

PARETO BANK

Financial Results – Second Quarter 2023

# Highlights

## Financials

## Business Area Update & Outlook

# SECOND QUARTER 2023

## Highlights

- Profit after tax NOK 154.4m (NOK 133.0m in Q2-22).
- Return on equity after tax 14.8 % (14.5 %).
- Record high net interest income NOK 271.5m (NOK 225.8m).
- Lending to customers grew by NOK 637m to NOK 18,344m.
- Lending activity was high in all business areas. Growth came mainly within residential property financing and ship financing.
- Impairments of NOK 12.9m (NOK 9.6m). Increased model-based impairments within real estate financing due to increased macroeconomic uncertainty.
- Uncertain economic outlook is met with strict business priorities, high focus on profitability and, where necessary, tightened credit practice.

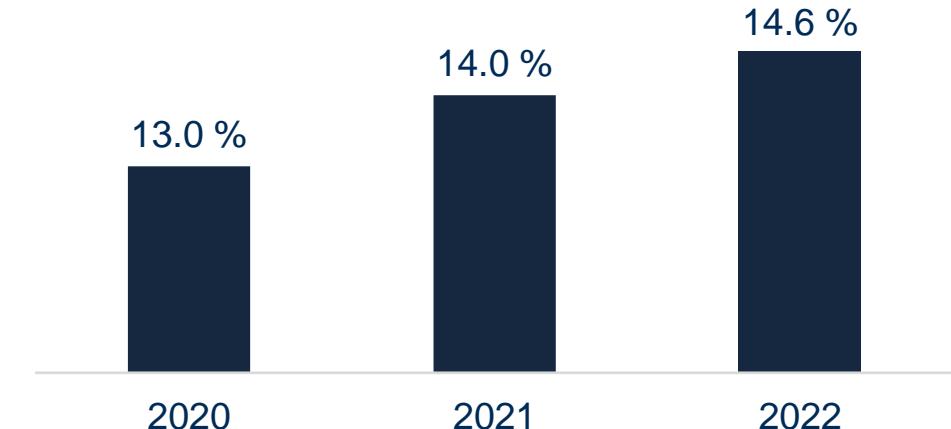


Iselin Tanke Berg and Tom Solvang, Pareto Bank

# RAISING LONG-TERM PROFITABILITY AMBITION

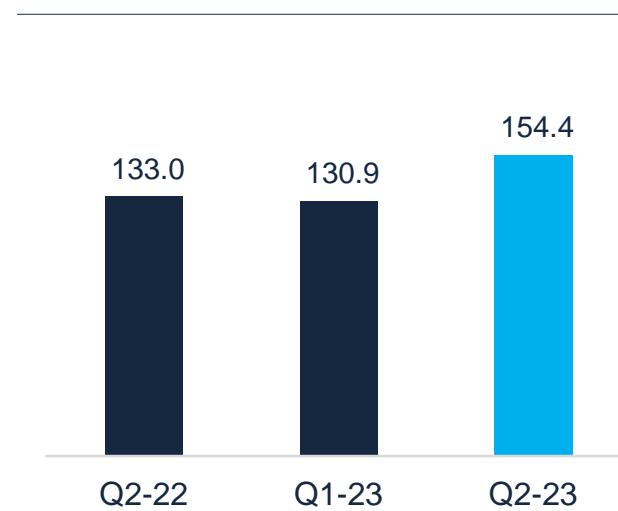
- Profitability ambition raised to 15 % return on equity after tax (ROE) .
- Higher interest rates lead to an expansion of margin between lending and deposits, as well as increased return on lending and liquidity buffer.
- Prospects for continued moderate lending growth. Pareto Bank has built a strong position in the large space for medium-sized corporate lending.
- Despite challenging macroeconomic conditions, credit quality remains stable.
- New pillar 2 capital requirement in line with expectations.

**ROE  
ambition  
15 %**

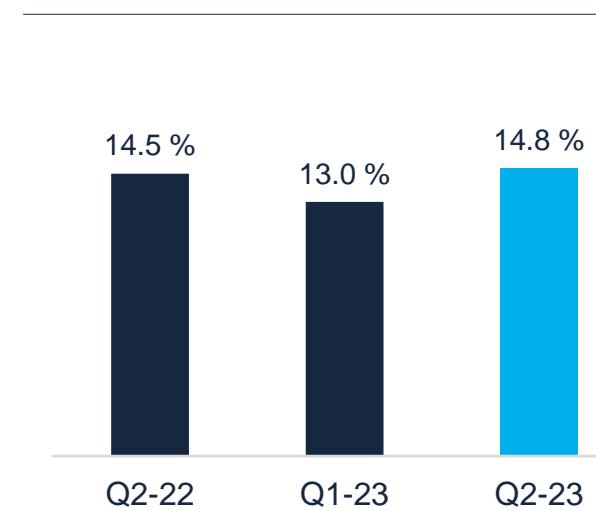


# KEY FIGURES

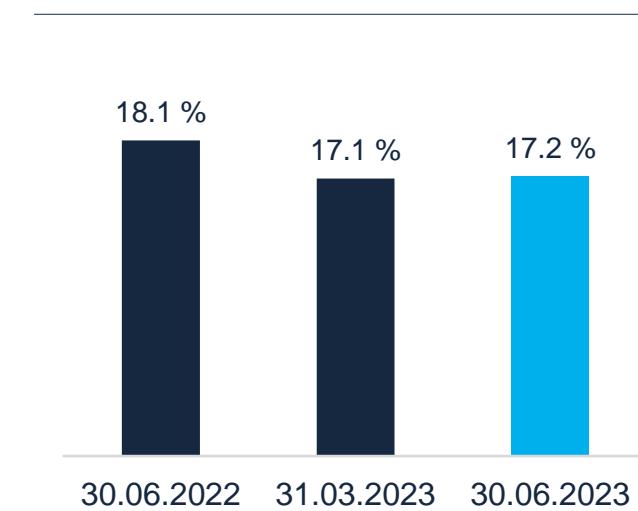
**Profit after tax (NOKm)**



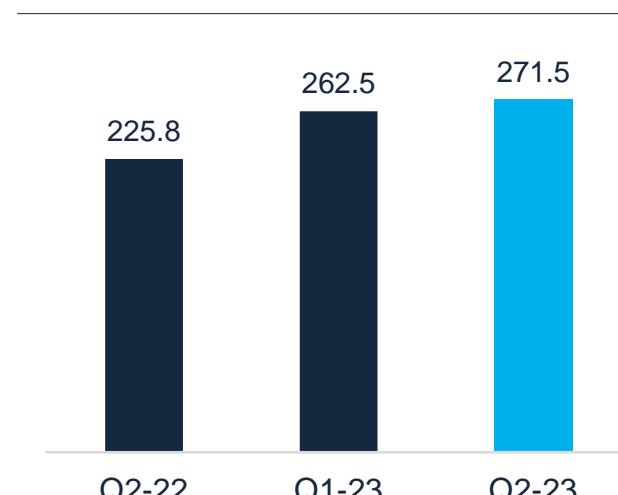
**Return on Equity \***



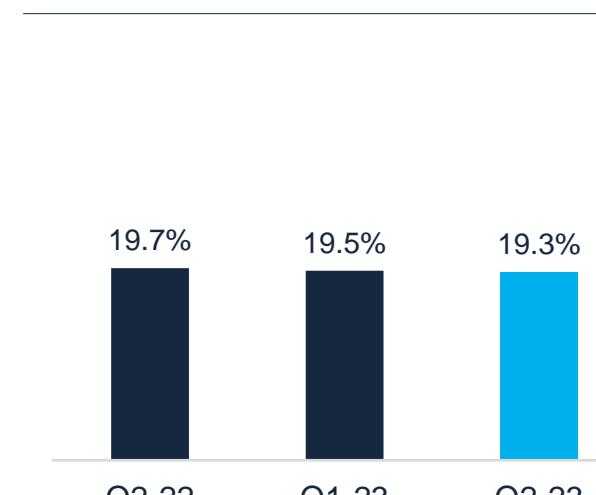
**CET1 ratio**



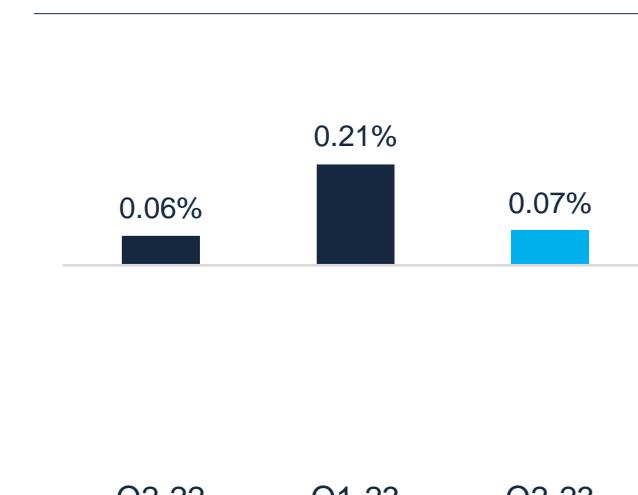
**Net interest income (NOKm)**



**Cost/Income ratio**



**Loss ratio \*\***



# Highlights

# Financials

# Business Area Update & Outlook

# INCOME STATEMENT

## P&L (NOKm)

	Q2-23	Q2-22	H1-23	H1-22
Net interest income	271.5	225.8	534.0	433.3
Net other operating income	-5.4	5.4	-8.4	13.6
<b>Total net income</b>	<b>266.1</b>	<b>231.2</b>	<b>525.7</b>	<b>446.9</b>
Total operating expenses	51.4	45.6	102.0	90.9
<b>Operating profit before impairments and losses</b>	<b>214.7</b>	<b>185.6</b>	<b>423.7</b>	<b>356.0</b>
Impairments and losses on loans and guarantees	12.9	9.6	49.3	25.1
<b>Pre-tax operating profit</b>	<b>201.8</b>	<b>175.9</b>	<b>374.4</b>	<b>330.9</b>
Tax expense	47.4	42.9	89.1	81.0
<b>Profit for the period</b>	<b>154.4</b>	<b>133.0</b>	<b>285.3</b>	<b>249.9</b>
Earnings per share (NOK)	2.03	1.84	3.83	3.48
Return on equity	14.8 %	14.5 %	13.8 %	13.6 %
Cost/income ratio	19.3 %	19.7 %	19.4 %	20.3 %

Increased lending rate, fee income and lending growth all contributed to a record strong net interest income.

Lending rates increased by 0.5 percentage points in the quarter, followed by 0.5 percentage points in July.

Continued increase in credit spreads had a negative effect on valuation of bond portfolio.

Costs as expected. Growth in employees compared to Q2-22.

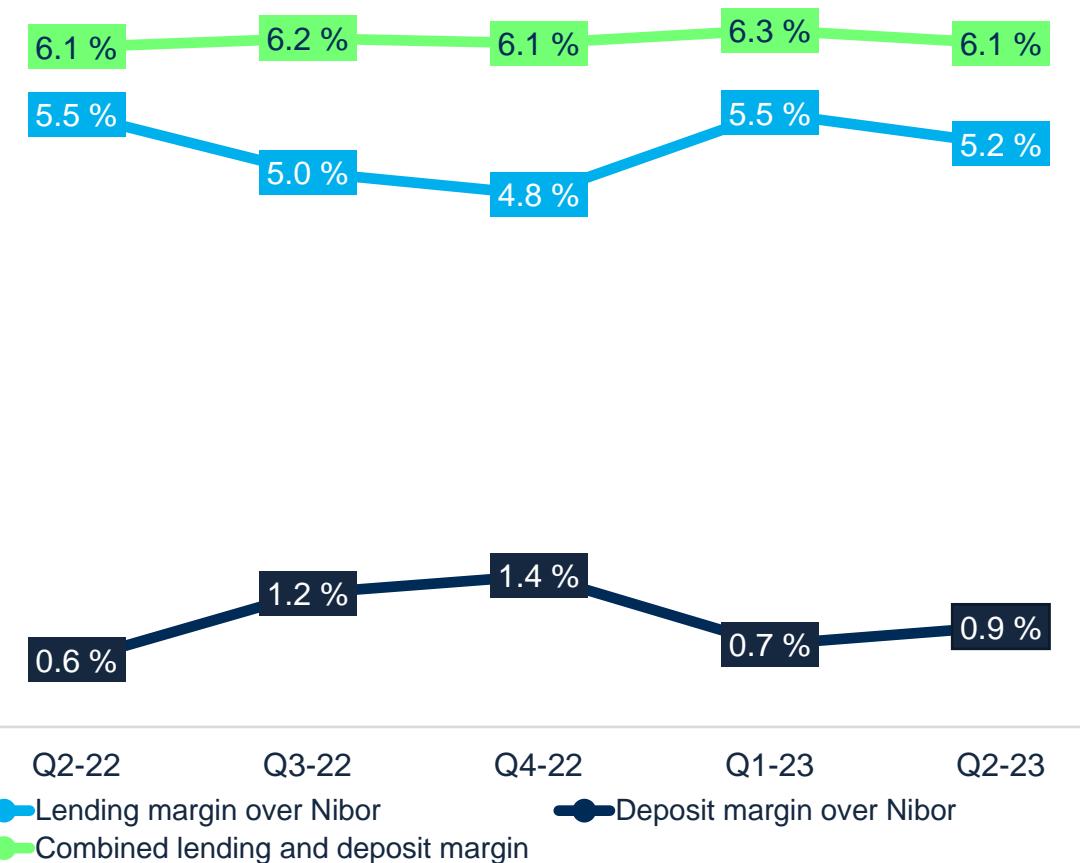
Impairments composed of a combination of adjustment of macroeconomic scenarios, reversals and individual impairments.

# QUARTERLY CHANGE IN NET INTEREST INCOME (NOKm)



# INTEREST MARGINS

## Lending and deposit margin



## Net interest margin

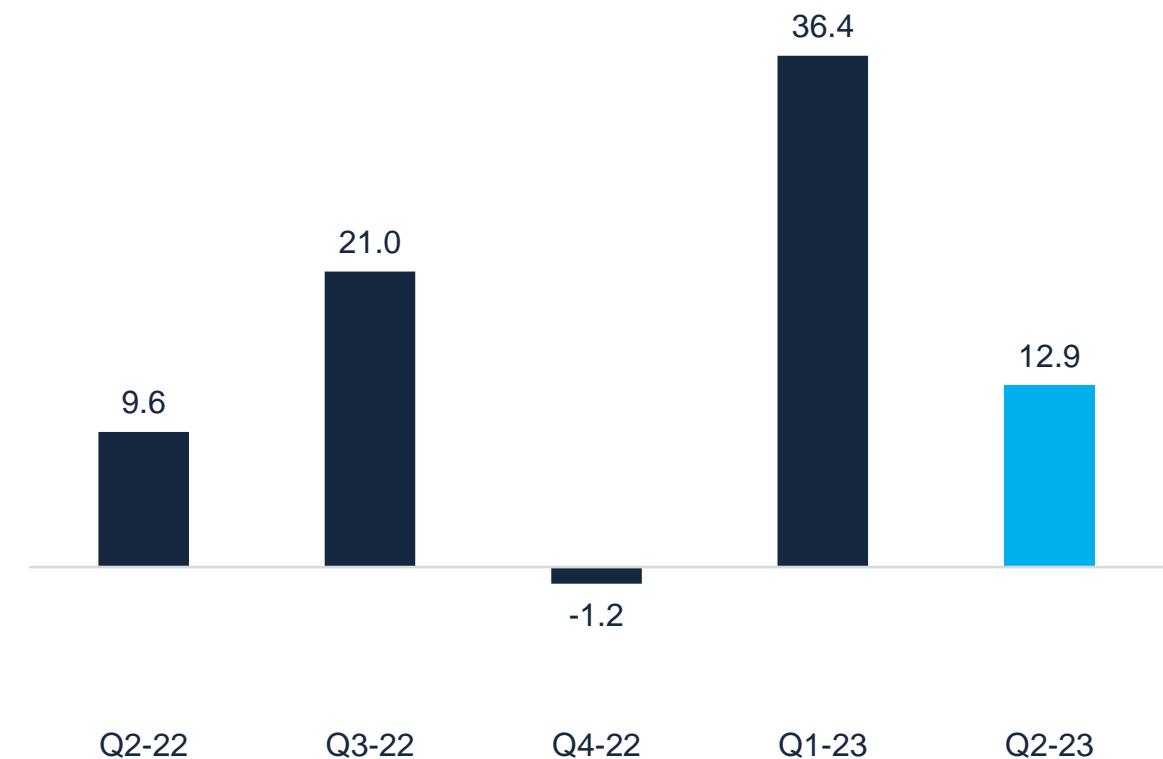


# QUARTERLY CHANGE IN IMPAIRMENTS

## Impairments (NOKm)

	Q2-23	Q1-23
Stage 1	7.5	0.2
Stage 2	-4.7	6.7
Stage 3	9.4	26.5
Write-offs	0.7	2.9
<b>Total impairments</b>	<b>12.9</b>	<b>36.4</b>

## Impairments (NOKm)

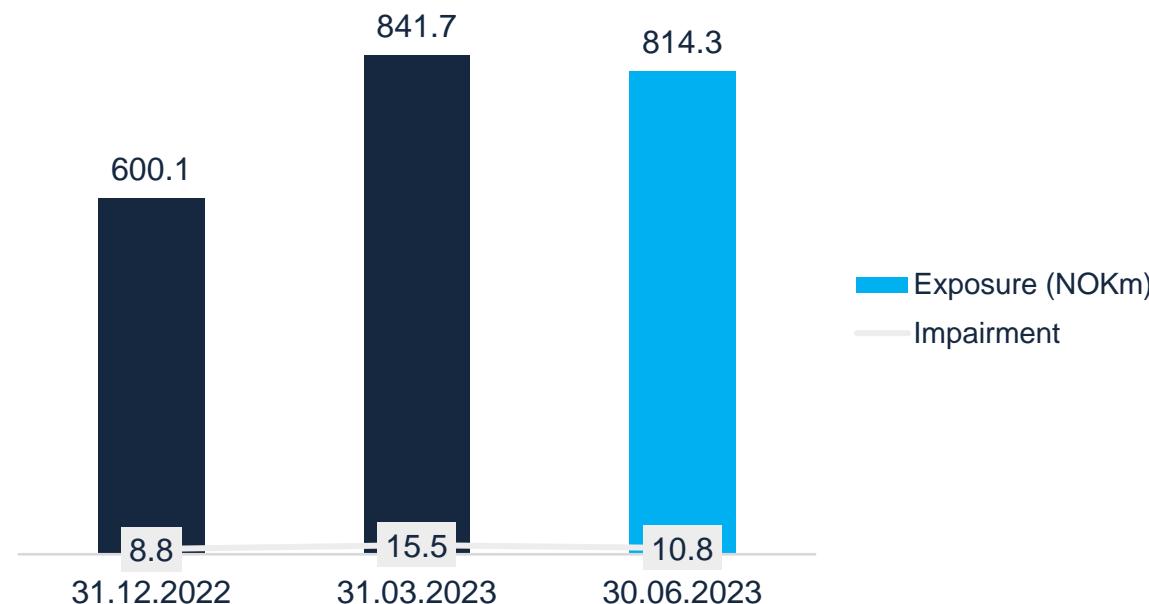


- Tightening of macroeconomic scenarios within real estate increased impairments in stage 1 and 2 by NOK 10.0m all else equal.
- Reduced impairments in stage 2 due to improved risk classification, redemptions and migration to stage 1.
- Impairments in stage 3 made up of impairment of principal of NOK 4.3m and impairment of interest rate income of NOK 5.0m.

# CHANGES IN STAGE 2 & 3

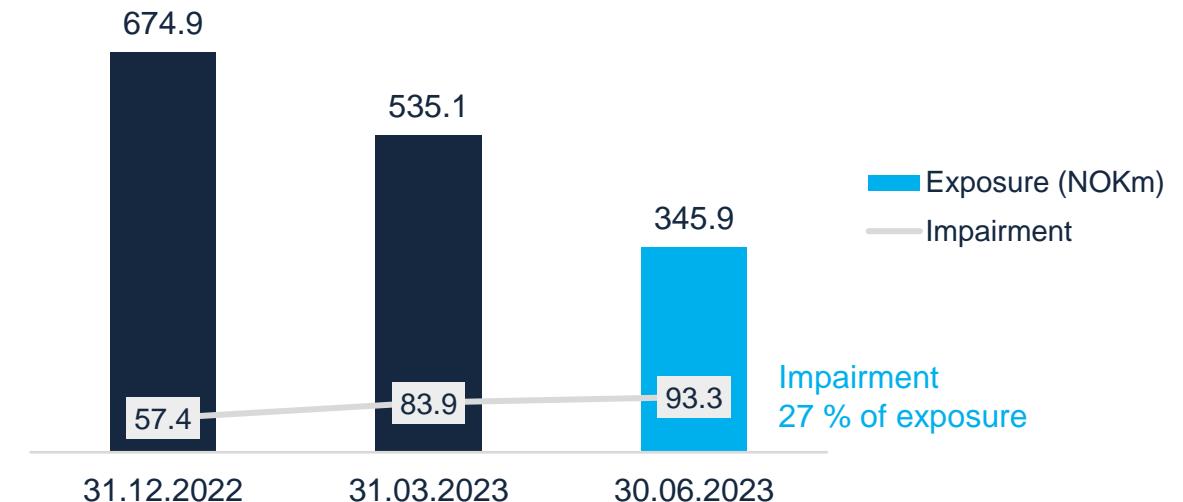
## Stage 2

- Commitments on watch list, under forbearance or where there has otherwise been a material increase in risk.
- Model-based impairments.
- Reduced impairments due to improved risk classification, redemptions and migration to stage 1.

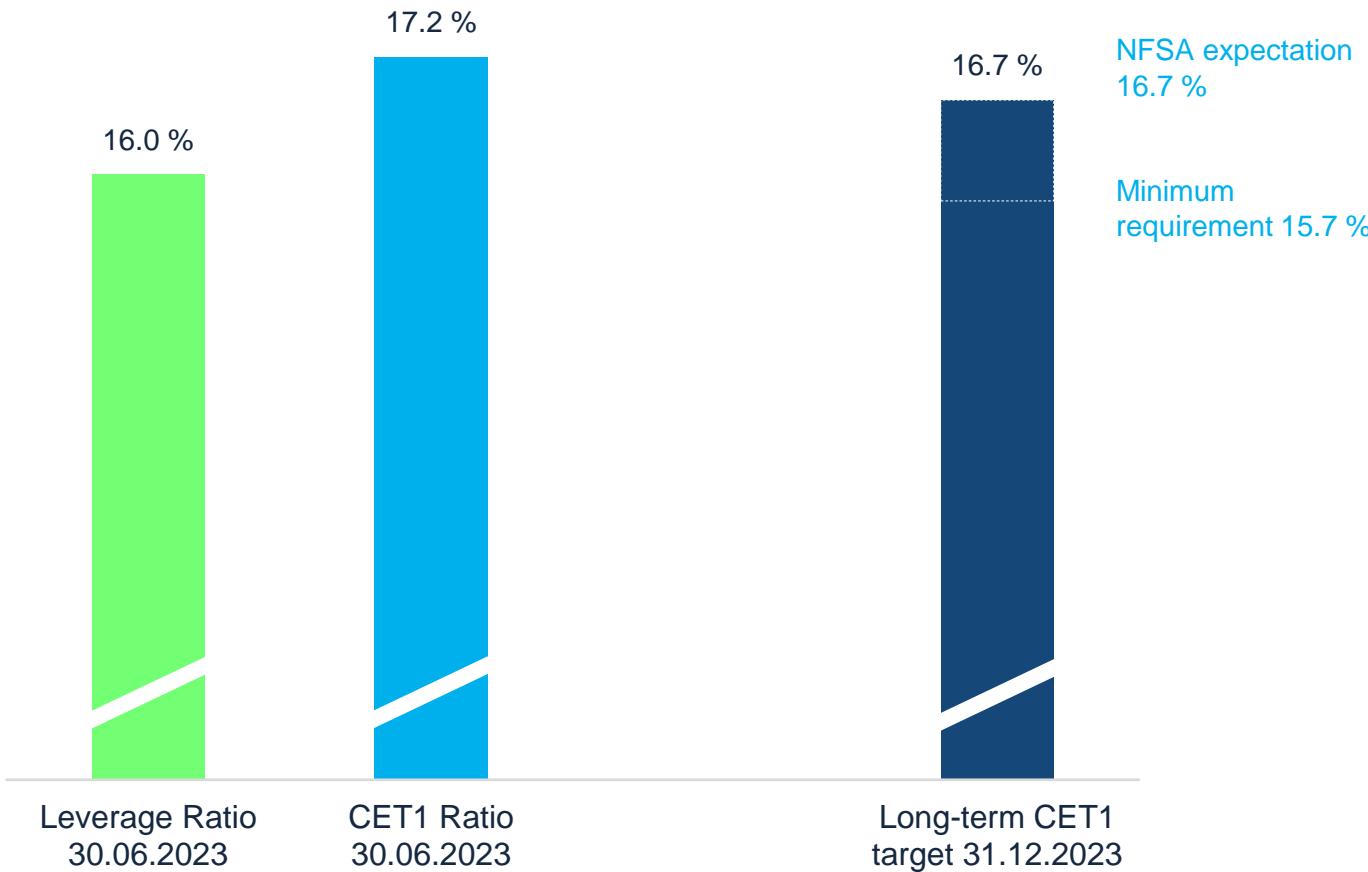


## Stage 3

- 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. Cost overruns linked to challenging project execution. The residential property projects are near completion.
- Reduction in impaired loans due to redemptions.



# LONG-TERM CAPITAL TARGET



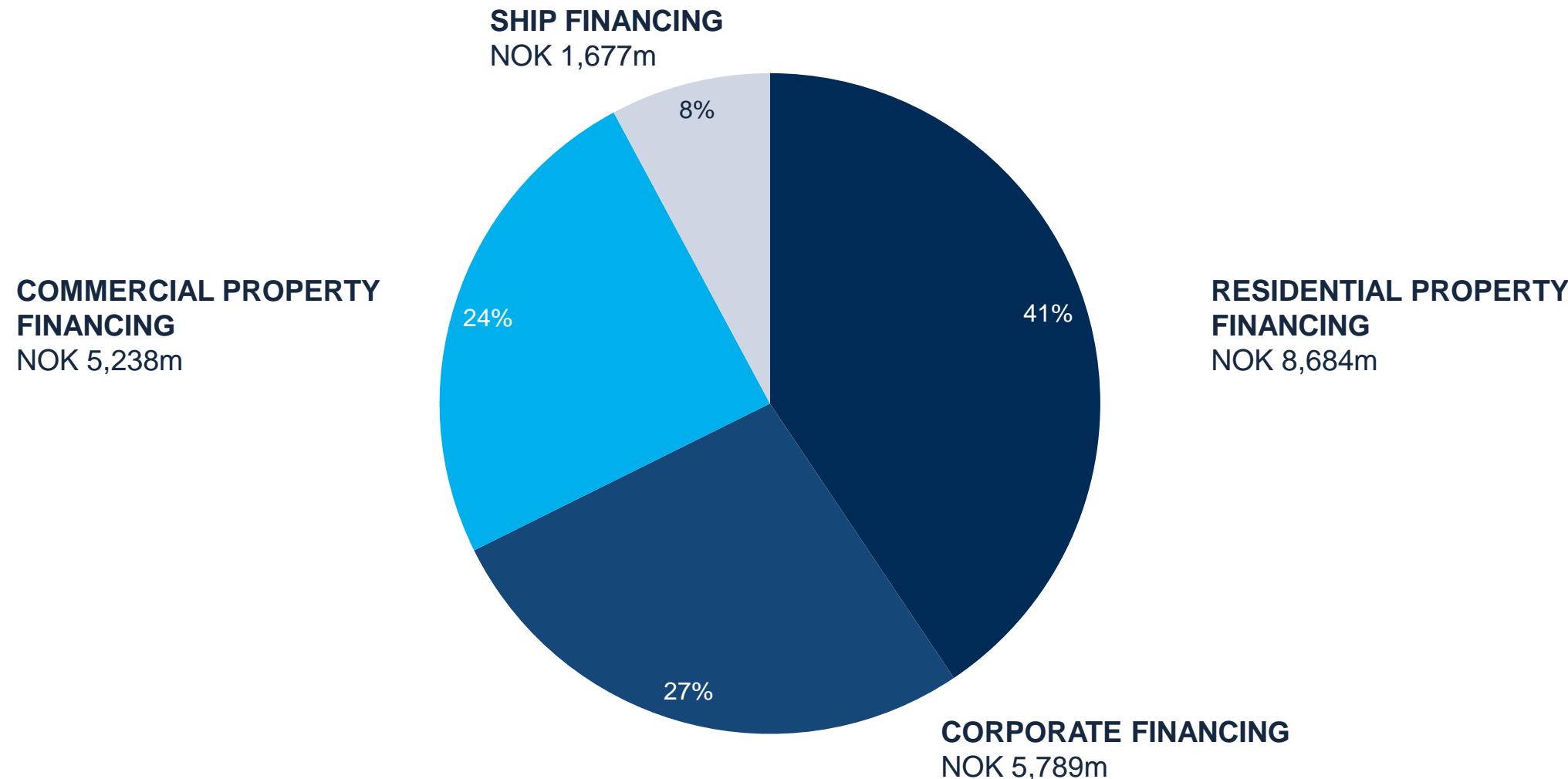
- New pillar 2 capital requirement of 3.1 %. Down from 3.2 % and in line with expectations.
  - 1.74 % must be made up of CET1 capital.
  - The NFSA expects Pareto Bank to hold a P2G buffer of at least 1.0 %.
  - Takes effect 31.08.2023.
- Increase in systemic risk capital buffer at year-end of 1.5 percentage points.
- Long-term capital target is a CET1 ratio of at least 16.7 %.
- Pareto Bank will hold a buffer above this target.

Highlights  
Financials

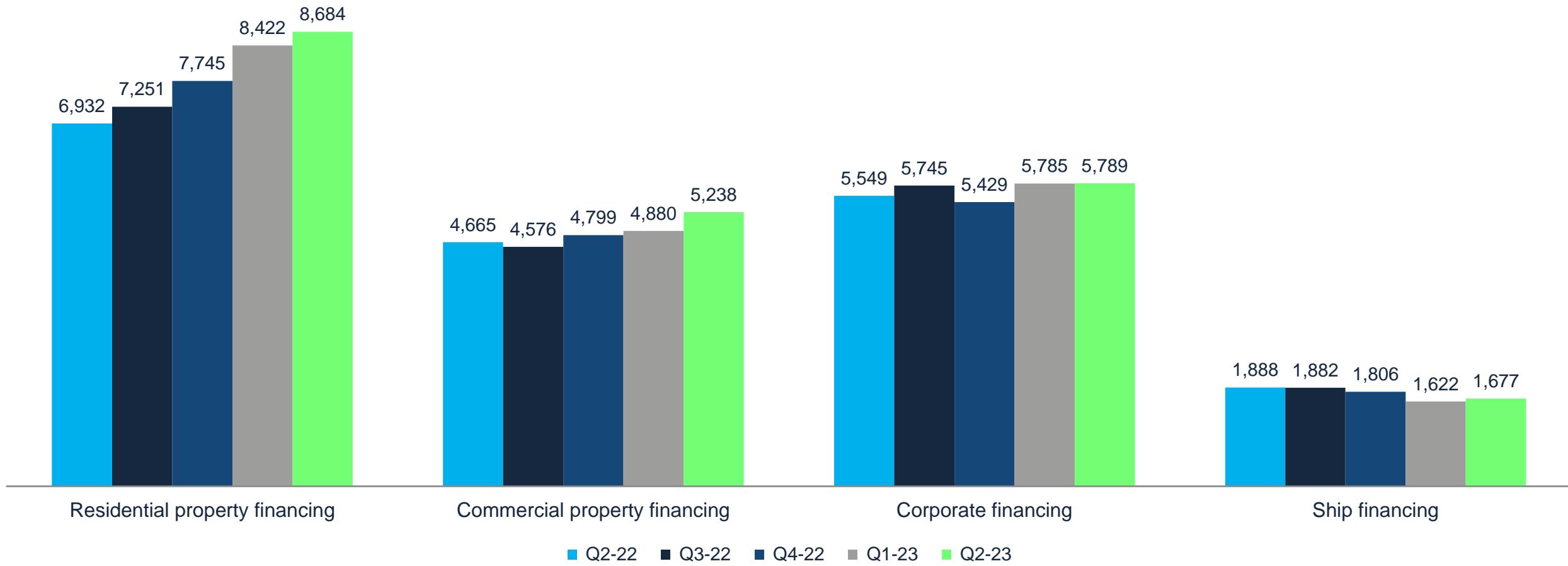
## **Business Area Update & Outlook**

# 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.
- Exposure growth of NOK 262m in Q2-23 within land financing.
- 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 projects (in stage 2 or 3) where project execution has been challenging. The projects are close to completion.
- Frequent customer dialogue and reporting as well as third-party control.

### Residential property exposure (NOKm)

Total NOK 8,684m



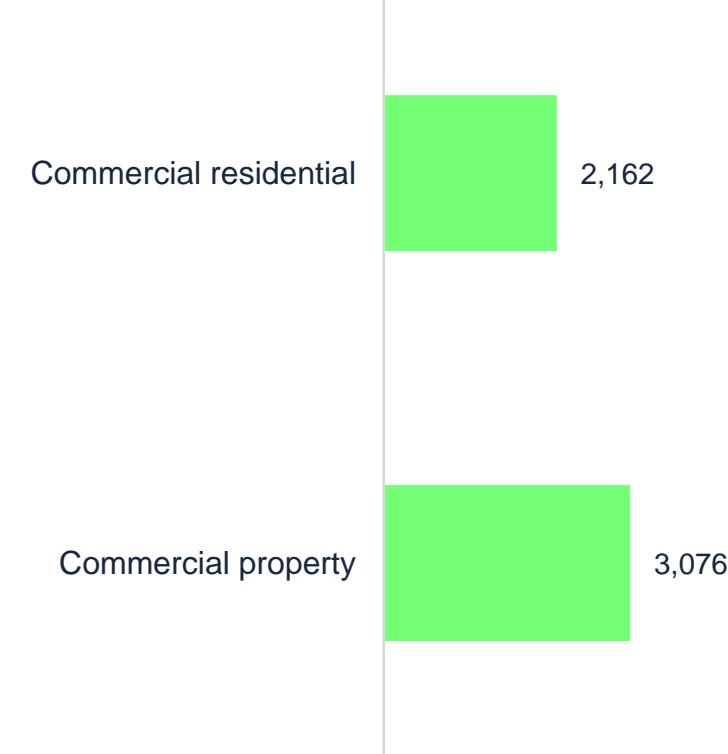
# COMMERCIAL PROPERTY FINANCING

## Credit update

- Commercial residential includes financing of housing for rent, while commercial property includes financing of commercial property.
- Exposure growth of NOK 348m within commercial residential in Q2-23.
- Exposure to commercial property unchanged in Q2-23.

### Commercial property exposure (NOKm)

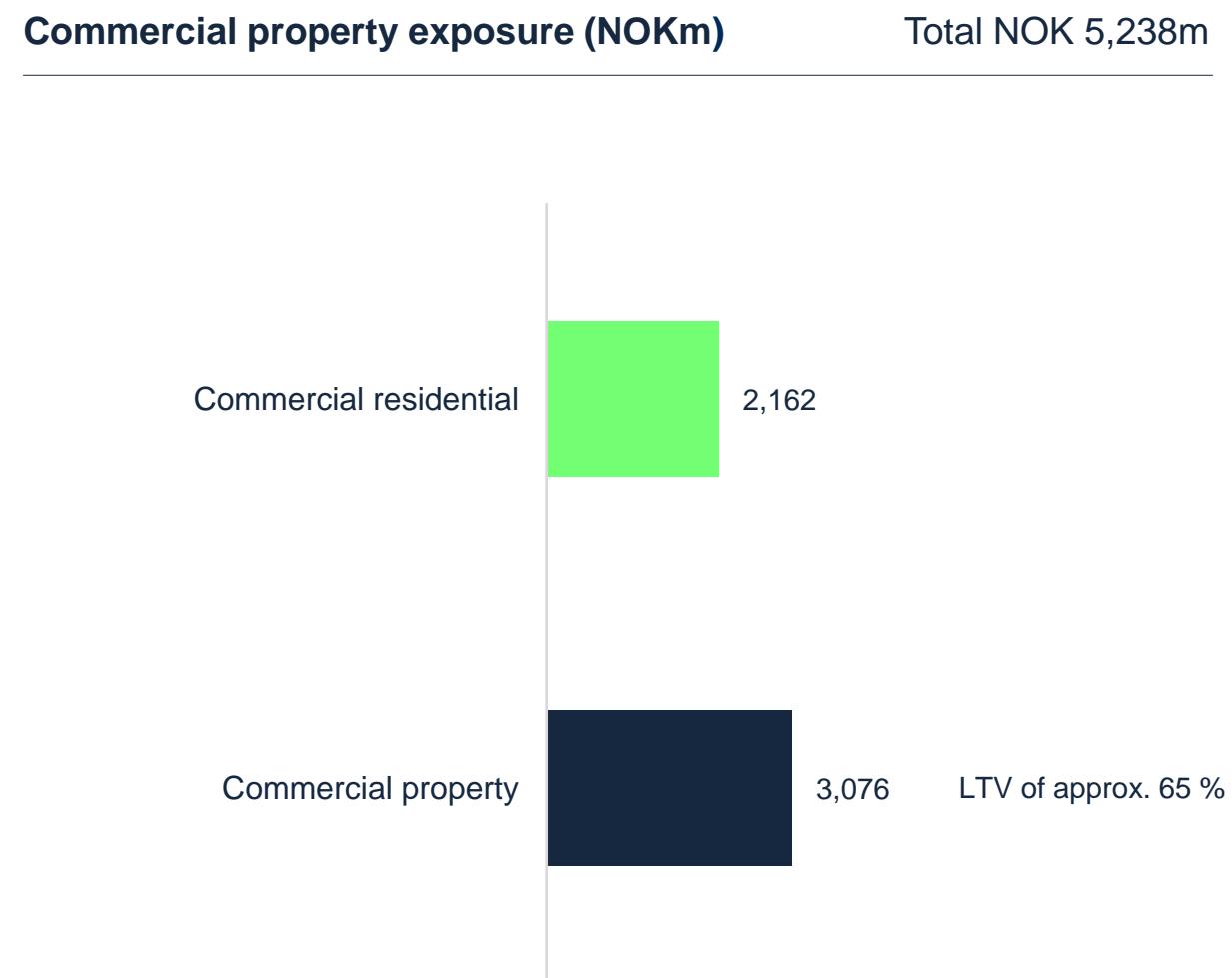
Total NOK 5,238m



# COMMERCIAL PROPERTY FINANCING

## Credit update

- Financing of cash-flow based commercial property (87 % of exposure) and development (13 %).
- More conservative credit practice applied. Equity contribution 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.
- 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.



# MARKET OUTLOOK

## Real estate

### Residential property

Signs of a weaker secondary housing market as higher interest rates and inflation have an effect on demand.

New-build projects are put on hold. Profitability is hurt by cost inflation and interest rate hikes. Pre-sale requirements are in general more difficult to meet.

Higher than expected deal flow and growth in Q2-23.

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

### Commercial property

Valuation continues to be uncertain. Increase in interest rates leads to higher yields and lower property values. Activity in the transaction market continues to be low.

Higher financing costs and more restrictive banks. Exit through sale or refinancing more difficult.

Reduced risk appetite and exposure in Q2-23.



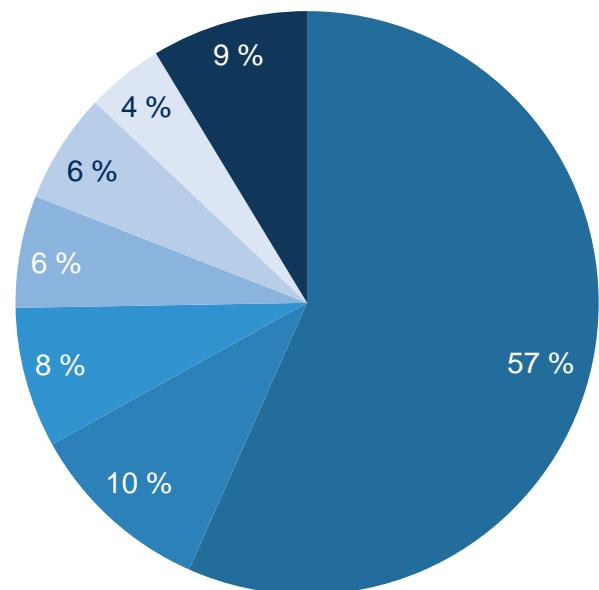
**Good deal flow, despite a weak new-build market. Selective credit practice. Moderate lending growth in H2-23.**

# CORPORATE FINANCING

## Exposure (NOKm)

Total NOK 5,789m

- Tailor-made financing solutions to medium-sized enterprises.

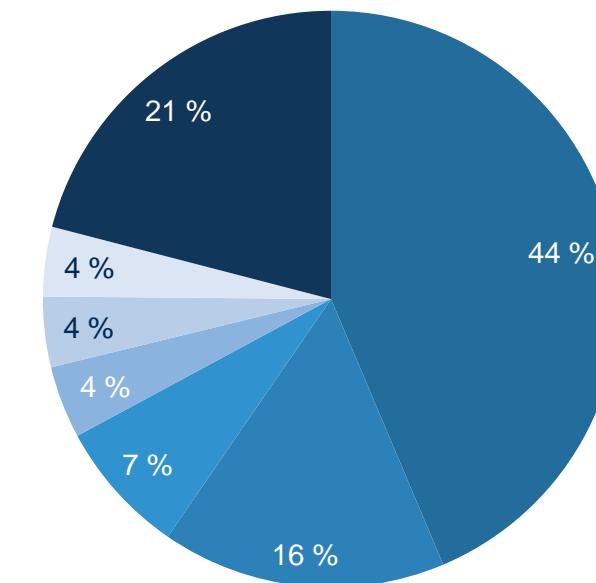


- Investment loans
- Working capital facilities
- M&A loans
- Corporate backed loans
- Recapitalisation
- Government guaranteed
- Others

## Credit update

Total NOK 5,789m

- Unchanged exposure in Q2-23.
- A conservative credit practice is continued.
- Follow-up of a small number of customers (in stage 2 and 3) who are affected by lower demand and higher operational costs and financing costs.



- Real Estate
- Investment Company
- IT/Telecommunications
- Logistics
- Cruise
- Food processing
- Others

# MARKET OUTLOOK

## Corporate

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

Corporate profitability is in general under pressure due to softer demand, inflation and higher financing costs.

Activity was good in Q2-23. Loan redemptions led to flat lending volume in the quarter.

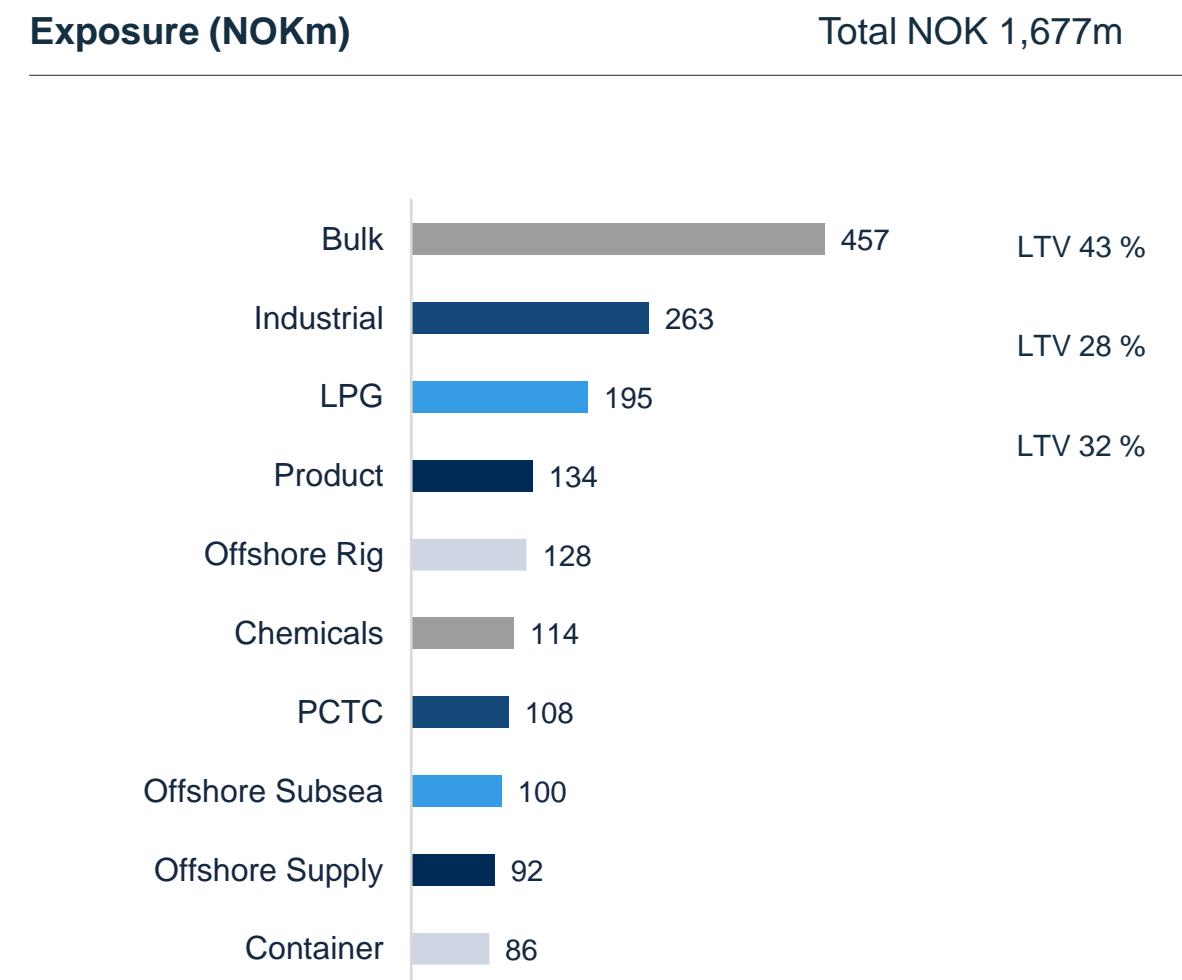


**Good long-term growth prospects.  
Selective credit practice and moderate growth in H2-23.**

# SHIP FINANCING

## Credit update

- Focus on medium-sized shipowners, family offices and the investment project market.
- Steep repayment of loans led to a small exposure growth in Q2-23 despite good activity. Two new offshore loans with reputable corporates.
- Corporate loans make up 56 % of the exposure, the remaining 44 % are loans to investment projects.
- Average commitment size USD 8.6m and largest exposure of USD 21.0m.
- 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 35 %.



# MARKET OUTLOOK

## Shipping and offshore

Positive outlook for the dry bulk market due to a low order book for newbuilds. Uncertainty regarding demand given macroeconomic headwinds and fragile Chinese growth.

Strong tanker markets with record-low order book and increased demand from longer transportation distances.

Soft container market due to weak demand, easing of congestion and accelerating fleet growth.

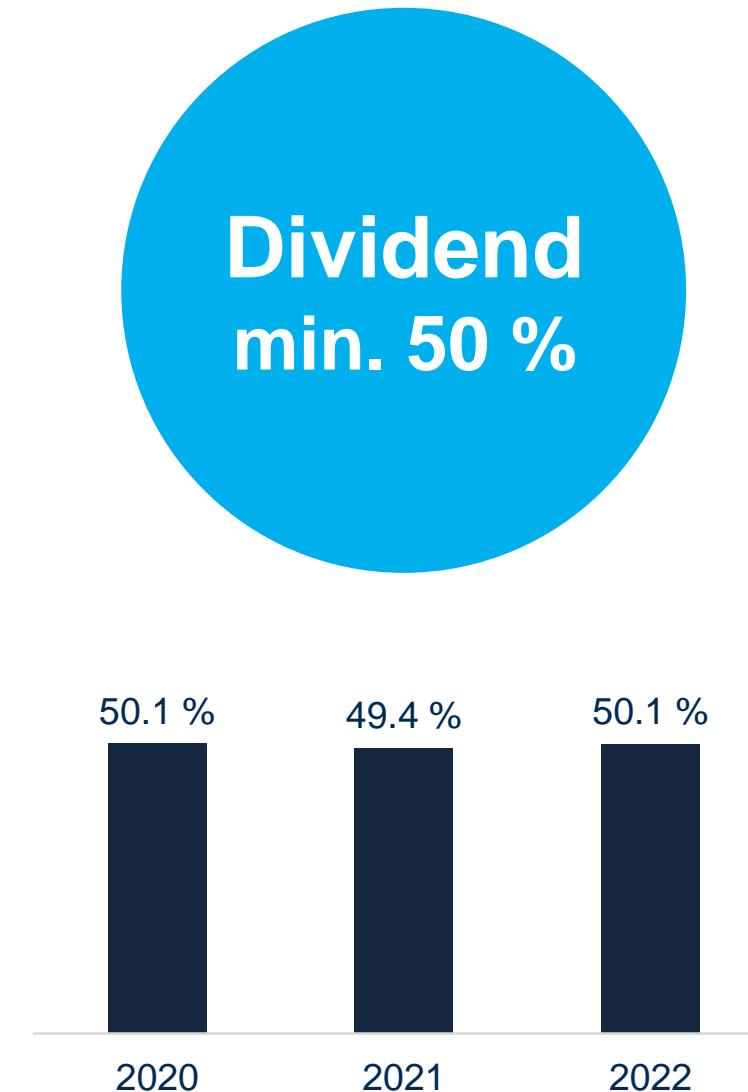
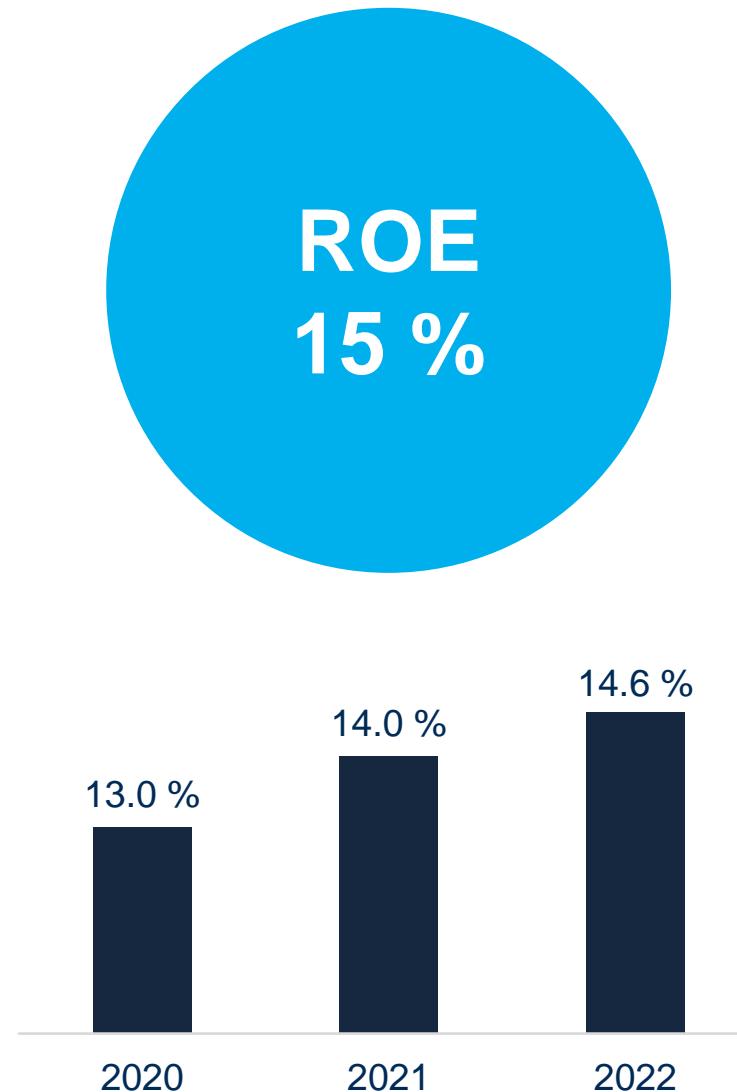
For other shipping segments, lower global economic growth is expected to have a negative impact on demand. The downside is mitigated by moderate supply growth.

Strong demand in the offshore markets supported by increased attention to energy security and investments in offshore wind. Limited fleet growth in 2023 and thus positive outlook.



**Modest deal flow in shipping and strong in offshore. Loan volume expected to remain stable in H2-23.**

# LONG-TERM AMBITIONS



# APPENDIX

# LARGEST SHAREHOLDERS

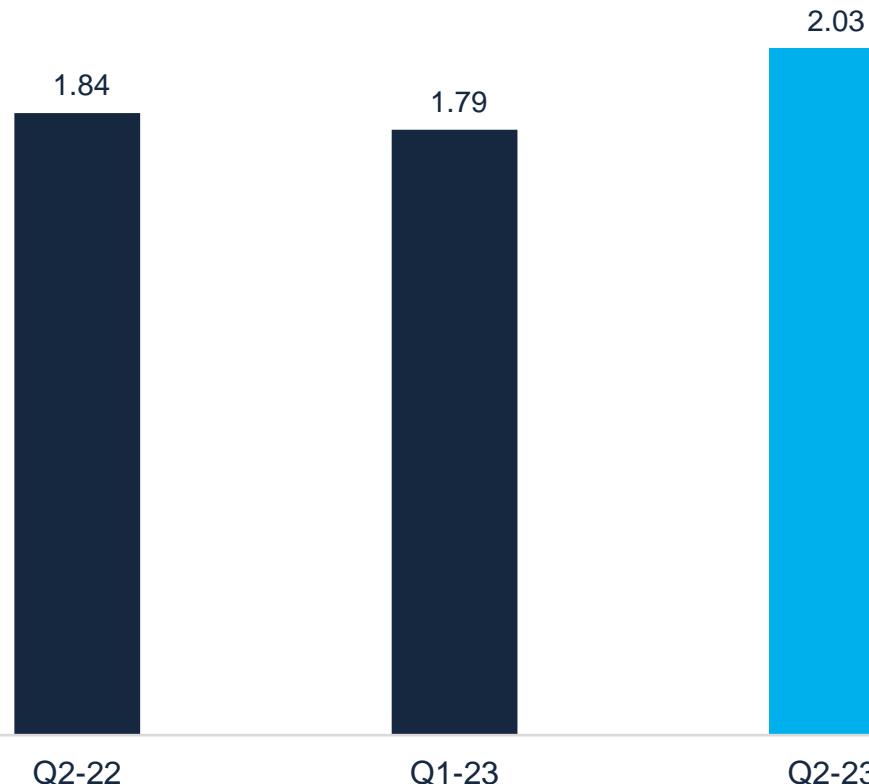
## 30 June 2023

	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	Verdipapirfondet Holberg Norge	2,027,309	2.90 %
5	Landkredit Utbytte	2,025,000	2.90 %
6	Salt Value AS	1,996,140	2.86 %
7	Svemorka Holding AS	1,928,683	2.76 %
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	Castel AS	644,715	0.92 %
19	Hausta Investor AS	553,000	0.79 %
20	Wenaasgruppen AS	551,000	0.79 %
<b>Sum TOP 20</b>		<b>45,540,421</b>	<b>65.20 %</b>
<b>Other shareholders</b>		<b>24,311,309</b>	<b>34.80 %</b>
<b>Total</b>		<b>69,851,730</b>	<b>100.00 %</b>

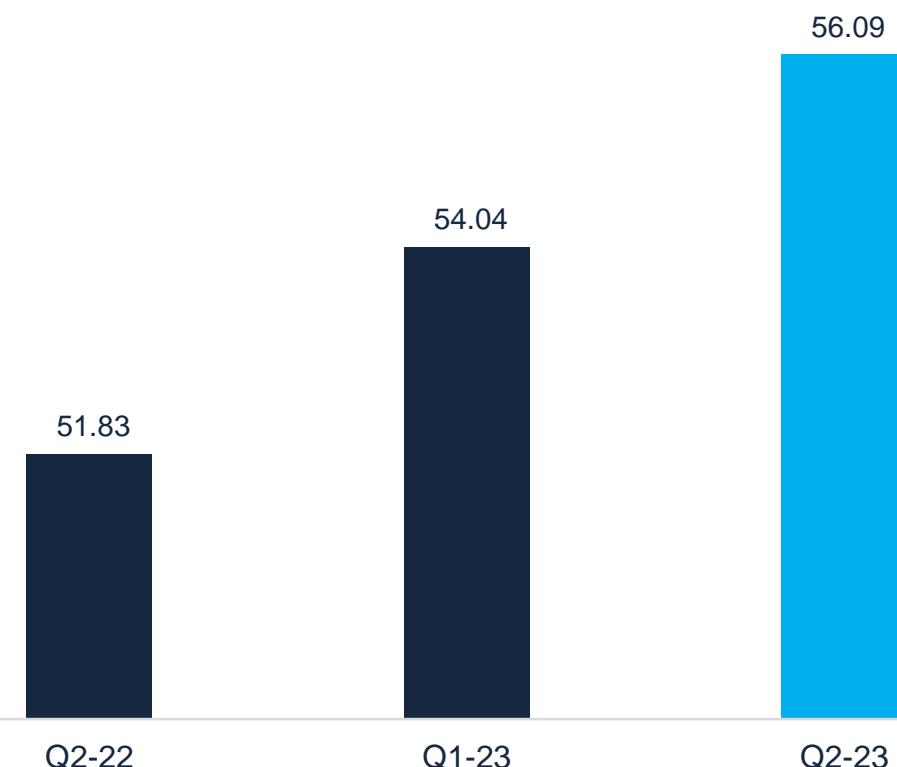
- The Company has 69,851,730 shares outstanding. One class of shares where each share carries one voting right.
- Diversified investor base with 3,509 shareholders.
- The Top 10 and 20 investors hold 53 % and 65 % of the shares respectively.
- Employees in Pareto Bank own 1.8 %.
- Top management and owners in the Pareto Group own 3.5 %.
- 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)



# QUARTERLY INCOME STATEMENT

## P&L (NOKm)

	Q2-23	Q1-23	Q4-22	Q3-22	Q2-22
Net interest income	271.5	262.5	253.5	241.8	225.8
Net other operating income	-5.4	-3.0	20.7	2.3	5.4
<b>Total net income</b>	<b>266.1</b>	<b>259.5</b>	<b>274.2</b>	<b>244.2</b>	<b>231.2</b>
Total operating expenses	51.4	50.5	48.9	46.7	45.6
<b>Operating profit before impairments and losses</b>	<b>214.7</b>	<b>209.0</b>	<b>225.3</b>	<b>197.5</b>	<b>185.6</b>
Impairments and losses on loans and guarantees	12.9	36.4	-1.2	21.0	9.6
<b>Pre-tax operating profit</b>	<b>201.8</b>	<b>172.7</b>	<b>226.5</b>	<b>176.5</b>	<b>175.9</b>
Tax expense	47.4	41.8	54.3	43.0	42.9
<b>Profit for the period</b>	<b>154.4</b>	<b>130.9</b>	<b>172.1</b>	<b>133.5</b>	<b>133.0</b>
Earnings per share (NOK)	2.03	1.79	2.39	1.85	1.84
Return on equity	14.8 %	13.0 %	17.4 %	14.0 %	14.5 %
Cost/income ratio	19.3 %	19.5 %	17.8 %	19.1 %	19.7 %

# QUARTERLY BALANCE SHEET

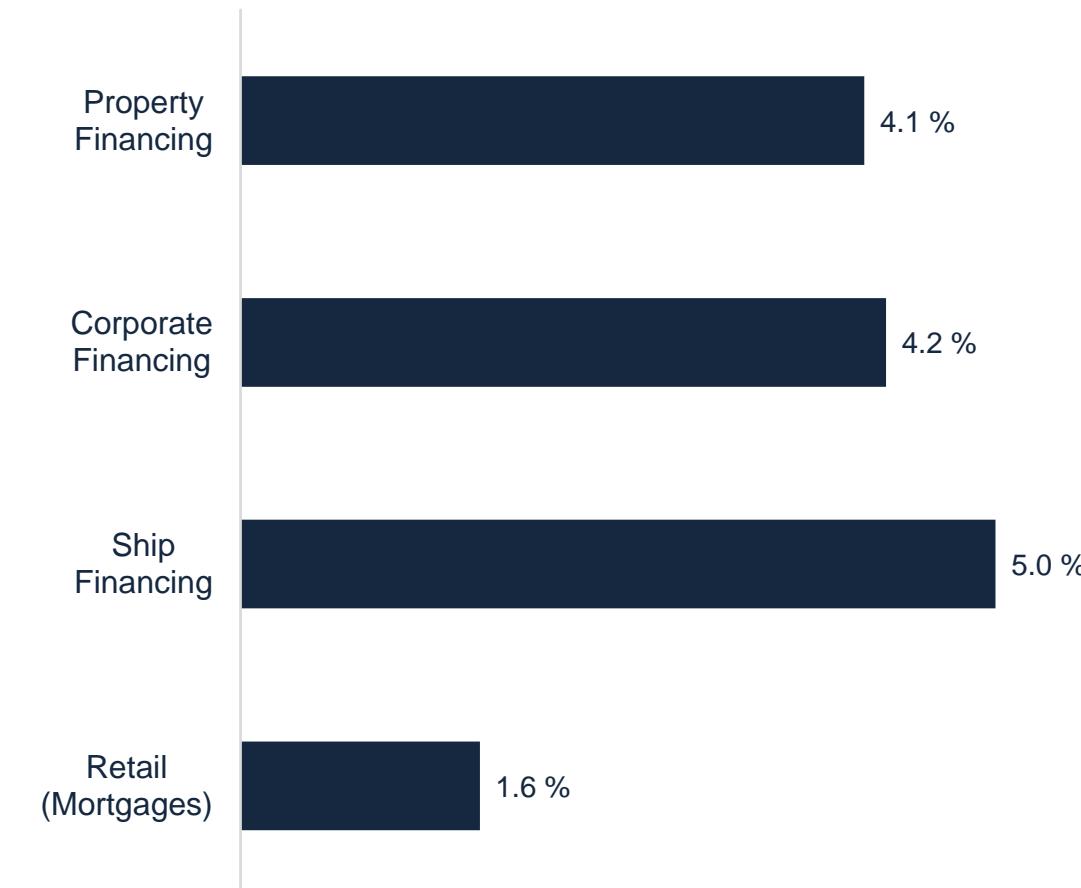
## (NOKm)

	Q2-23	Q1-23	Q4-22	Q3-22	Q2-22
Loans to credit institutions	2,001	2,230	747	982	1,676
Loans to customers	18,344	17,707	17,346	16,925	16,109
Bonds and other securities	3,882	3,952	4,007	3,710	3,711
Shareholdings in associated companies	23	23	23	23	23
Other assets	218	157	173	130	121
<b>Total assets</b>	<b>24,468</b>	<b>24,069</b>	<b>22,296</b>	<b>21,770</b>	<b>21,639</b>
Deposits from customers and institutions	11,193	10,777	10,131	10,450	10,342
Senior securities issued	7,877	7,918	7,183	6,399	6,561
Other liabilities	331	627	341	447	395
Tier 2 subordinated securities issued	699	421	421	420	420
Additional tier 1 capital	450	551	300	300	300
Other equity	3,918	3,775	3,920	3,752	3,620
<b>Total liabilities and equity</b>	<b>24,468</b>	<b>24,069</b>	<b>22,296</b>	<b>21,770</b>	<b>21,639</b>

# MARGINS AND INTEREST CONTRIBUTION

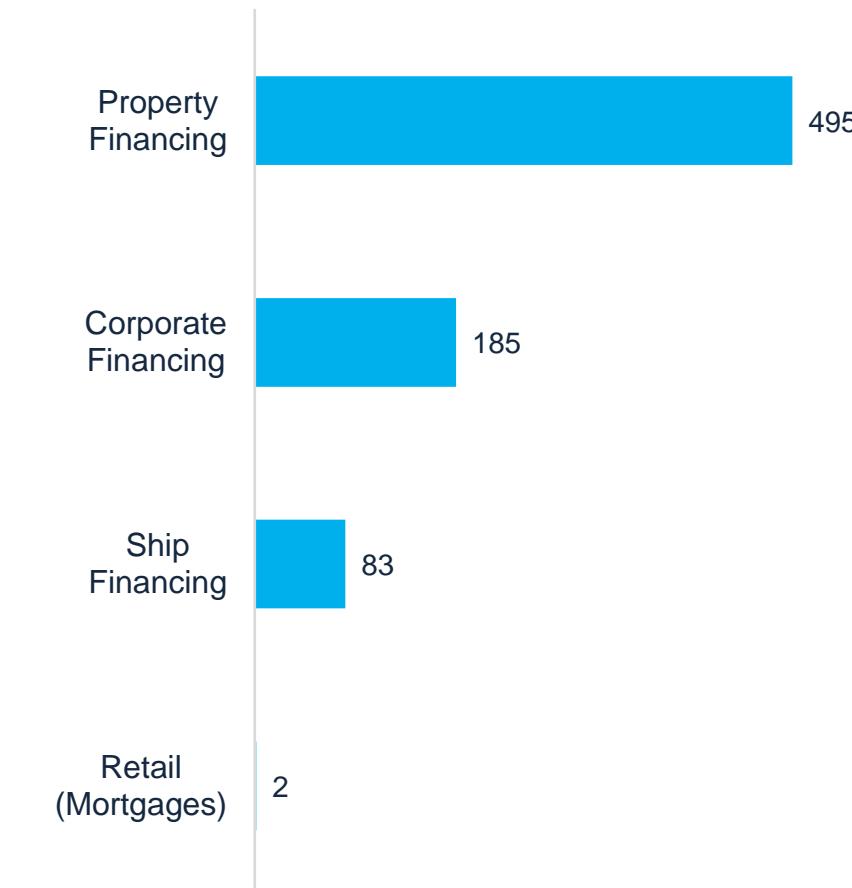
## Margins per business area

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



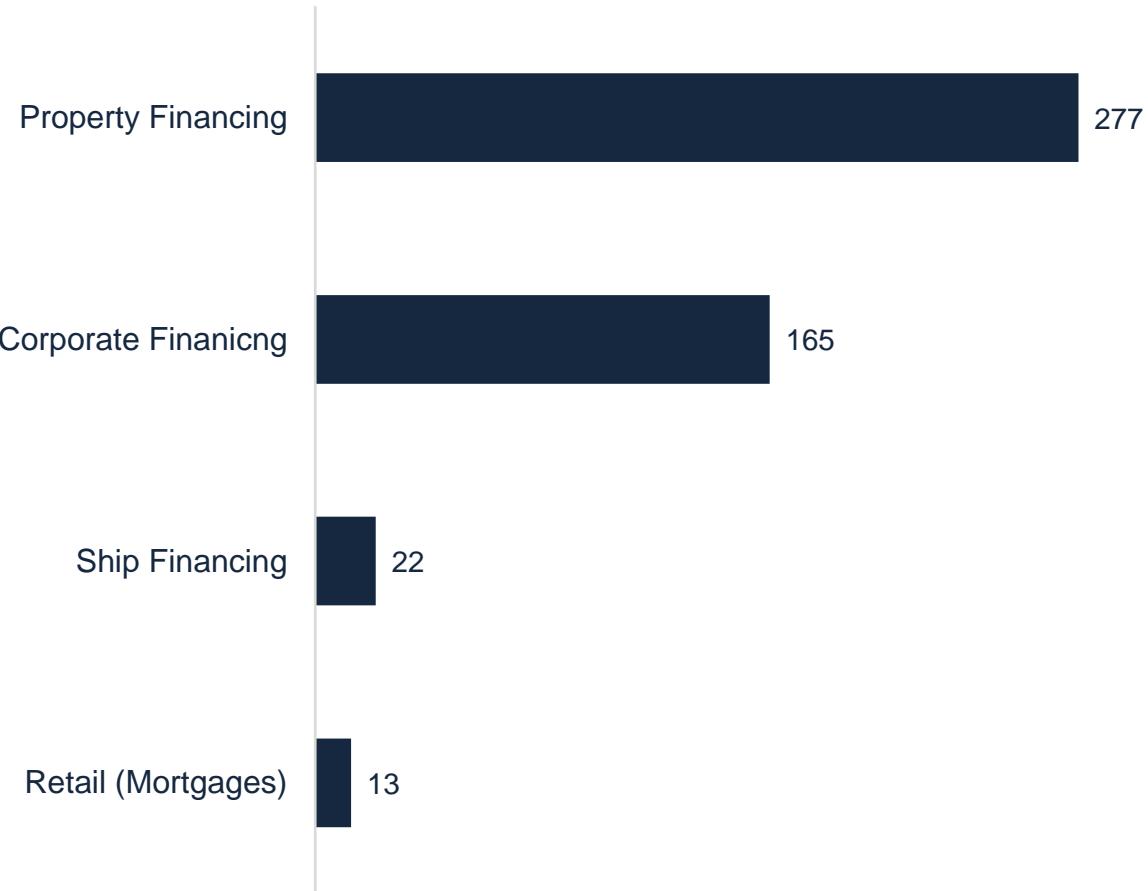
## Interest contribution per business area

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



# NUMBER OF CUSTOMERS

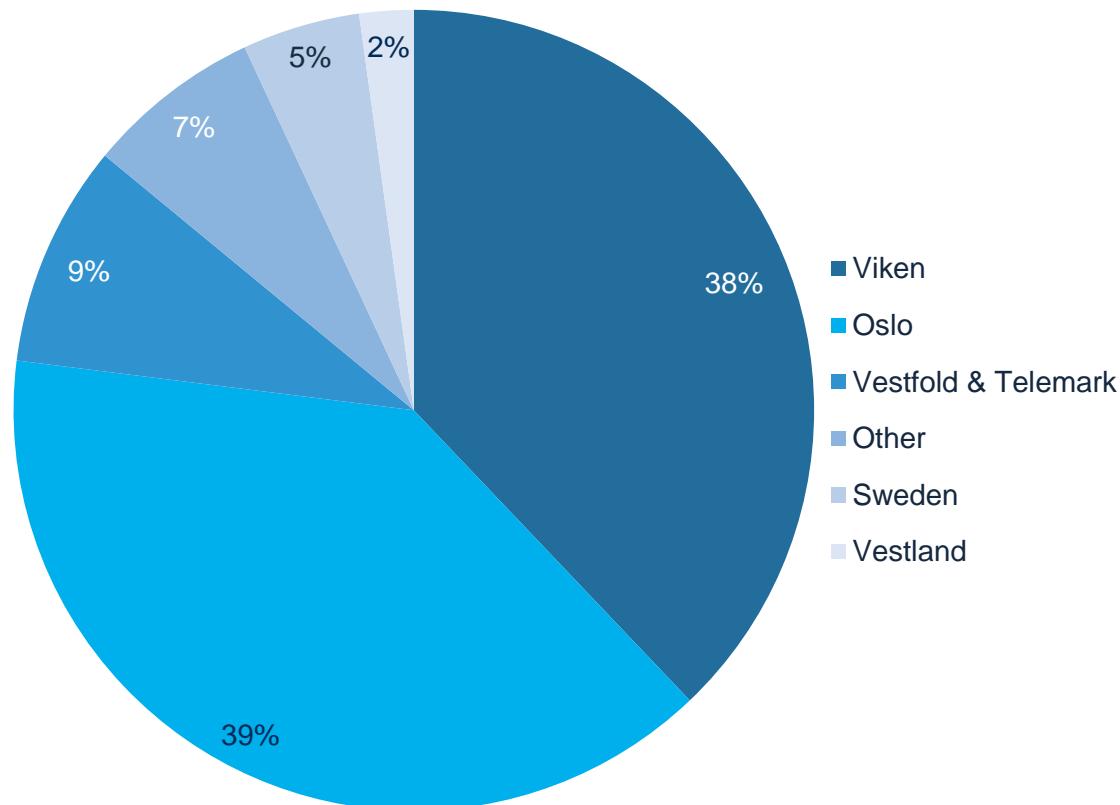
## Per business area



# REAL ESTATE FINANCING EXPOSURE

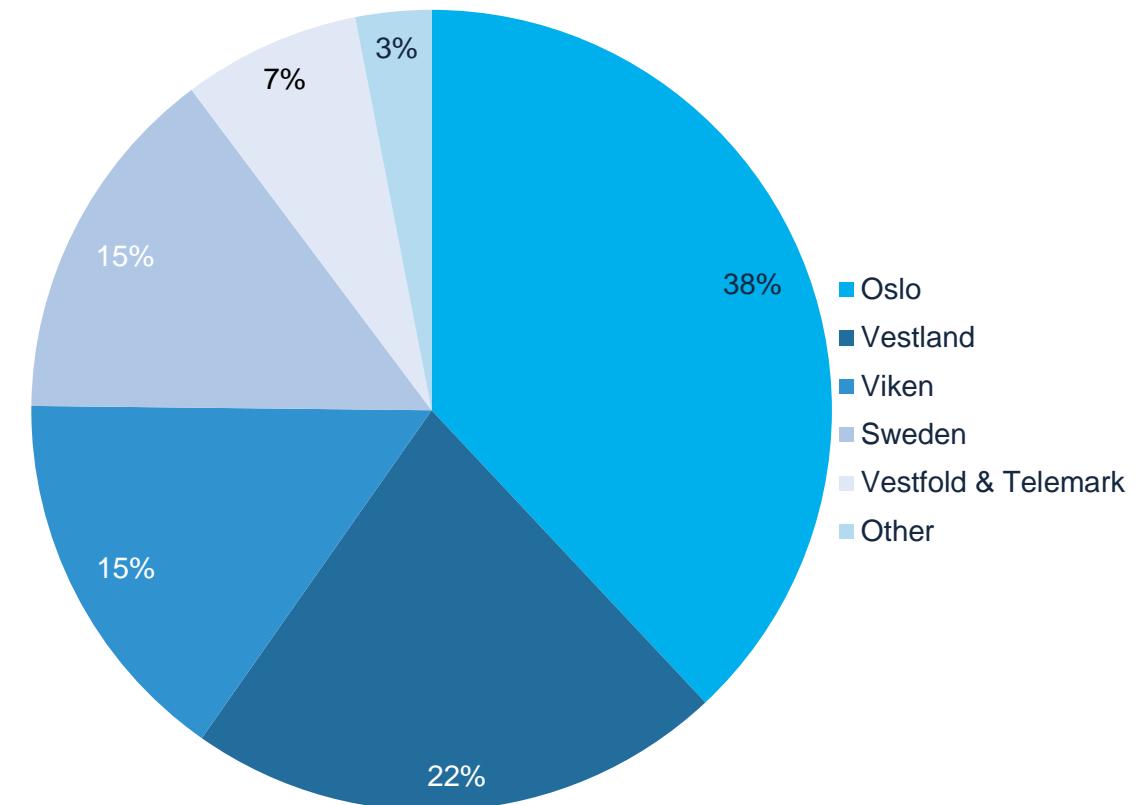
Geographical residential property exposure

Total NOK 10,846m\*



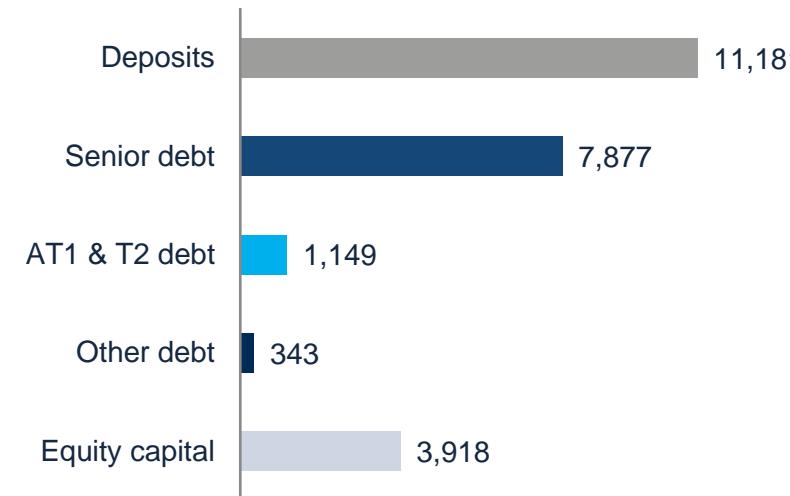
Geographical commercial property exposure

Total NOK 3,076m\*



# FUNDING

## Sources (NOKm)

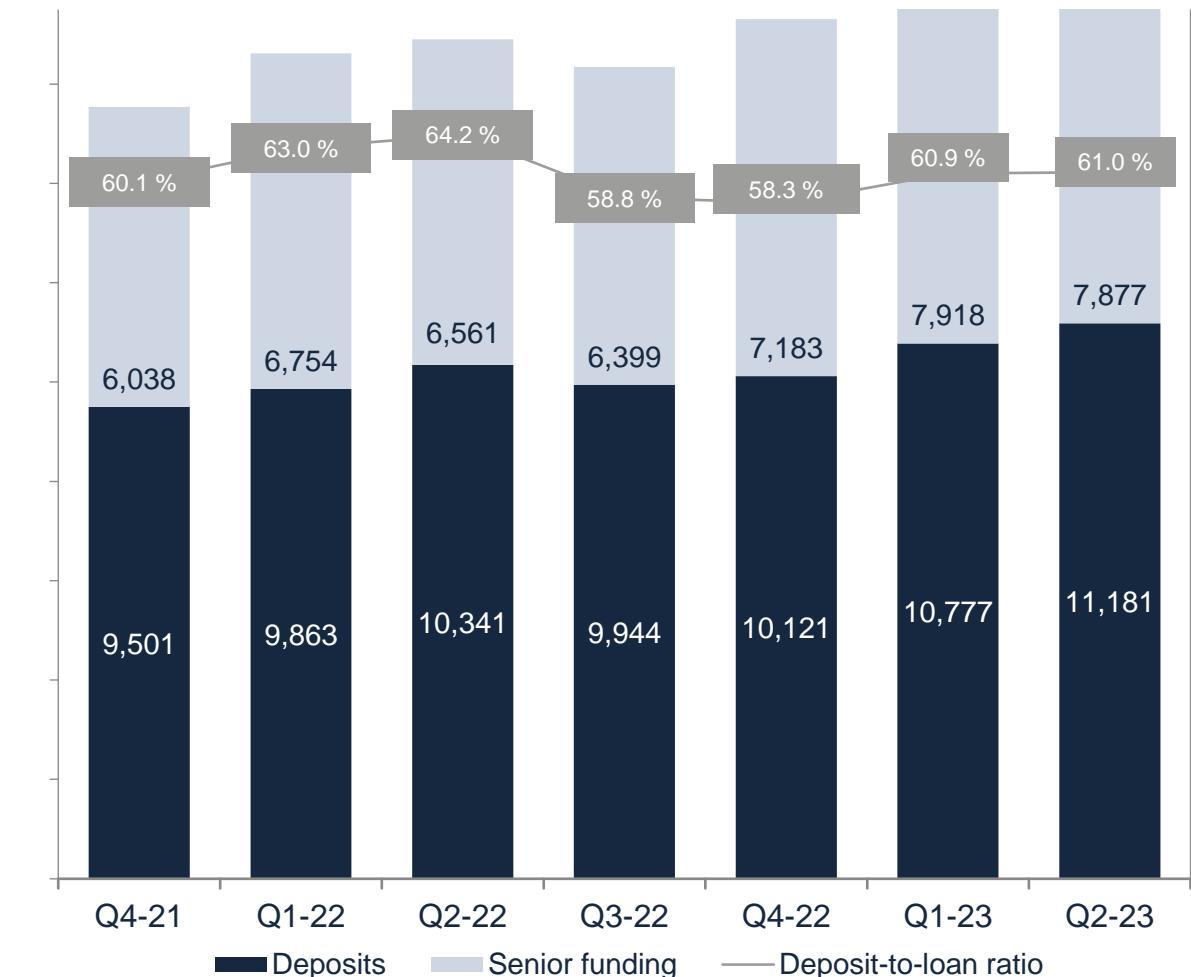


## Key funding and liquidity ratios

Deposits with liquidity restrictions	65 %
Corporate deposits	65 %
Deposit-to-loan ratio	61 %
LCR	344 %
NSFR	164 %

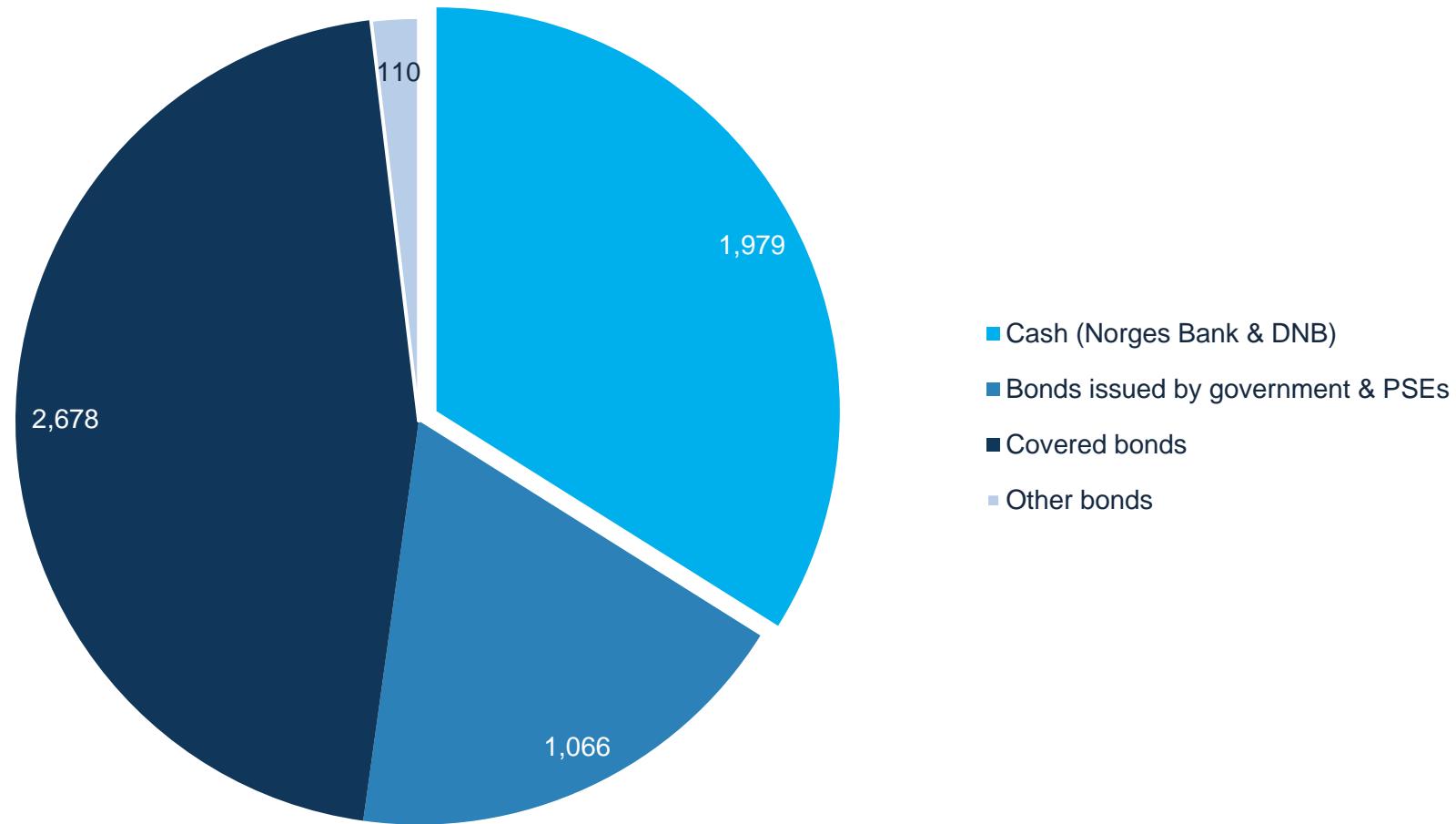
## Deposits & senior debt

NOKm,  
Percent customer deposits of net lending to customers



# LIQUIDITY BUFFER

## Low credit and market risk (NOKm)

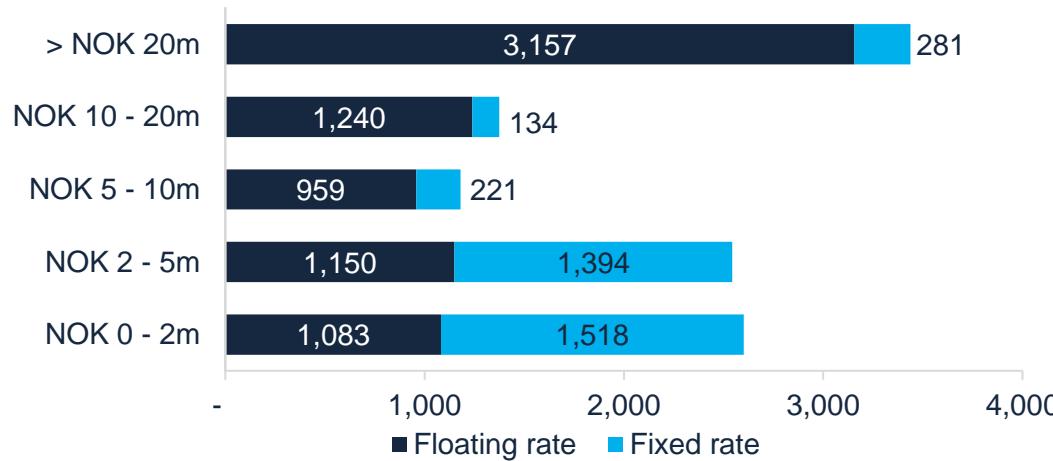


### Comments

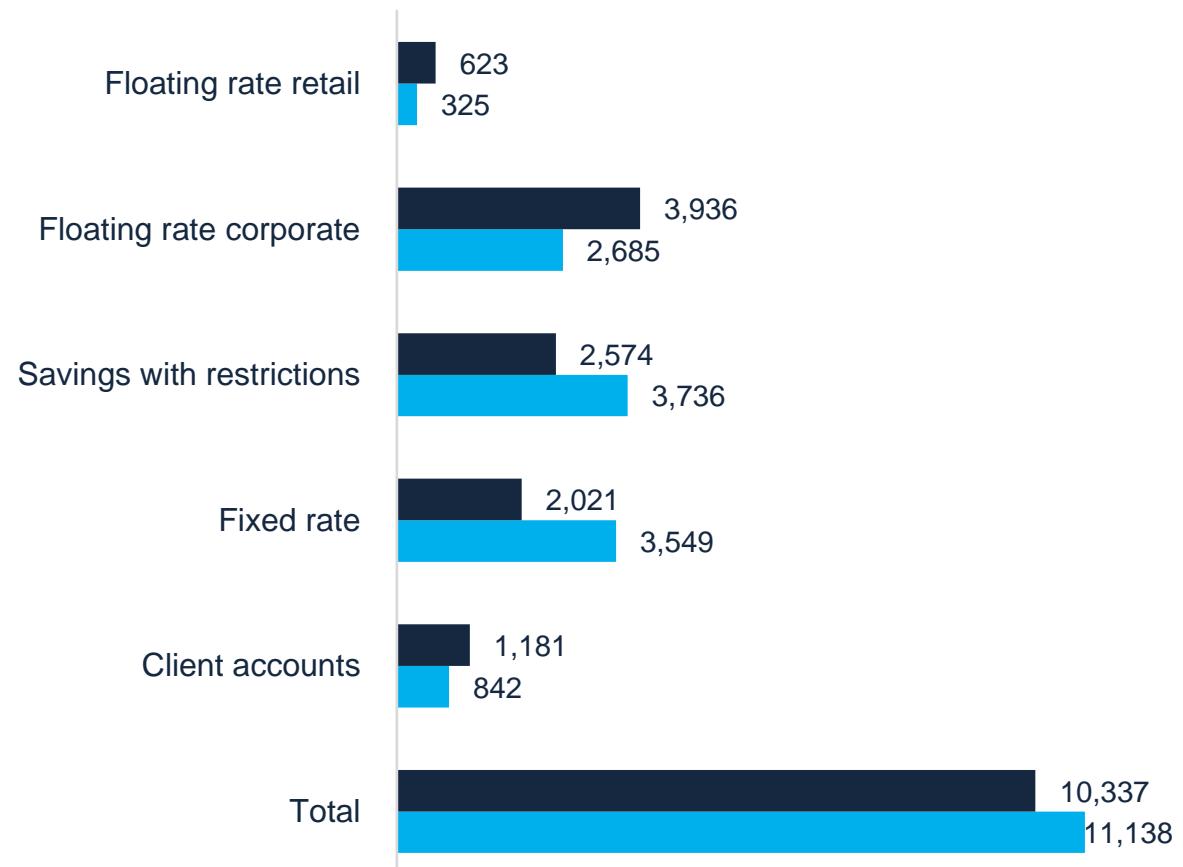
- Cash on hand.
- Highly liquid bonds.
- Low credit risk.
- No interest rate or foreign exchange risk.
- Access to central bank facilities and repo market.
- Marked to market.
- Assets qualify for LCR portfolio.

# CUSTOMER DEPOSITS

## Deposits by size (NOKm)



## Deposits by product (NOKm)

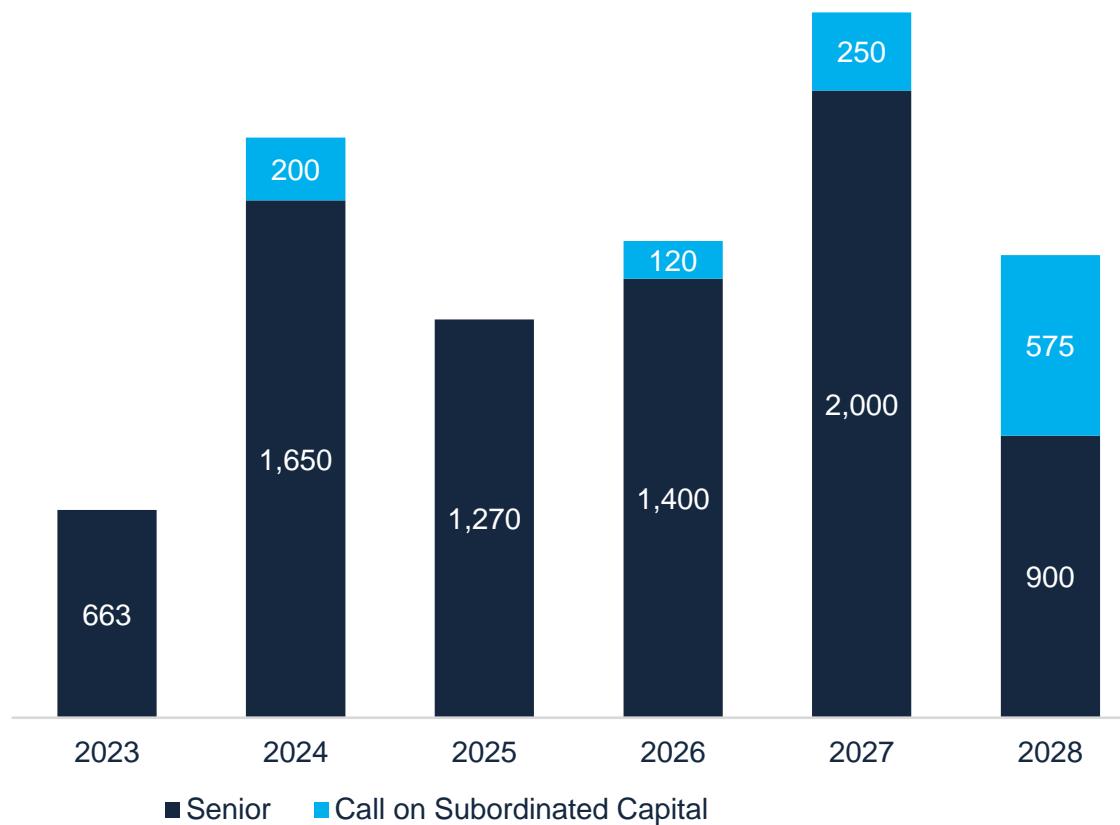


## Deposits by type (NOKm)

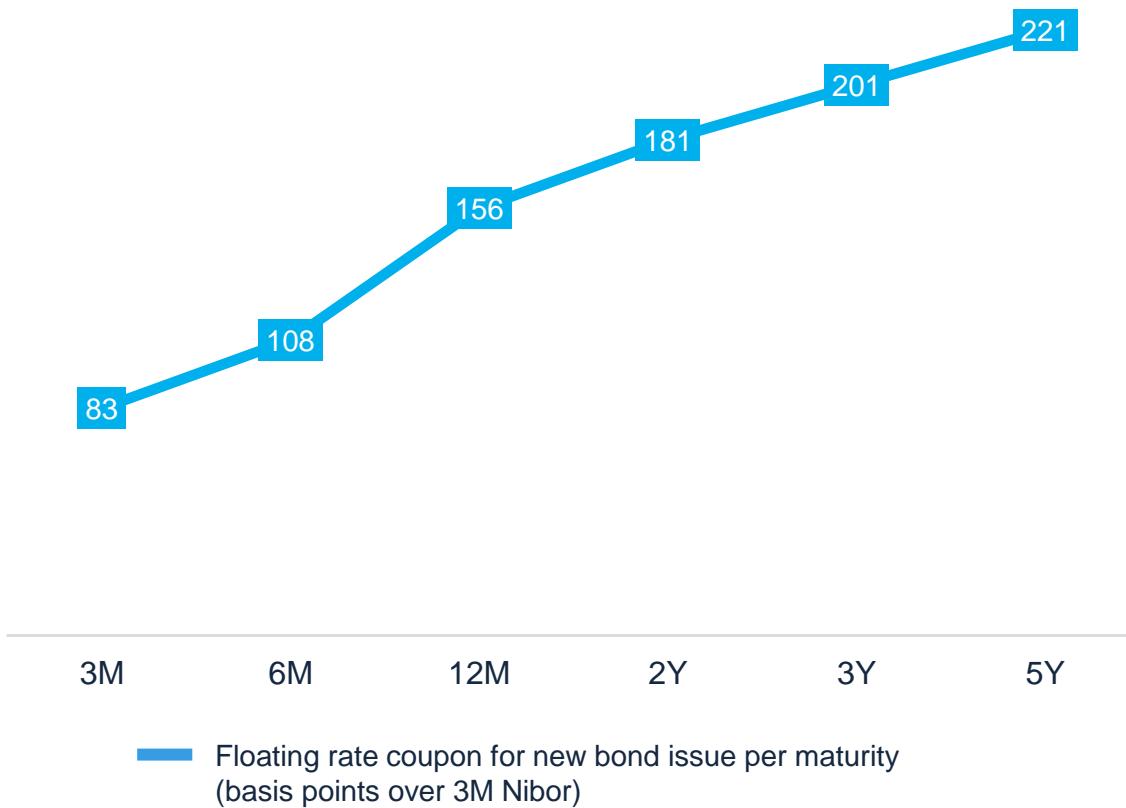


# MARKET FUNDING

## Market funding maturities (NOKm) \*

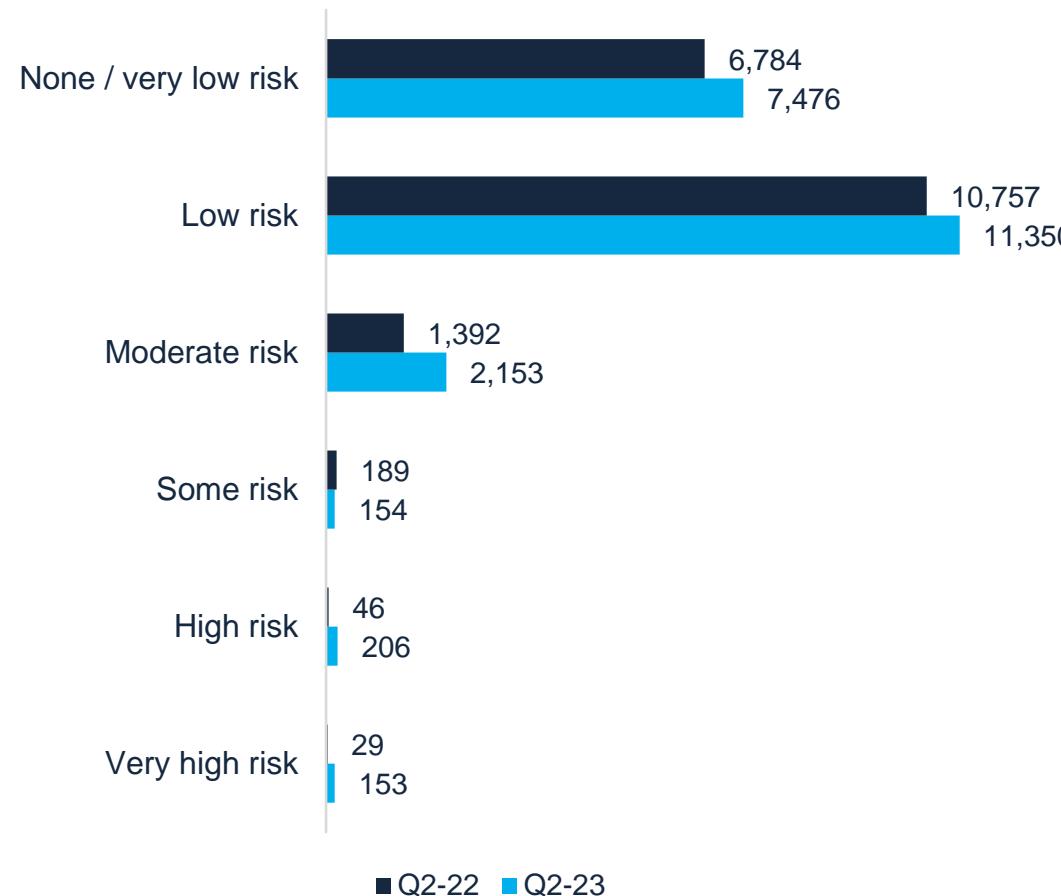


## Cost of new market funding

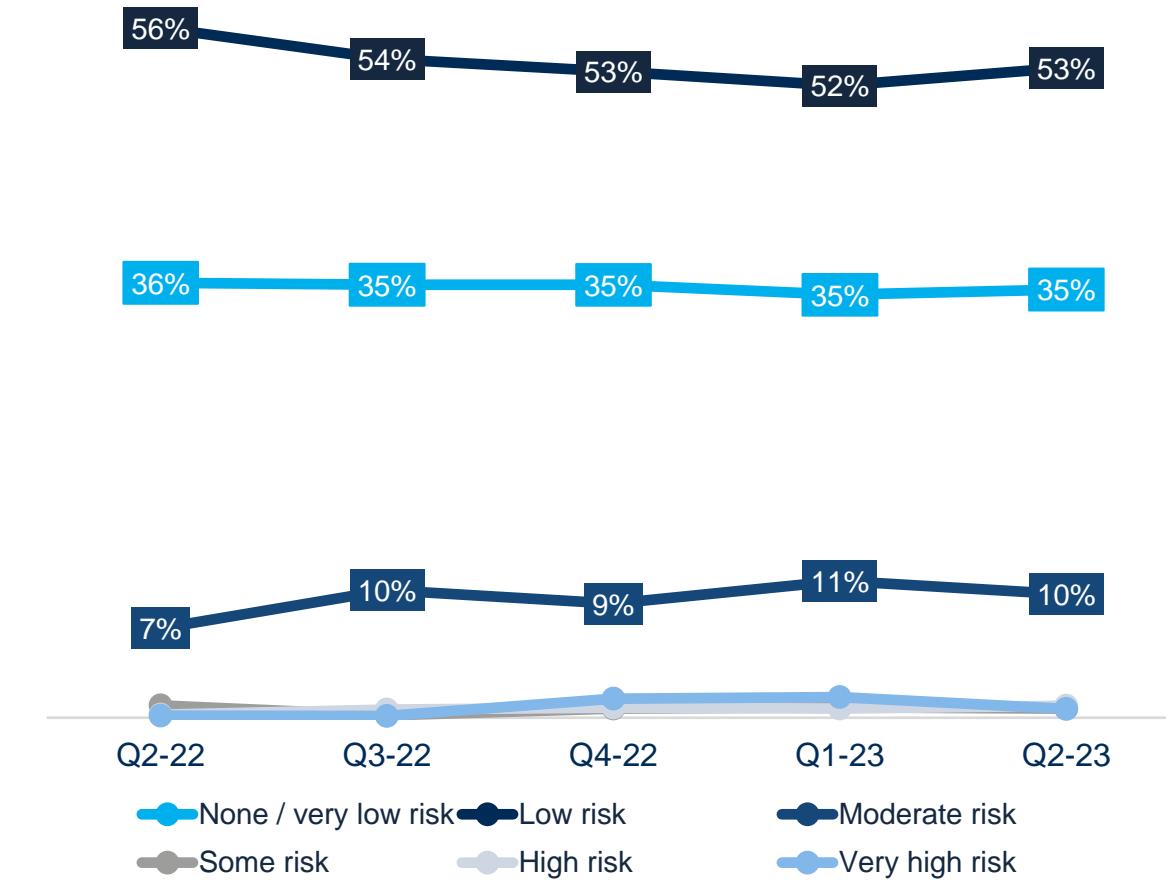


# COMMITMENTS BY RISK CLASSIFICATION

Risk classification (NOKm)

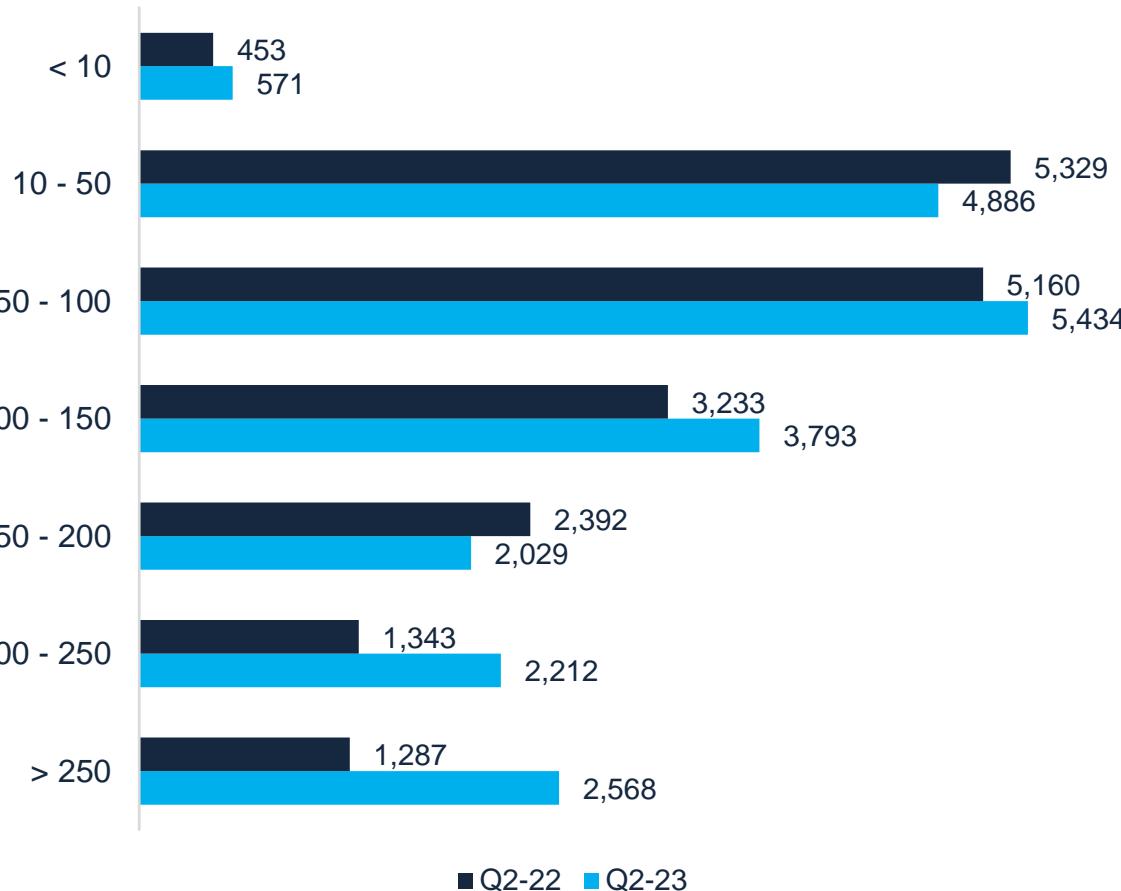


Historical risk classification

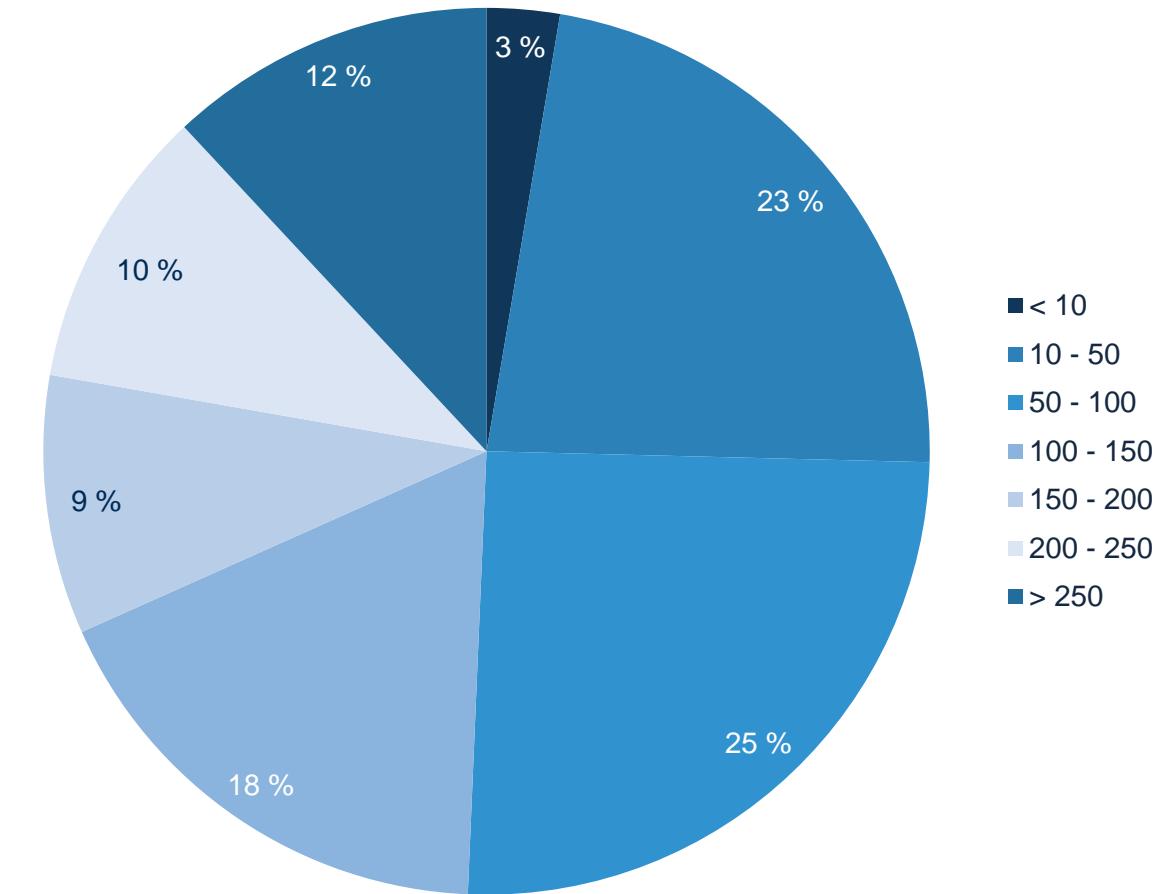


# COMMITMENTS BY SIZE

Commitment size per customer (NOKm)

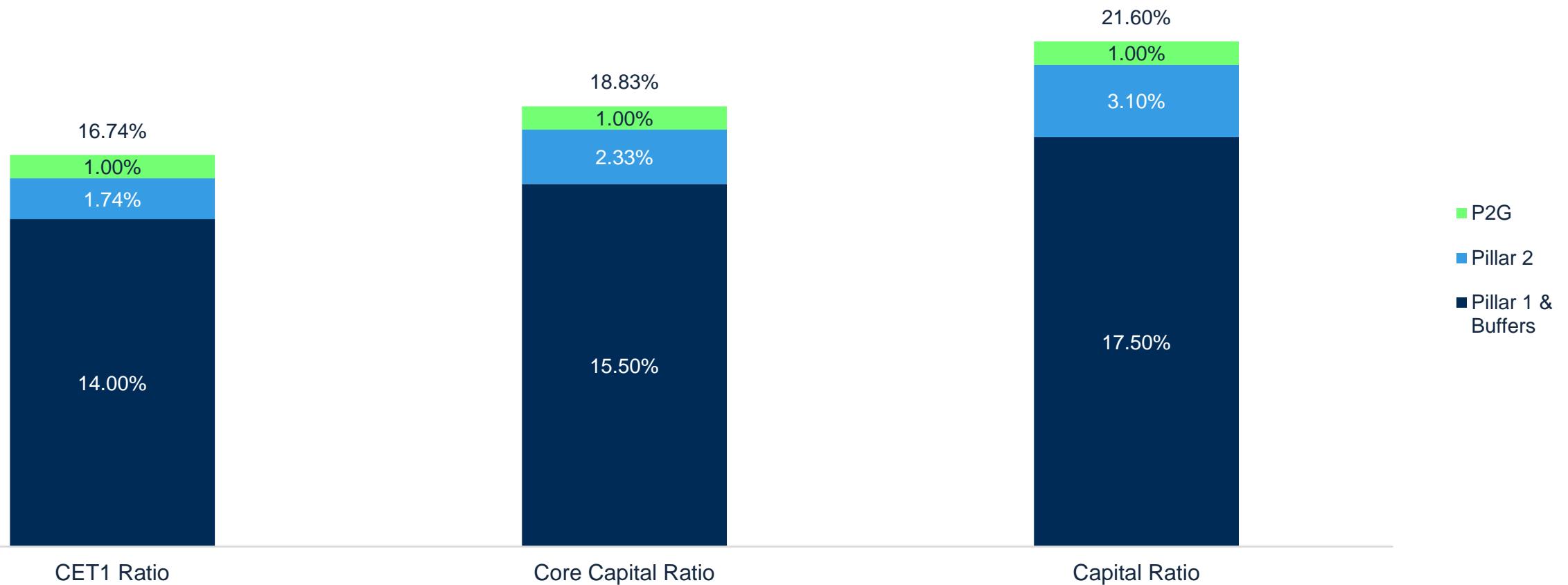


Distribution of commitments by size (NOKm)



# CAPITAL REQUIREMENTS

## Expected as of year-end 2023



Pareto bank | 75år