

PARETO BANK

Financial Results – First Quarter 2023

Highlights

Financials

Business Area Update & Outlook

FIRST QUARTER 2023

Highlights

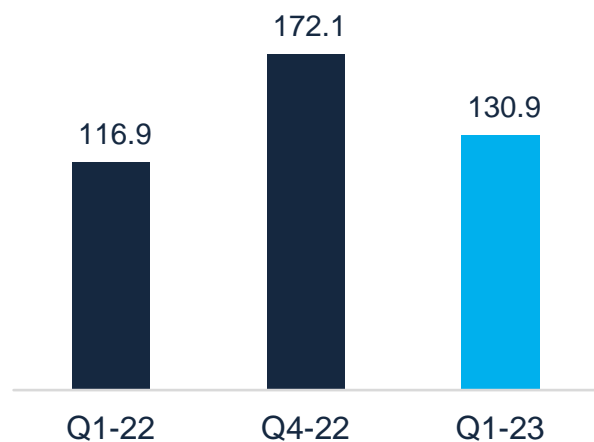
- Profit after tax NOK 130.9m (NOK 116.9m in Q1-22).
- Return on equity after tax 13.0 % (12.8 %).
- Record high net interest income NOK 262.5m (NOK 207.5m).
- Lending to customers grew by NOK 362m to NOK 17,707m and came within corporate financing and financing of residential property development.
- Impairments NOK 36.4m (15.5m in Q1-22). Combination of individual impairments and model-based impairments due to growth.



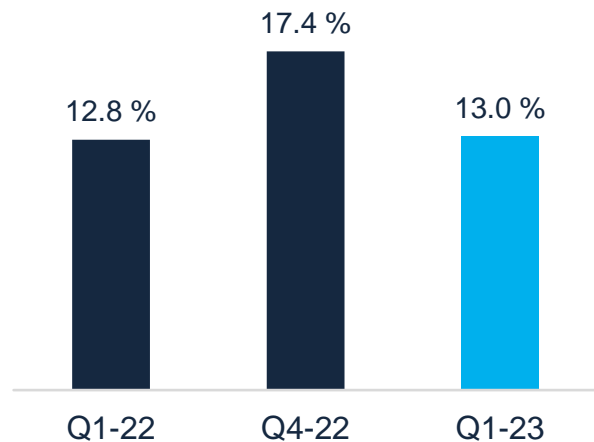
Jens Christian Meinich and Iselin Tanke Berg, Pareto Bank

KEY FIGURES

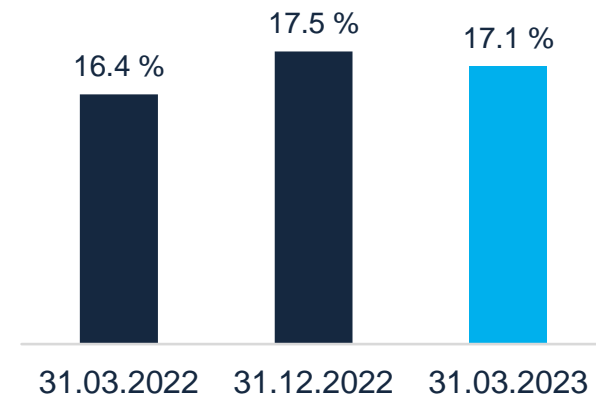
Profit after tax (NOKm)



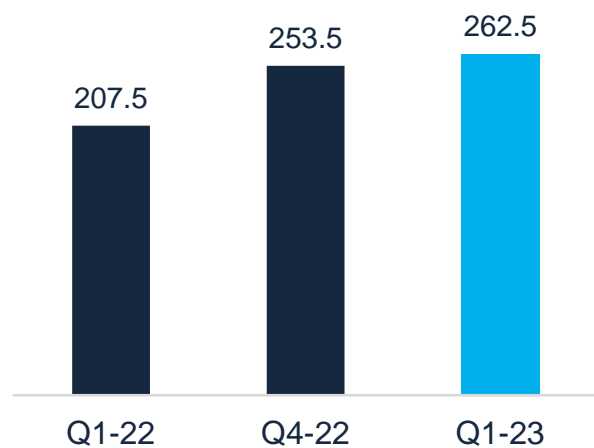
Return on Equity *



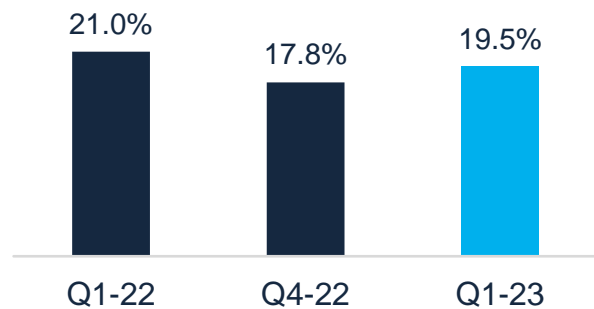
CET1 ratio



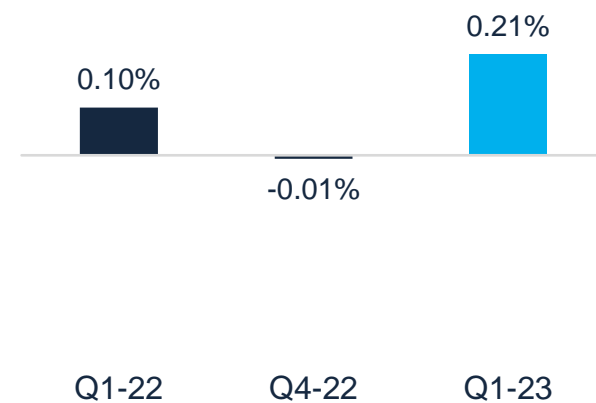
Net interest income (NOKm)



Cost/Income ratio



Loss ratio **



Highlights

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INCOME STATEMENT

P&L (NOKm)

	Q1-23	Q1-22	2022	2021
Net interest income	262.5	207.5	928.6	838.3
Net other operating income	-3.0	8.2	36.7	12.3
Total net income	259.5	215.7	965.3	850.7
Total operating expenses	50.5	45.3	186.5	162.4
Operating profit before impairments and losses	209.0	170.4	778.8	688.3
Impairments and losses on loans and guarantees	36.4	15.5	45.0	20.1
Pre-tax operating profit	172.7	154.9	733.8	668.2
Tax expense	41.8	38.1	178.3	163.6
Profit for the period	130.9	116.9	555.5	504.5
Earnings per share (NOK)	1.79	1.64	7.71	7.09
Return on equity	13.0 %	12.8 %	14.6 %	14.0 %
Cost/income ratio	19.5 %	21.0 %	19.3 %	19.1 %

Improved lending margin and lending growth.
Increased interest costs due to deposit growth.

Valuation of financial instruments negatively affected by higher credit spreads on bonds following volatility in financial markets. Pareto Bank evaluates its bond portfolio at market value.

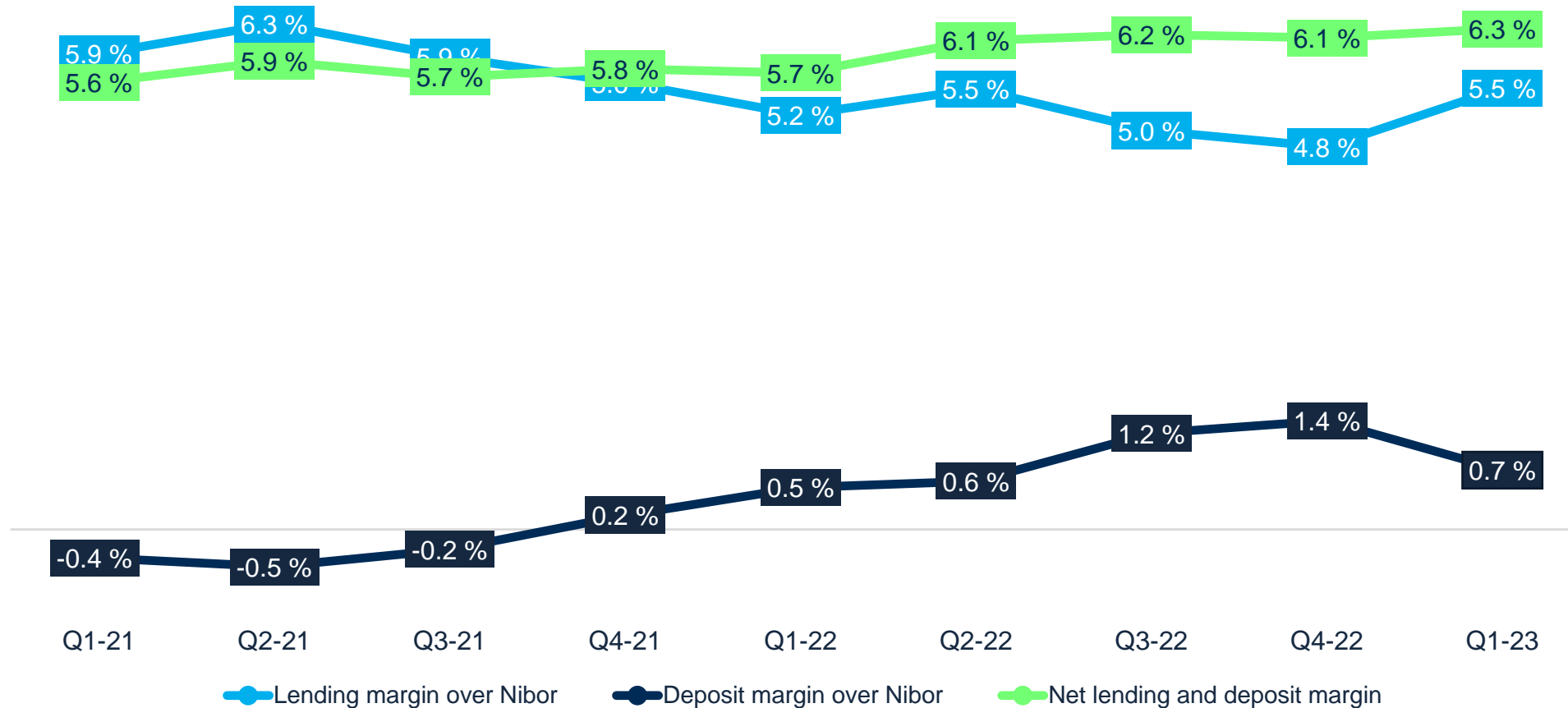
Growth in operating expenses as expected. Five new full-time employees.

Individual impairments on a limited number of loans in residential property financing and corporate financing.

QUARTERLY CHANGE IN NET INTEREST INCOME (NOKm)



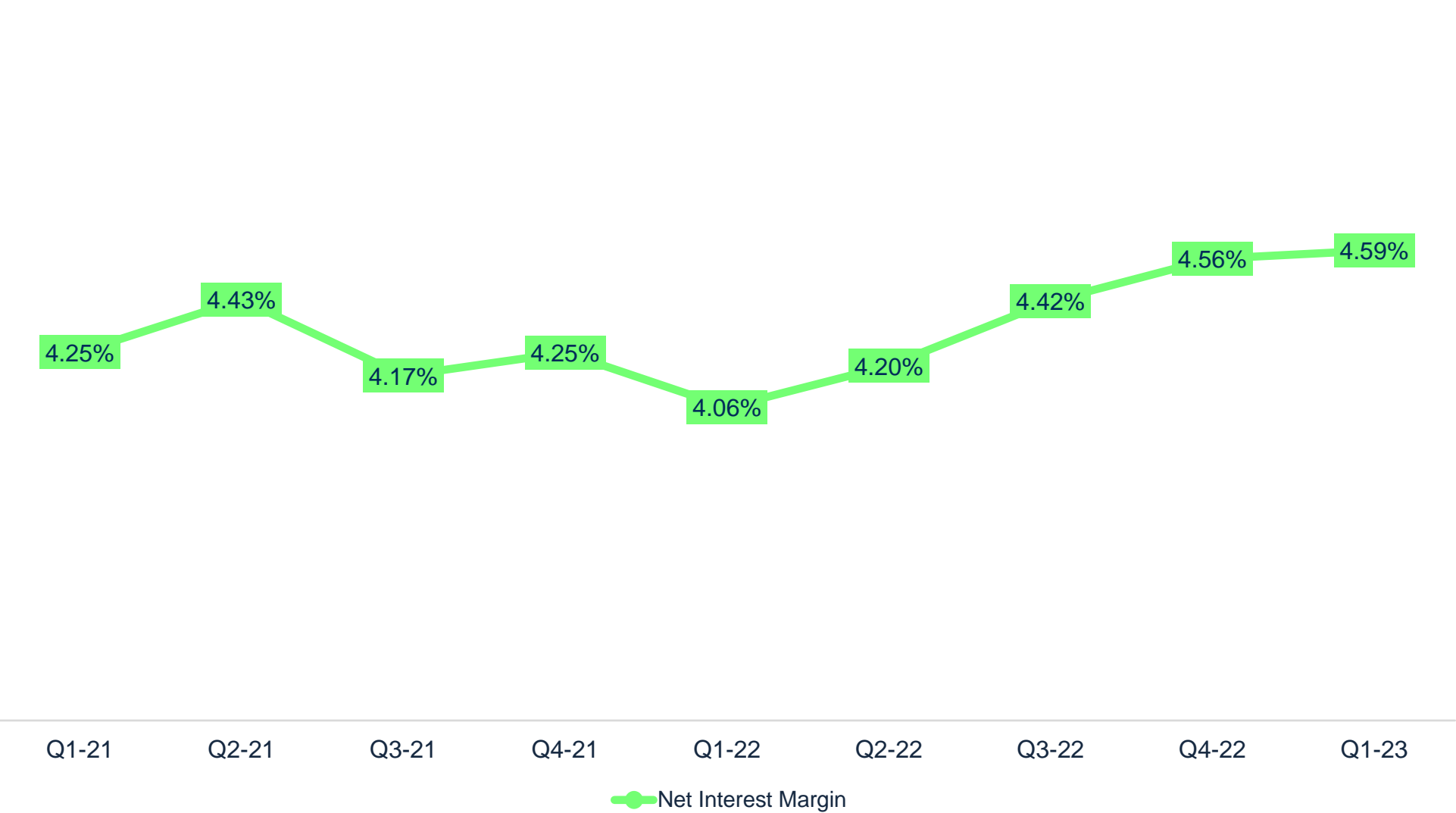
LENDING AND DEPOSIT MARGIN



Comments

- Full implementation of three rate increases in Q4-22 and an increase of 0.25 pp in January 2023.
- Increase in volume of fixed-rate deposits lowers deposit margin.
- Lending rates up 0.7 pp on average compared to Q4-22. Deposit rates on average up 0.6 pp.
- Rate increase as of April 13 on lending (up to 0.25 pp) and deposits (up to 0.75 pp).

NET INTEREST MARGIN



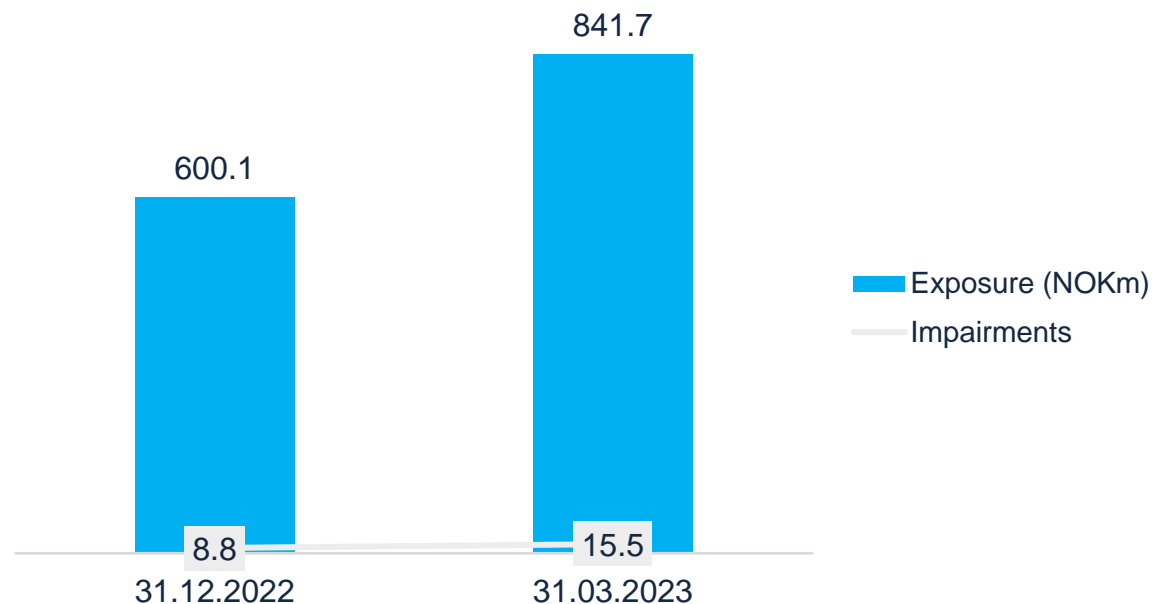
Comments

- Combined margin.
- Net interest income divided by average total assets.
- Income from lending and surplus liquidity.
- Costs from deposits, issued bonds and other financing sources.

CHANGES IN STAGE 2 & 3

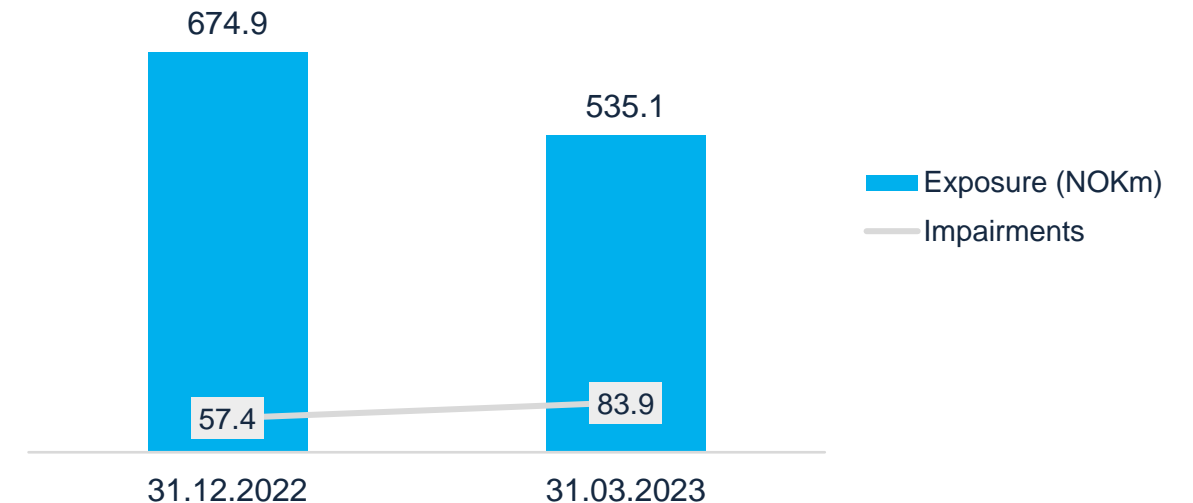
Stage 2

- Commitments on watch list, under forbearance or where there has otherwise been a material increase in risk.
- Model-based impairments.
- Low threshold to put on watch list.



Stage 3

- Commitments which are more than 90 days overdue, where the debtor is considered unlikely to pay or where there is objective evidence of a future loss.
- Individual impairments based on a projection of future cash flows.
- A limited number of loans in residential property financing and corporate financing. The residential property projects are near completion and most units are sold. Cost overruns linked to challenging project execution.

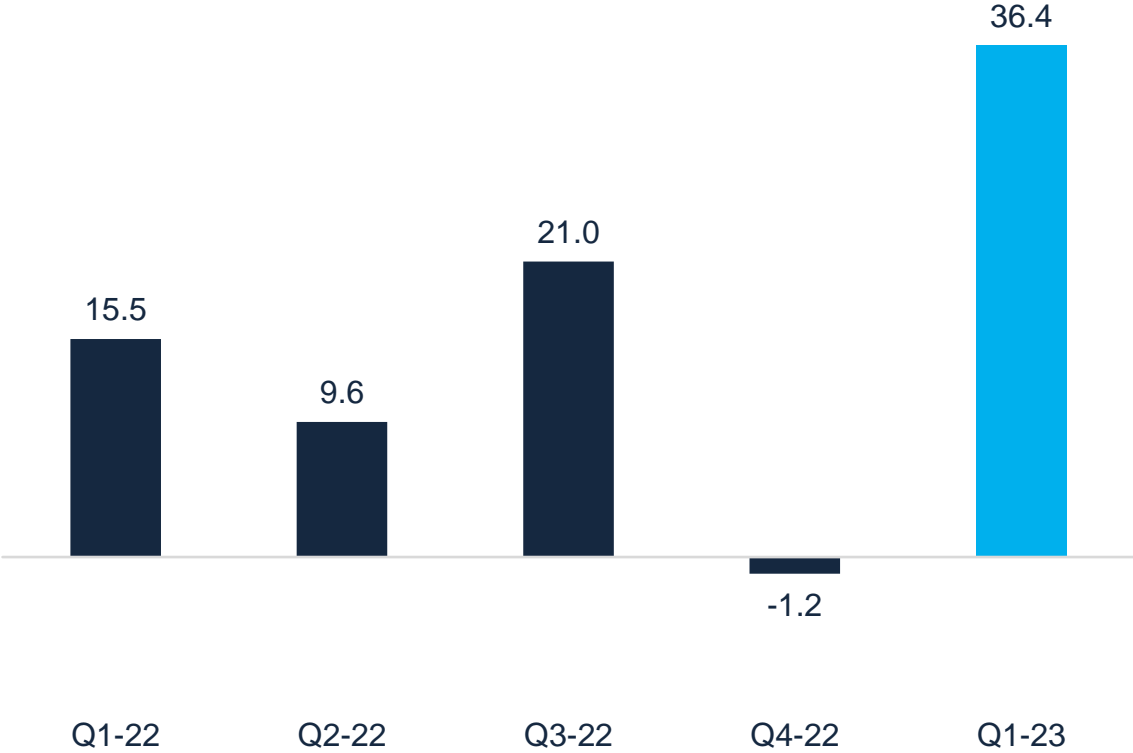


QUARTERLY CHANGE IN IMPAIRMENTS

Impairments (NOKm)

	Q1-23	Q4-22
Stage 1	0.2	2.1
Stage 2	6.7	-5.7
Stage 3	26.5	1.7
Write-offs	2.9	0.7
Total impairments	36.4	-1.2

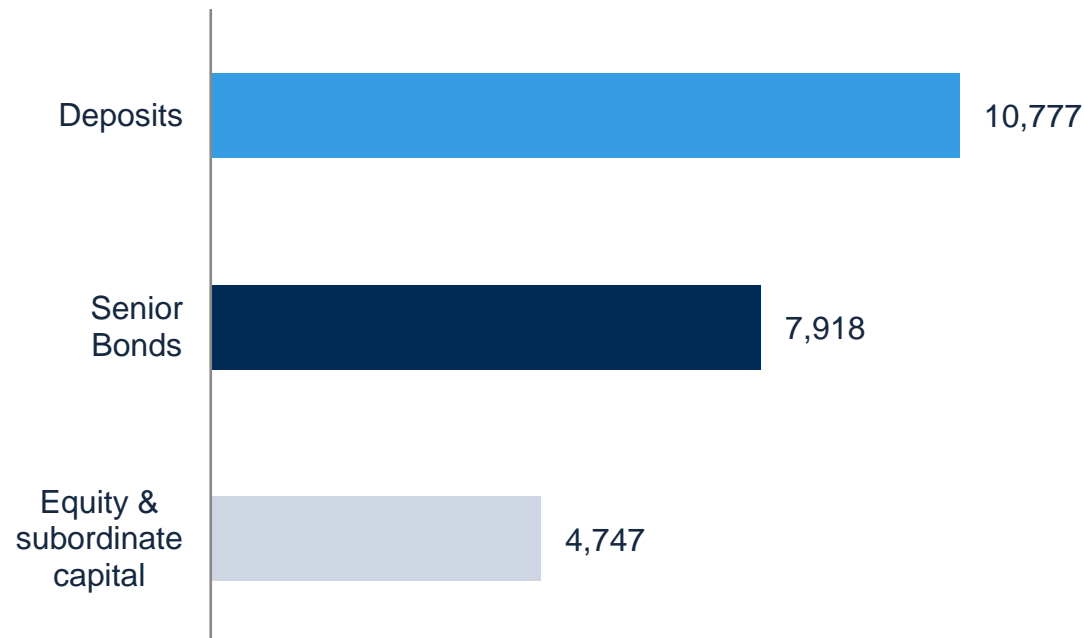
Impairments (NOKm)



FINANCING

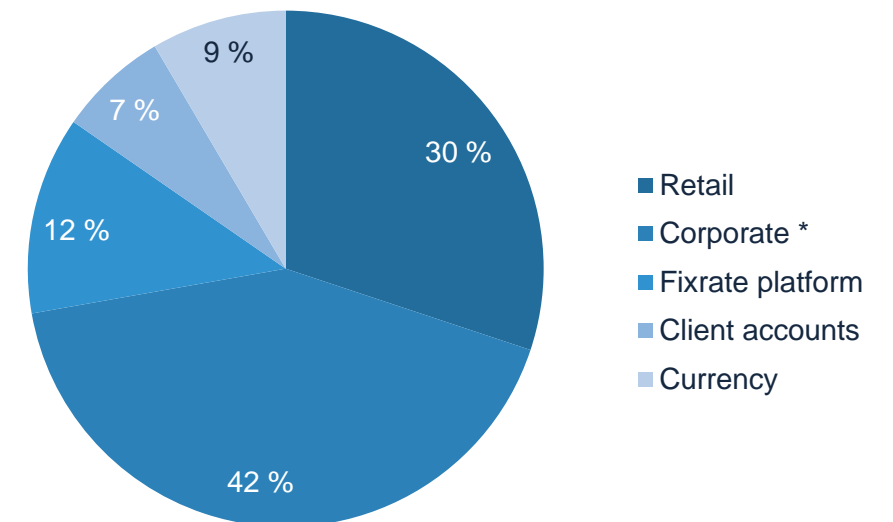
Diversified funding sources (NOKm)

- Customer deposits, senior bonds and equity including subordinate capital.
- 11 bonds outstanding, maturities up to 5 years, BBB rating from Scope.



Customer deposits

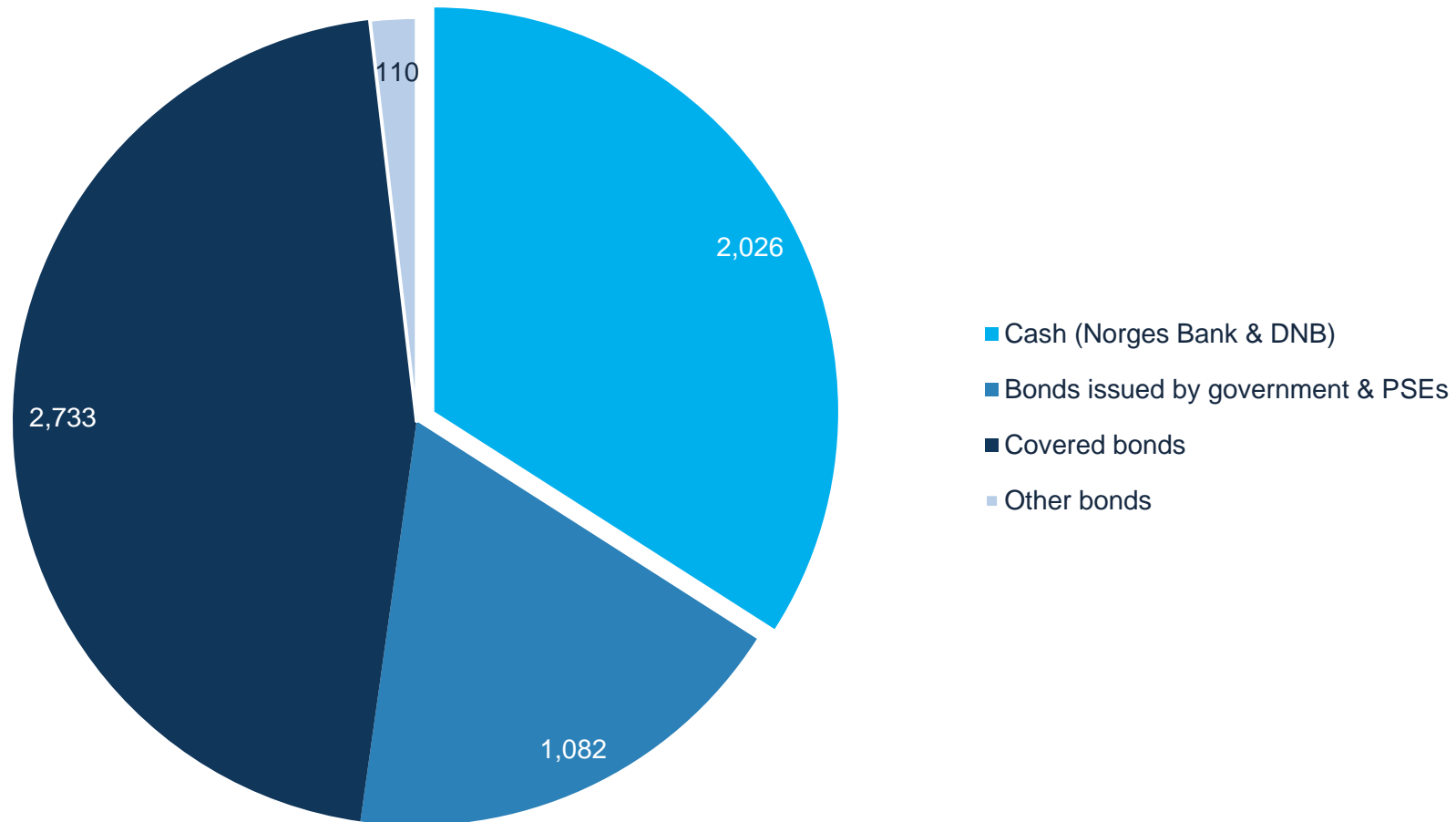
- Retail deposits for savings.
- Corporate deposits are composed of operational funds, surplus liquidity and client accounts accross a variety of industries.
- Large corporates and municipalities make deposits with restrictions through the Fixrate platform.
- 51 % of deposits have restrictions on withdrawals.
- Growth in fixed-rate deposits in the past 12 months.



*) Corporate deposits excl. Fixrate, client accounts and currency

LIQUIDITY BUFFER

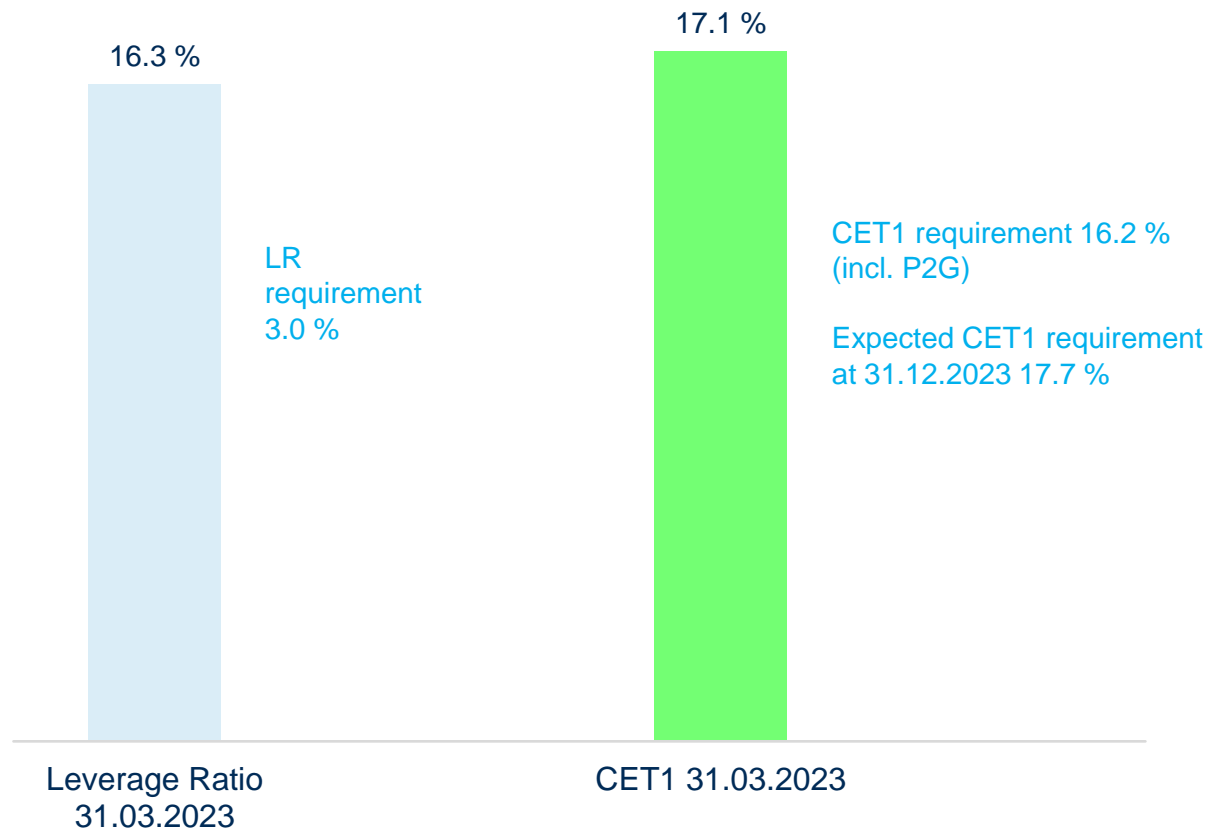
Low credit and market risk (NOKm)



Comments

- Cash on hand.
- Highly liquid bonds.
- Low credit risk.
- No interest rate or foreign exchange risk.
- Access to central bank facilities and repo market.
- Marked to market.
- Assets qualify for LCR portfolio.

SOLIDITY AND CAPITAL



- Leverage ratio of 16.3 %.
- Estimated target CET1 year-end 2023 is 17.7 %, depending on pillar 2 and P2G.
- Issued new AT1 bond to refinance existing bond as well as to meet increased capital requirement due to growth.

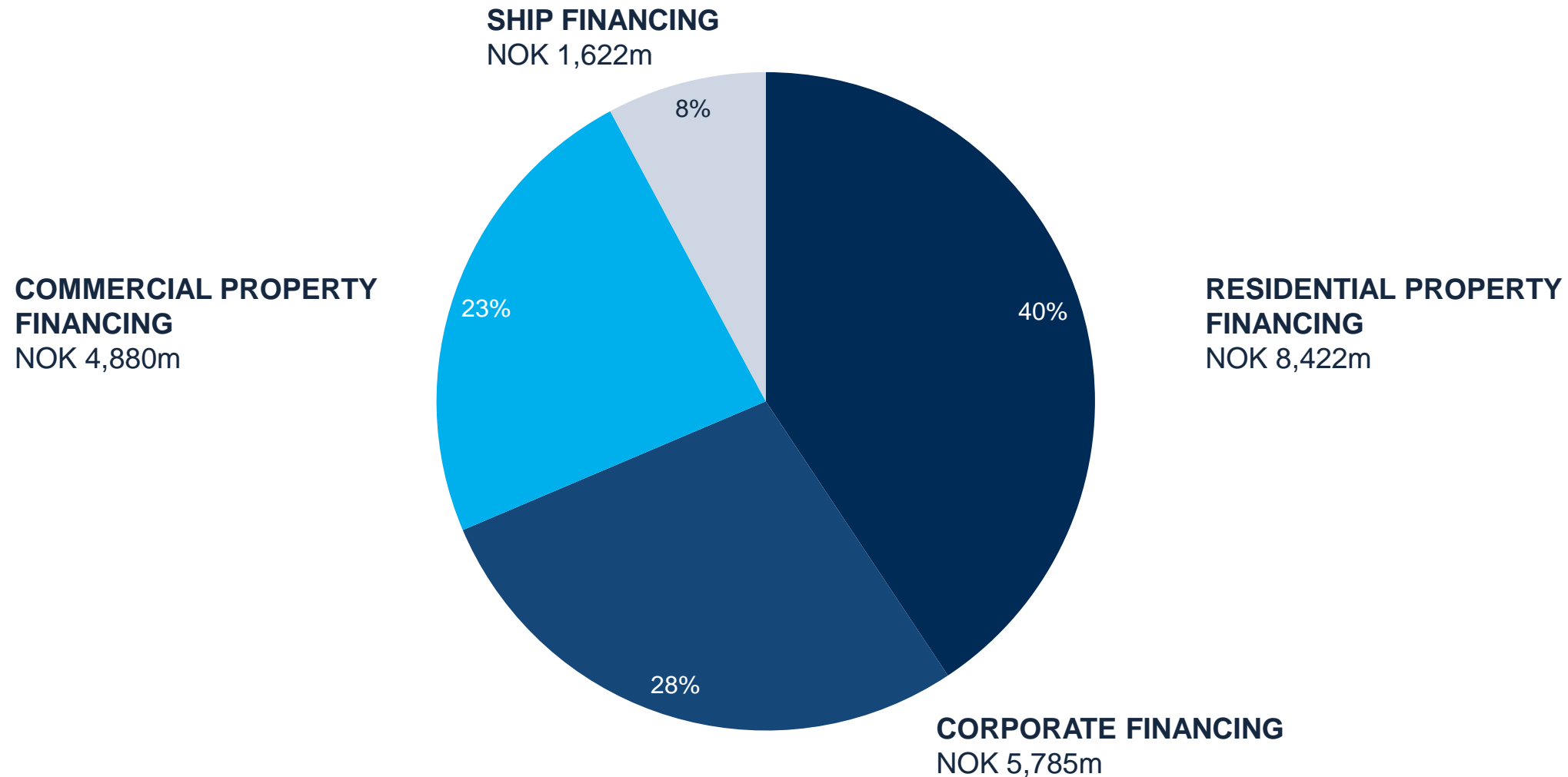
Highlights

Financials

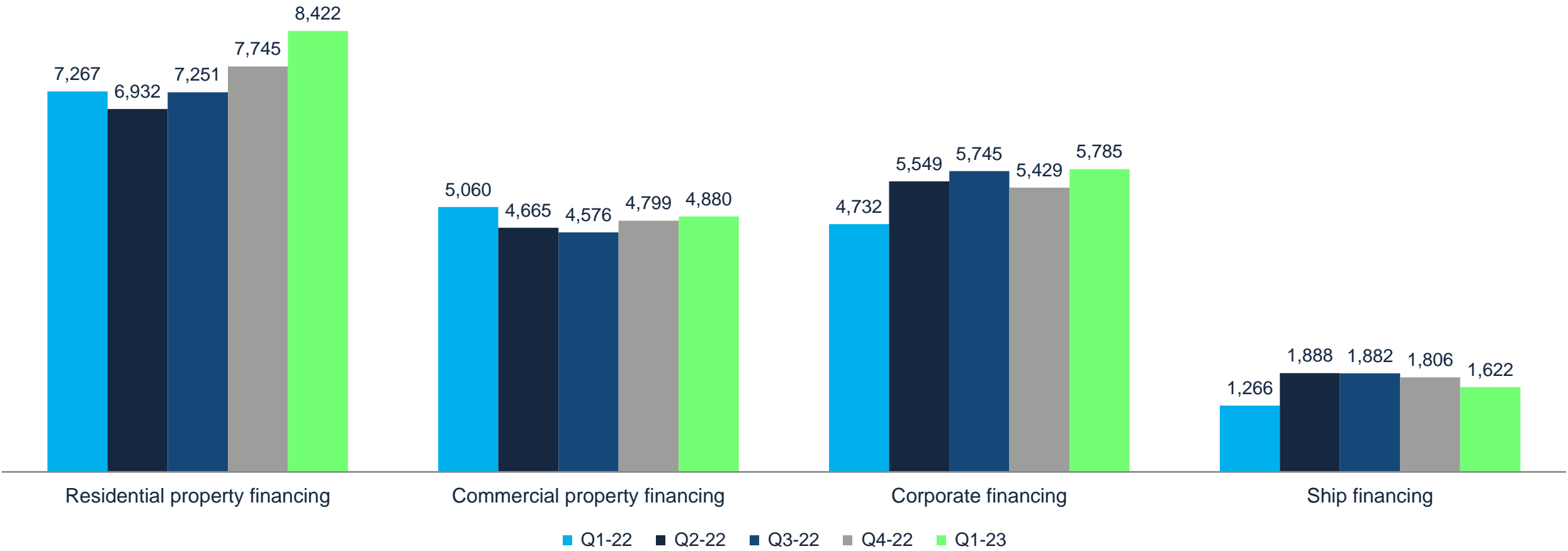
Business Area Update & Outlook

A NICHE PLAYER FINANCING MEDIUM-SIZED ENTERPRISES

Exposure (NOKm)



QUARTERLY EXPOSURE PER BUSINESS AREA (NOKm)



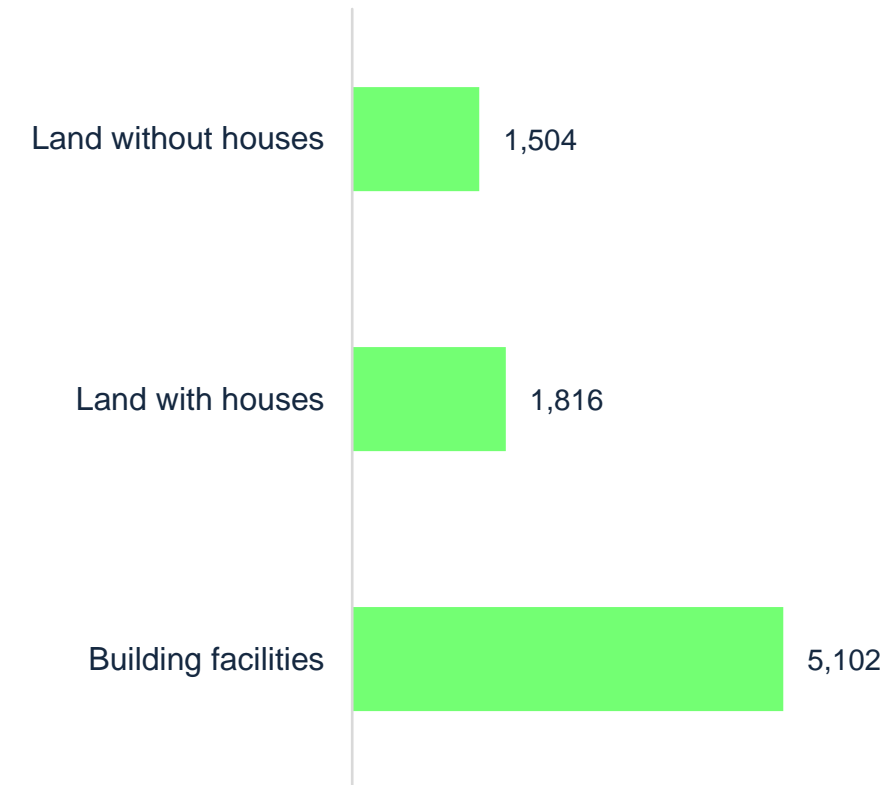
RESIDENTIAL PROPERTY FINANCING

Credit update

- The specialized real estate developer bank for Eastern Norway and larger Norwegian cities.
- 171 customers with average commitment of NOK 49m.
- 35 % residential exposure in Oslo and 40 % in Viken.
- Equity contribution of minimum 25 % on land financing.
- Binding sales contracts, documentation of buyers' financing and a residual exposure of maximum 50 % to unsold units are conditions precedent for opening building facilities.
- Close follow-up of a small number of ongoing projects (in stage 2 or 3). Frequent customer dialogue and reporting as well as third-party control. The projects are close to completion. Cost overruns due to challenging project execution.

Residential property exposure (NOKm)

Total NOK 8,422m



COMMERCIAL PROPERTY FINANCING

Commercial property exposure (NOKm)

Total NOK 4,880m

- 95 customers with average commitment of NOK 51m.
- 36 % commercial property exposure in Oslo and 23 % in Vestland.
- Commercial residential includes financing of housing for rent, while commercial property includes financing of commercial property.



COMMERCIAL PROPERTY FINANCING

Credit update

- Financing of cash-flow based commercial property (84 % of exposure) and development (16 %).
- Equity contribution of minimum 20 % and depending on analysis of the underlying risk factors and entry point of the market cycle.
- Property valuations are based on both external and internal assessments and on different valuation methods.
- Defined exit such as refinancing or sale through a value-add development plan.
- Second priority financing amounts to approximately NOK 1.9 billion. Normally share pledge and guarantees in addition to property pledge.
- Follow-up of a limited number of customers (in stage 2) due to a more demanding liquidity situation.

Commercial property exposure (NOKm)

Total NOK 4,880m



MARKET OUTLOOK

Real estate

Residential property

Continued strong secondary housing market.

New-build project profitability hurt by cost inflation, interest rate hikes and low demand.

Higher than expected deal flow and volume growth in Q1-23 despite expectations of lower project activity and financing demand.

Loan redemptions may be delayed due to more challenging project execution and projects being put on hold.

Commercial property

Valuation continues to be uncertain. Higher financing costs and more restrictive banks. Low activity in the transaction market.

Reduced risk appetite and exposure in Q1-23.



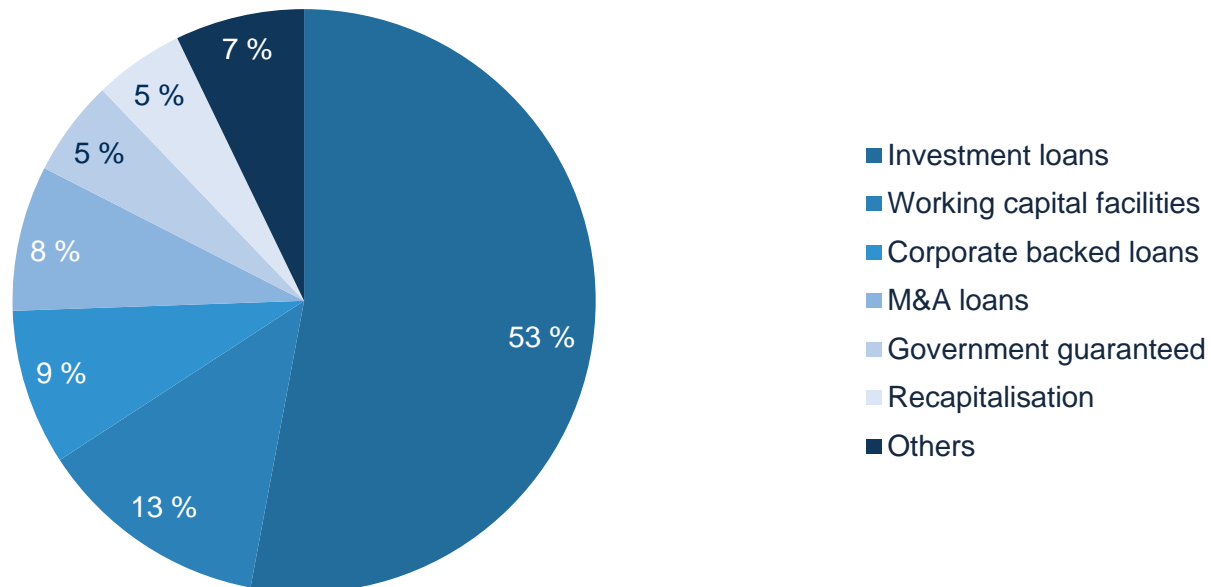
Flat lending volume in 2023 due to lower financing demand and project completions.

CORPORATE FINANCING

Diversified exposure

Total NOK 5,785m

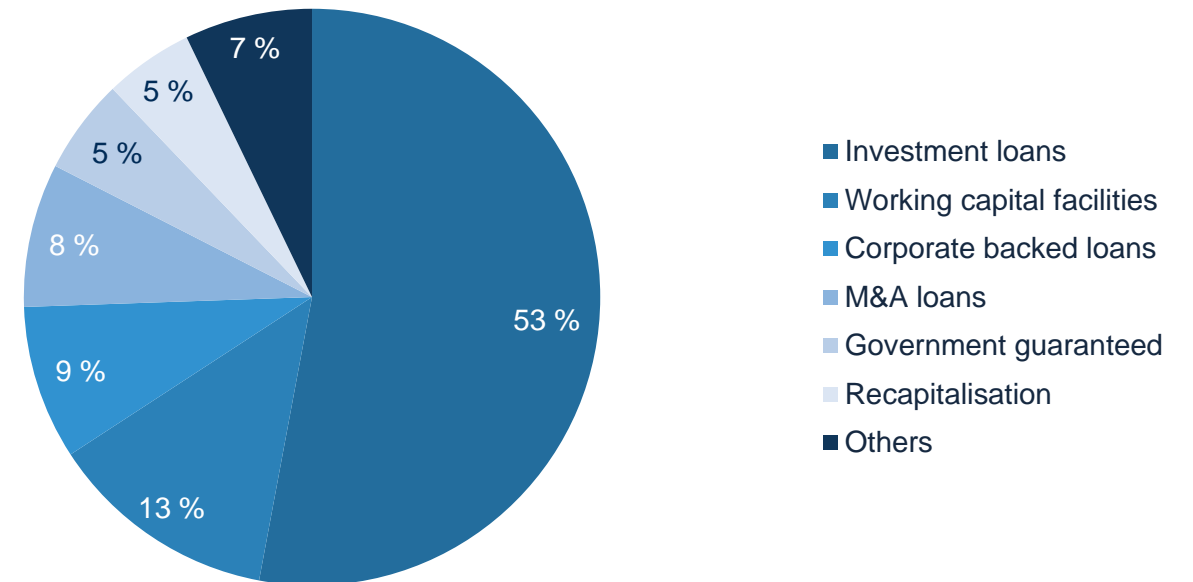
- Tailor-made financing solutions to medium-sized enterprises.
- 142 consolidated corporate customers with average commitment of NOK 40m.



Credit update

Total NOK 5,785m

- A conservative credit practice is continued.
- Follow-up of a small number of customers (stage 2 and 3) that is affected by lower demand and higher operational costs and financing costs.



MARKET OUTLOOK

Corporate

Corporate profitability is under pressure due to reduced demand, inflation and higher financing costs. Weaker cash positions and postponement of investments.

Pareto Bank is an attractive partner for medium sized businesses in the Oslo region and still a small player in the large corporate lending space.

Soft credit demand at the beginning of the year. Demand picked up towards the end of Q1-23.



**Long-term growth opportunities are good.
Continued growth in 2023.**

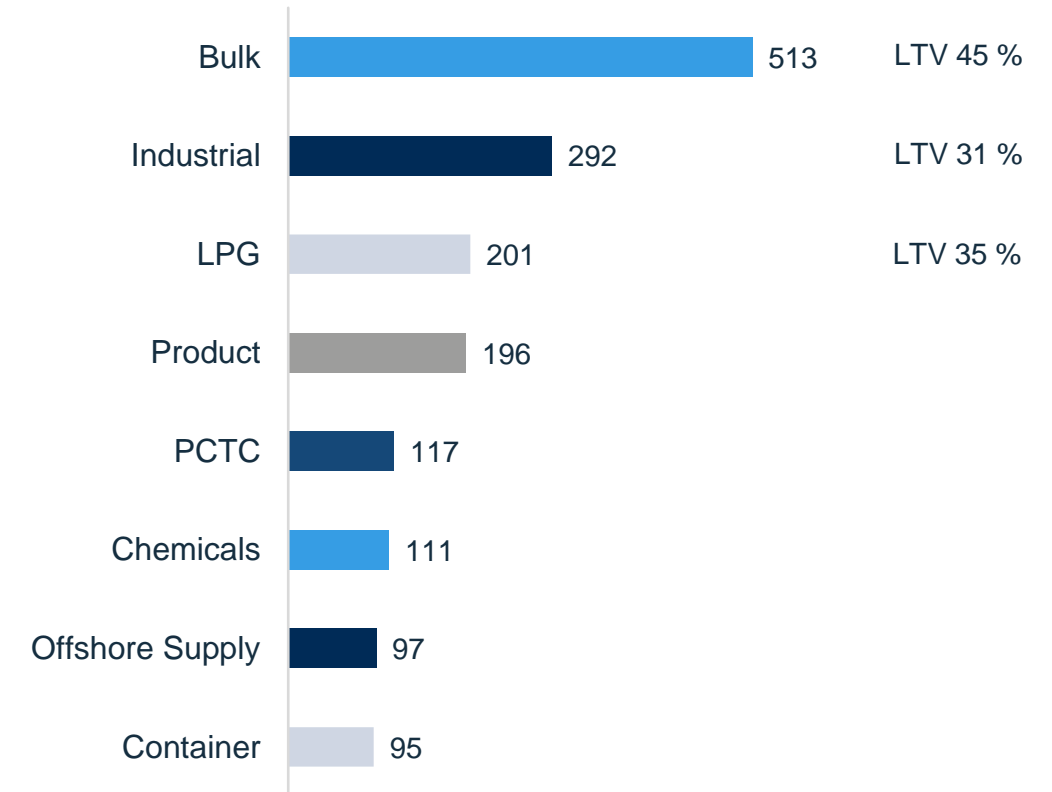
SHIP FINANCING

Credit update

- Focus on medium-sized shipowners, family offices and the investment project market.
- Corporate loans make up 39 % of the exposure, the remaining 61 % are loans to investment projects.
- 18 customers* and 45 vessels.
- Average commitment size USD 7.6m and largest exposure of USD 22.8m.
- Conservative approach focusing on corporate customers with solid balance sheets, modern high-quality assets and equity contribution of minimum 45 %.
- Stable credit quality with an average weighted LTV of 37 %.

Exposure (NOKm)

Total NOK 1,622m



MARKET OUTLOOK

Shipping and offshore

Positive outlook for dry bulk market due to low orderbook and demand growth supported by China's post-Covid "reopening."

Strong tanker markets with record low orderbook and increased demand for oil products and longer transportation distances.

Soft container market due to continued weakening demand, less congestion and accelerating fleet growth.

For other shipping segments, lower global economic growth will have a negative impact on demand. Downside is limited by low supply growth.

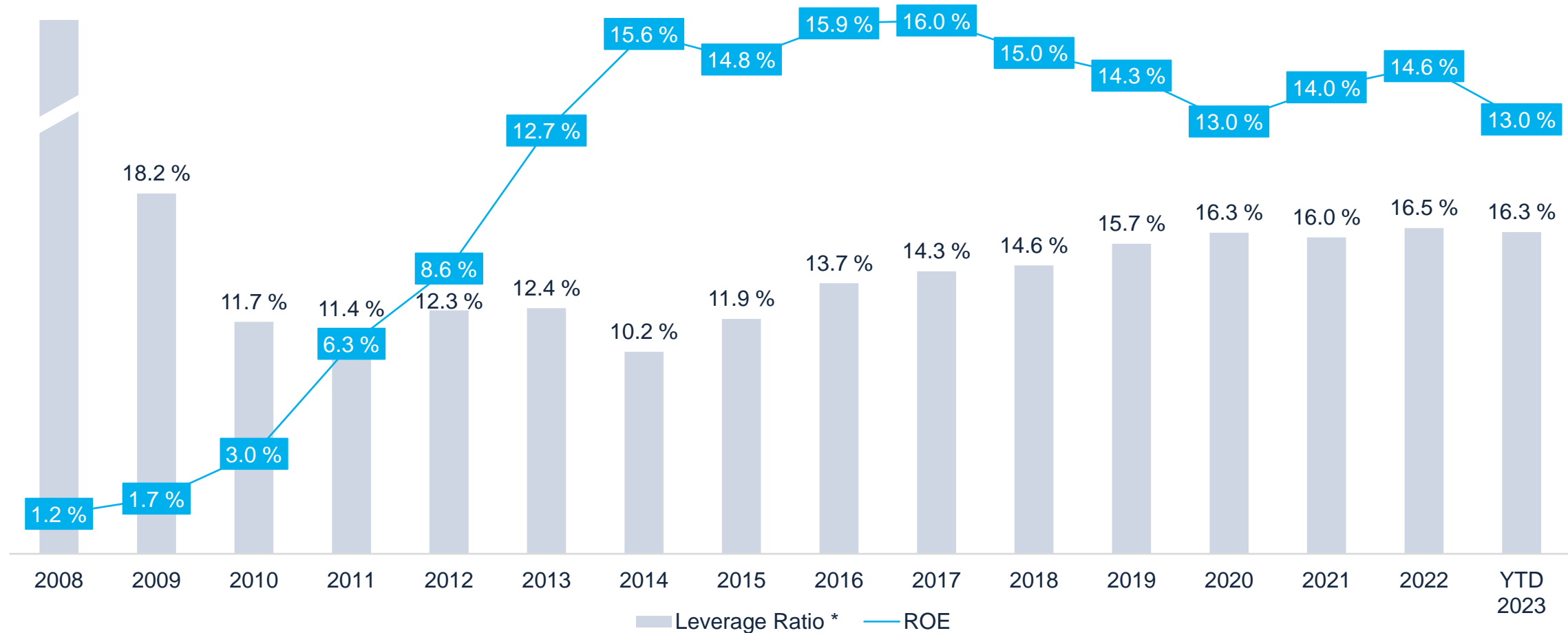
Continued strong demand in the offshore markets supported by increased attention to energy security and investments in offshore wind. Limited fleet growth in 2023.



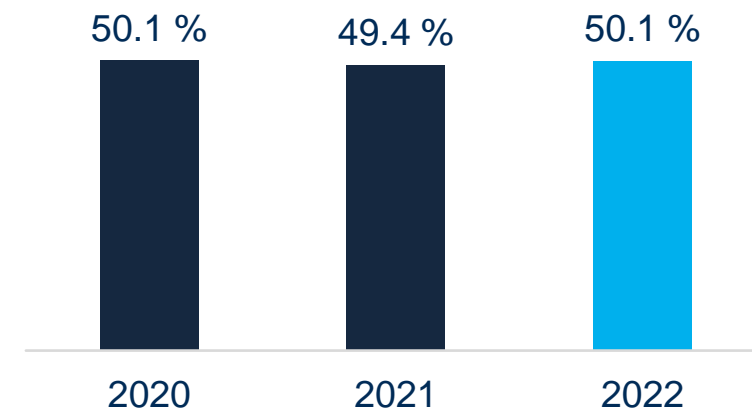
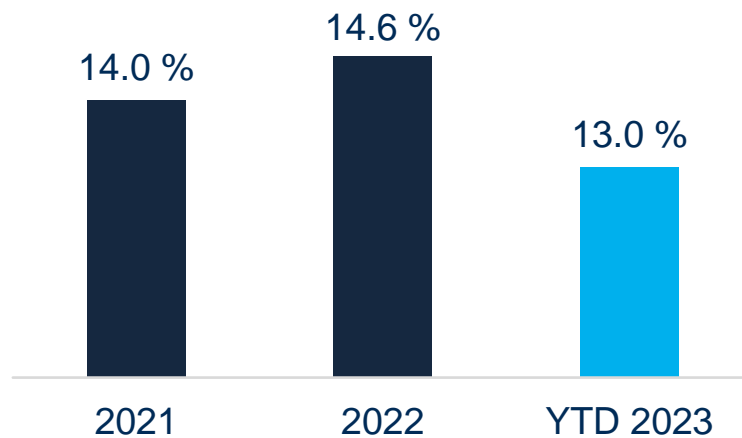
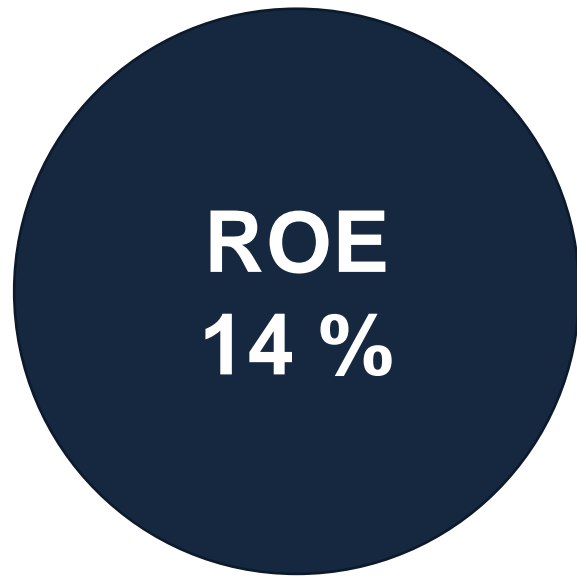
**Modest deal flow in shipping and strong in offshore.
Moderate lending growth in 2023.**

ROE AND LEVERAGE RATIO

Profitability with increasing solidity



LONG-TERM AMBITIONS



APPENDIX

LARGEST SHAREHOLDERS

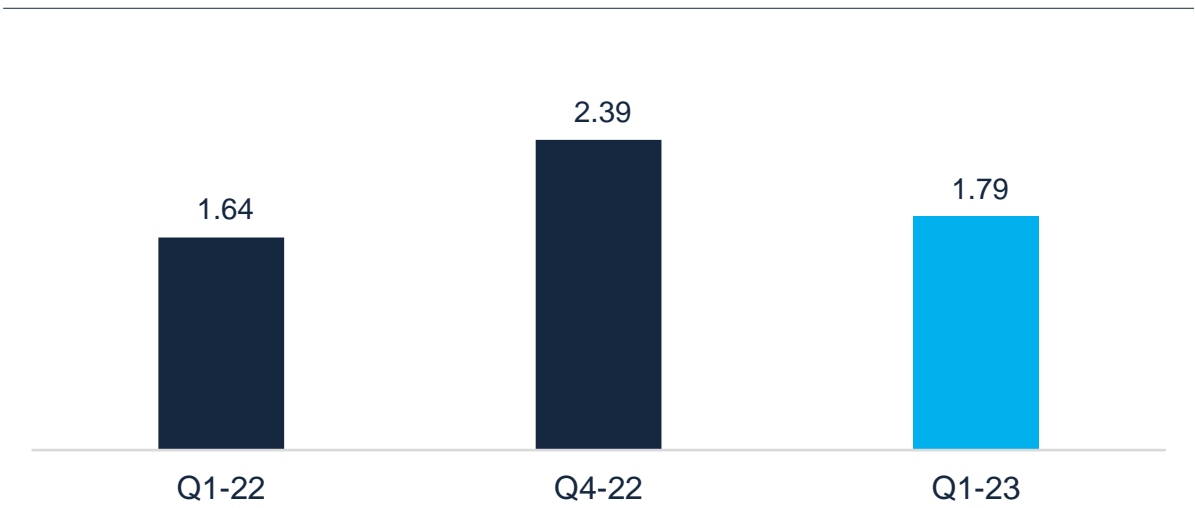
31 March 2023

	Name	Shares	% total
1	Pareto AS	13,970,346	20.00 %
2	Société Générale	6,943,049	9.94 %
3	Hjellegjerde Invest AS	3,460,000	4.95 %
4	Salt Value AS	2,078,883	2.98 %
5	Verdipapirfondet Holberg Norge	1,977,309	2.83 %
6	Svemorka Holding AS	1,928,683	2.76 %
7	Landkreditt Utbytte	1,850,000	2.65 %
8	Rune Bentsen AS	1,845,491	2.64 %
9	Kolberg Motors AS	1,725,000	2.47 %
10	Awc AS	1,300,000	1.86 %
11	Dragesund AS	1,143,836	1.64 %
12	OM Holding AS	1,120,351	1.60 %
13	Catilina Invest AS	965,238	1.38 %
14	Lombard Int Assurance S.A.	900,820	1.29 %
15	K11 Investor AS	850,000	1.22 %
16	AS Audley	845,374	1.21 %
17	Profond AS	745,069	1.07 %
18	Hausta Investor AS	689,000	0.99 %
19	Castel AS	644,715	0.92 %
20	Wenaasgruppen AS	551,000	0.79 %
Sum TOP 20		45,534,164	65.19 %
Other shareholders		24,317,566	34.81 %
Total		69,851,730	100.00 %

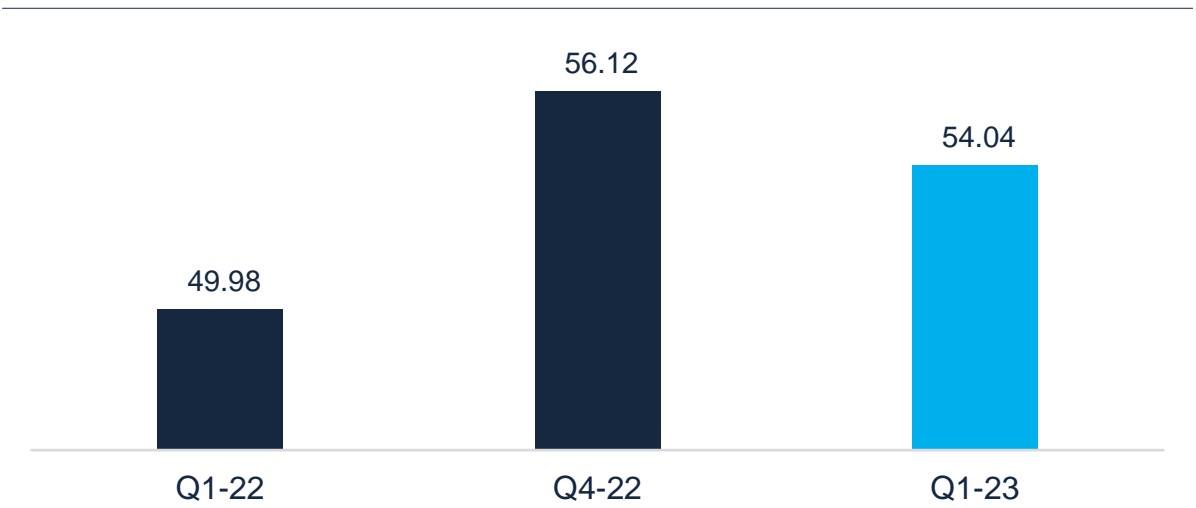
- The Company has 69,851,730 shares outstanding. One class of shares where each share carries one voting right.
- Diversified investor base with 3,466 shareholders.
- The Top 10 and 20 investors hold 53 % and 65 % of the shares respectively.
- Employees in Pareto Bank own 1.9 %.
- Top Management in the Pareto Group owns 3.0 %.
- All employees are covered by an annual bonus compensation scheme settled primarily in Pareto Bank shares.

THE SHARE

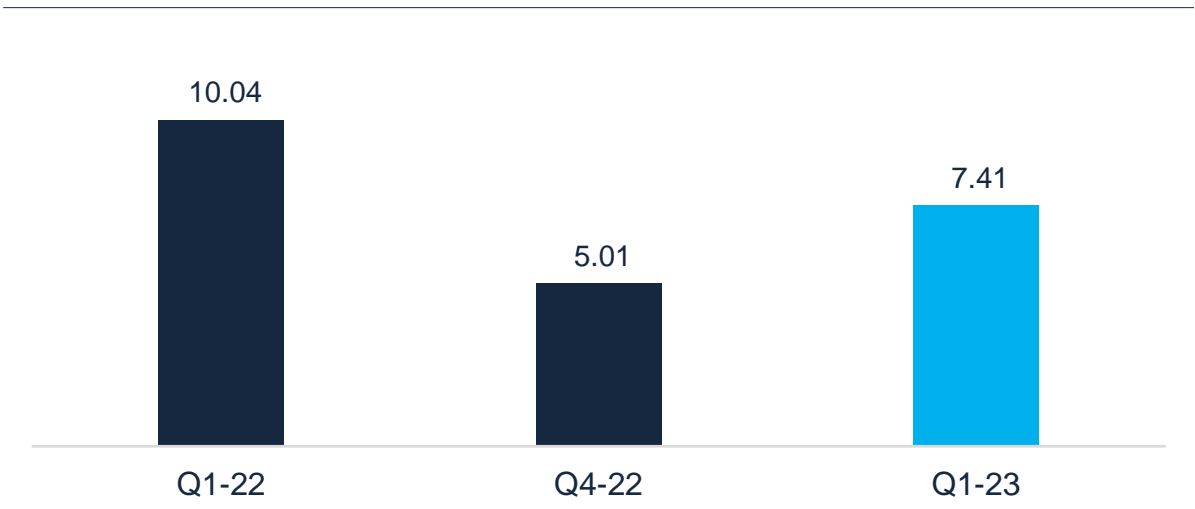
Earnings per share (NOK)



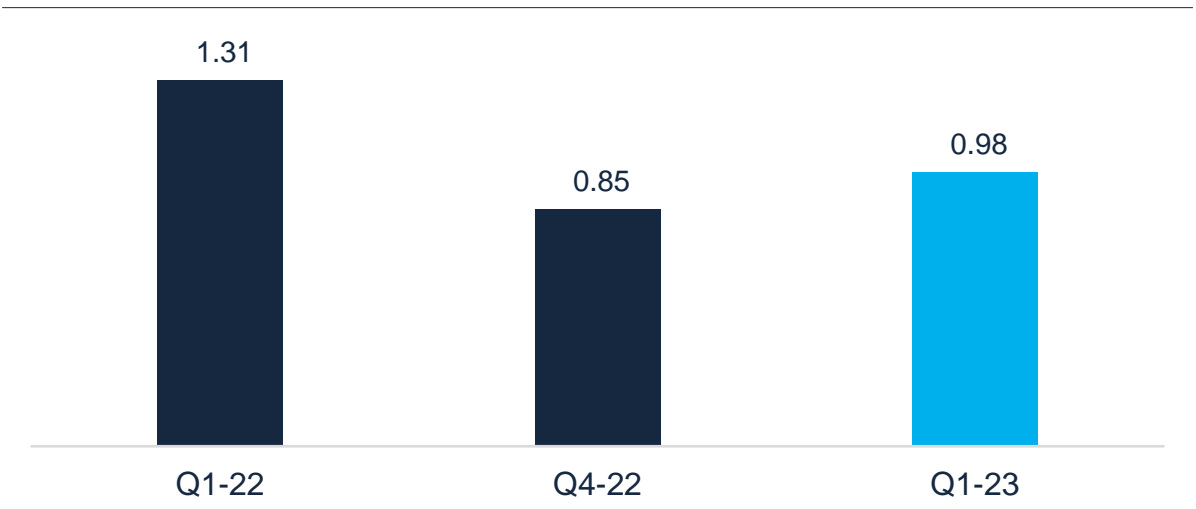
Book value per share (NOK)



Price / Earnings



Price / Book



QUARTERLY INCOME STATEMENT

P&L (NOKm)

	Q1-23	Q4-22	Q3-22	Q2-22	Q1-22
Net interest income	262.5	253.5	241.8	225.8	207.5
Net other operating income	-3.0	20.7	2.3	5.4	8.2
Total net income	259.5	274.2	244.2	231.2	215.7
Total operating expenses	50.5	48.9	46.7	45.6	45.3
Operating profit before impairments and losses	209.0	225.3	197.5	185.6	170.4
Impairments and losses on loans and guarantees	36.4	-1.2	21.0	9.6	15.5
Pre-tax operating profit	172.7	226.5	176.5	175.9	154.9
Tax expense	41.8	54.3	43.0	42.9	38.1
Profit for the period	130.9	172.1	133.5	133.0	116.9
Earnings per share (NOK)	1.79	2.39	1.85	1.84	1.64
Return on equity	13.0 %	17.4 %	14.0 %	14.5 %	12.8 %
Cost/income ratio	19.5 %	17.8 %	19.1 %	19.7 %	21.0 %

QUARTERLY BALANCE SHEET

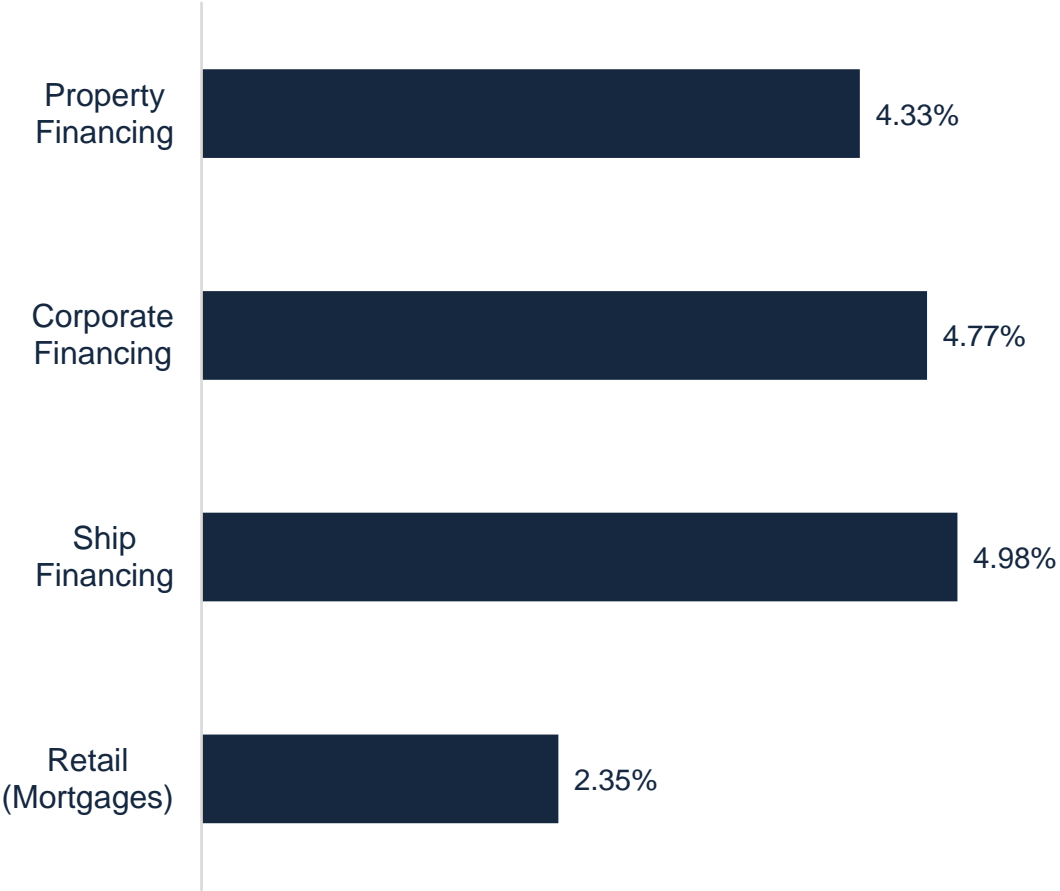
(NOKm)

	Q1-23	Q4-22	Q3-22	Q2-22	Q1-22
Loans to credit institutions	2,230	747	982	1,676	1,840
Loans to customers	17,707	17,346	16,925	16,109	15,644
Bonds and other securities	3,952	4,007	3,710	3,711	3,795
Shareholdings in associated companies	23	23	23	23	24
Other assets	157	173	130	121	159
Total assets	24,069	22,296	21,770	21,639	21,462
Deposits from customers and institutions	10,777	10,131	10,450	10,342	9,941
Senior securities issued	7,918	7,183	6,399	6,561	6,754
Other liabilities	627	341	447	395	554
Tier 2 subordinated securities issued	421	421	420	420	420
Additional tier 1 capital	551	300	300	300	300
Other equity	3,775	3,920	3,752	3,620	3,491
Total liabilities and equity	24,069	22,296	21,770	21,639	21,462

MARGINS AND INTEREST CONTRIBUTION

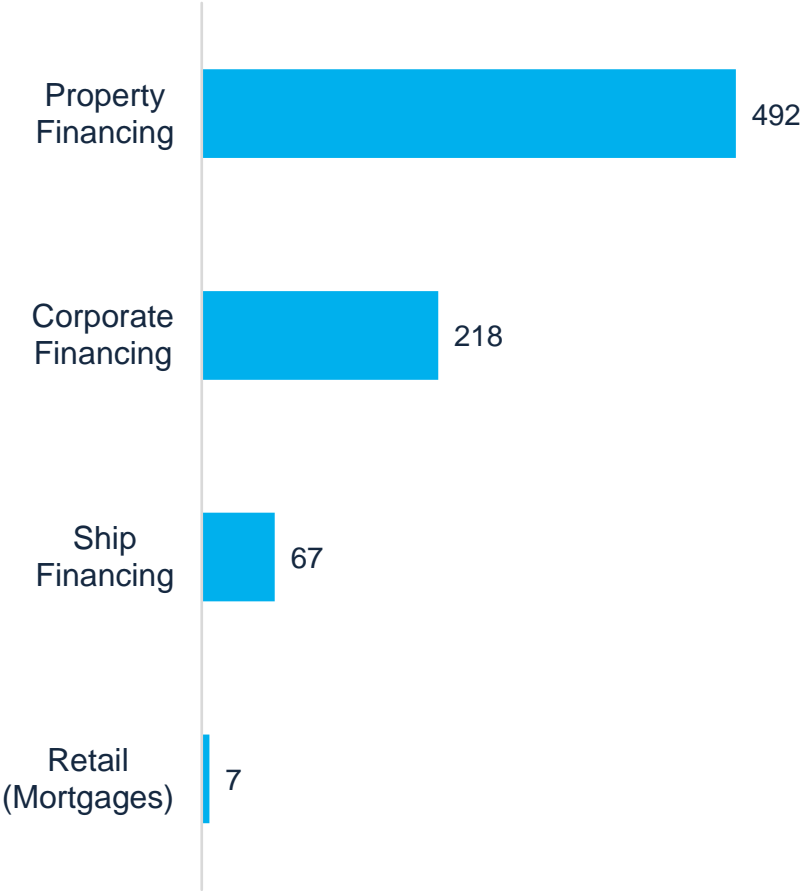
Margins per business area

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

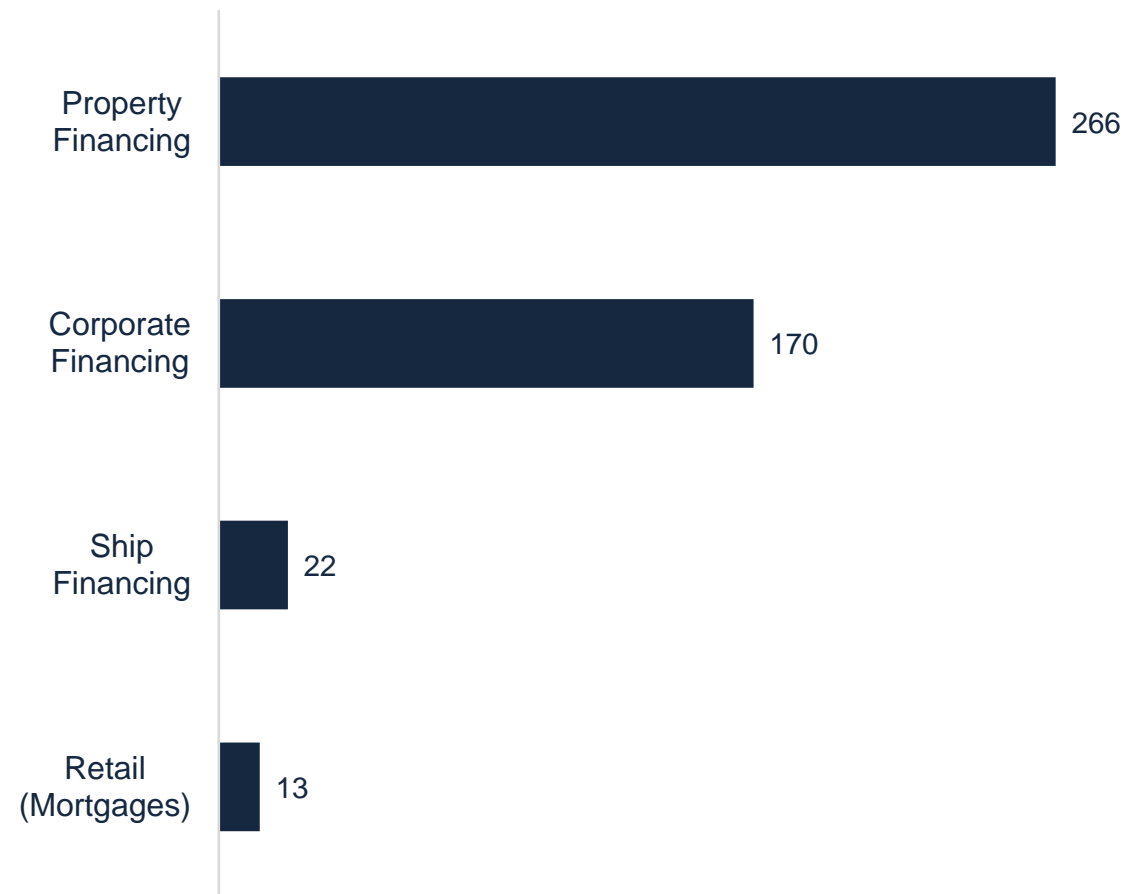


Note segment margins are estimated on the basis of terms of existing loans and will therefore differ from reported total lending margins. Loans granted under the state guaranteed SMB loan program are excluded from this analysis.

Based on terms and 3M NIBOR as of 31.03.2023

NUMBER OF CUSTOMERS

Per business area



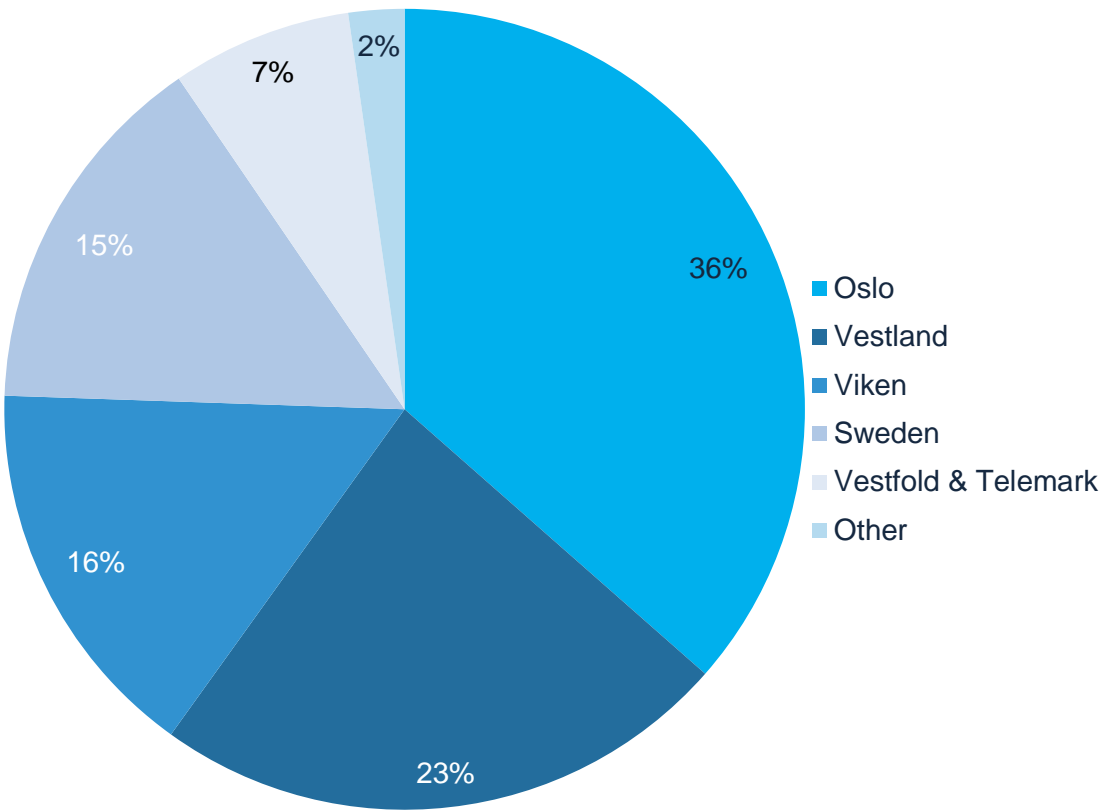
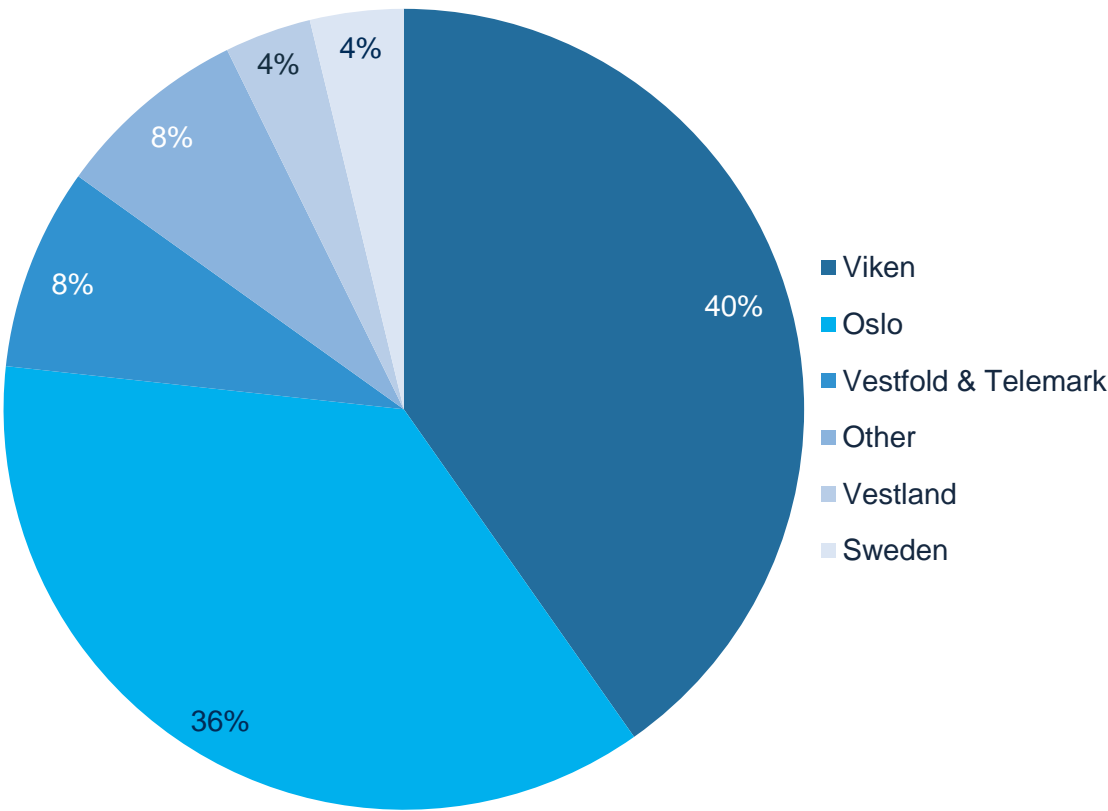
REAL ESTATE FINANCING EXPOSURE

Geographical residential property exposure

Total NOK 10,236m*

Geographical commercial property exposure

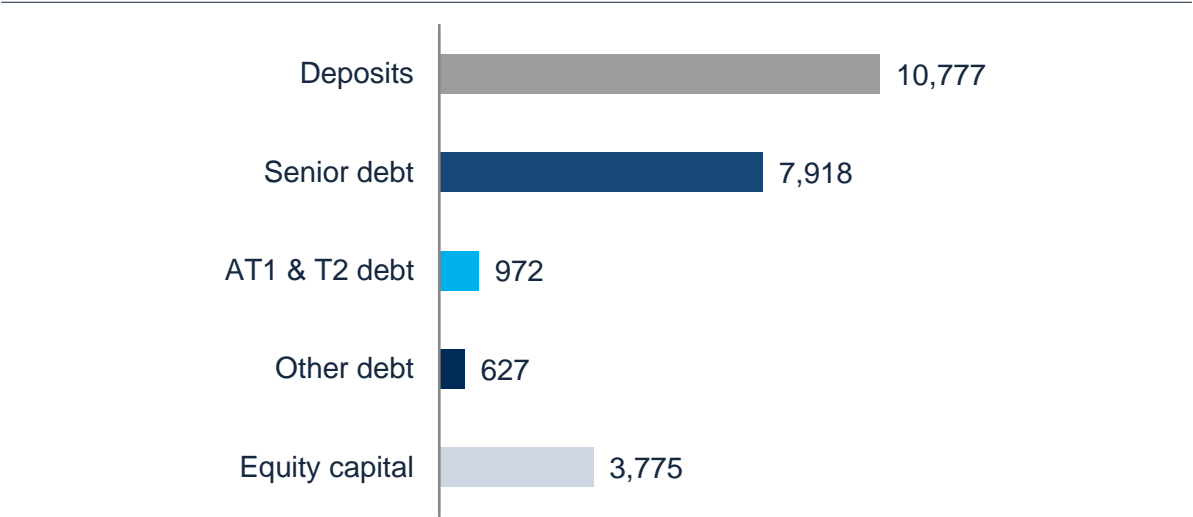
Total NOK 3,065m*



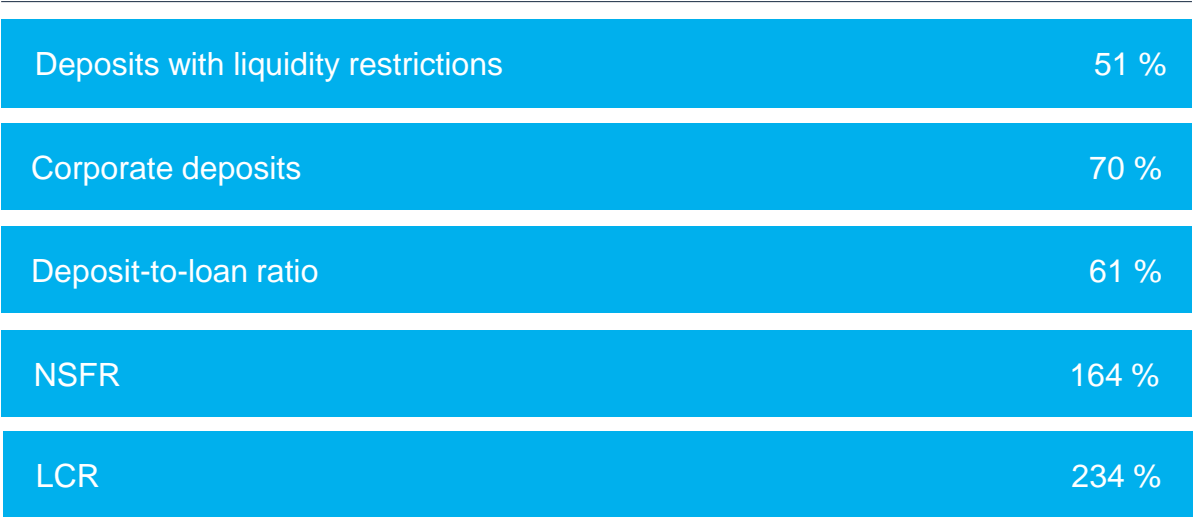
*) Residential property includes land, building facilities and commercial residential real estate. Commercial property includes only commercial real estate.

FUNDING

Sources (NOKm)

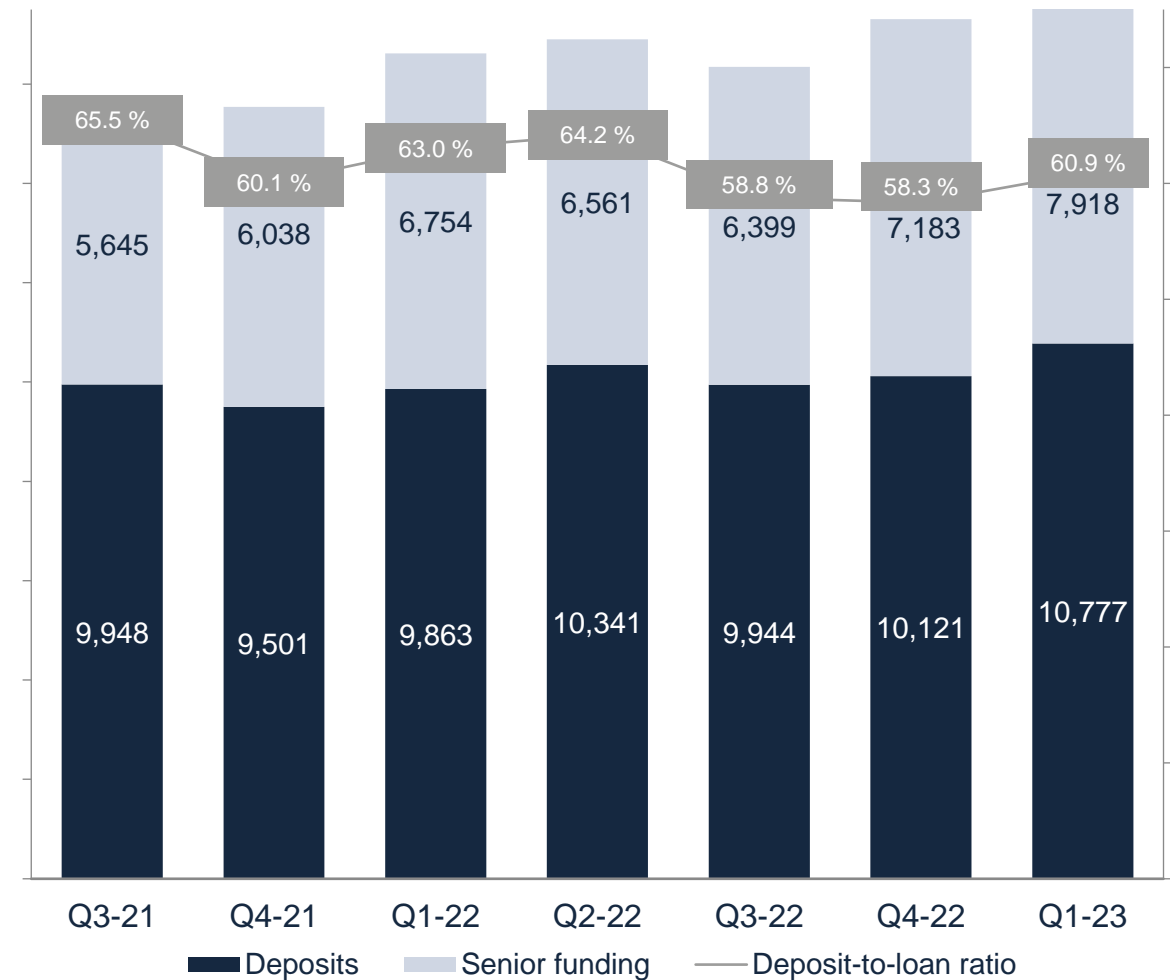


Key ratios



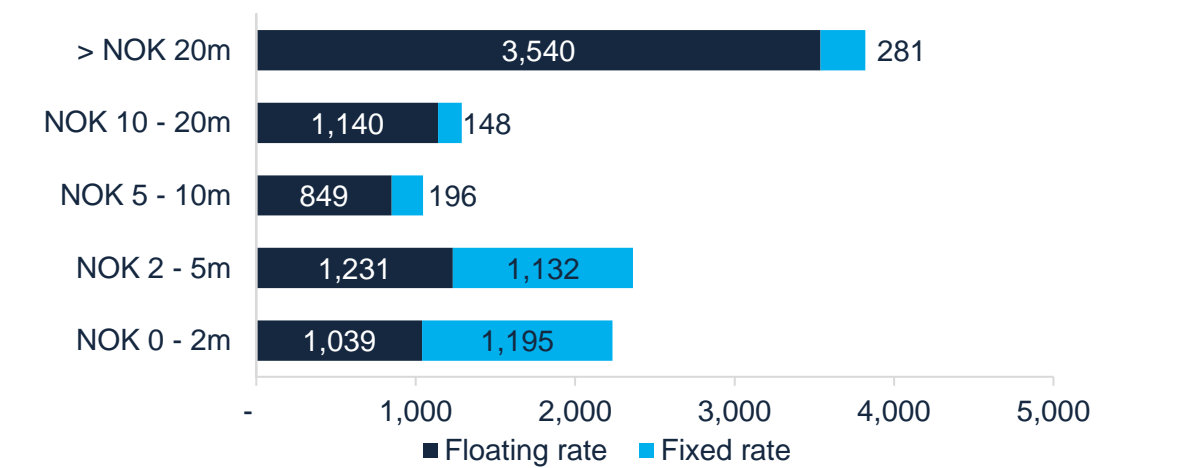
Deposits & senior debt

NOKm,
Percent customer deposits of net lending to customers

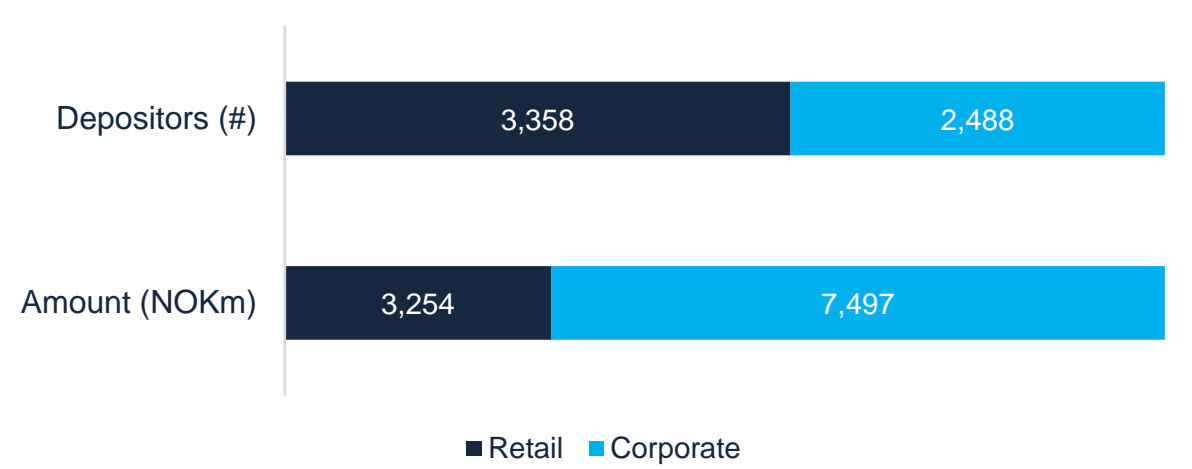


CUSTOMER DEPOSITS

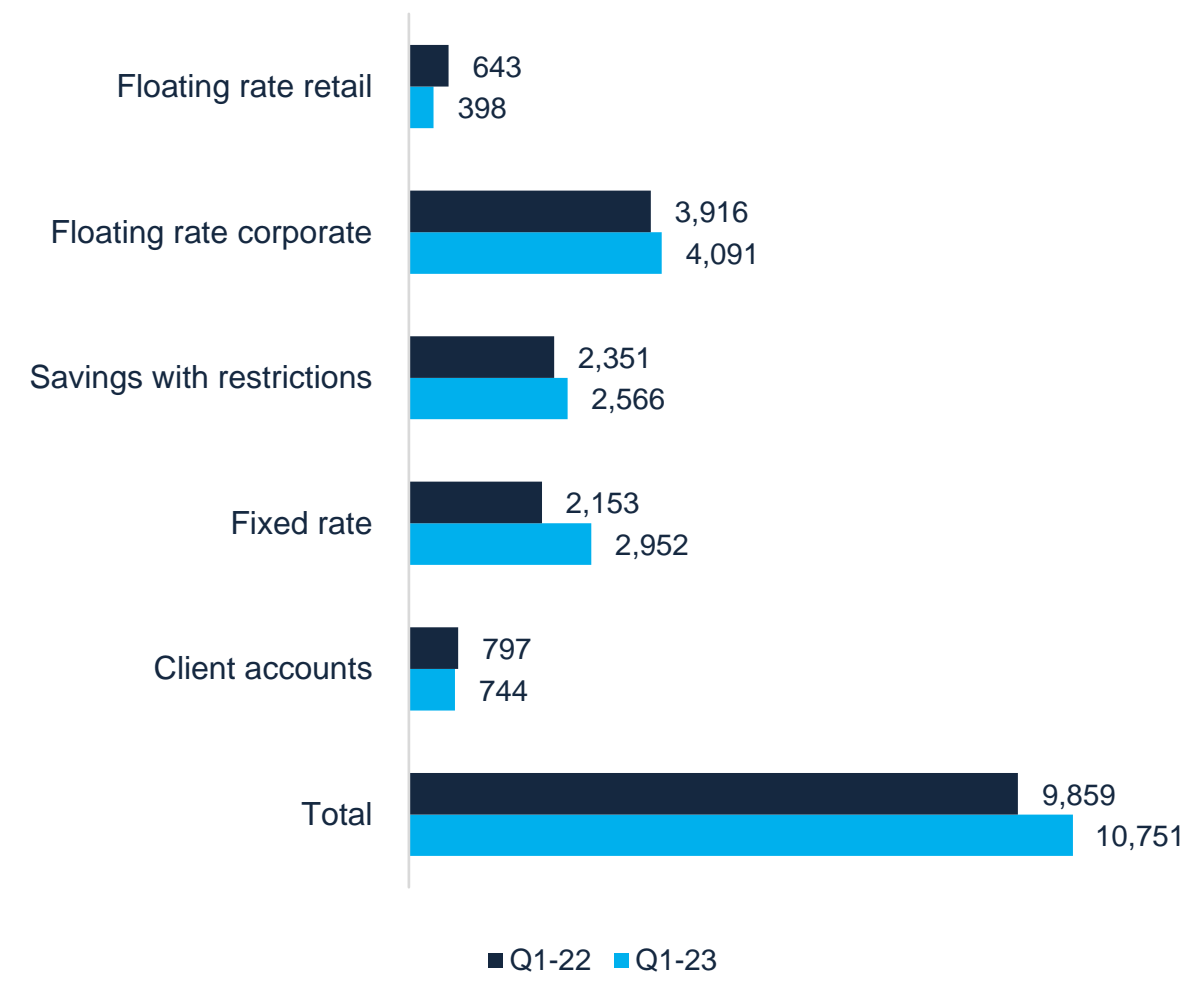
Deposits by size (NOKm)



Deposits by type (NOKm)

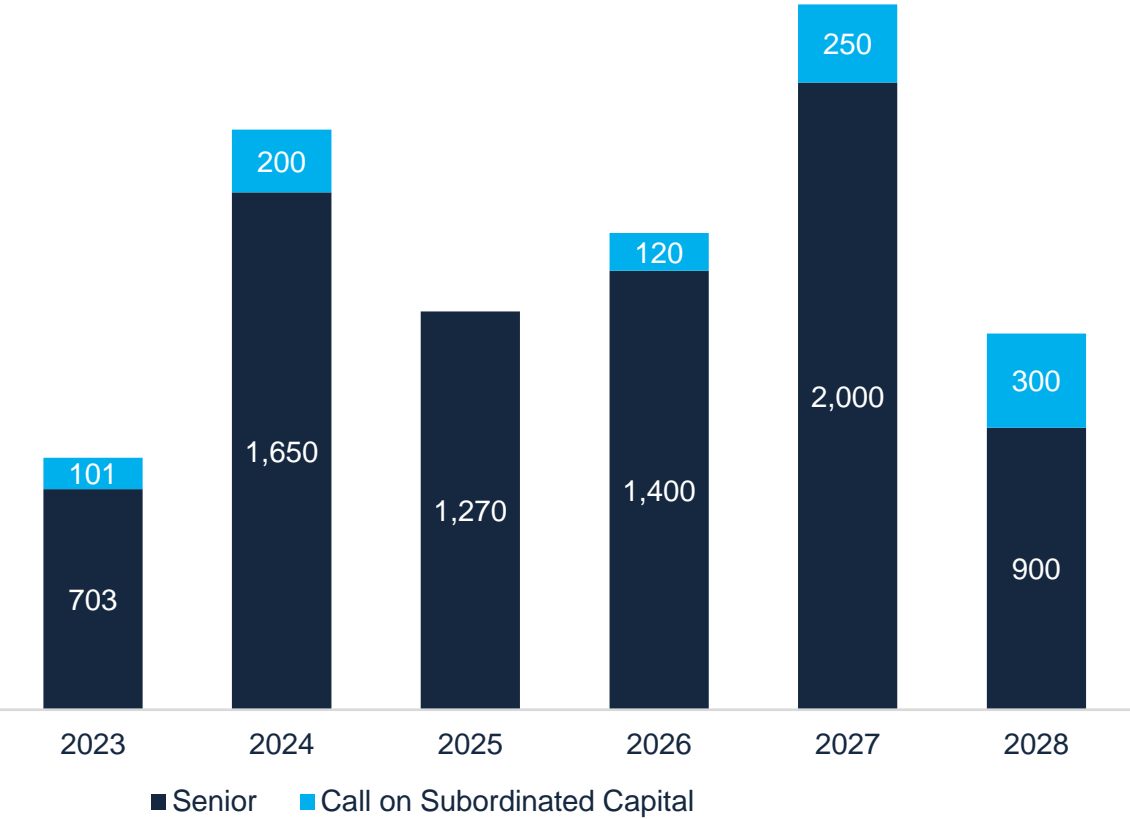


Deposits by product (NOKm)

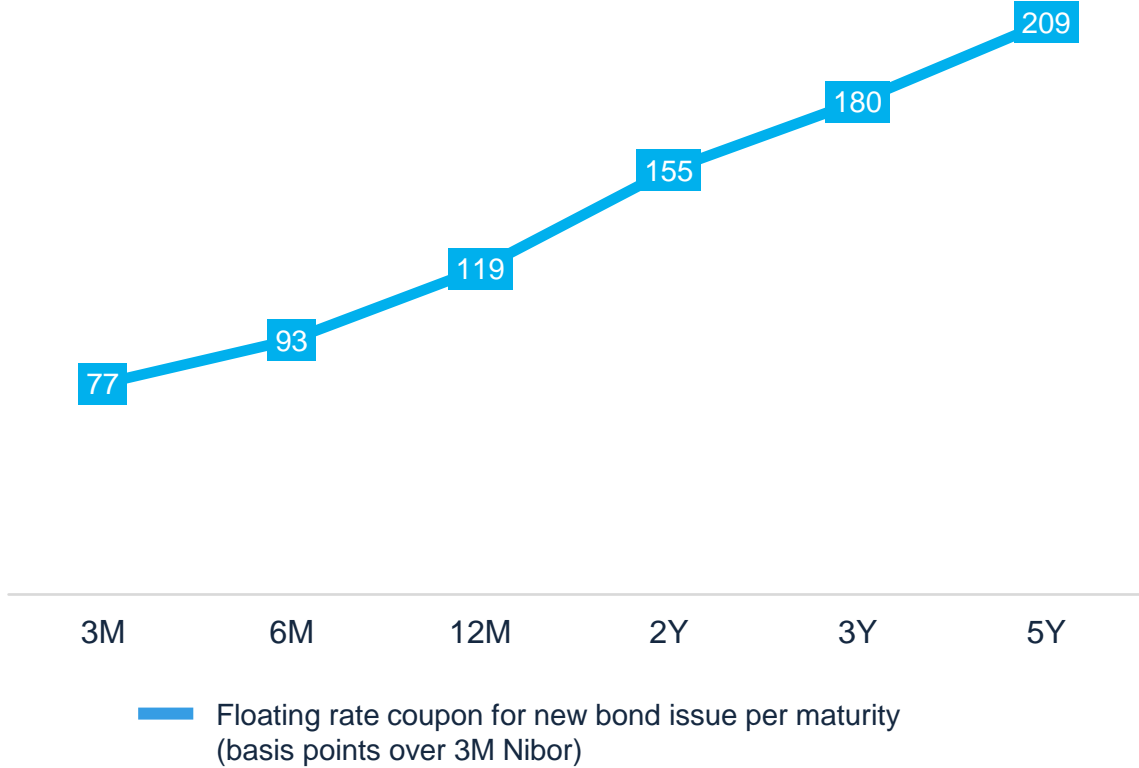


MARKET FUNDING

Market funding maturities (NOKm) *

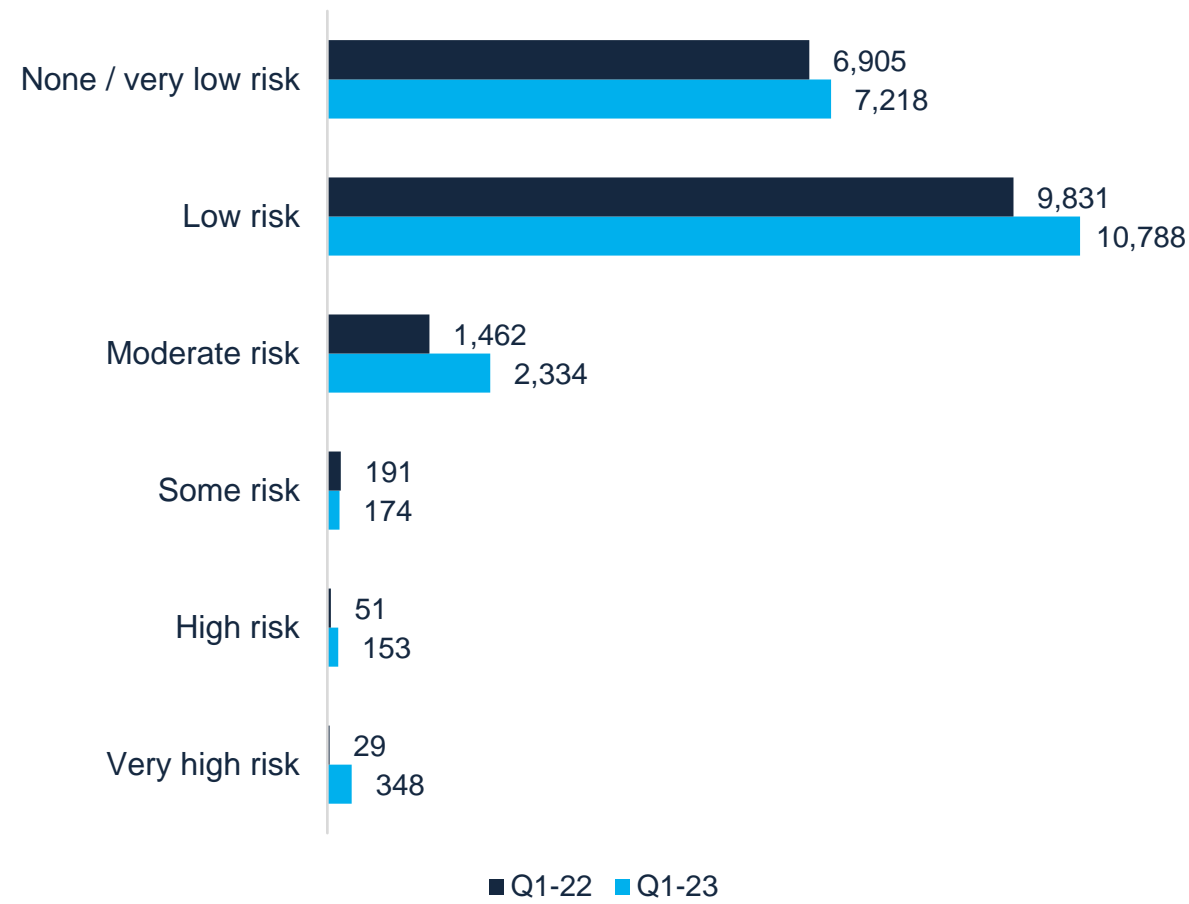


Cost of new market funding

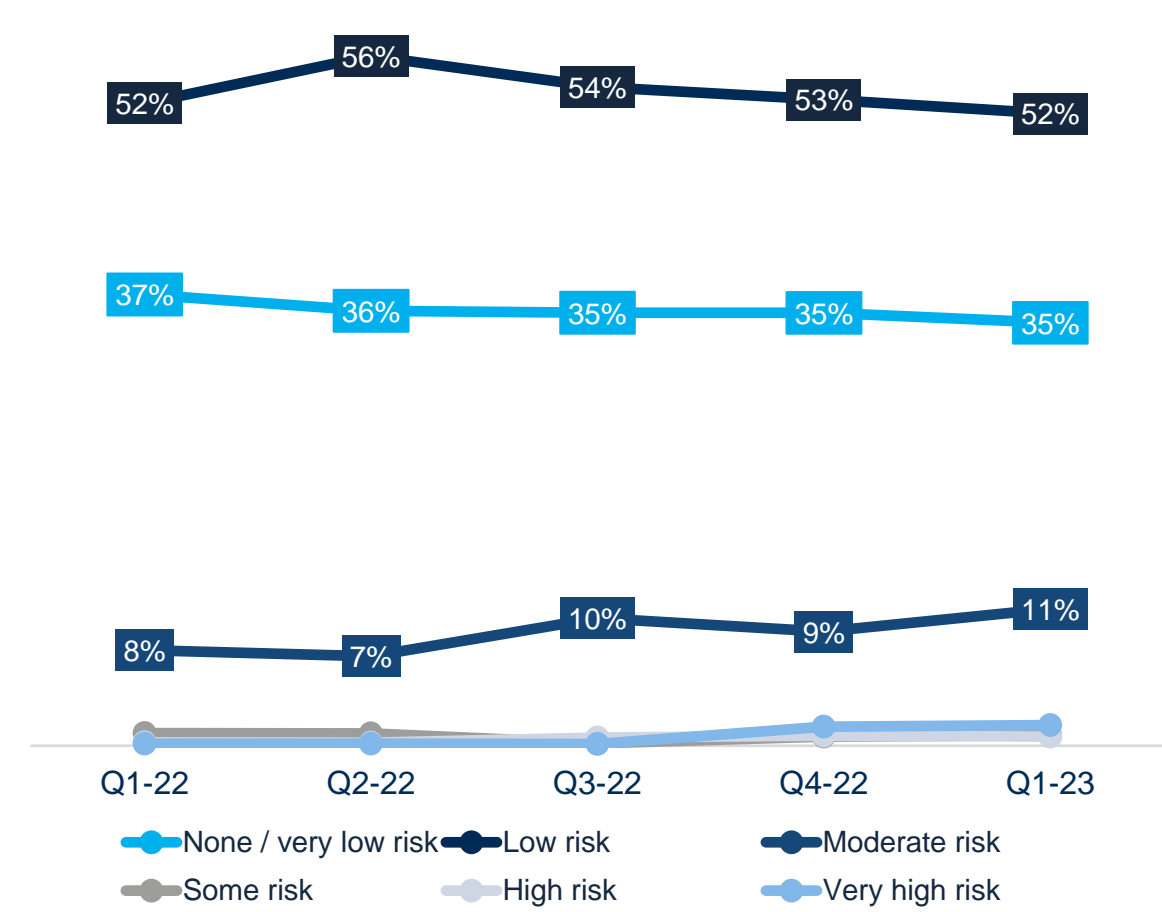


COMMITMENTS BY RISK CLASSIFICATION

Risk classification (NOKm)

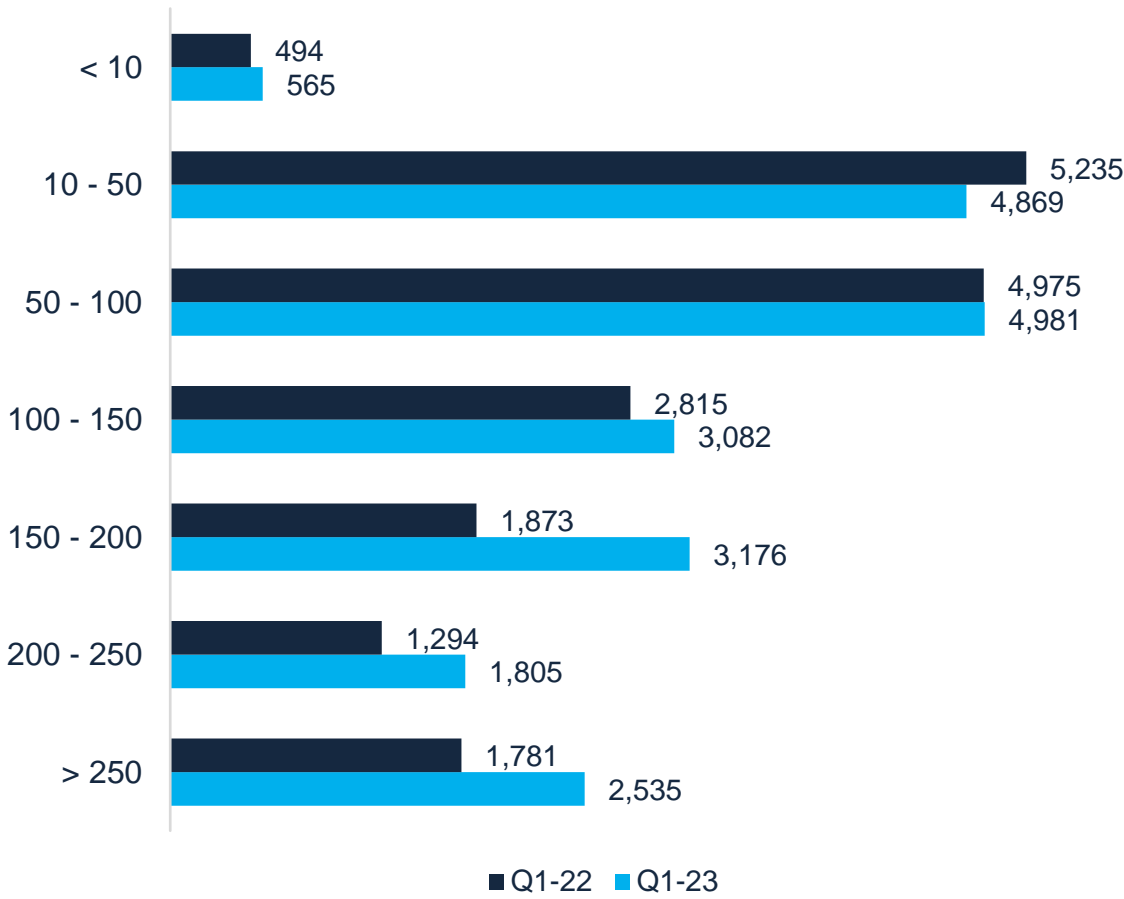


Historical risk classification

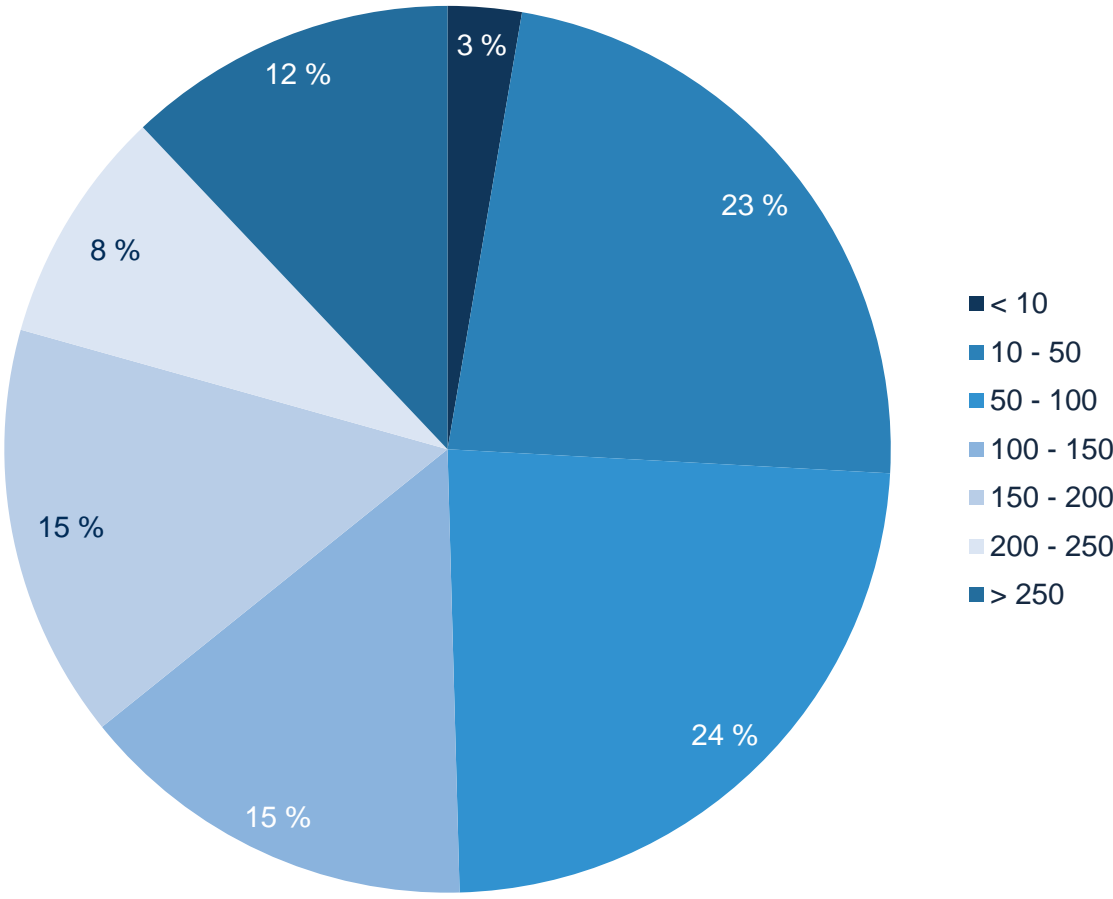


COMMITMENTS BY SIZE

Commitment size per customer (NOKm)



Distribution of commitments by size (NOKm)



Pareto bank | 15år