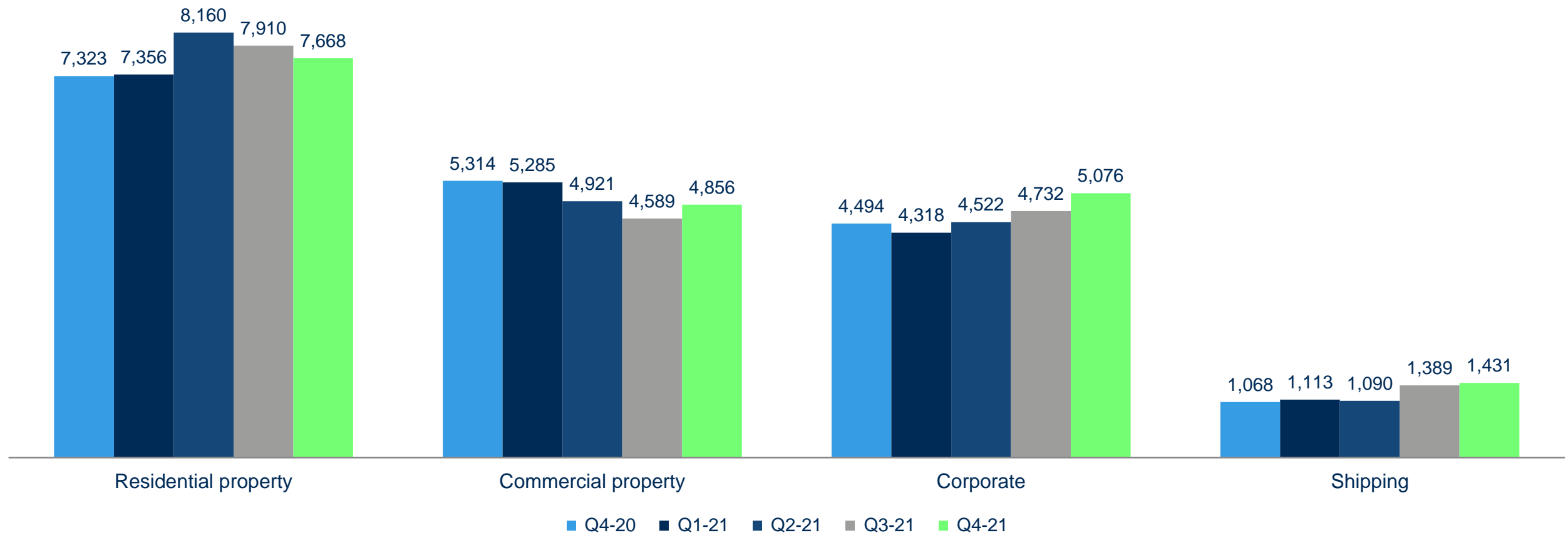
Business Areas: Focus on Ship Financing

Outlook & Ambitions

A NICHE PLAYER FINANCING MEDIUM SIZED ENTERPRISES

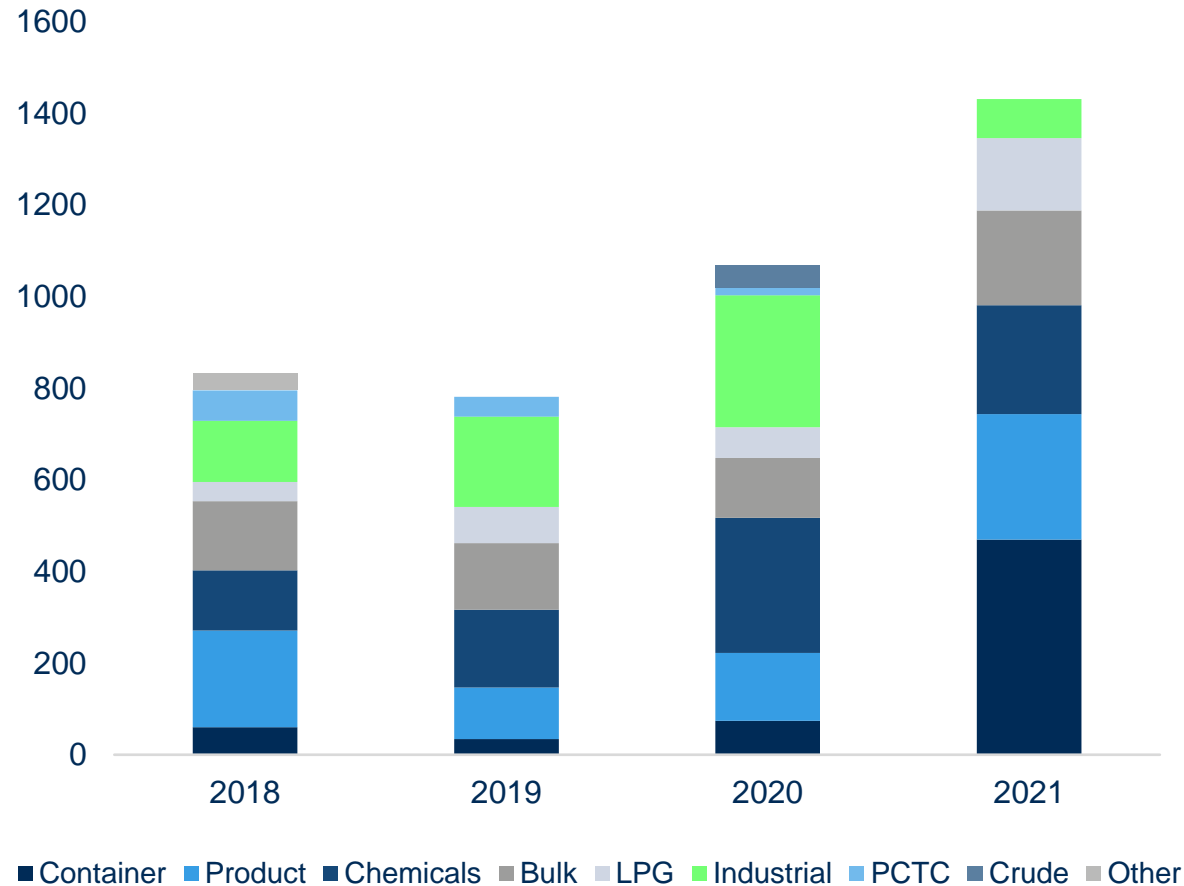
Business Areas	Focus	Credits / Customers	Exposure	Sweet spot
REAL ESTATE	The specialized real estate developer bank for Eastern Norway and larger Norwegian cities.	Land acquisition financing Property construction facilities Commercial property financing	 <p>66%</p> <p>NOKm 12,524</p>	NOKm 50 - 100 1 - 3 yrs
CORPORATE	A provider of tailor-made financing solutions.	Investment loans M&A financing Bridge loans Working capital facilities Accounts receivables loans Securities financing	 <p>27%</p> <p>NOKm 5,076</p>	NOKm 20 - 50 2 - 5 yrs
SHIPPING	Norwegian ship owners, family offices and the investment project market.	First priority financing	 <p>7%</p> <p>NOKm 1,431</p>	USDm 10 - 20 3 - 5 yrs

EXPOSURE PER BUSINESS AREA (NOKm)



SHIPPING

Development in exposure (NOKm)



- Annual growth of 20 % since the end of 2018.
- Pareto Bank is well positioned in its target market: small and medium-sized shipowners and the Norwegian project market.
- Competitive advantage: an efficient credit process, short decision lines, quick feedback, a specialized team and a high level of personal service.
- Ticket size is normally MUS\$ 10 to 30 for corporate loans and MUS\$ 5 to 20 for project loans.
- Pareto Bank has never made any losses on shipping loans.
- After a long period of weak market conditions, overcapacity in the shipping sector has been absorbed, and utilization looks promising for most segments.

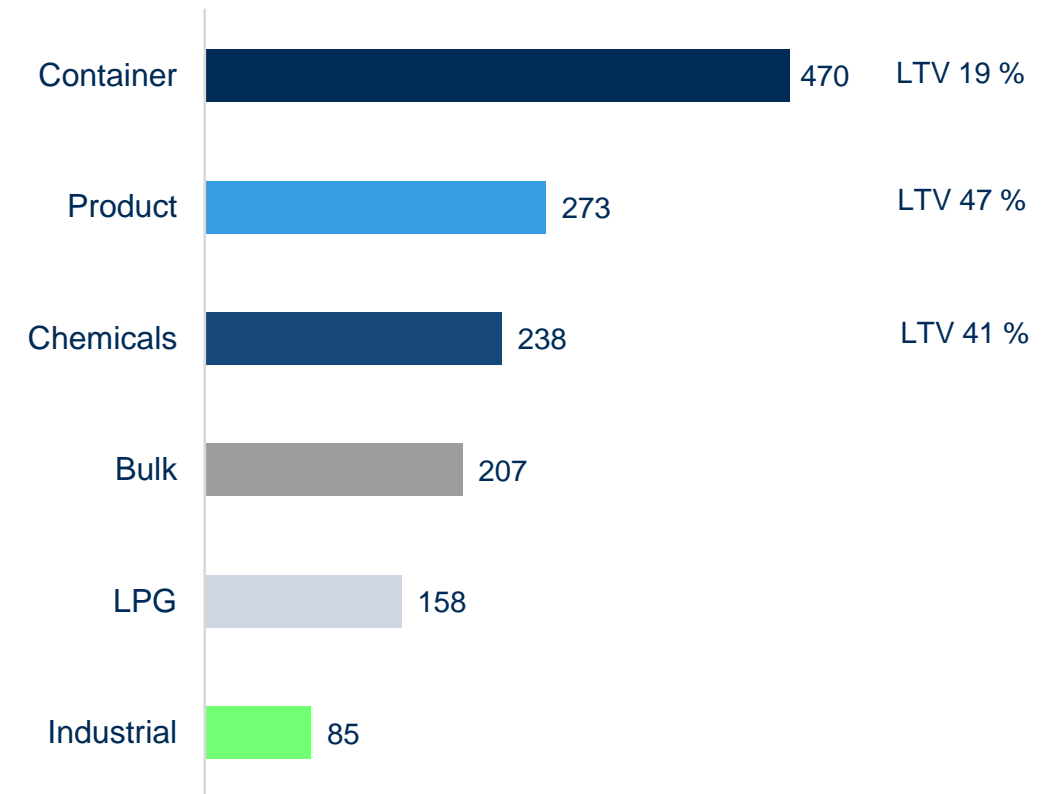
SHIPPING

Credit update

- 20 customers* and 37 vessels.
- Largest exposure USD 36.4m and average commitment size USD 8.1m.
- Corporate loans make up 42 % of the exposure, the remaining 58 % are loans to investment projects.
- Average weighted LTV of the portfolio is 34 %.
- Only shipping, no offshore exposure.
- Stable credit quality.

Exposure (NOKm)

Total NOK 1,431m



SHIPPING

Credit policy

- Focus on Norwegian shipowners, family offices and project finance brokers.
- Shipping is cyclical, and an in-depth understanding of relevant market drivers and risk factors is crucial. Customer competence and track record are also important factors to consider.
- Loan-to-value at drawdown is maximum 55 % or lower if entry point is at the higher end of the cycle or the earnings visibility is low.
- Repayment schedules are based on conservative assumptions for economic lifetime and scrap value, as well as the entry point of the cycle.
- Quality of the vessels, fleet size and liquidity in the second-hand markets differ between segments. Key focus is on standardized vessels built at quality yards with competitive cargo intake and bunker consumption.
- When financing niche tonnage, emphasis is on a strong balance sheet and good earnings visibility.



Julie Jacobsen, Ship financing

SHIPPING

Niche bank & niche segment



Alf Andersen, Oslo Bulk & Petter Flo-Bakke, Pareto Bank

Oslo Bulk has been a customer of Pareto Bank since the bank started up ship financing in 2012. Today, Pareto Bank is one of the shipping company's main banks.

"Pareto Bank's understanding of the MPP shipping segment has been of great value to Oslo Bulk. In a specialized segment, in-depth analysis is required to assess credit risks accurately."

- Alf Andersen, Oslo Bulk

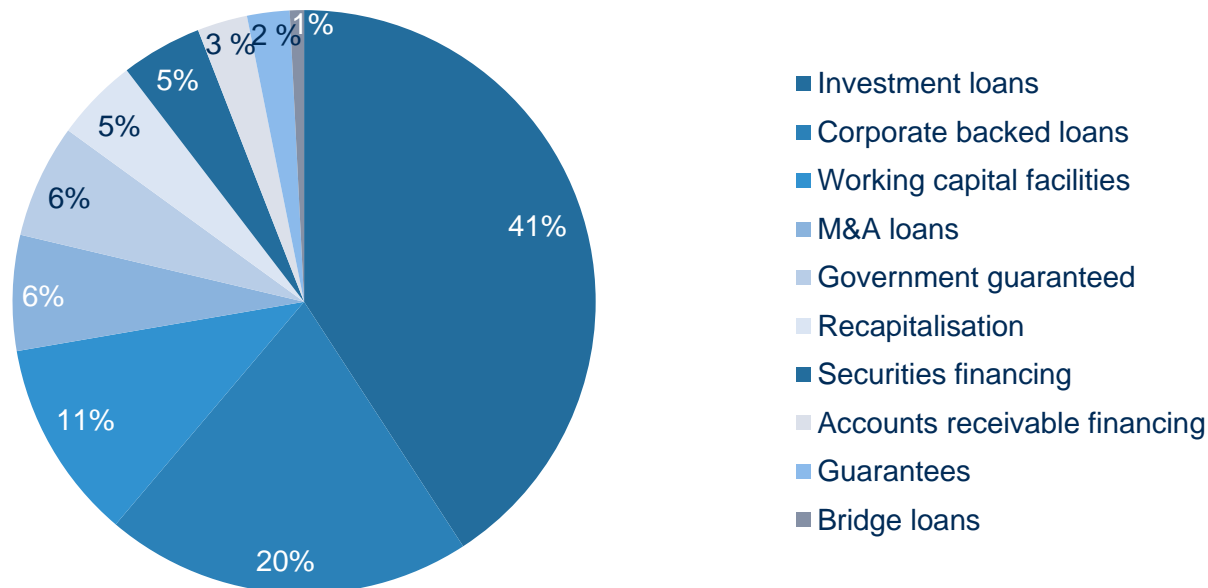


CORPORATE

Diversified exposure

Total NOK 5,076m

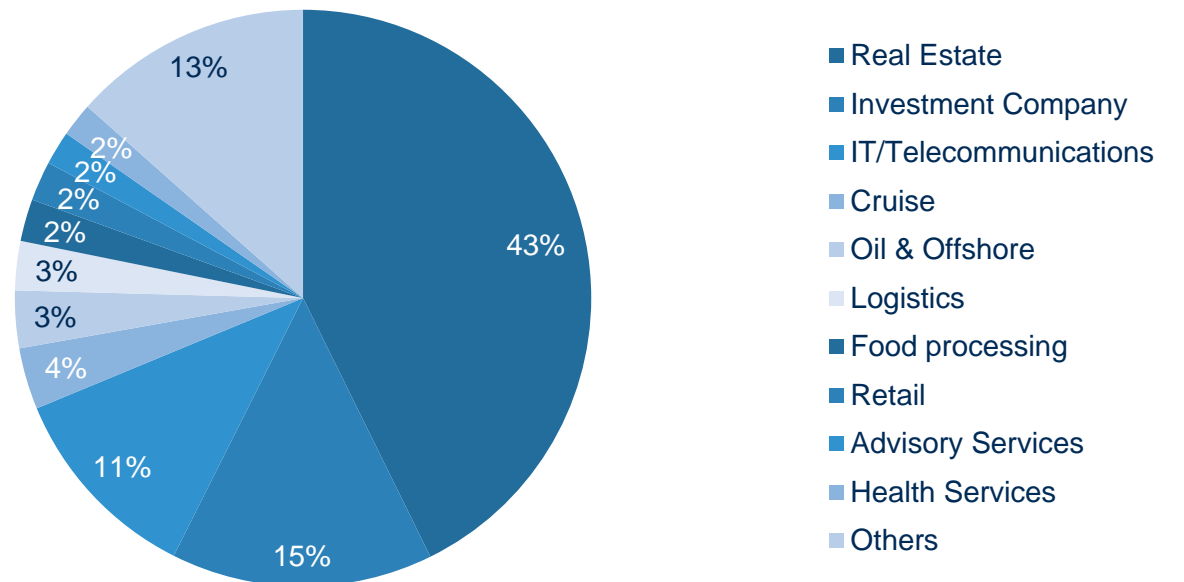
- 91 consolidated corporate customers with average commitment of NOK 51.7m.
- 12 consolidated securities financing customers with average commitment of NOK 19.0m.
- 22 consolidated receivables financing customers with average commitment of NOK 6.4m.



Credit update

Total NOK 5,076m

- Credit quality is in general good.
- A few customers hit by new Covid-19 restrictions.
- The state-guaranteed SME loan program was reopened in Q4-2021. No new loans were granted.



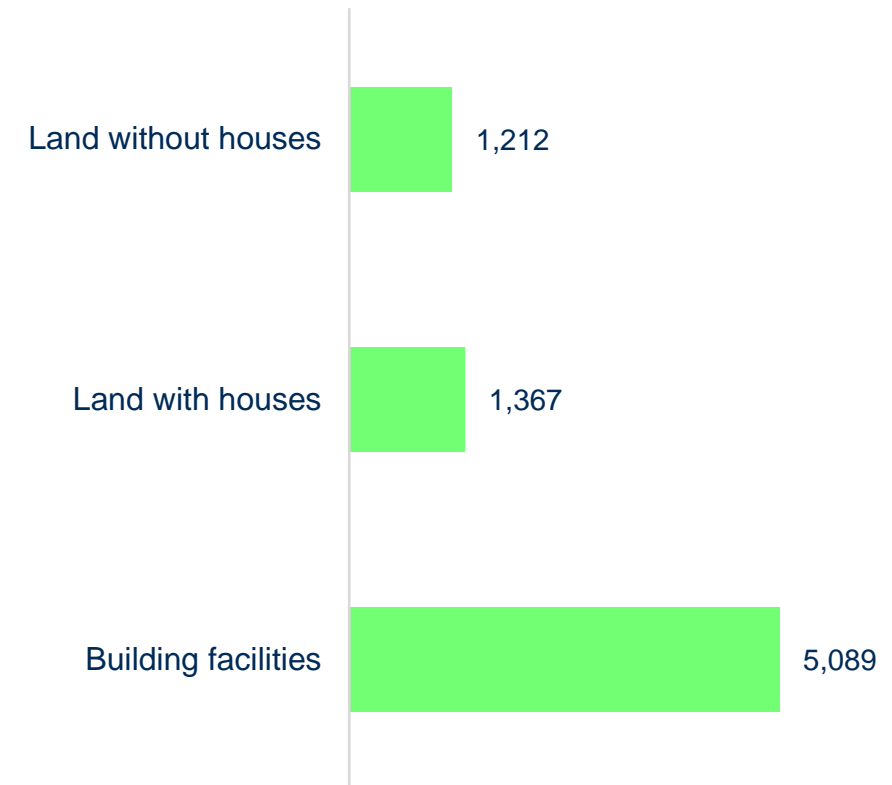
RESIDENTIAL PROPERTY

Credit update

- 157 customers with average commitment of NOK 49m.
- 33 % residential exposure in Oslo and 47 % in Viken.
- Stable credit quality.

Residential property exposure (NOKm)

Total NOK 7,668m



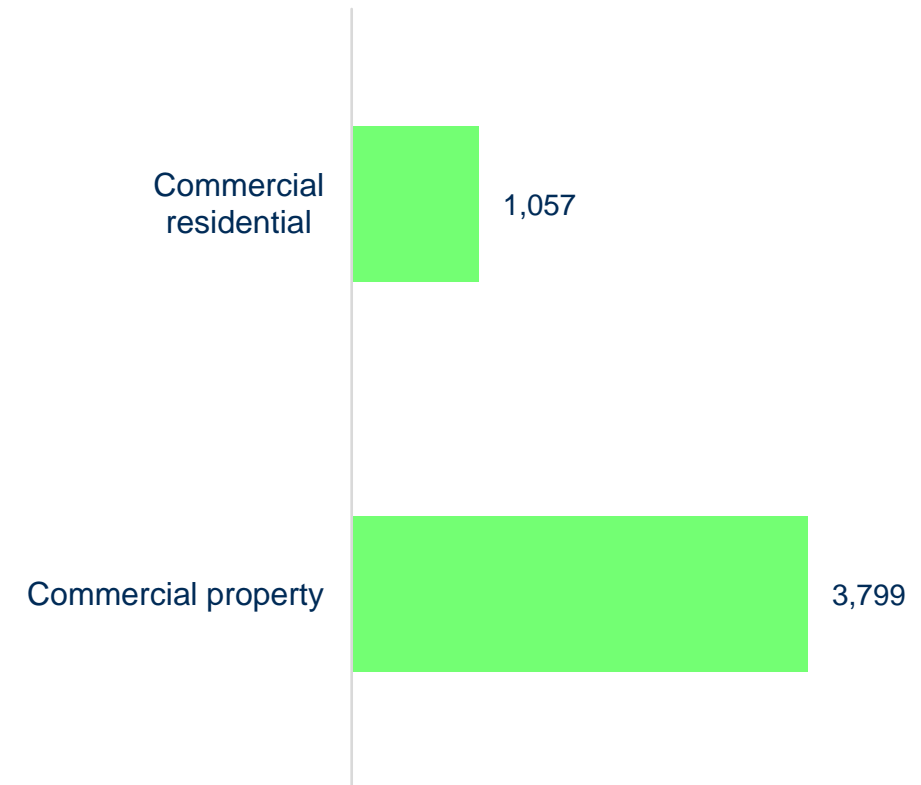
COMMERCIAL PROPERTY

Credit update

- 98 customers with average commitment of NOK 50m.
- 33 % commercial property exposure in Oslo and 26 % in Viken.
- 78 % of commercial property exposure is long-term cash-flow based, while the remainder is development.
- Development projects normally have long-term rental agreements in place.
- Commercial residential exposure consists of completed residential units.
- Stable credit quality.

Commercial property exposure (NOKm)

Total NOK 4,856m

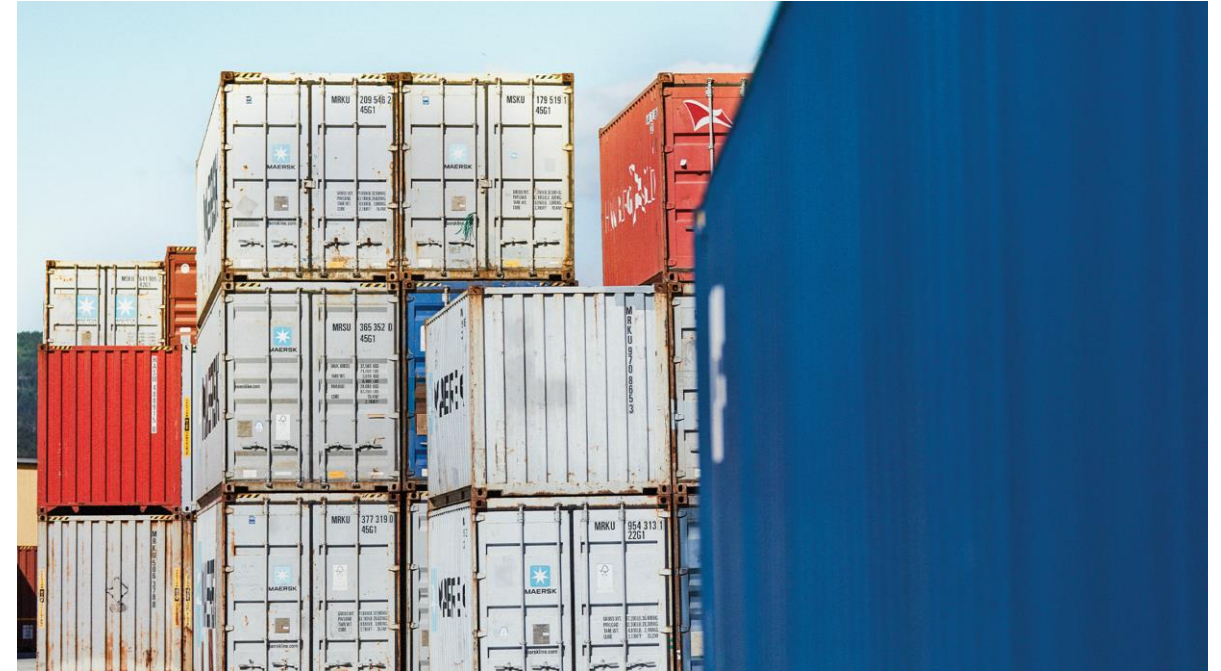


Highlights
Financials
Business Areas
Outlook & Ambitions

MARKET OUTLOOK

Shipping

- Exceptional high container rates are expected to continue in 2022 due to high freight demand and congestion. Newbuild deliveries expected to accelerate significantly long term and reduce fleet utilization and rates.
- Dry bulk fleet utilization is expected to gradually pick up due to rebound in steel related trades and increased grain volumes. With a record low orderbook, the outlook is positive.
- The spread of omicron does not seem to have the same impact on travel restrictions as other variants, and a robust oil demand growth is expected for 2022. With normalized oil stocks and a gradual increase in OPEC+ production, the tanker market is expected to move towards healthy utilization in second half of 2022.
- A positive development in other shipping segments due to strong global GDP growth, a positive influence from the container market and in general, low supply growth.



A soft start after healthy growth in 2022.

MARKET OUTLOOK

Corporate

- Economic growth to continue in 2022 due to the reopening, but at a lower pace than in 2021.
- Rising inflation is a general concern as corporate margins and profitability may come under pressure.
- The growth potential is good as Pareto Bank has a small share of a large corporate lending space.



Flat lending volume expected in Q1-22 following strong growth in Q4-21. Volume growth expected to pick up in Q2-22.

MARKET OUTLOOK

Real estate

Residential property

- Increase in interest rates, stable supply of new housing and low population growth will lead to moderate growth in residential property prices in 2022.
- The Oslo market may be hit harder by higher interest rates than other cities due to the high price level on housing and lower population growth.
- Good building activity and new-build sales expected to continue in Oslo and Viken. Buyers that cannot afford Oslo acquire housing in surrounding regions.

Commercial property

- A balanced office market going forward. Stable demand and vacancy rates despite increase in the use of home offices.
- The logistics market is particularly strong showing record-low vacancy and record-high property values. Change in consumer behaviour combined with low interest rates and a hunt for yield continue to drive the market.



Expecting good real estate lending growth in Q1-22 due to high activity and deal flow in the end of Q4-21.

LONG-TERM AMBITIONS

	Long-term ambition	Actual 2021	
RETURN ON EQUITY	14.0 %	14.0 %	<p>Profitability in line with ambition in 2021.</p> <p>The bank maintains its long-term ambition of delivering 14 % return on equity after tax to shareholders.</p>
DIVIDEND POLICY	50 % or more	49.4 % for 2021	<p>The Board has proposed a dividend of NOK 3.50 per share of the 2021 profit.</p> <p>Proposed dividend in line with policy.</p>

APPENDIX

LARGEST SHAREHOLDERS

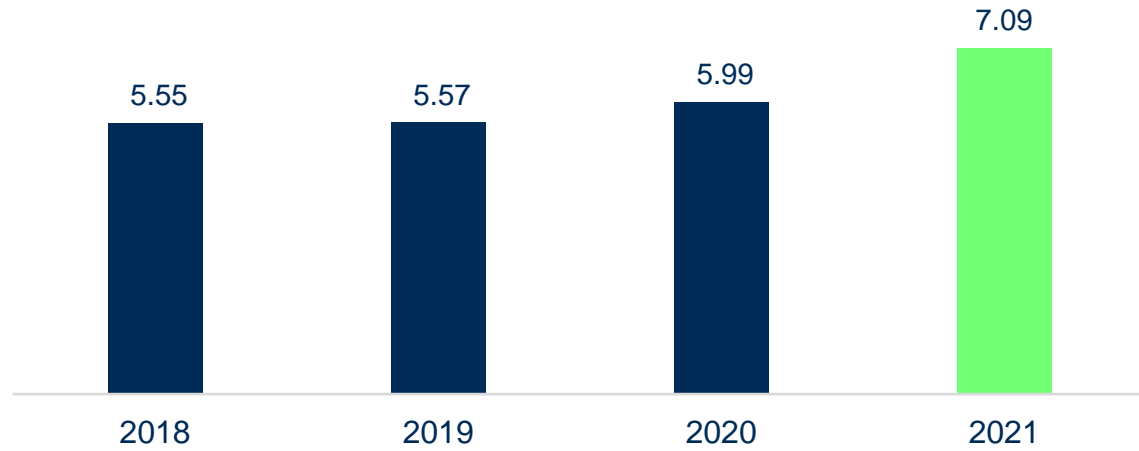
31 December 2021

	Name	Shares	% total
1	Pareto AS	13,970,346	20.00%
2	Société Générale	6,943,049	9.94%
3	Hjellegjerde Invest AS	2,800,000	4.01%
4	Landkreditt Utbytte	2,500,000	3.58%
5	Rune Bentsen AS	1,945,491	2.79%
6	Svemorka Holding AS	1,928,683	2.76%
7	Kolberg Motors AS	1,725,000	2.47%
8	Verdipapirfondet Holberg Norge	1,350,000	1.93%
9	AWC AS	1,300,000	1.86%
10	Salt Value AS	1,297,579	1.86%
11	Dragesund Invest AS	1,146,564	1.64%
12	OM Holding AS	1,140,351	1.63%
13	K11 Investor AS	1,000,000	1.43%
14	Lombard Int Assurance S.A.	900,820	1.29%
15	Profond AS	750,259	1.07%
16	Catilina Invest AS	734,131	1.05%
17	Hausta Investor AS	714,230	1.02%
18	Belvedere AS	704,116	1.01%
19	Castel AS	640,000	0.92%
20	Danske Invest Norge Vekst	575,000	0.82%
	Sum TOP 20	44,065,619	63.08%
	Other shareholders	25,786,111	36.92%
	Total	69,851,730	100.00%

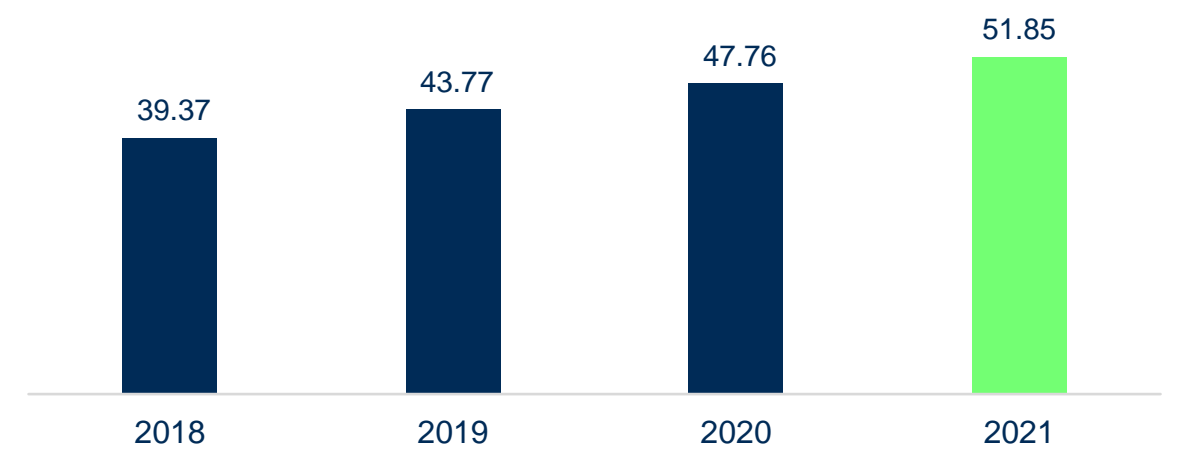
- The Company has 69,851,730 shares outstanding. One class of shares where each share carries one voting right.
- Diversified investor base with 3,201 shareholders.
- The Top 10 and 20 investors hold 51 % and 63 % of the shares respectively.
- Employees in Pareto Bank own 1.6 %.
- Top Management in the Pareto Group owns 3.0 %.
- All employees are covered by an annual bonus compensation scheme settled primarily in Pareto Bank shares.

THE SHARE

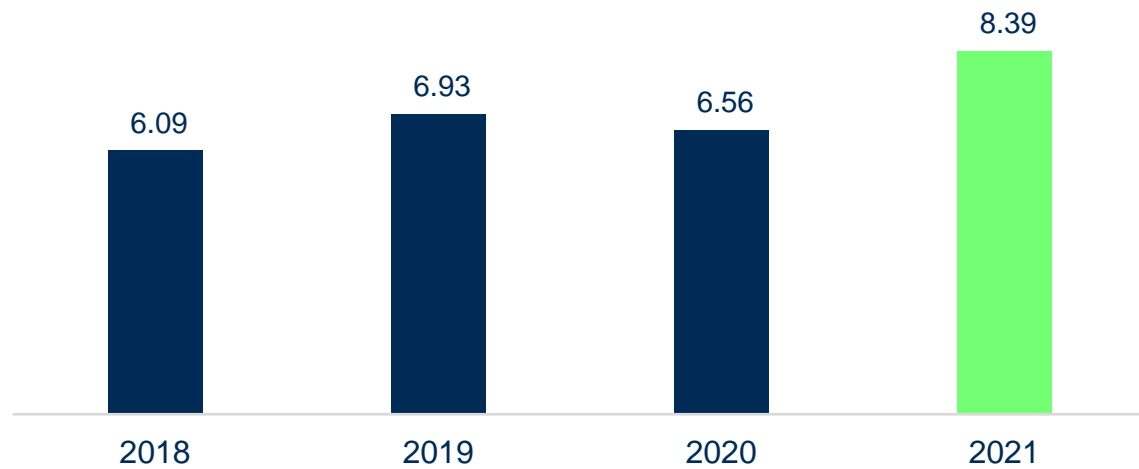
Earnings per share (NOK)



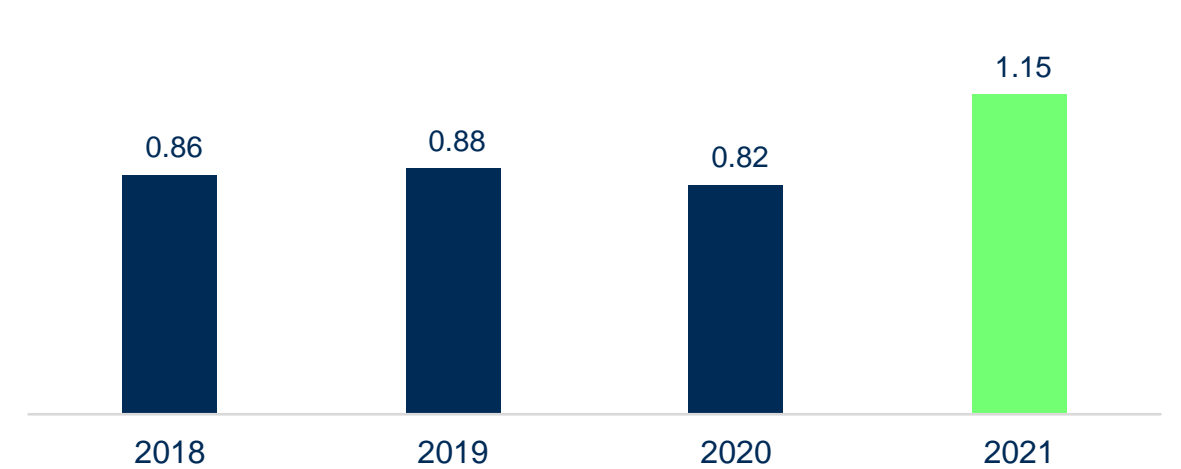
Book equity per share (NOK)



Price / Earnings



Price / Book



QUARTERLY INCOME STATEMENT

P&L (NOKm)

	Q4-21	Q3-21	Q2-21	Q1-21	Q4-20
Net interest income	214.5	210.3	213.3	200.2	191.0
Net other operating income	3.0	5.7	-1.4	4.9	13.7
Total net income	217.6	216.0	212.0	205.1	204.6
Total operating expenses	40.1	40.4	41.0	40.9	40.9
Operating profit before impairments and losses	177.5	175.6	171.0	164.2	163.7
Impairments and losses on loans and guarantees	11.1	6.7	-3.4	5.8	-1.5
Pre-tax operating profit	166.4	168.9	174.3	158.4	165.2
Tax expense	40.4	41.2	43.0	39.0	38.7
Profit for the period	126.0	127.8	131.3	119.4	126.5
Earnings per share (NOK)	1.77	1.80	1.85	1.68	1.77
Return on equity	13.5 %	13.8 %	14.7 %	13.8 %	14.8 %
Cost/income ratio	18.4 %	18.7 %	19.4 %	19.9 %	20.0 %

QUARTERLY BALANCE SHEET

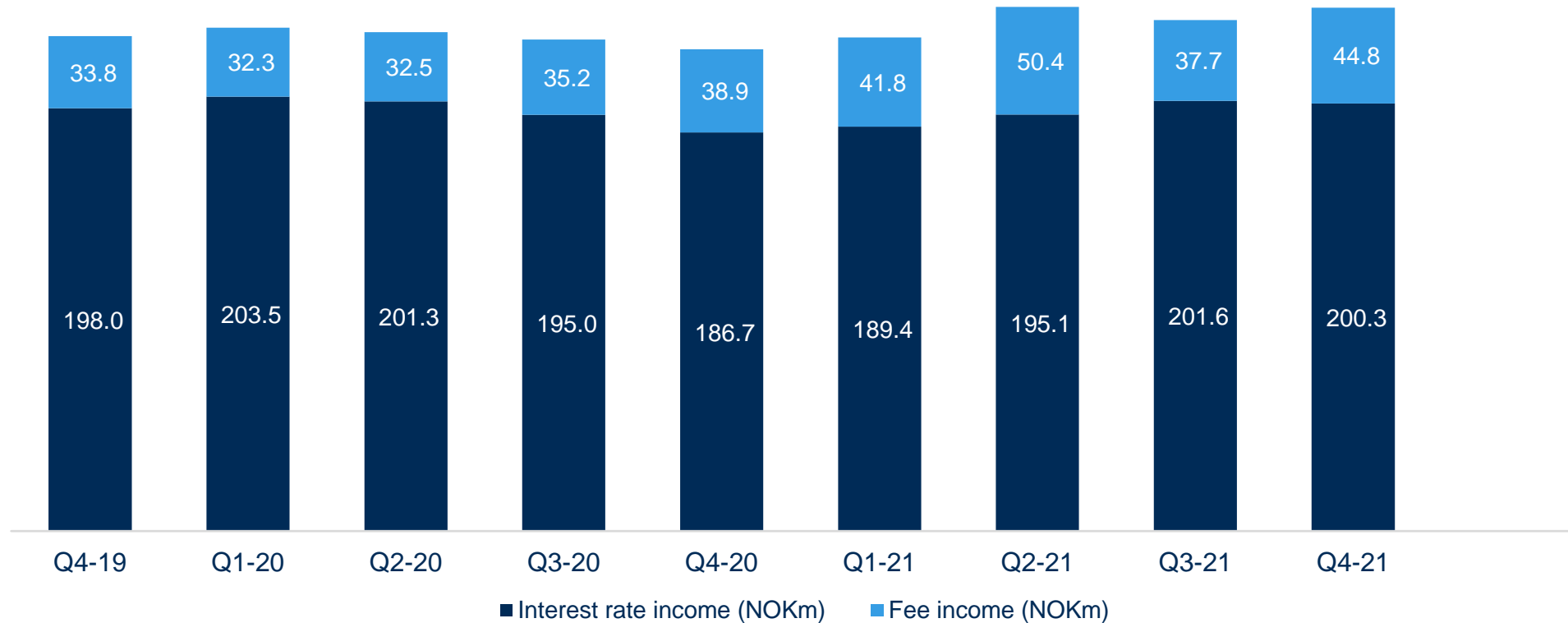
BS (NOKm)

	Q4-21	Q3-21	Q2-21	Q1-21	Q4-20
Loans to credit institutions	907	1,766	1,750	273	1,081
Loans to customers	15,805	15,187	15,310	15,089	14,661
Bonds and other securities	3,106	3,014	2,734	3,235	3,612
Shareholdings in associated companies	23	22	22	26	26
Other assets	144	114	104	124	98
Total assets	19,985	20,103	19,920	18,747	19,478
Deposits from customers and institutions	9,515	9,965	9,960	9,792	10,499
Senior securities issued	6,038	5,645	5,645	4,770	4,935
Other liabilities	340	296	245	261	237
Tier 2 subordinated securities issued	270	289	288	270	270
Additional tier 1 capital	200	200	200	200	200
Other equity	3,622	3,708	3,582	3,453	3,336
Total liabilities and equity	19,985	20,103	19,920	18,747	19,478

INTEREST RATE AND FEE INCOME

Income from interest rates and fees on lending to customers (NOKm)

Comments

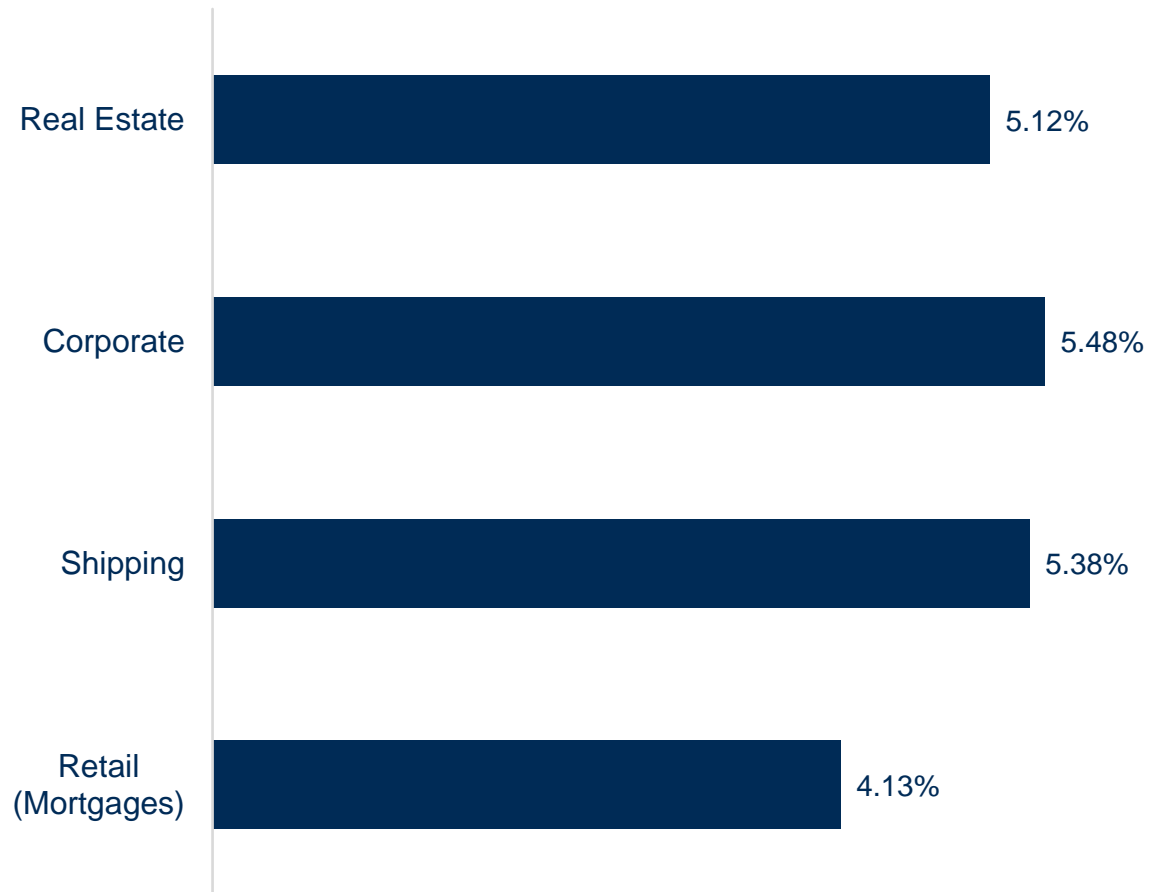


- Fee income on lending includes arrangement fees and provisions on credit lines.
- Fee income will vary with activity and lending product, and is accrued over the loan maturity.

MARGINS AND INTEREST CONTRIBUTION

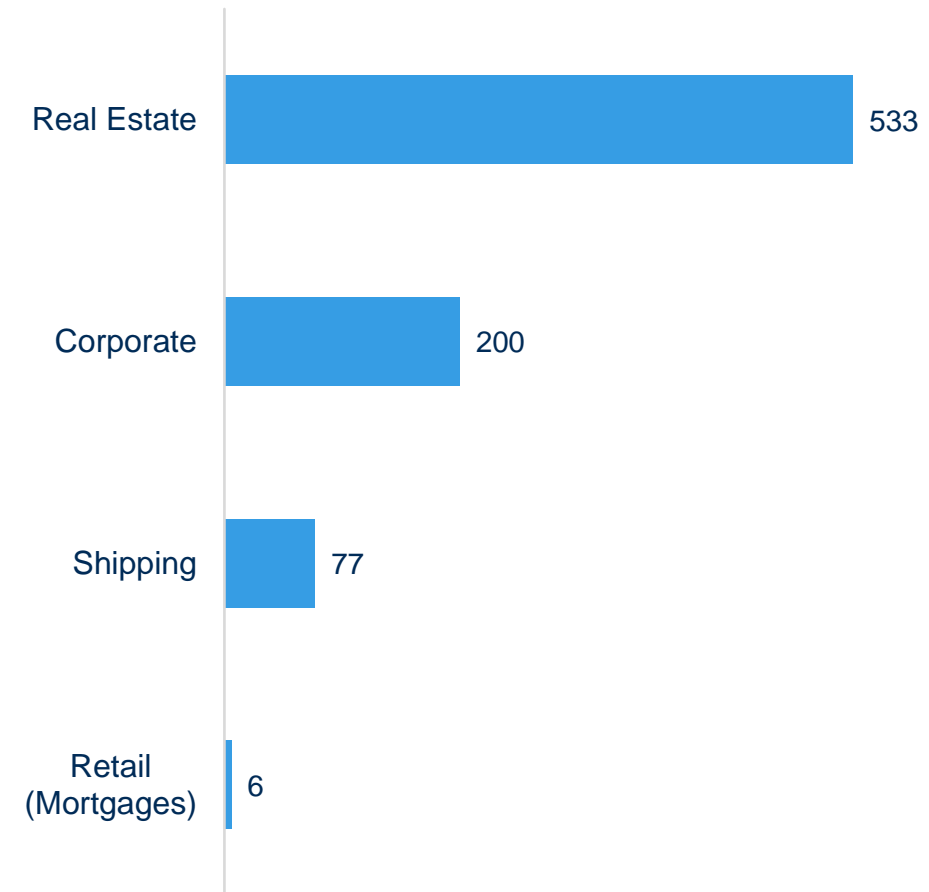
Margins per business area

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



Interest contribution per business area

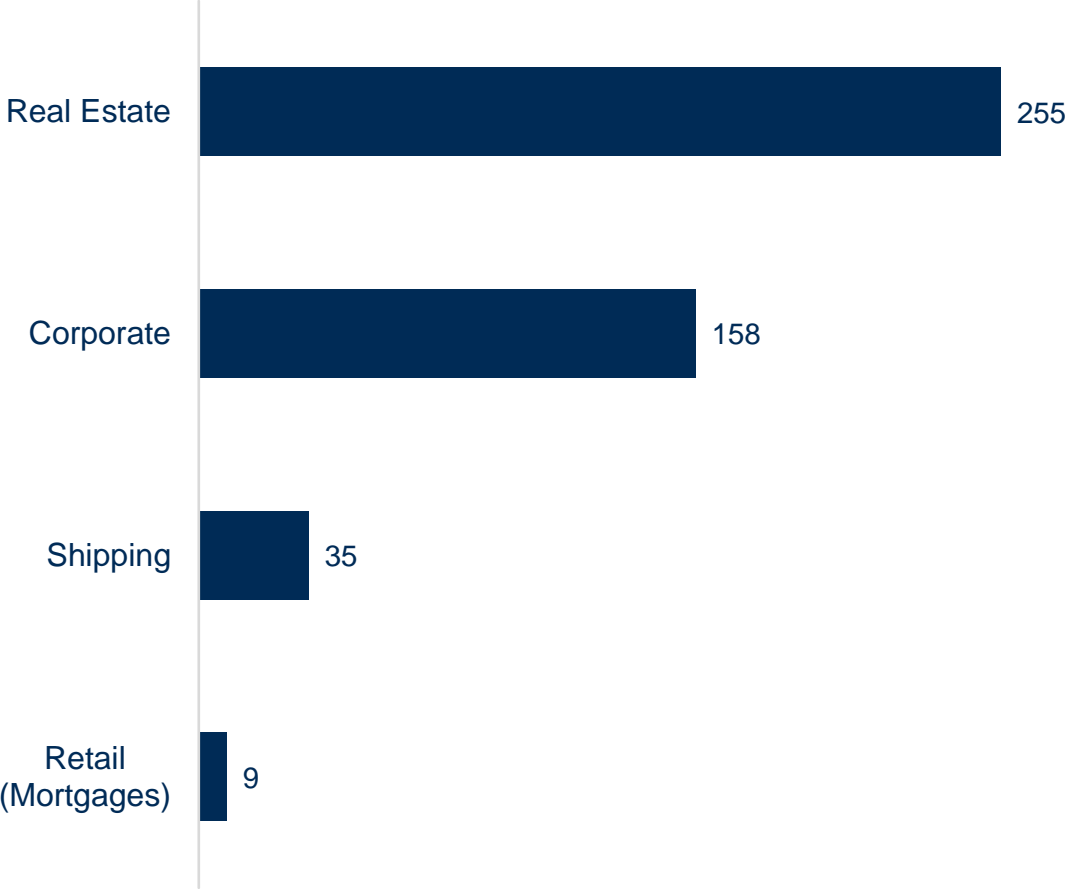
NOKm, estimated interest contribution including commissions, excluding front and back-end fees over 3M Nibor or similar rate



Note segment margins are estimated on the basis of terms of existing loans and will therefore differ from reported total lending margins. Loans granted under the state guaranteed SMB loan program are excluded from this analysis.

NUMBER OF CUSTOMERS

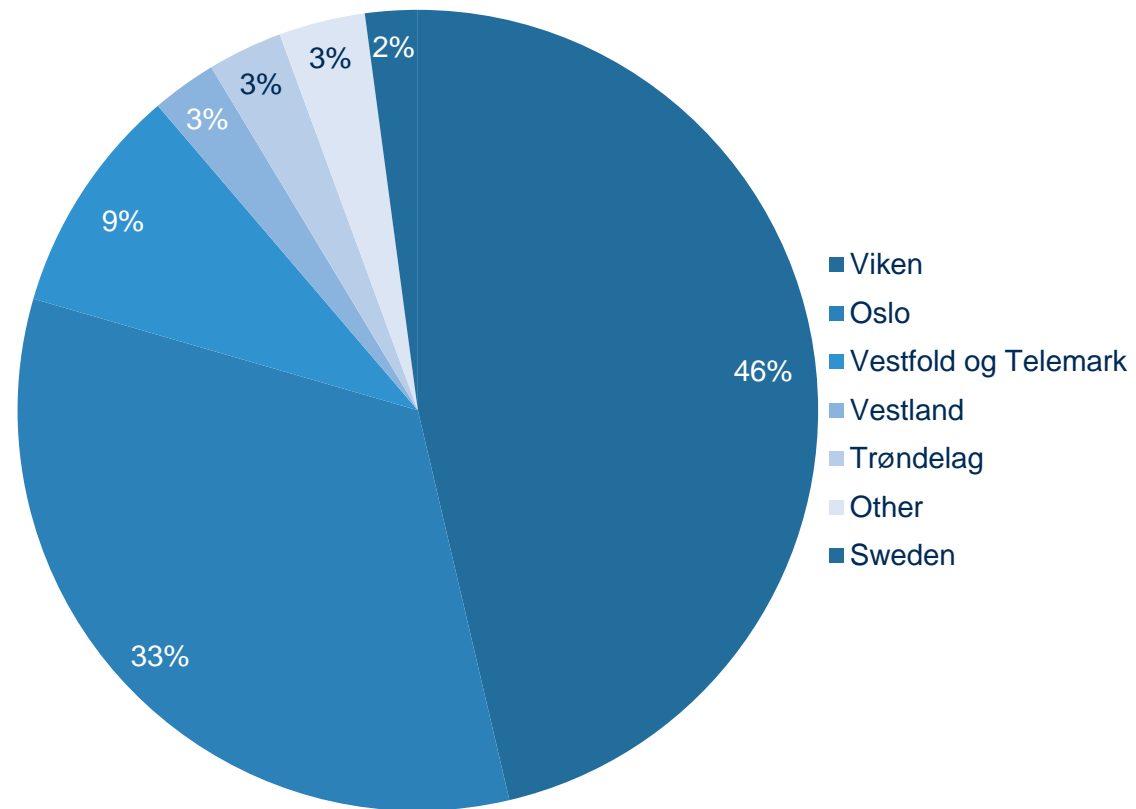
Per business area



REAL ESTATE EXPOSURE

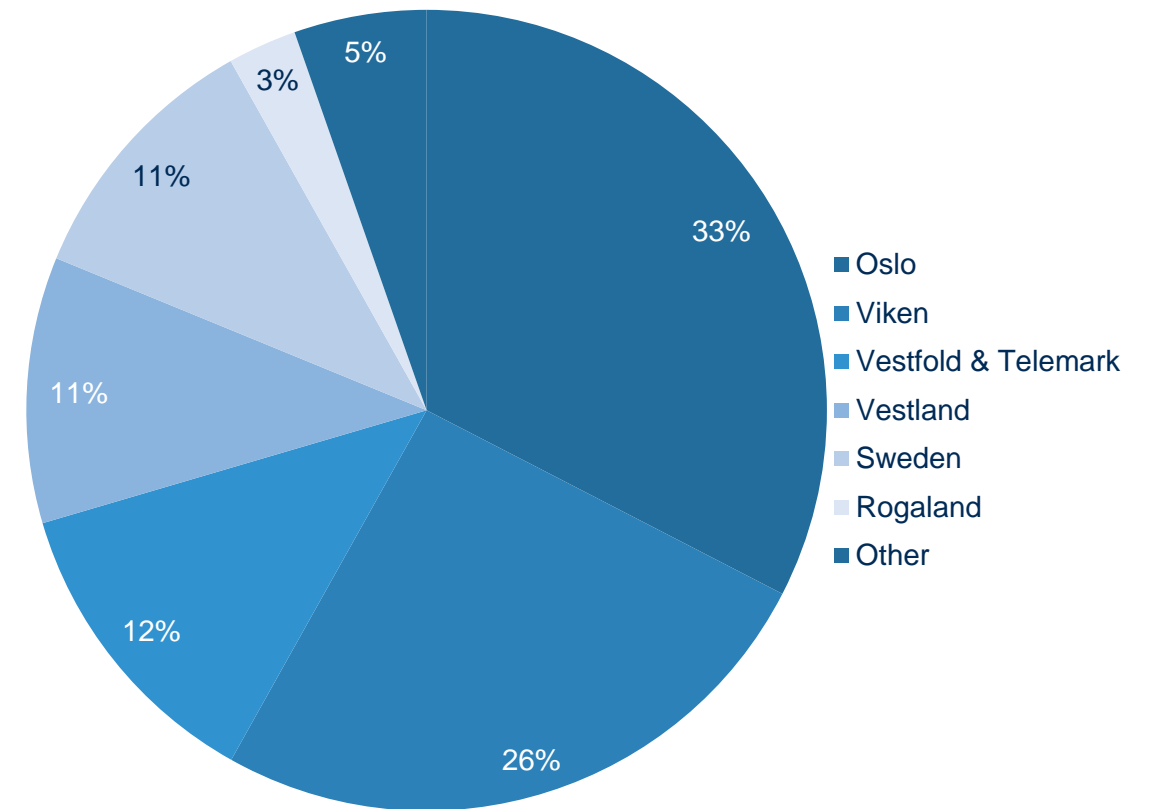
Geographical residential property exposure

Total NOK 8,725m*



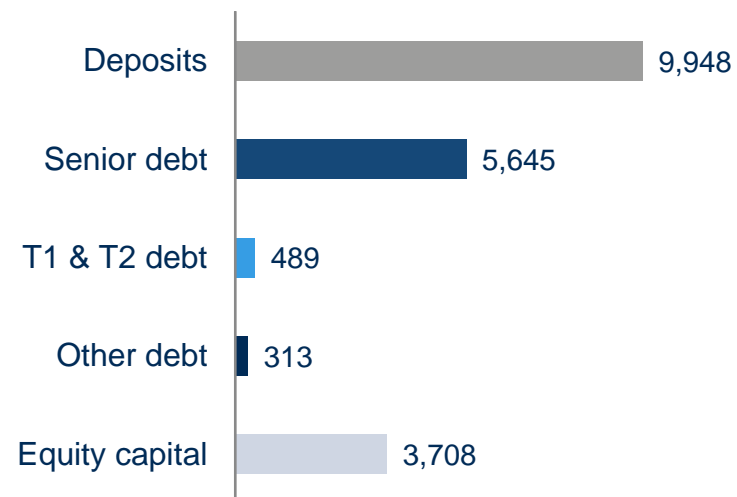
Geographical commercial property exposure

Total NOK 3,799m*



FUNDING

Sources (NOKm)

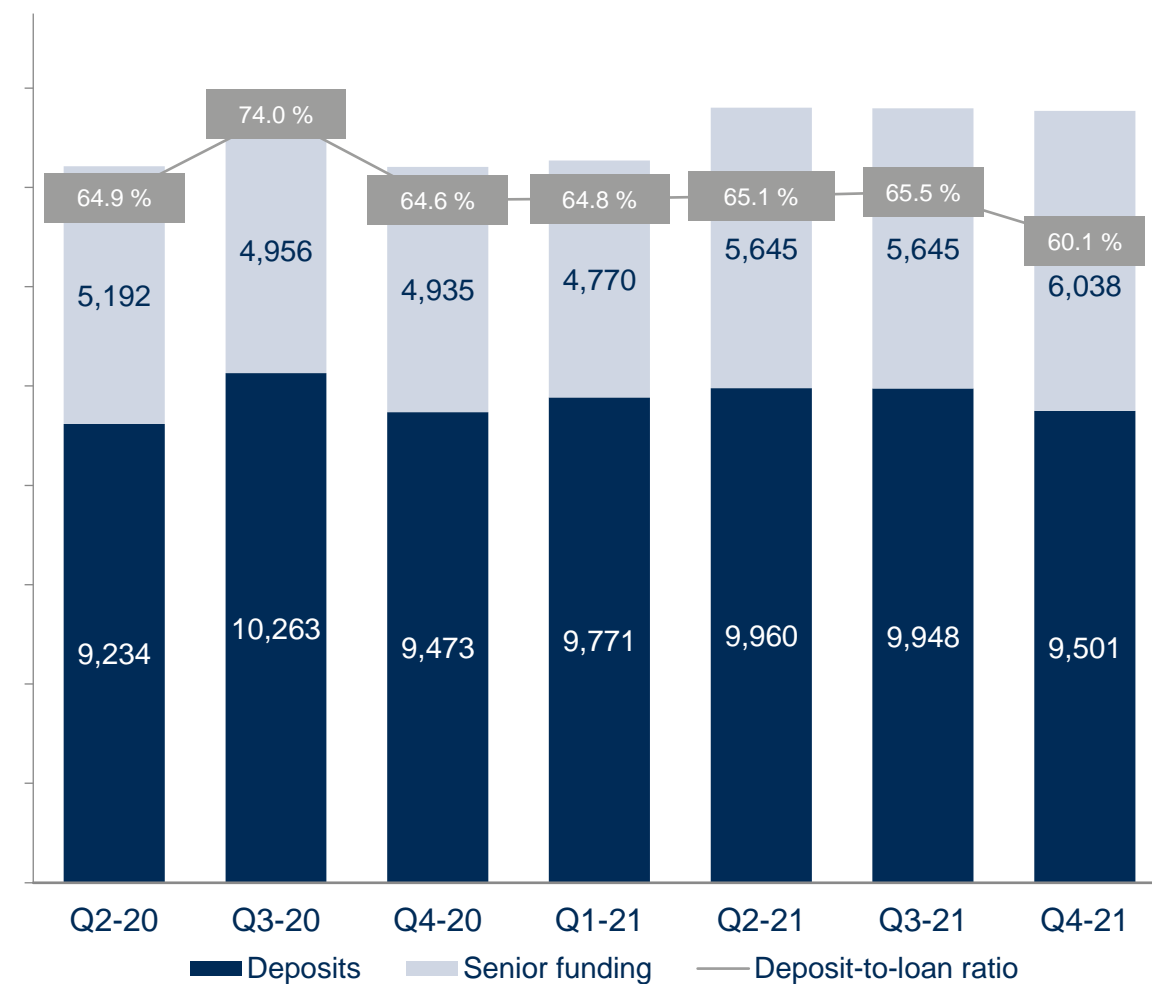


Key ratios

Deposit with liquidity restrictions	46 %
Corporate deposits	71 %
Deposit-to-loan ratio	61 %
NSFR	157 %
LCR	129 %

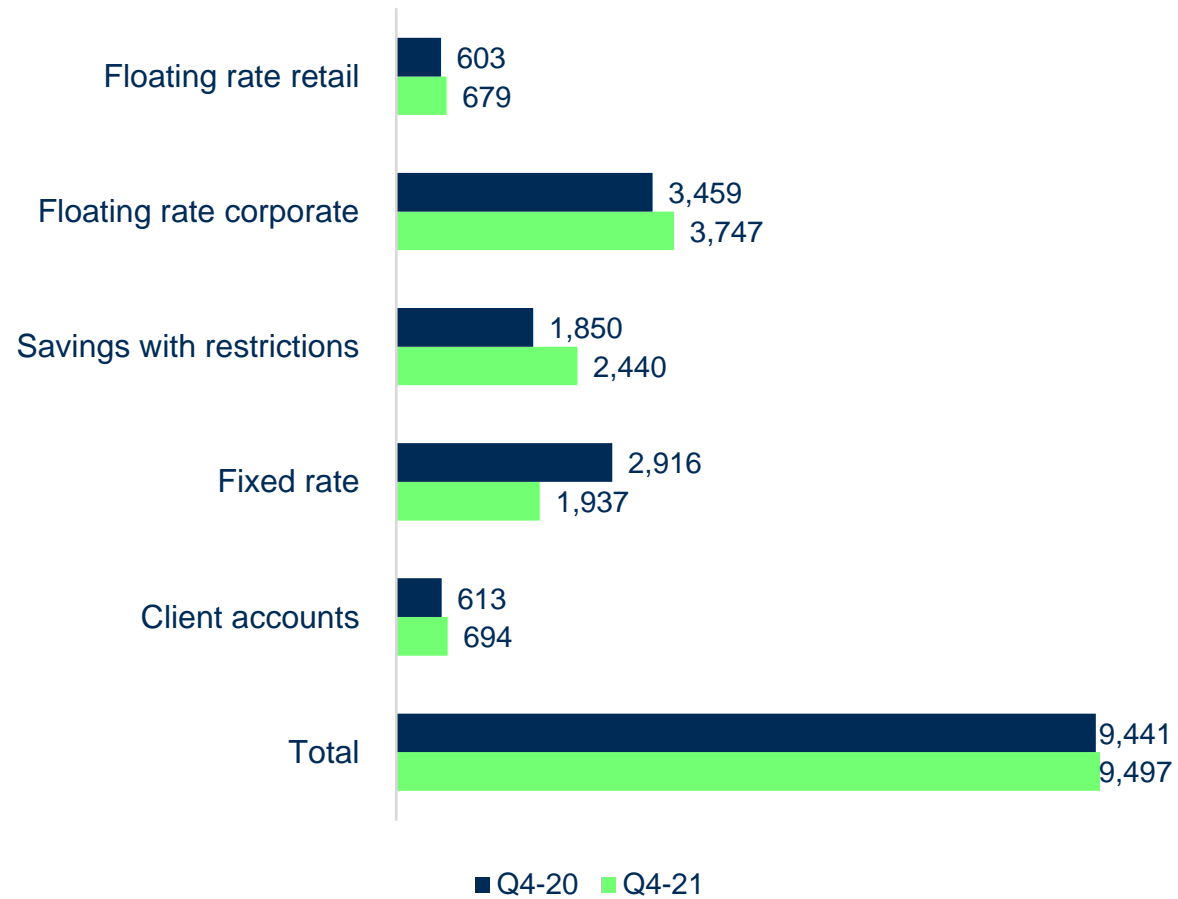
Deposits & senior debt

NOKm,
Percent customer deposits of net lending to customers

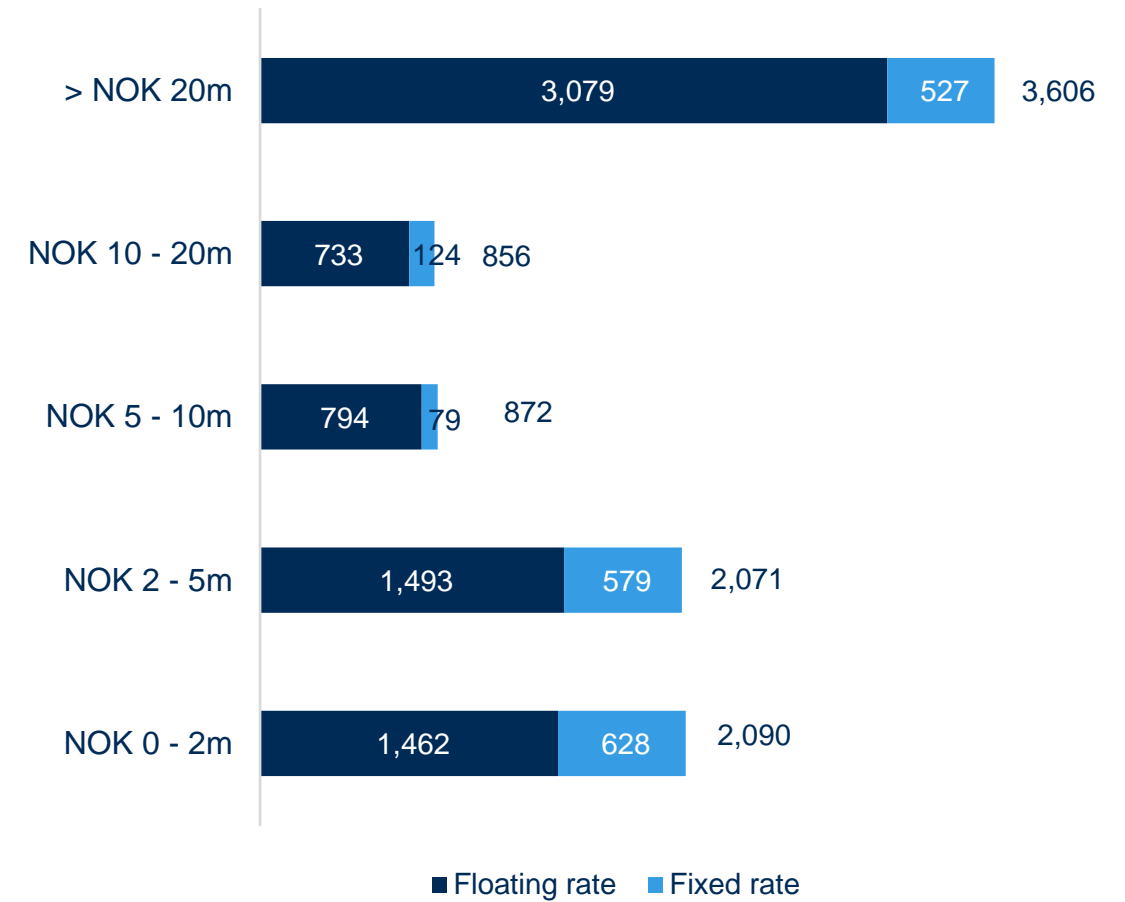


CUSTOMER DEPOSITS

Deposits by product (NOKm)

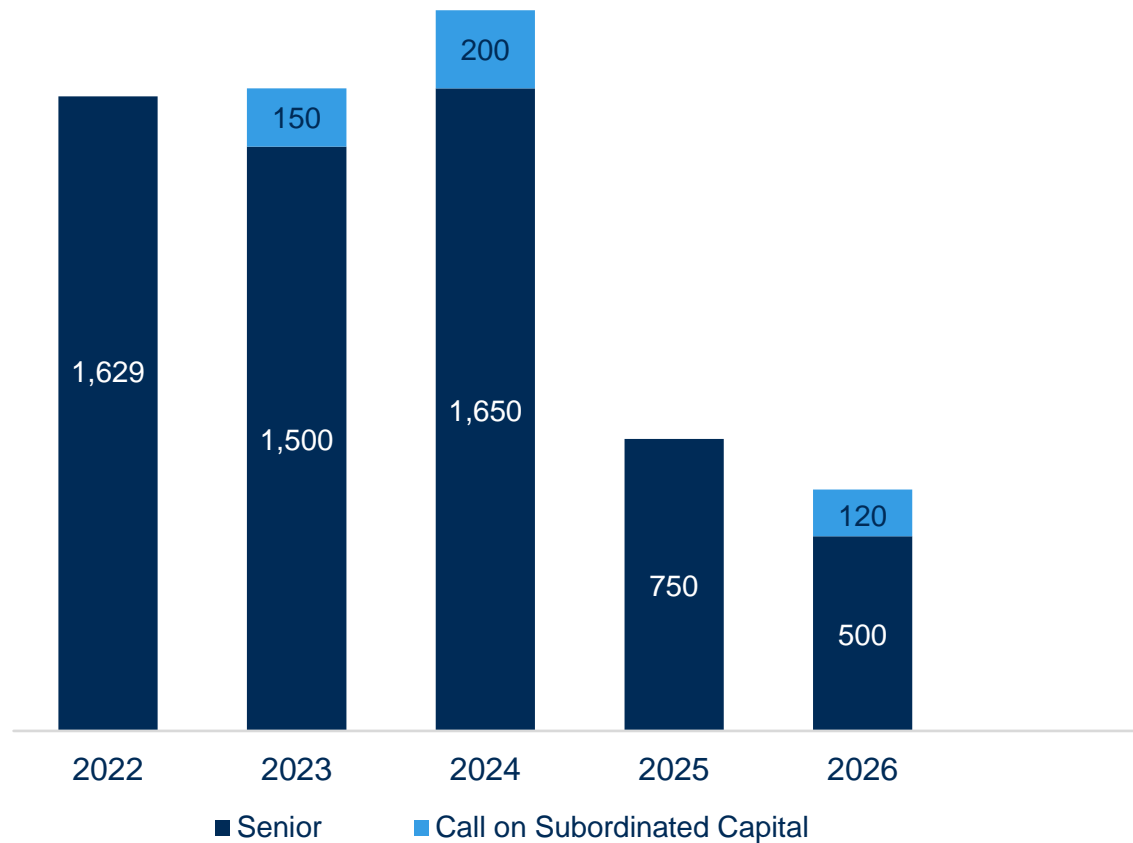


Deposits by size (NOKm)

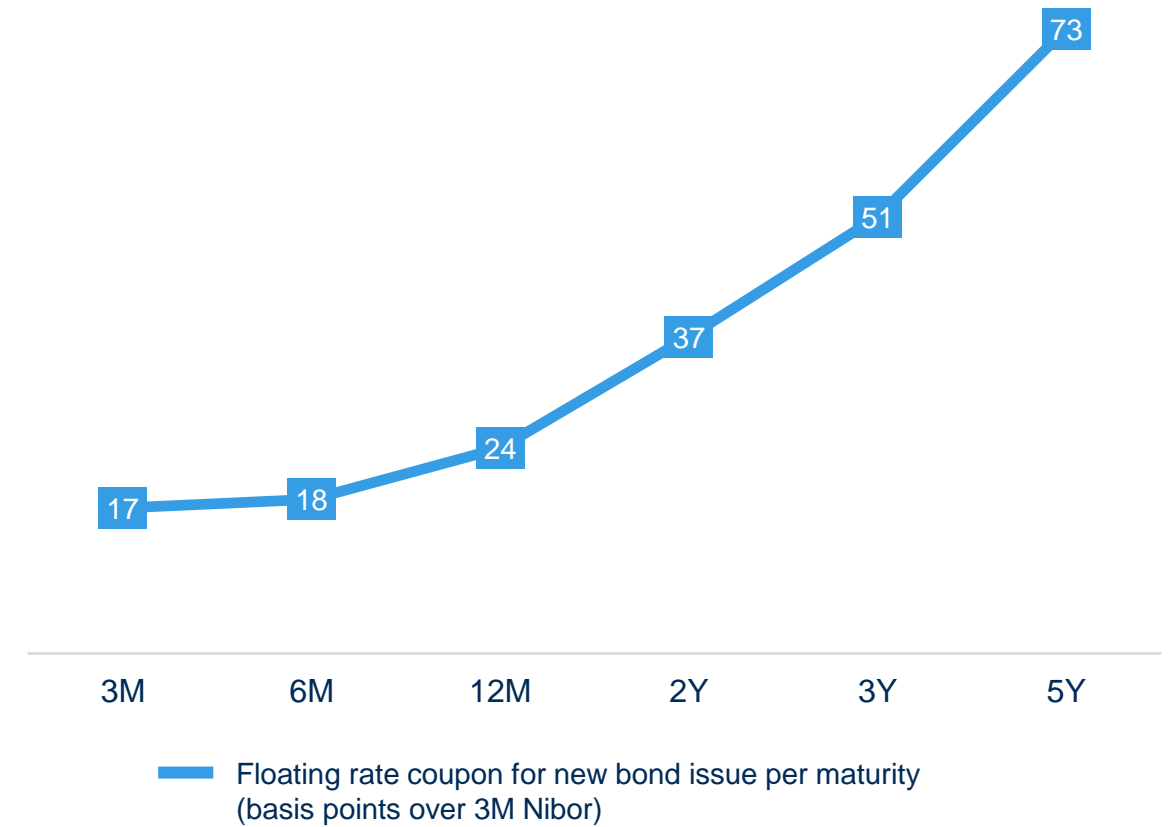


MARKET FUNDING

Market funding maturities (NOKm) *

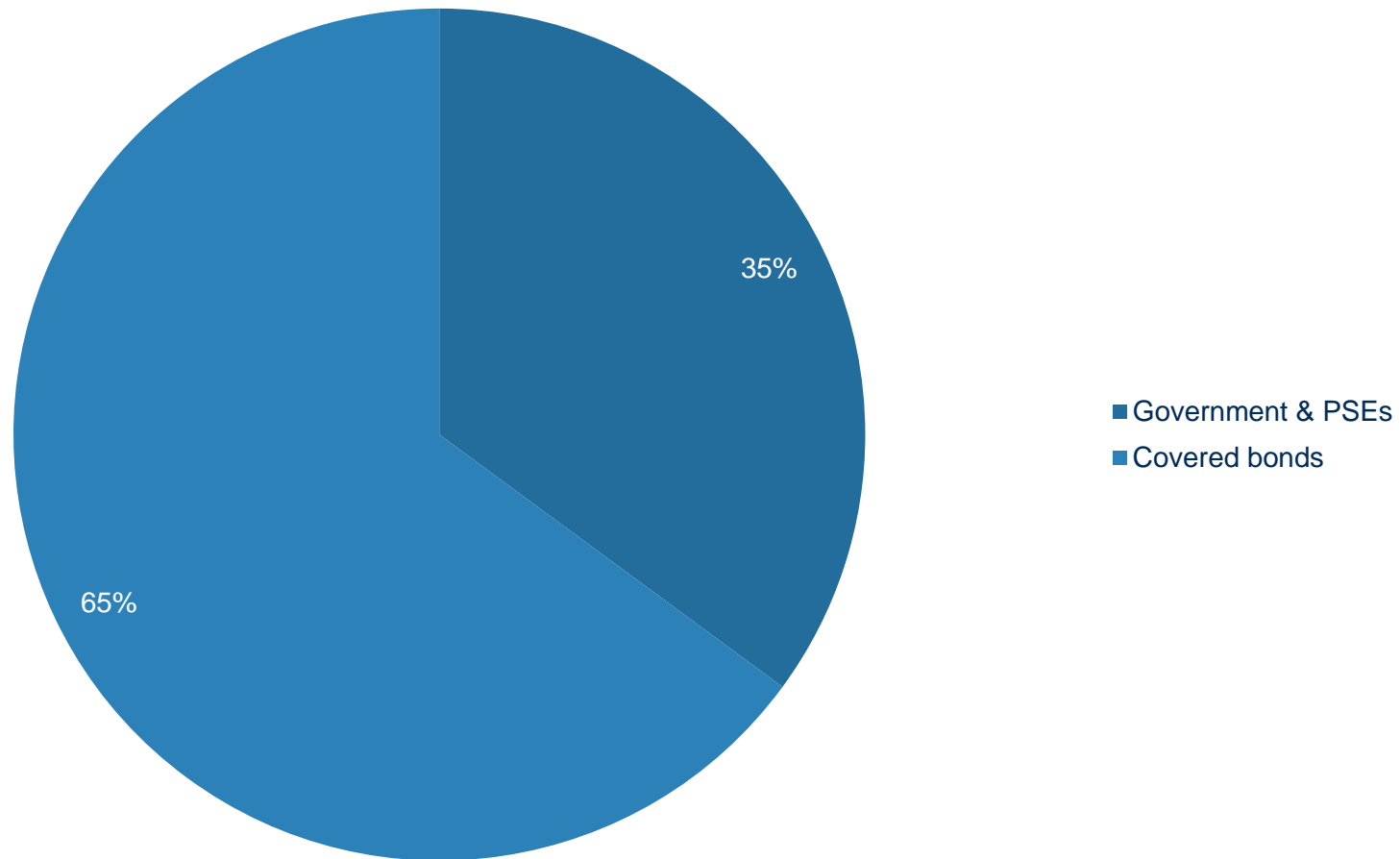


Cost of new market funding



SURPLUS LIQUIDITY

Bond portfolio

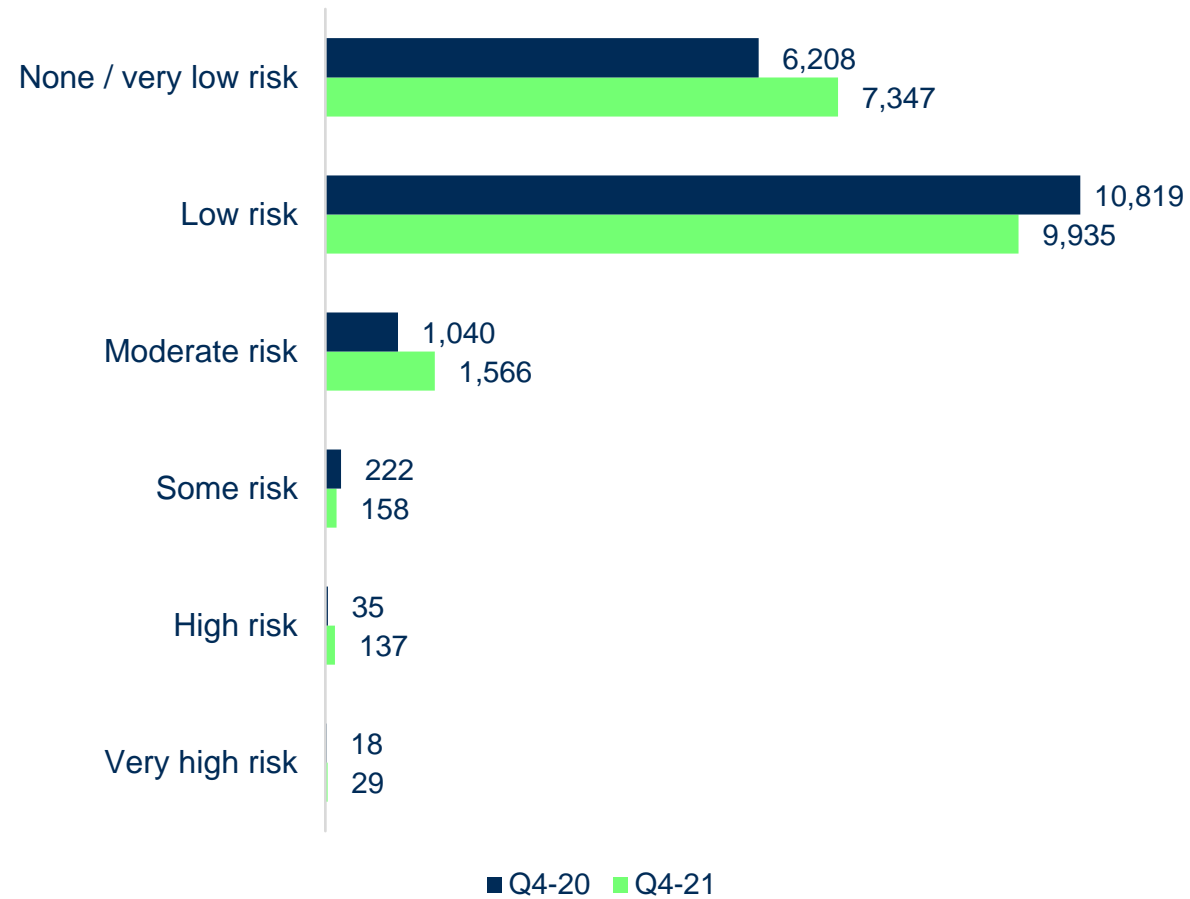


Comments

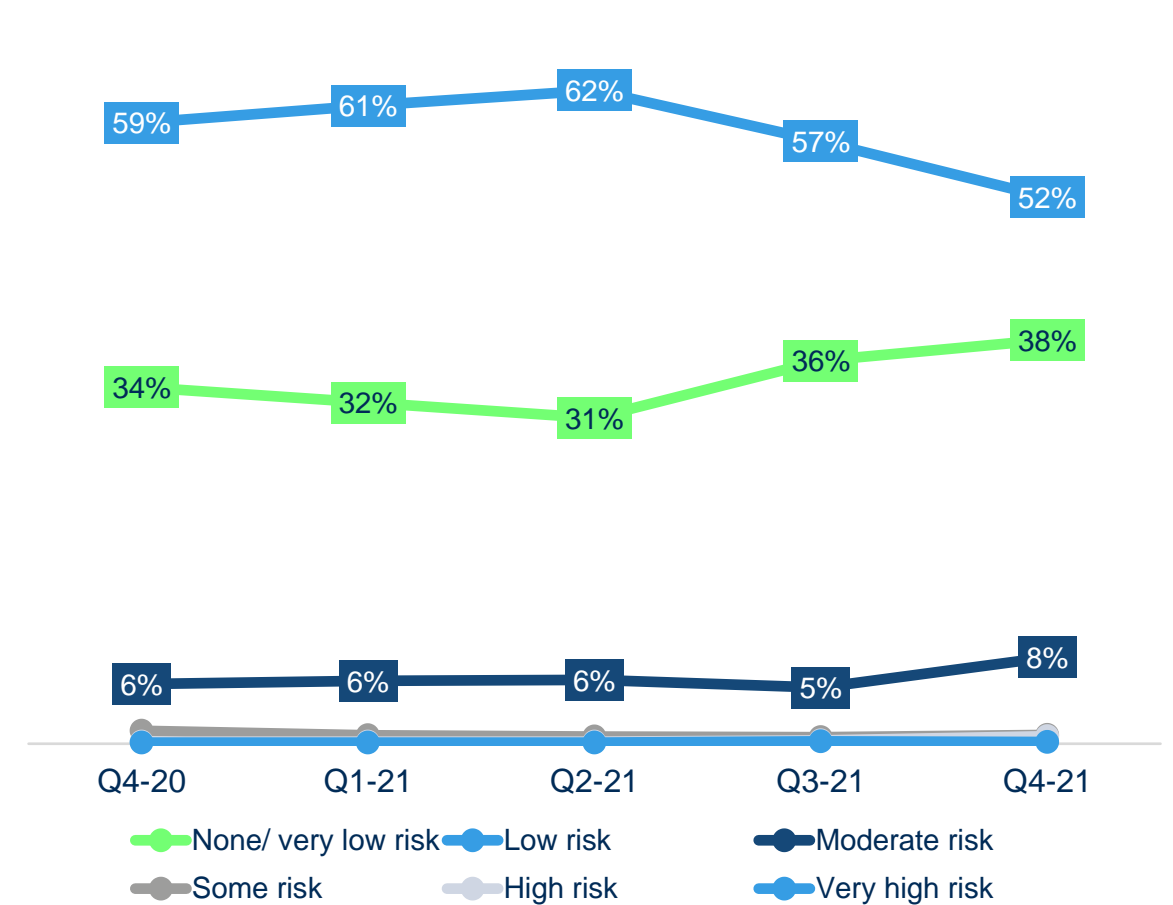
- Market value of bonds and funds comprising surplus liquidity.
- Liquidity is comprised of cash and highly liquid bonds.
- High share of government & PSEs to reduce credit spread risk and increase short-term liquidity.
- Large share of covered bonds, mainly short to medium maturities.

COMMITMENTS BY RISK CLASSIFICATION

Risk classification (NOKm)

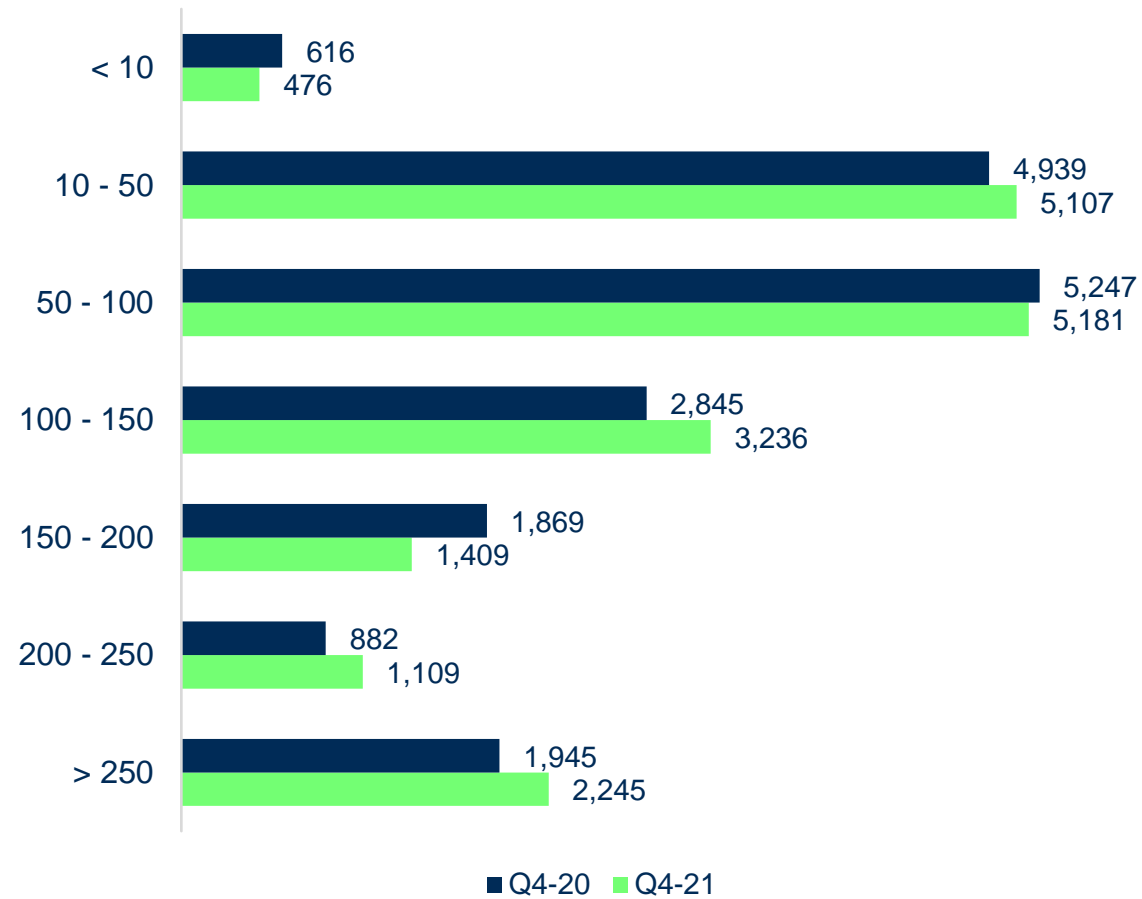


Historical risk classification

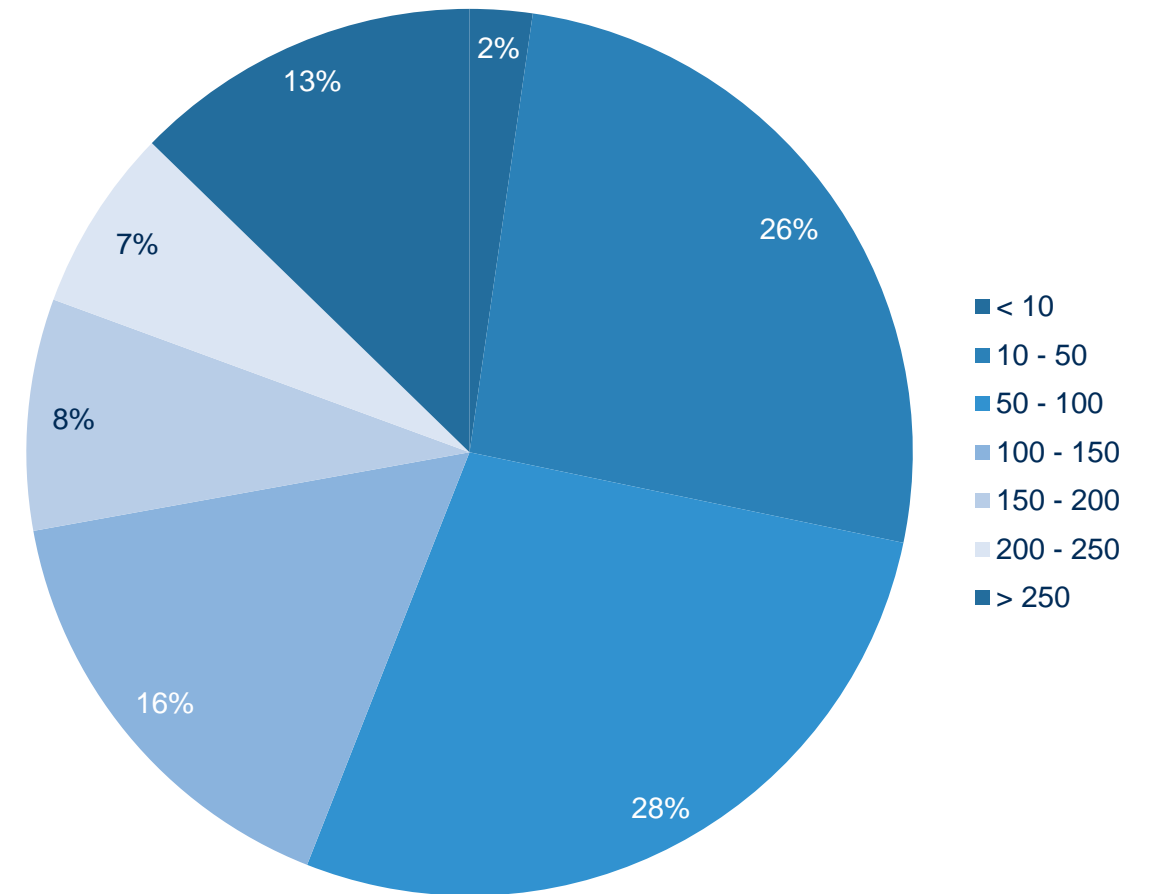


COMMITMENTS BY SIZE

Commitment size per customer (NOKm)



Distribution of commitments by size (NOKm)



 Pareto bank