

PARETO BANK

Financial Results – Third Quarter 2023

Highlights

Financials

Business Area Update & Outlook

THIRD QUARTER 2023

Highlights

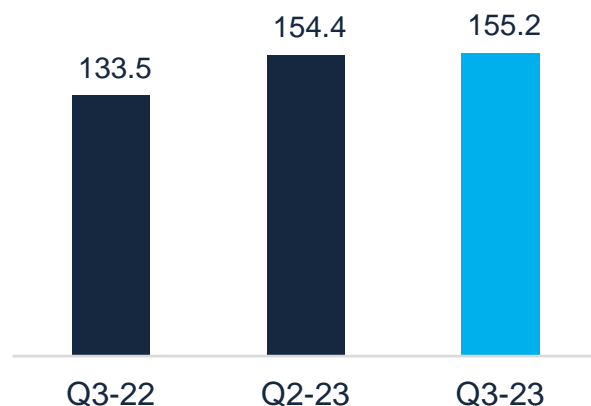
- Profit after tax NOK 155.2m (NOK 133.5m in Q3-22).
- Return on equity after tax 13.9 %* (14.0 %).
- Record high net interest income NOK 281.3m (NOK 241.8m) due to increase in lending rates.
- Impairments of NOK 30.3m (NOK 12.1m). Model-based impairments were NOK 9.1m after annual review of lending portfolio.
- Lending to customers unchanged, affected by capital restrictions and low sales activity in the previous quarter. Growth in corporate financing.
- NOK 350m equity raised in a private placement in August strengthened lending capacity after higher than expected growth in the first half of the year. Sales activity resumed in September.
- Conservative credit practice. Close customer follow-up. Extra focus on debt service capacity.
- Attractive long-term opportunities at solid credit metrics and targeted profitability. Credit quality comes before growth.



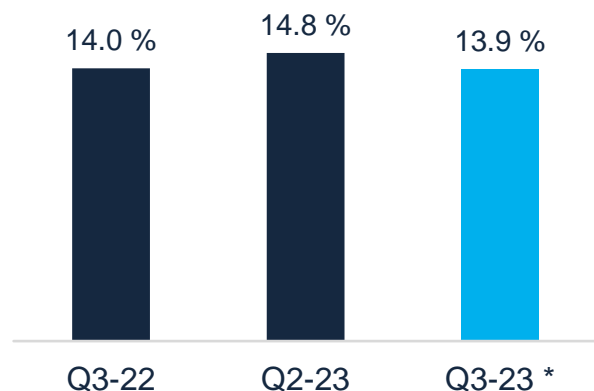
Jens Meinich, Pareto Bank

KEY FIGURES

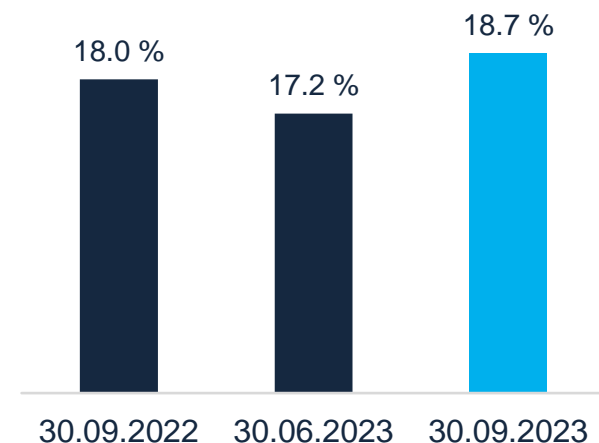
Profit after tax (NOKm)



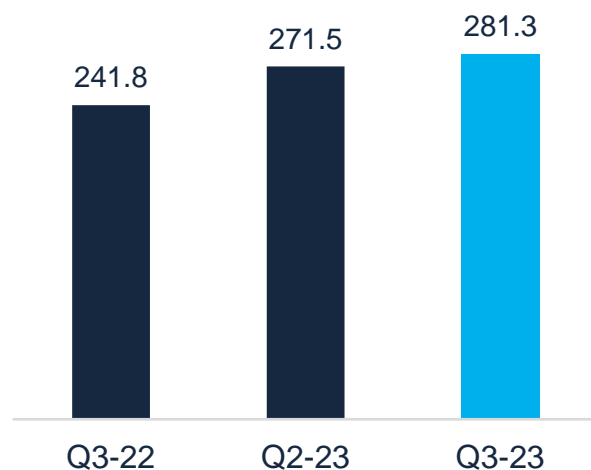
Return on Equity *



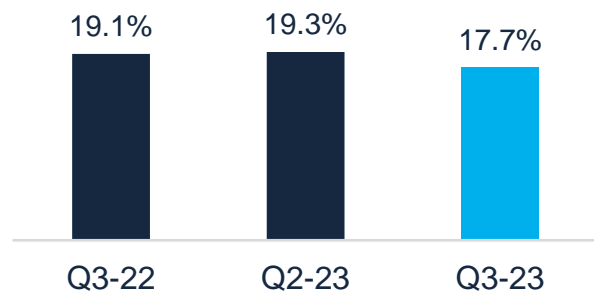
CET1 ratio



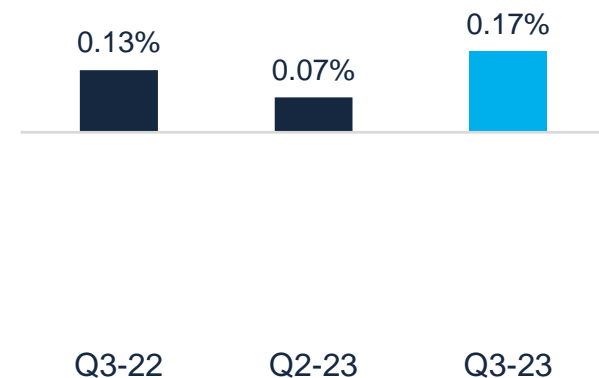
Net interest income (NOKm)



Cost/Income ratio



Loss ratio **



Highlights

Financials

Business Area Update & Outlook

INCOME STATEMENT

P&L (NOKm)

	Q3-23	Q3-22	YTD-23	YTD-22
Net interest income	281.3	241.8	815.3	675.1
Net other operating income	3.0	2.3	-5.3	16.0
Total net income	284.3	244.2	810.0	691.1
Total operating expenses	50.4	46.7	152.4	137.6
Operating profit before impairments and losses	233.9	197.5	657.6	553.5
Impairments and losses on loans and guarantees	30.3	21.0	79.6	46.2
Pre-tax operating profit	203.6	176.5	578.0	507.3
Tax expense	48.4	43.0	137.5	124.0
Profit for the period	155.2	133.5	440.5	383.3
Earnings per share (NOK)	1.89 (2.08*)	1.85	5.37 (5.91*)	5.33
Return on equity	13.9 % (14.5 %*)	14.0 %	13.7 % (14.0 %*)	13.7 %
Cost/income ratio	17.7 %	19.1 %	18.8 %	19.9 %

Lending rates increased by up to 0.75 pp in Q3-23. Lending volume relatively unchanged. Increased return on liquidity reserve due to higher market rates.

Increased interest costs due to rate increases on 30-day deposits ("plasseringskonto") and higher market rates on senior bond debt.

Excellent cost efficiency due to combination of stable costs and increased interest income. Rigged for growth with existing cost base.

Model-based impairments NOK 9.1m due to update of risk classifications and stress-test. Individual impairments NOK 19.5m and write-offs NOK 1.7m.

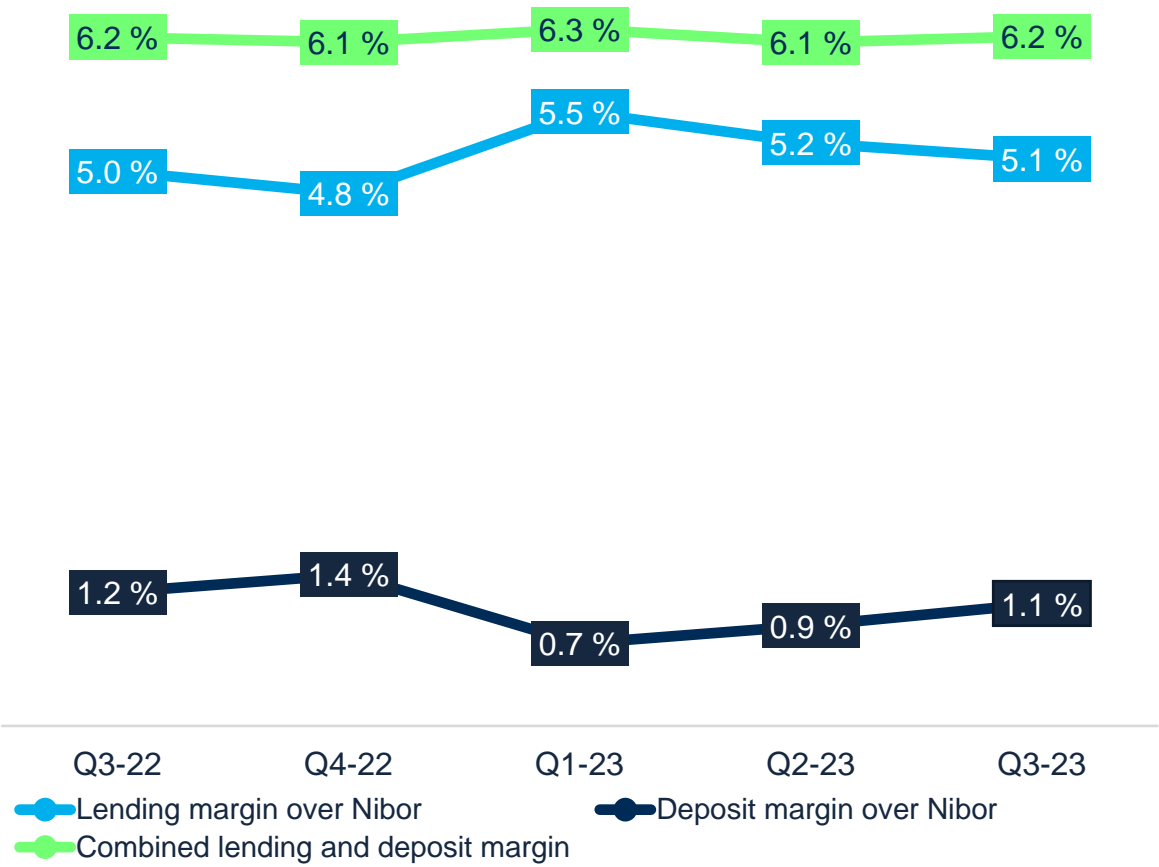
QUARTERLY CHANGE IN NET INTEREST INCOME (NOKm)



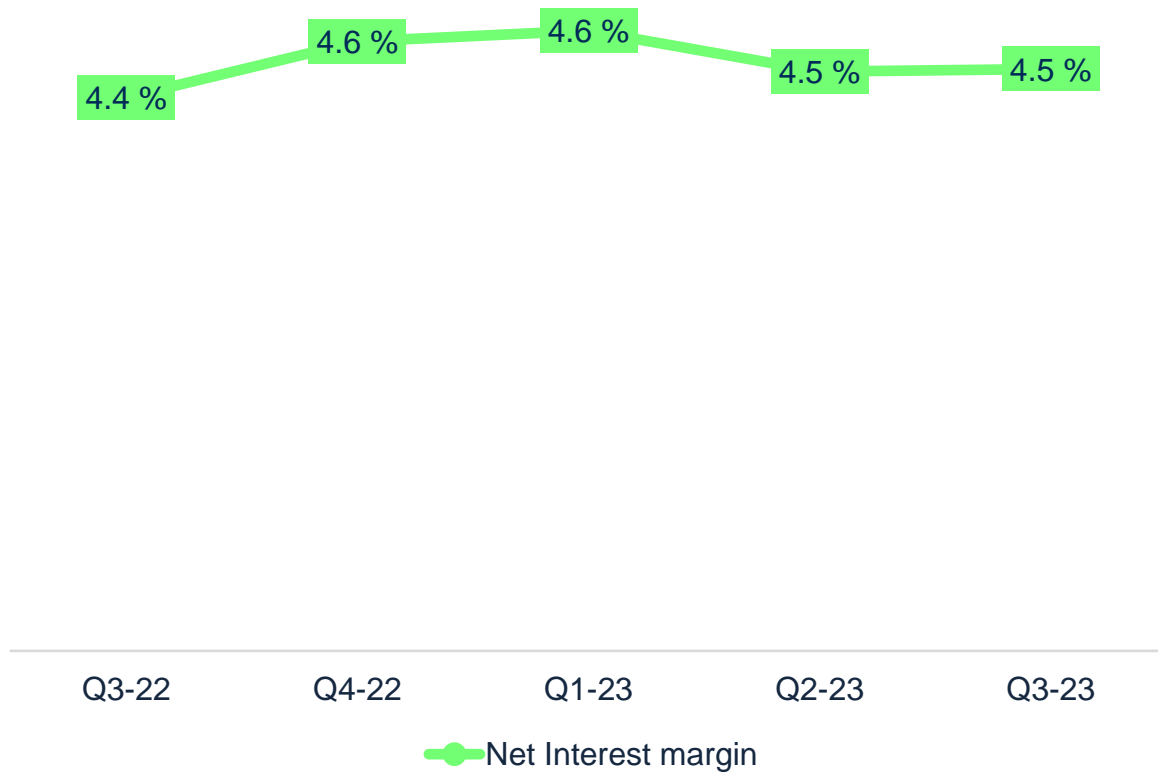
*) Other net interest income includes fee paid to Norwegian Banks' Guarantee Fund.

INTEREST MARGINS

Lending and deposit margin



Net interest margin



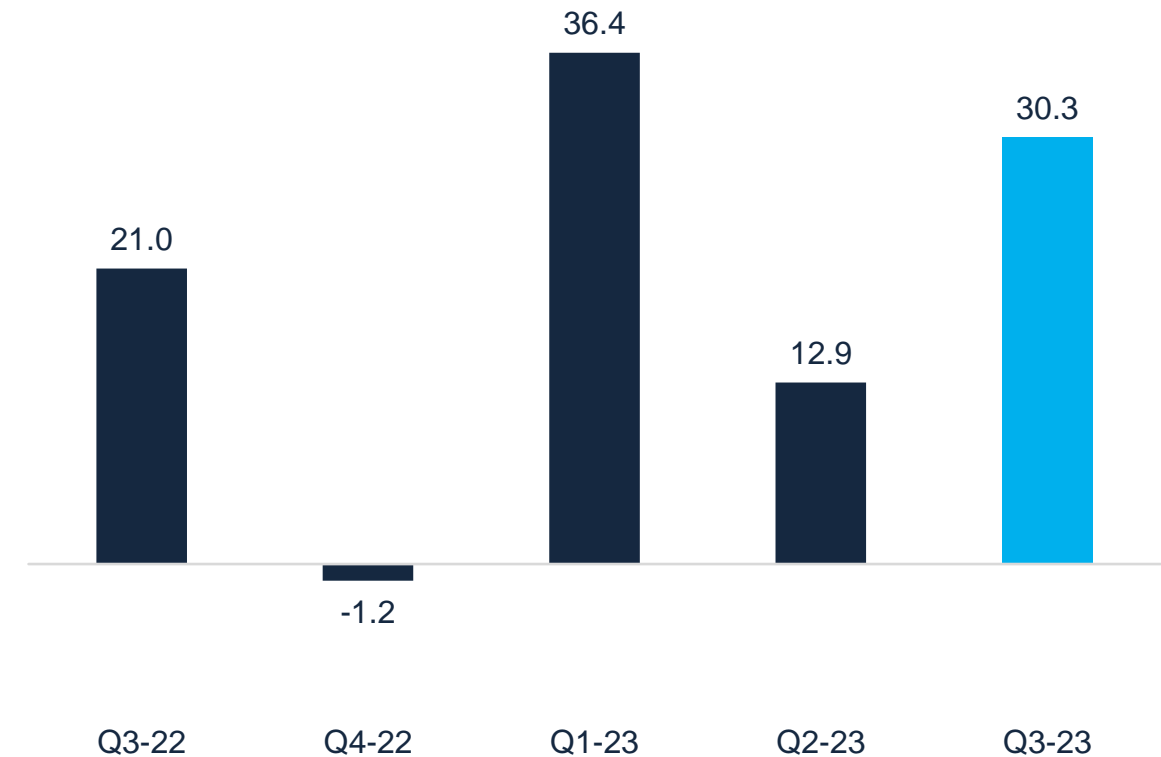
QUARTERLY CHANGE IN IMPAIRMENTS

Impairments (NOKm)

	Q3-23	Q2-23
Stage 1	-1.2	7.5
Stage 2	10.3	-4.7
Stage 3	19.5	9.4
Write-offs	1.7	0.7
Total impairments	30.3	12.9

- Total model-based impairments in stage 1 and 2 were NOK 9.1m.
- Credit quality confirmed by an annual review of lending portfolio. Update of risk classifications of loans contributed to stage 1 and 2 impairments with NOK 12.6m.
- Stress-test of real-estate portfolio increased model-based impairments by NOK 1.4m.
- Individual impairments of NOK 19.5 in stage 3, primarily within residential property financing. Impairment of principal of NOK 14.4m and impairment of interest rate income of NOK 5.1m.

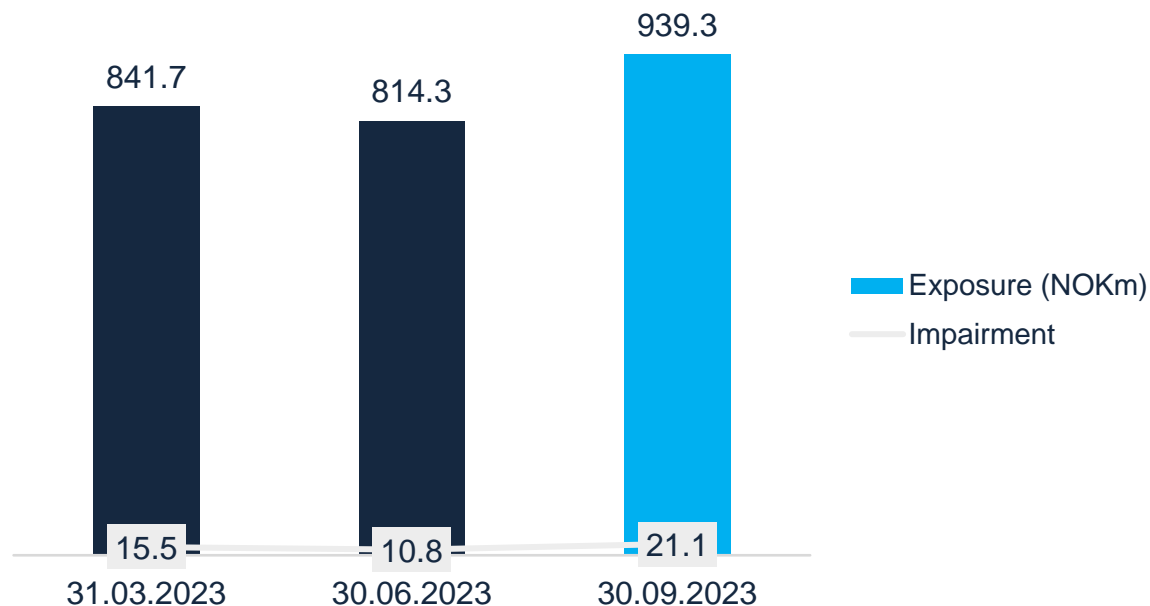
Impairments (NOKm)



CHANGES IN STAGE 2 & 3

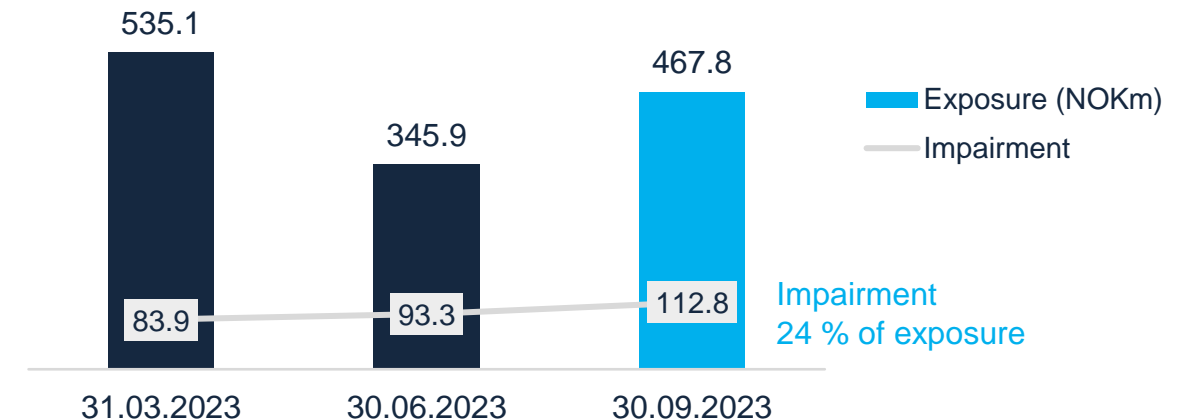
Stage 2

- Commitments on watch list, under forbearance or where there has otherwise been a material increase in risk.
- Model-based impairments.
- Increase in exposure due to migration of commitments from stage 1.

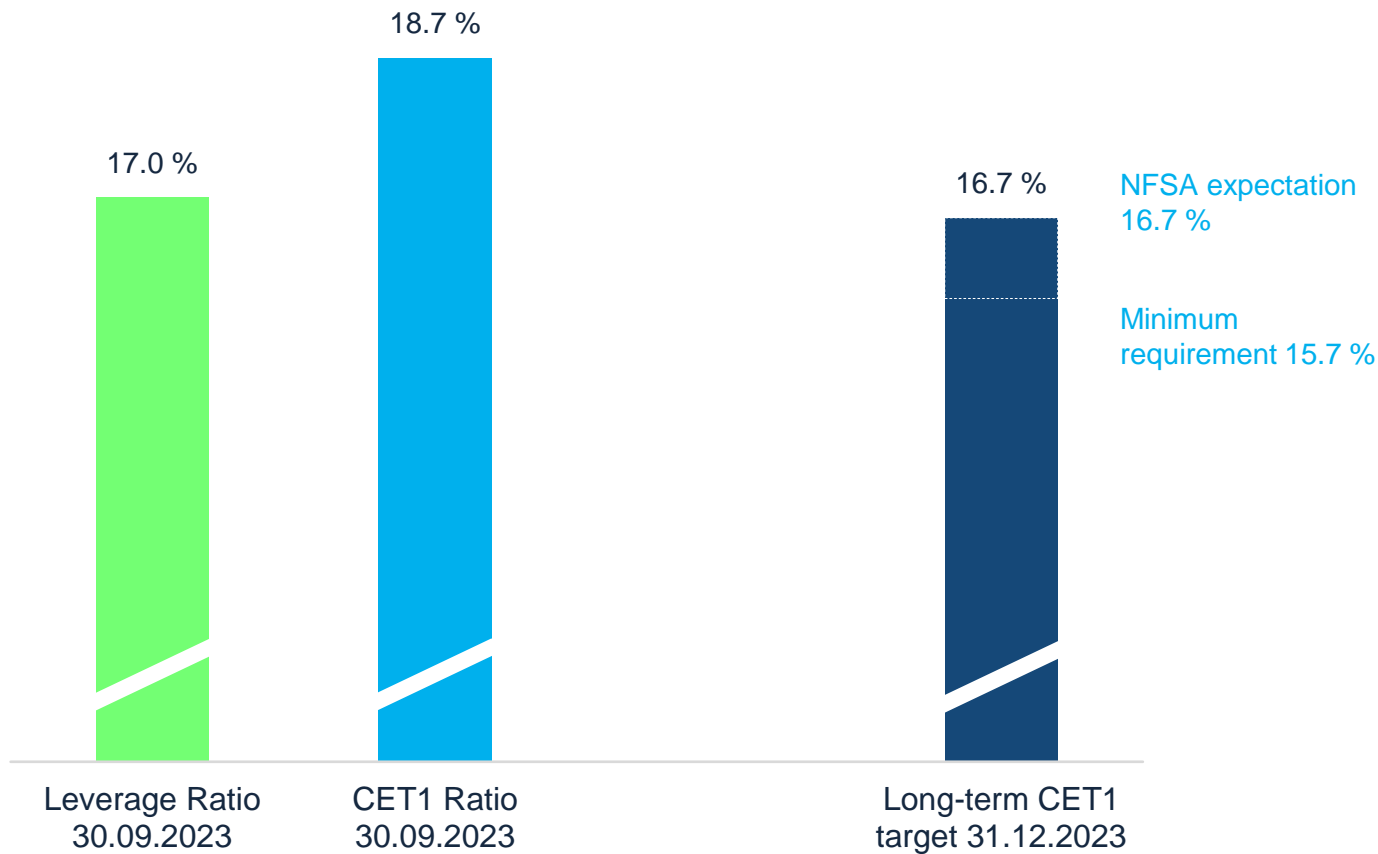


Stage 3

- 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 commitments in residential property financing and corporate financing. Challenging project execution and completion.
- Increase due to migration of a small number of commitments to stage 3 and consolidation of a few commitments in stage 1 or 2 with commitments in stage 3.



LONG-TERM CAPITAL TARGET



- Private placement of NOK 350m completed in August with payment in September.
- New core equity added approx. 1.6 pp to the bank's CET1 ratio, all else equal.
- Capital, liquidity and administrative capacity for profitable lending growth.
- Long-term capital target is a CET1 ratio of at least 16.7 %.
- Pareto Bank will hold a buffer above this target.

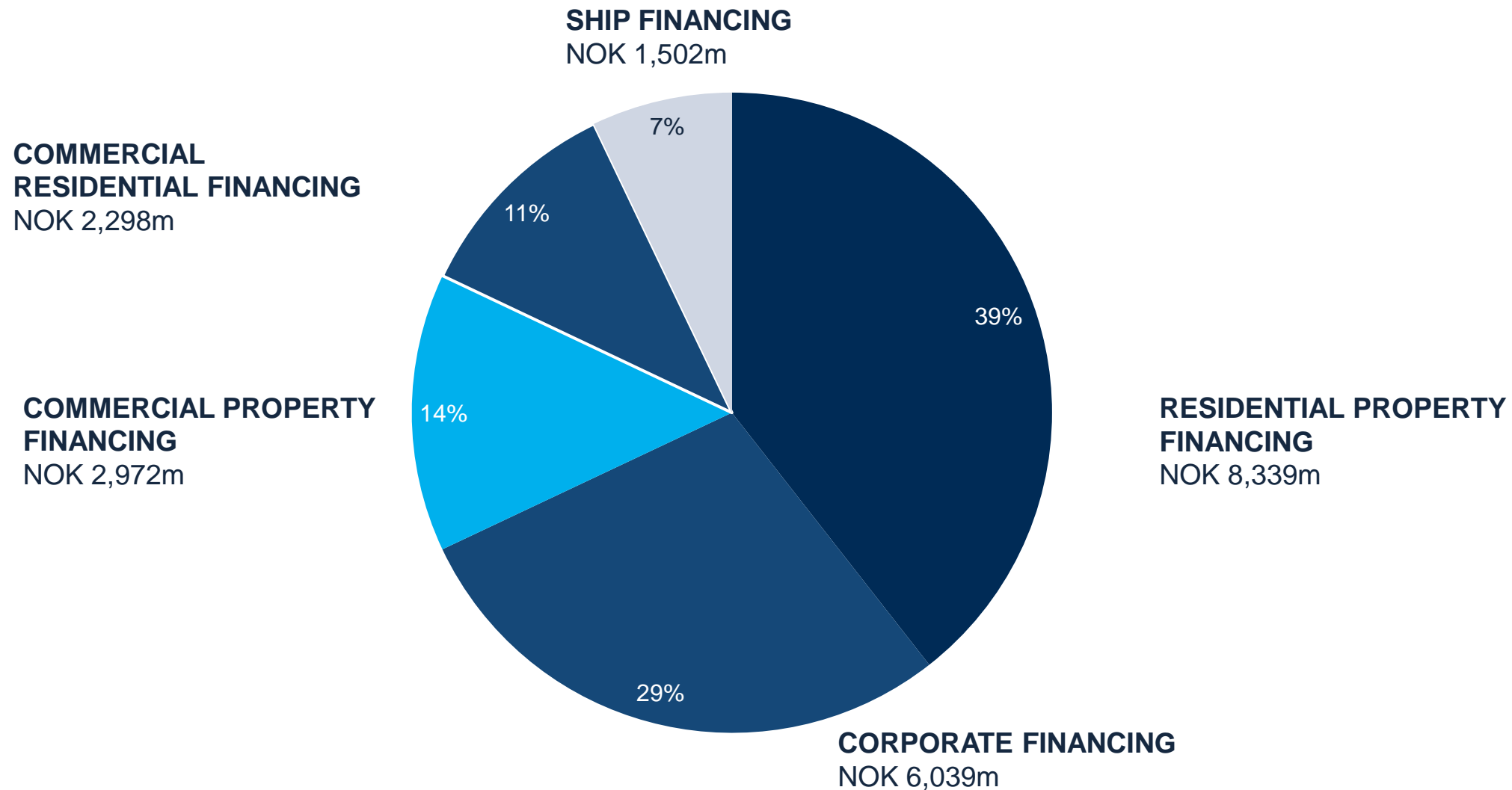
Highlights

Financials

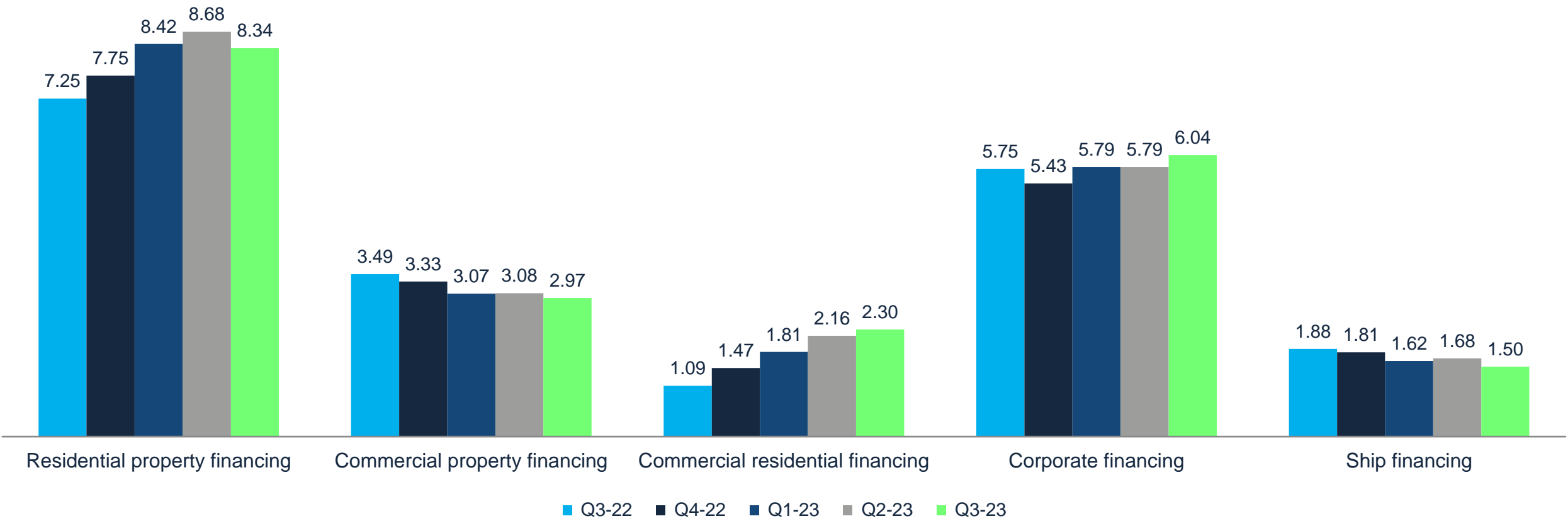
Business Area Update & Outlook

A NICHE PLAYER FINANCING MEDIUM-SIZED ENTERPRISES

Exposure (NOKm)



QUARTERLY EXPOSURE PER BUSINESS AREA (NOKb)



RESIDENTIAL PROPERTY FINANCING

Credit update

- The specialized real estate developer bank for Eastern Norway and larger Norwegian cities.
- Equity contribution of minimum 25 % on land financing.
- Thorough analysis of all relevant risk factors focusing on contractor, market and liquidity. Residual exposure of maximum 50 % to unsold units.
- Close follow-up of a small number of projects (in stage 2 or 3). Frequent customer dialogue and reporting as well as third-party monitoring.
- Exposure down in Q3-23. Low sales activity since mid Q2-23 due to internal capital restrictions and a softer financing demand towards the end of the period.

Residential property exposure (NOKm)

Total NOK 8,339m



COMMERCIAL RESIDENTIAL & PROPERTY FINANCING

Credit update

Commercial res. & prop. exposure (NOKm)

Total NOK 5,270m

- Commercial residential includes financing of housing for rent, while commercial property includes financing of commercial property.
- Exposure growth of NOK 136m within commercial residential in Q3-23.
- Exposure down by NOK 104m within commercial property. Low risk appetite.



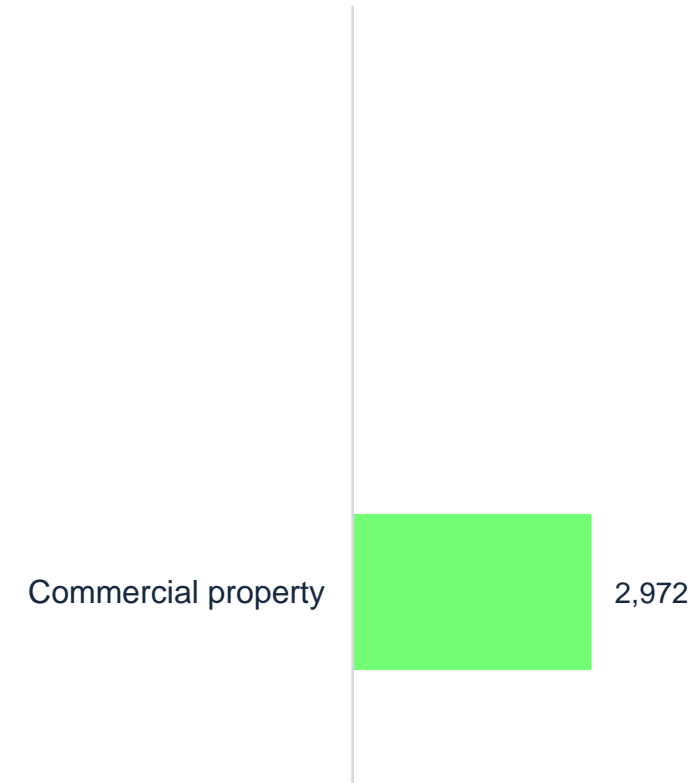
COMMERCIAL PROPERTY FINANCING

Credit update

Commercial property exposure (NOKm)

Total NOK 2,972m

- Financing of cash-flow based commercial property (91 % of exposure) and development (10 %).
- Equity contribution depending on underlying risk factors and entry point of the market cycle. More conservative credit practice applied.
- 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

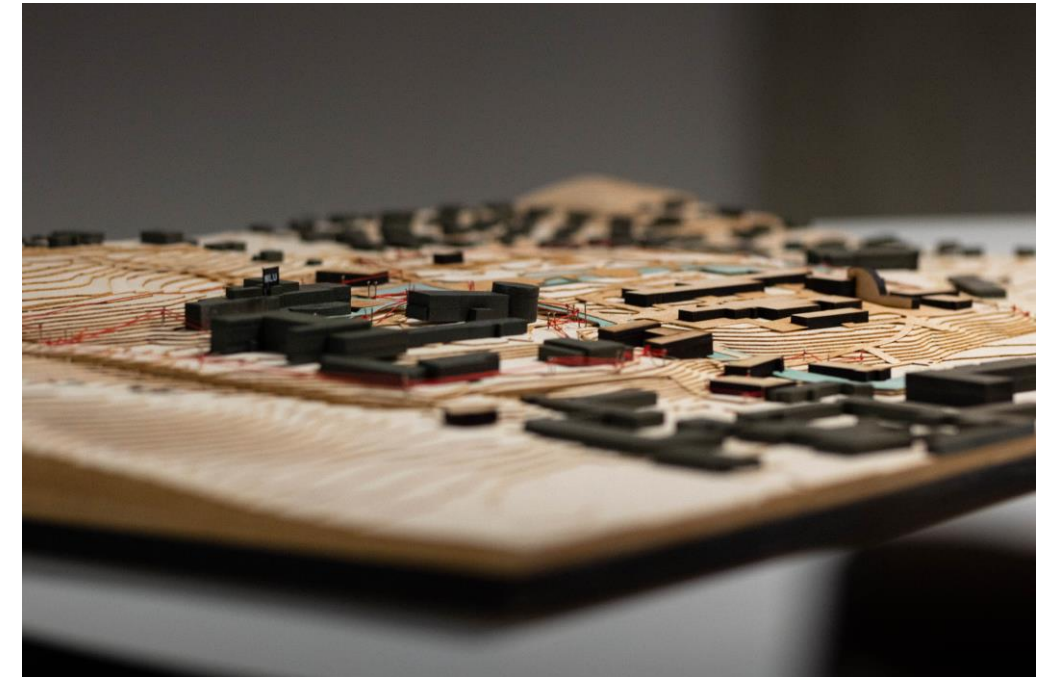
Residential property

The housing market is increasingly affected by higher interest rates and build-up of supply. Lower price growth for second-hand housing.

New-build projects are being put on hold. Pre-sale requirements are difficult to meet. Demand for new-builds is hurt by uncertainty about financing costs and price development. Wage inflation, the high cost of concrete and a weak currency keep construction costs high.

Selective market where small houses and apartments are more easily sold.

Population growth has picked up in Oslo and Norway. Accumulation of demand and lower housing supply may lead to a long-term rebound in the new-build market and building activity.



**Softer demand. Selective credit practice.
Moderate to flat volume growth in Q4-23.**

MARKET OUTLOOK

Commercial property

Continued low activity in the transaction market.

Increase in interest rates leads to higher yields and lower property values. Uncertain valuations.

Higher financing costs and more restrictive banks.



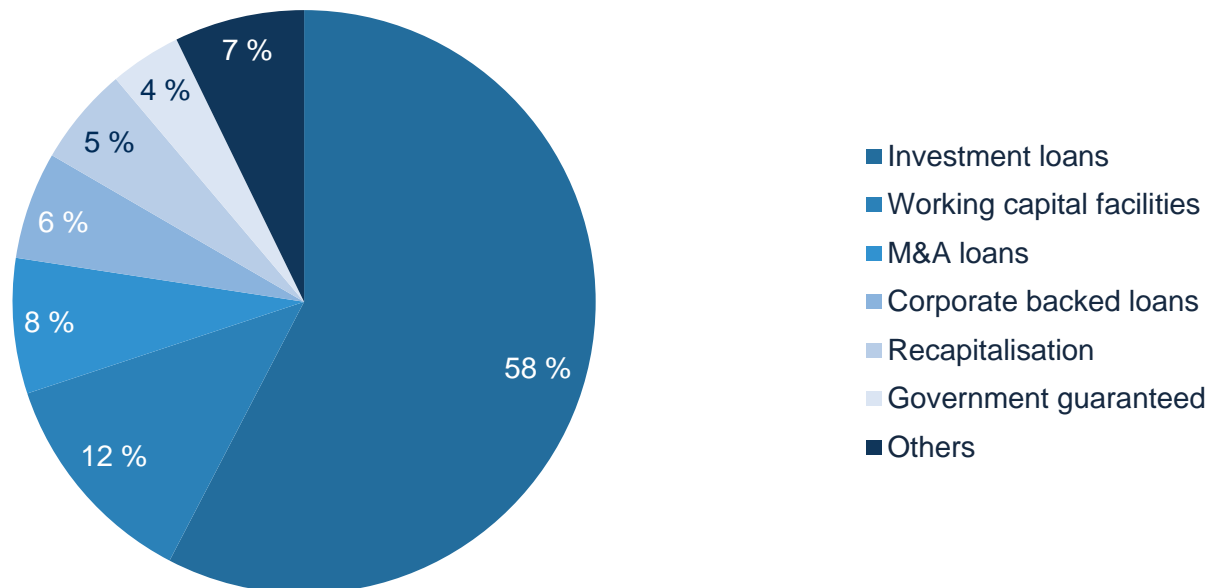
Low risk appetite. Unchanged volume in Q4-23.

CORPORATE FINANCING

Exposure (NOKm)

Total NOK 6,039m

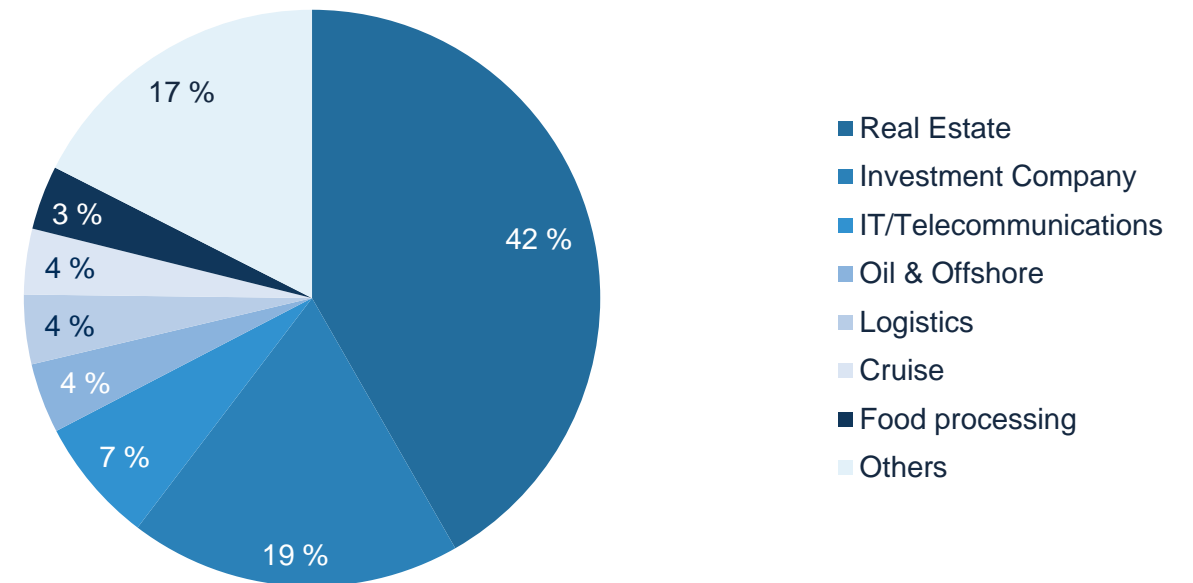
- Tailor-made financing solutions to medium-sized enterprises.



Credit update

Total NOK 6,039m

- Exposure growth in Q3-23. Limited sales activity in Q2-23 due to internal capital restrictions.
- A conservative credit practice is continued.
- Follow-up of a small number of customers (in stage 2 and 3) that are affected by lower demand and higher operational costs and financing costs.



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 corporate lending.

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

Deal flow in general strong through 2023 because of increased brand awareness.



**Good long-term growth prospects.
Selective credit practice and moderate growth in Q4-23.**

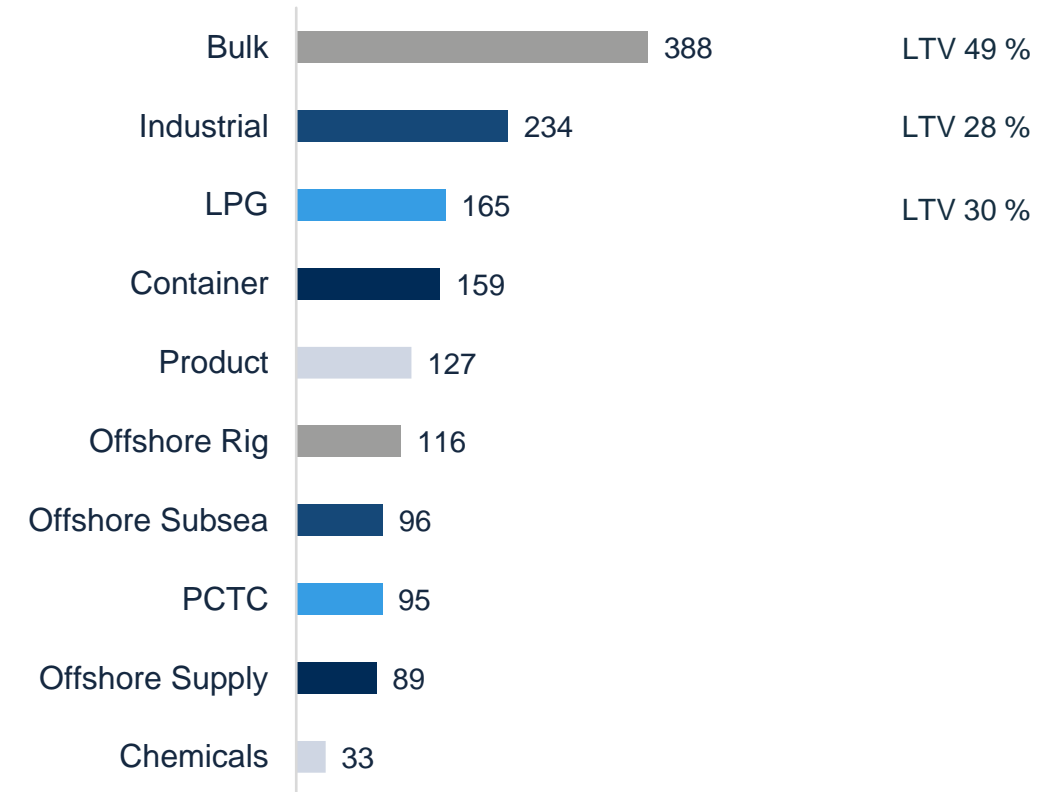
SHIP FINANCING

Credit update

- Focus on reputable Norwegian shipowners, family offices and the investment project market.
- Corporate loans make up 52 % of the exposure and investment projects.
- Average commitment size USD 7.8m and largest exposure of USD 19.2m.
- 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 36 %.
- Steep repayment profiles on loans. Exposure down in Q3-23.

Exposure (NOKm)

Total NOK 1,502m



MARKET OUTLOOK

Shipping and offshore

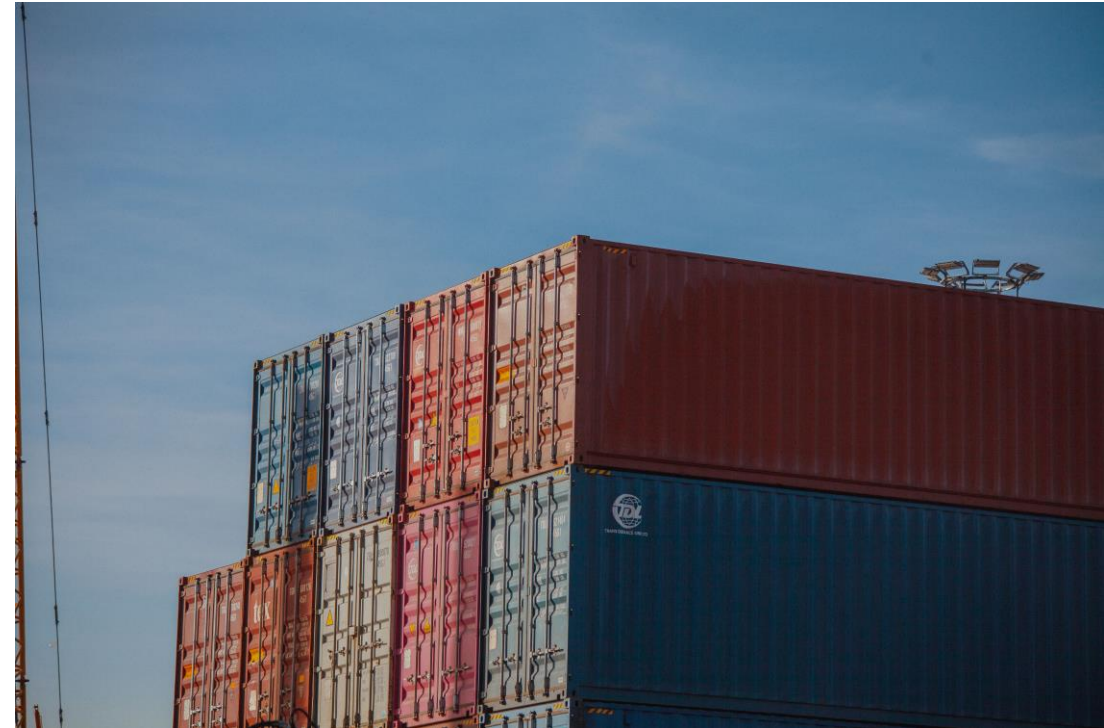
Positive outlook for the dry bulk market due to a low order book for newbuilds. Uncertainty regarding demand given macroeconomic headwinds and fragile Chinese growth.

Strong tanker markets with record-low order books and continued strong end-user demand. Inventory drawdowns and strong refinery margins to support demand going forward.

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

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

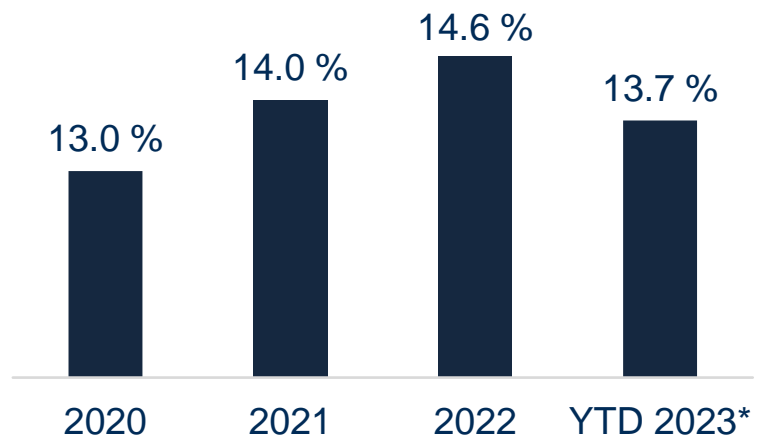
Strong demand in the offshore markets supported by attention to energy security and investments in offshore wind. Limited fleet growth in 2023 and thus positive outlook.



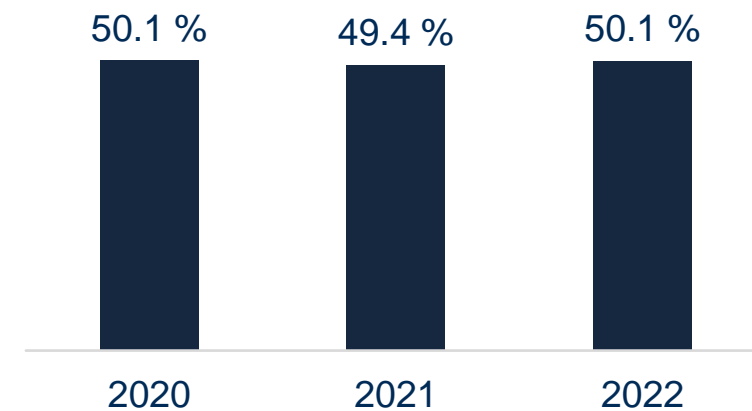
Lower investment activity in shipping markets. High activity in offshore. Steep repayment profile on loans. Moderate growth in Q4-23.

LONG-TERM AMBITIONS

ROE
15 %



Dividend
min. 50 %



APPENDIX

LARGEST SHAREHOLDERS

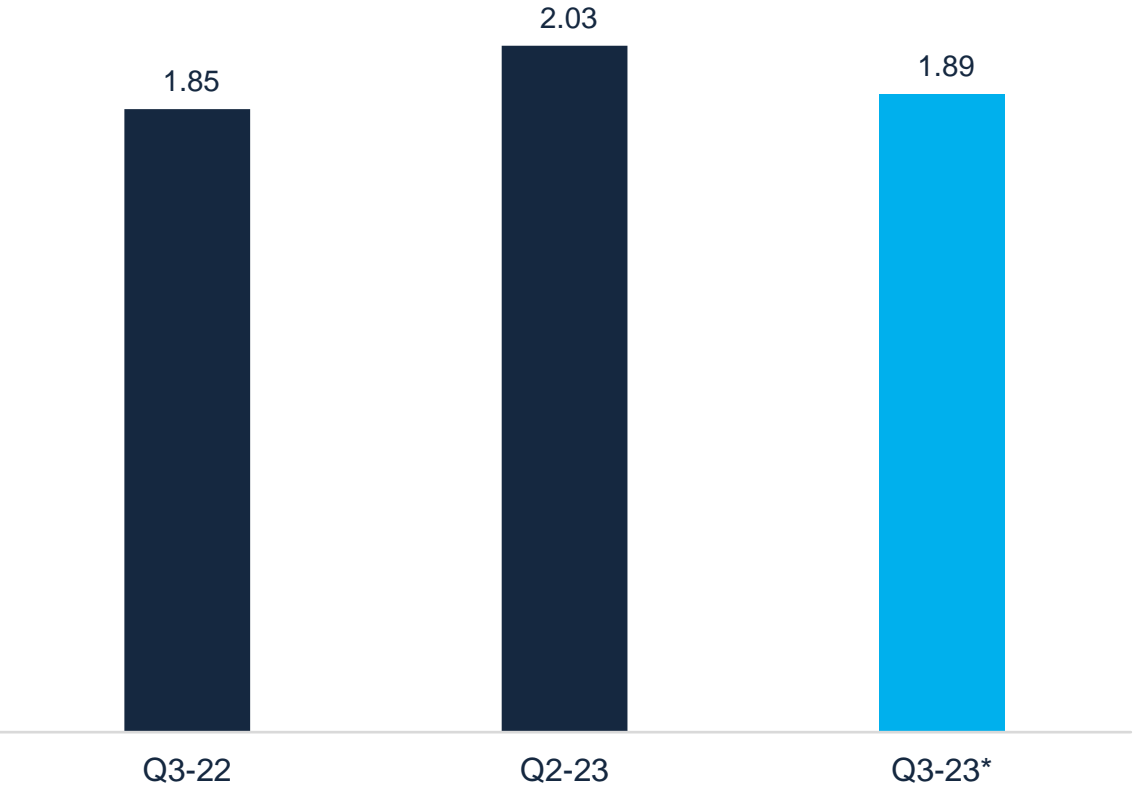
30 September 2023

	Name	Shares	% total
1	Pareto AS	15,356,484	20.00 %
2	Société Générale	6,943,049	9.04 %
3	Hellegjerde Invest AS	3,803,301	4.95 %
4	AWC AS	3,554,577	4.63 %
5	Salt Value AS	2,261,942	2.95 %
6	Verdipapirfondet Holberg Norge	2,227,309	2.90 %
7	Landkreditt Utbytte	2,085,388	2.72 %
8	Rune Bentsen AS	2,074,377	2.70 %
9	Kolberg Motors AS	1,938,942	2.53 %
10	Dragesund Invest AS	1,257,327	1.64 %
11	OM Holding AS	1,231,512	1.60 %
12	Catilina Invest AS	1,084,950	1.41 %
13	AS Audley	929,252	1.21 %
14	Lombard Int Assurance S.A.	900,820	1.17 %
15	Profond AS	758,709	0.99 %
16	Stenshagen Invest AS	751,526	0.98 %
17	K11 Investor AS	750,000	0.98 %
18	Castel AS	708,684	0.92 %
19	Apollo Asset Limited	688,889	0.90 %
20	Verdipapirfondet Fondsfinans Norge	664,525	0.87 %
Sum top 20		49,971,563	65.08 %
Other shareholders		26,810,860	34.92 %
Total		76,782,423	100.00 %

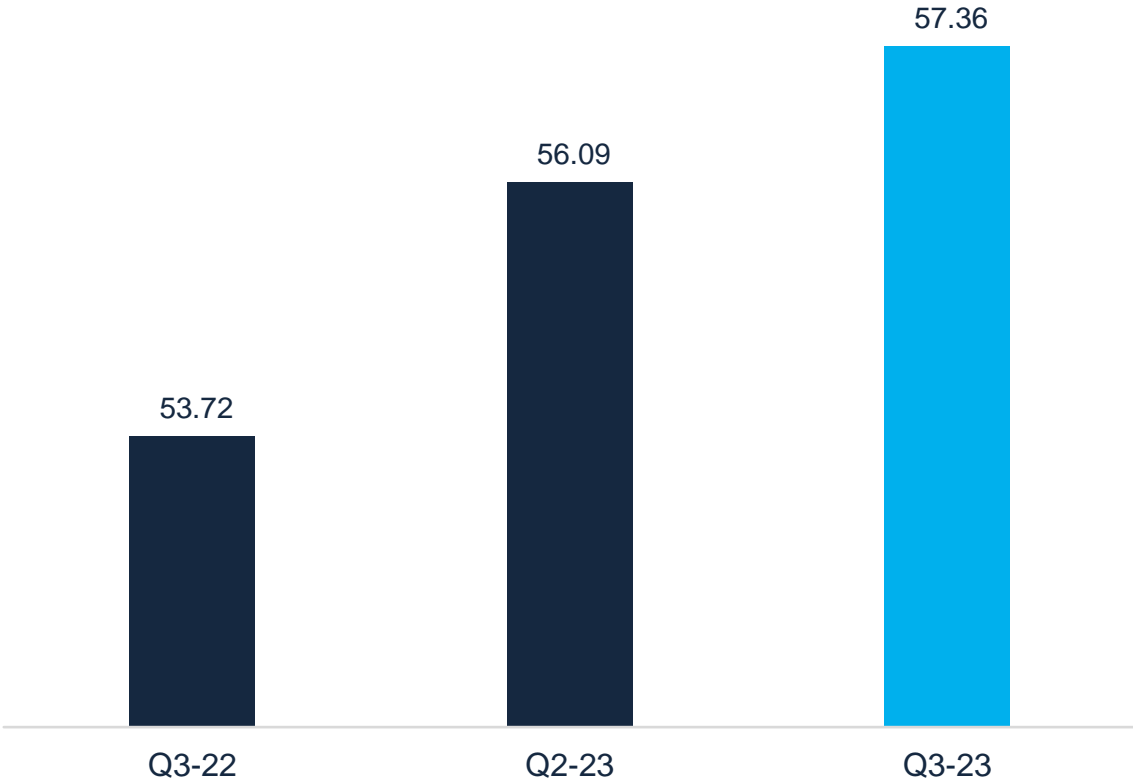
- The Company has 76,782,423 shares outstanding. One class of shares where each share carries one voting right.
- Diversified investor base with 3,583 shareholders.
- The Top 10 and 20 investors hold 54 % and 65 % of the shares respectively.
- Employees in Pareto Bank own 1.6 %.
- Top management and owners in the Pareto Group own 3.3 %.
- 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)



*) Kr 2.08 excluding new equity raised in private placement in August 2023.

QUARTERLY INCOME STATEMENT

P&L (NOKm)

	Q3-23	Q2-23	Q1-23	Q4-22	Q3-22
Net interest income	281.3	271.5	262.5	253.5	241.8
Net other operating income	3.0	-5.4	-3.0	20.7	2.3
Total net income	284.3	266.1	259.5	274.2	244.2
Total operating expenses	50.4	51.4	50.5	48.9	46.7
Operating profit before impairments and losses	233.9	214.7	209.0	225.3	197.5
Impairments and losses on loans and guarantees	30.3	12.9	36.4	-1.2	21.0
Pre-tax operating profit	203.6	201.8	172.7	226.5	176.5
Tax expense	48.4	47.4	41.8	54.3	43.0
Profit for the period	155.2	154.4	130.9	172.1	133.5
Earnings per share (NOK)	1.89	2.03	1.79	2.39	1.85
Return on equity	13.9 %	14.8 %	13.0 %	17.4 %	14.0 %
Cost/income ratio	17.7 %	19.3 %	19.5 %	17.8 %	19.1 %

QUARTERLY BALANCE SHEET

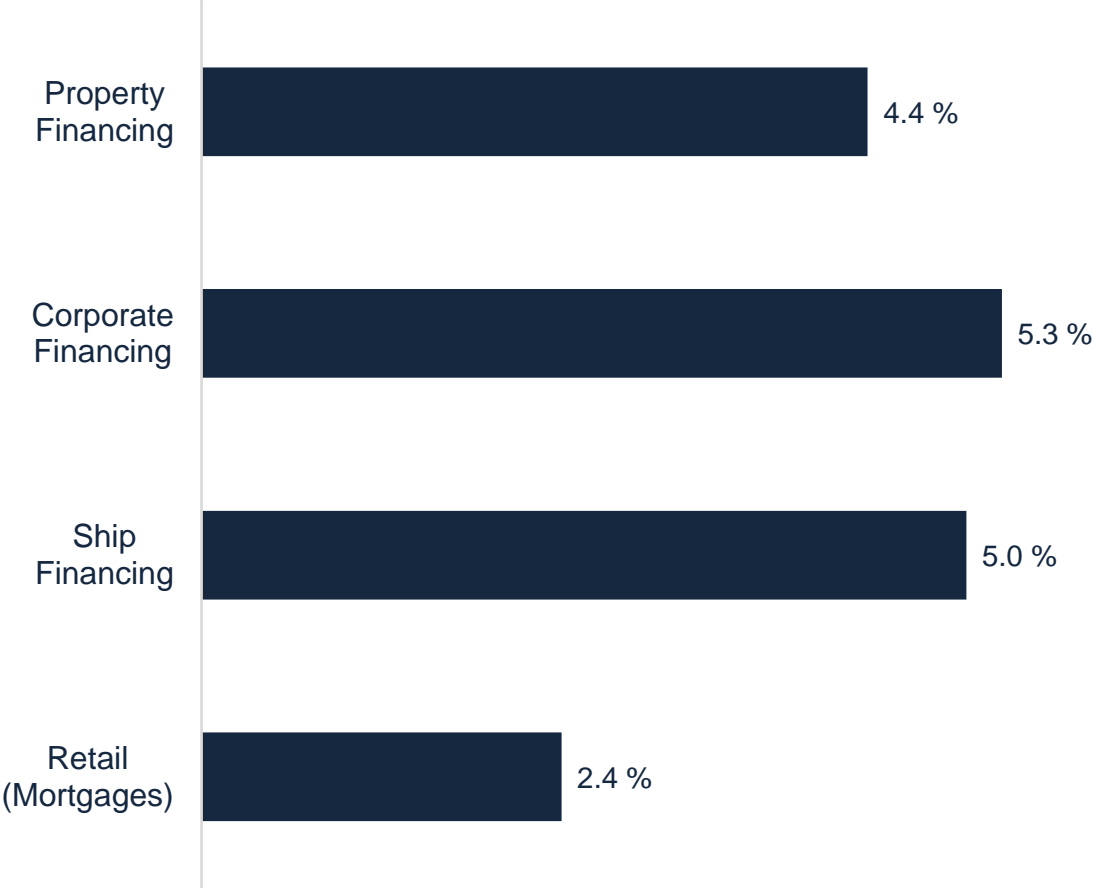
(NOKm)

	Q3-23	Q2-23	Q1-23	Q4-22	Q3-22
Loans to credit institutions	2,498	2,001	2,230	747	982
Loans to customers	18,260	18,344	17,707	17,346	16,925
Bonds and other securities	4,245	3,882	3,952	4,007	3,710
Shareholdings in associated companies	23	23	23	23	23
Other assets	164	218	157	173	130
Total assets	25,189	24,468	24,069	22,296	21,770
Deposits from customers and institutions	11,481	11,193	10,777	10,131	10,450
Senior securities issued	7,718	7,877	7,918	7,183	6,399
Other liabilities	437	331	627	341	447
Tier 2 subordinated securities issued	699	699	421	421	420
Additional tier 1 capital	450	450	551	300	300
Other equity	4,404	3,918	3,775	3,920	3,752
Total liabilities and equity	25,189	24,468	24,069	22,296	21,770

MARGINS AND INTEREST CONTRIBUTION

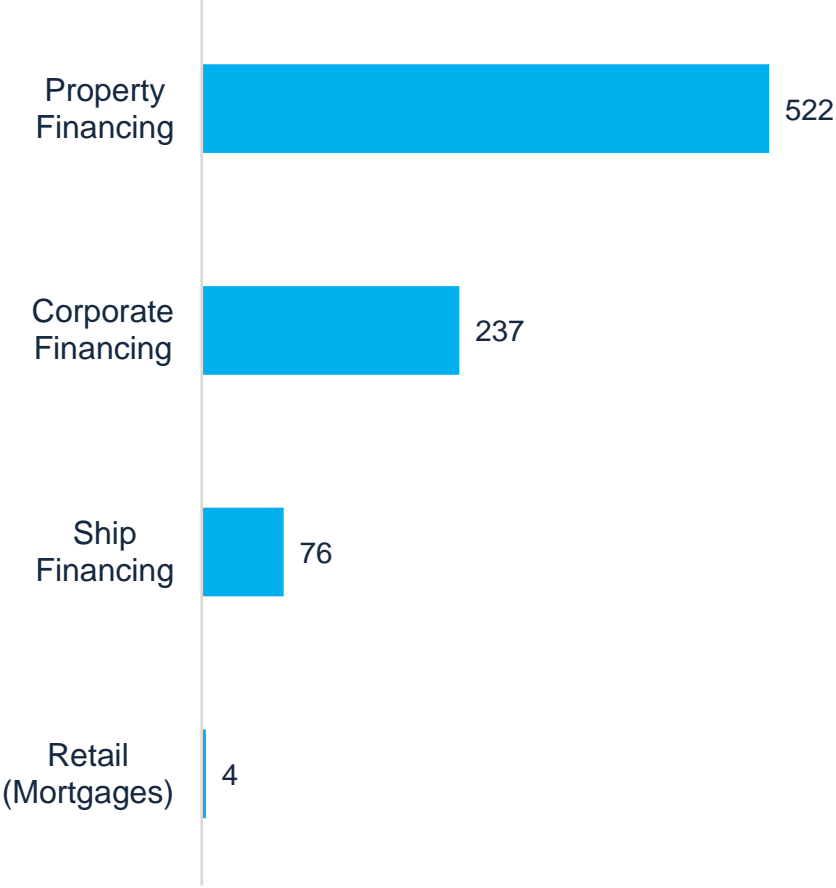
Margins per business area

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

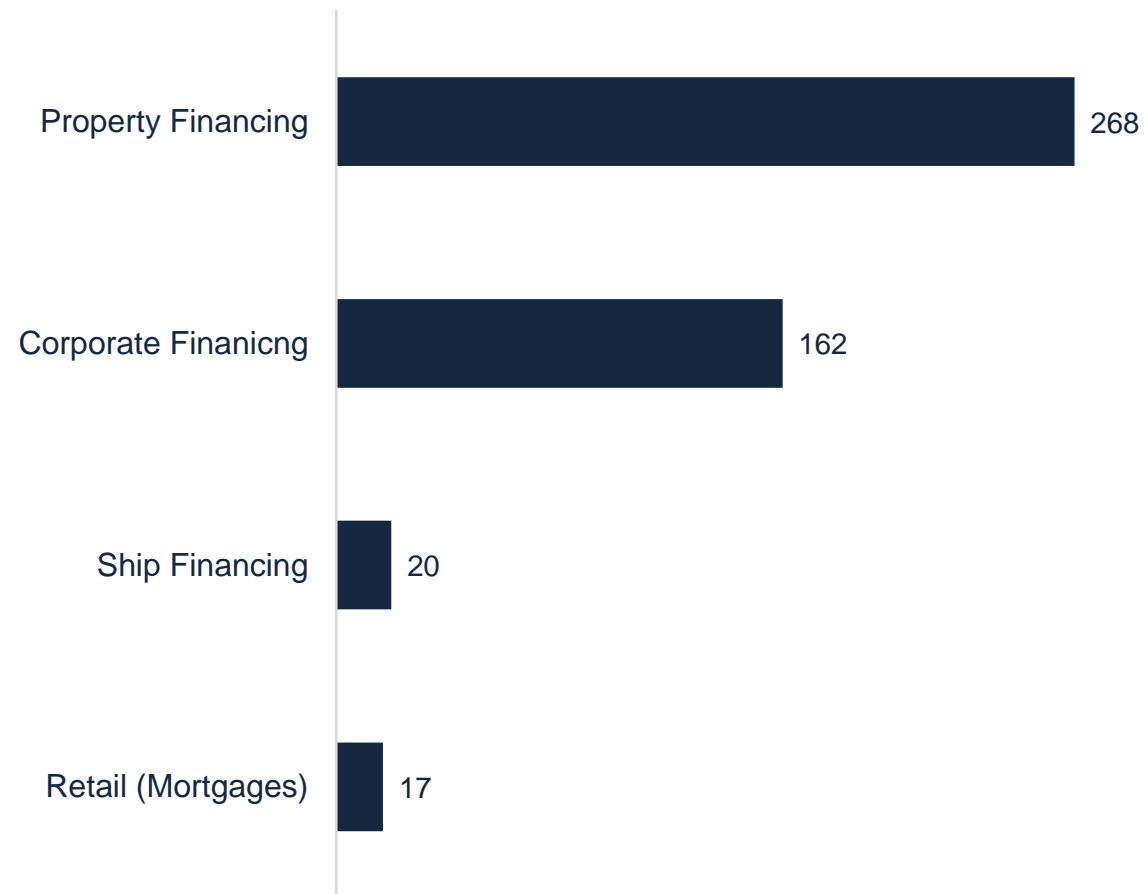


Note segment margins are estimated on the basis of terms of existing loans and will therefore differ from reported total lending margins. Loans granted under the state guaranteed SMB loan program and employee mortgages are excluded from this analysis.

Based on terms and 3M NIBOR as of 30.09.2023. Fixing in arrears for SOFR rates are estimated.

NUMBER OF CUSTOMERS

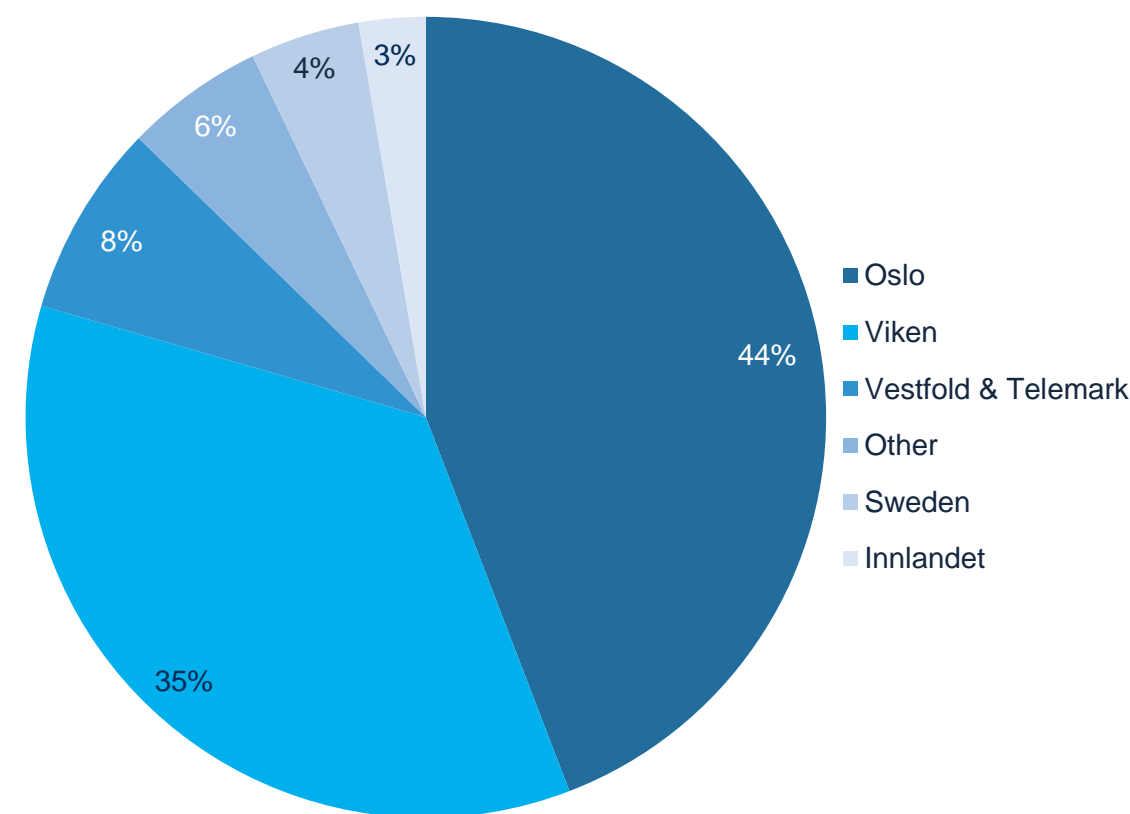
Per business area



REAL ESTATE FINANCING EXPOSURE

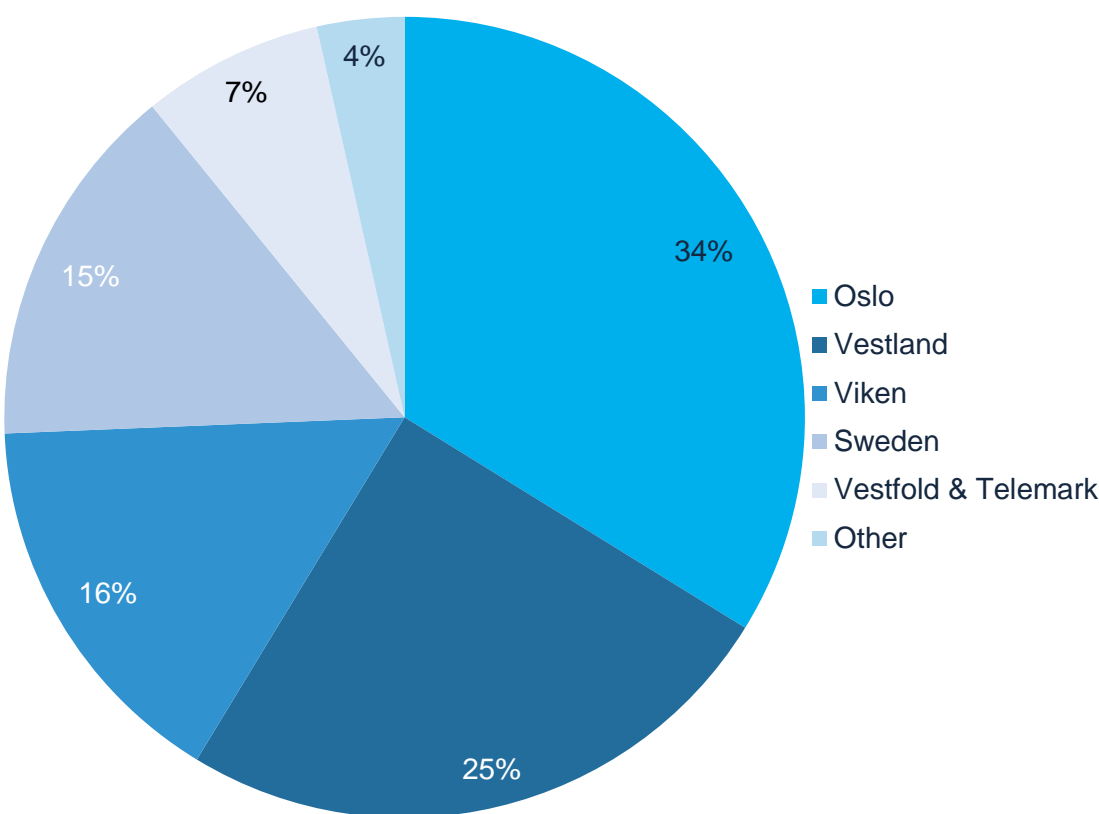
Geographical residential property exposure

Total NOK 10,637m*



Geographical commercial property exposure

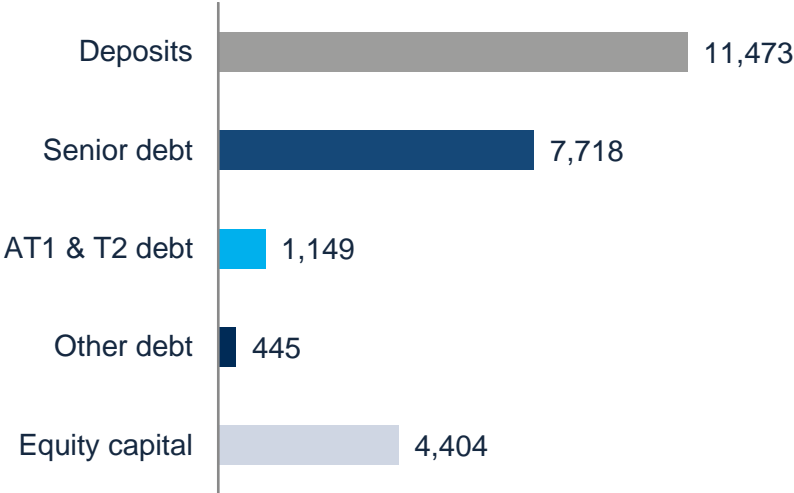
Total NOK 2,972m*



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

FUNDING

Sources (NOKm)

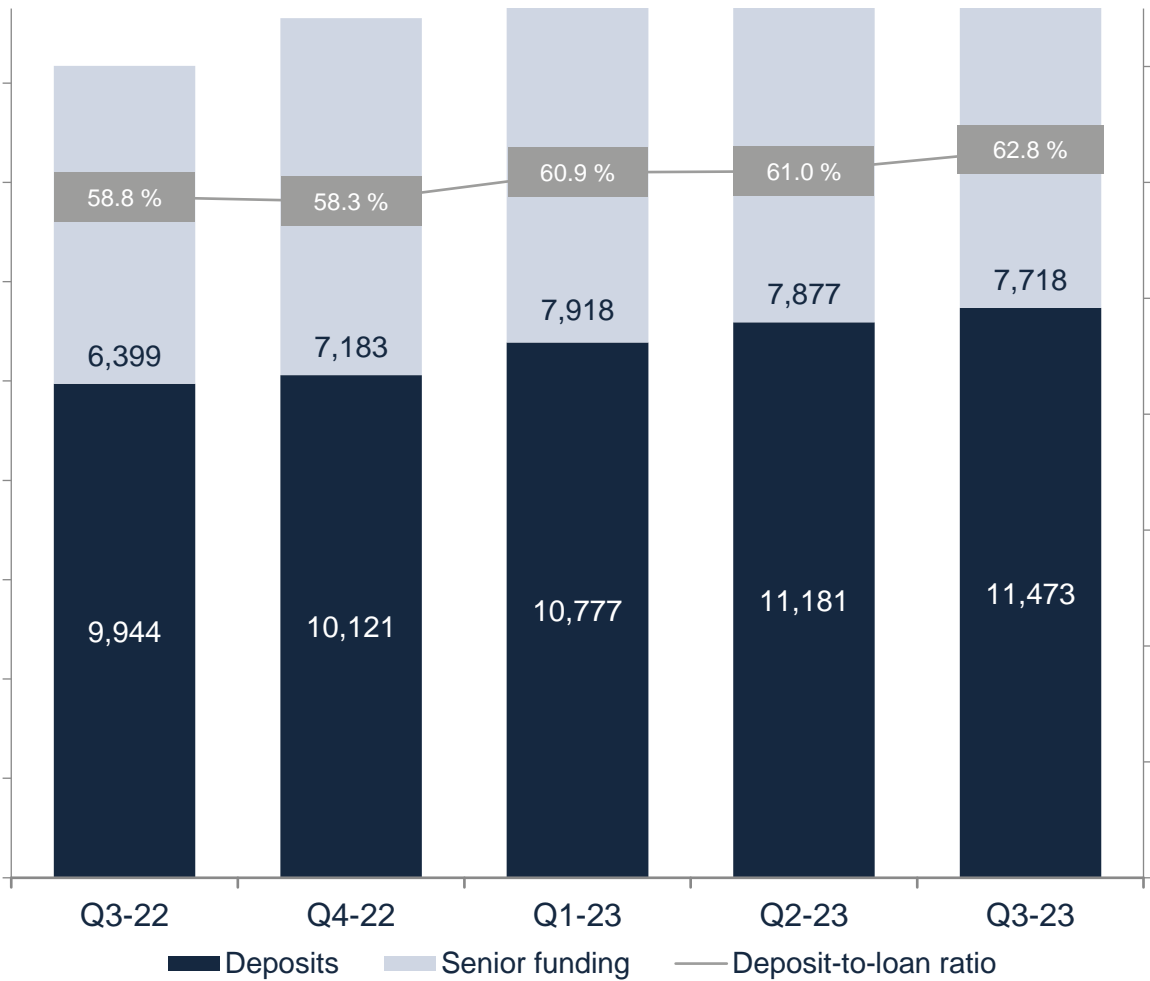


Key funding and liquidity ratios

- Deposits with liquidity restrictions 67 %
- Corporate deposits 66 %
- Deposit-to-loan ratio 63 %
- Liquidity Coverage Ratio 619 %
- Net Stable Funding Ratio 173 %

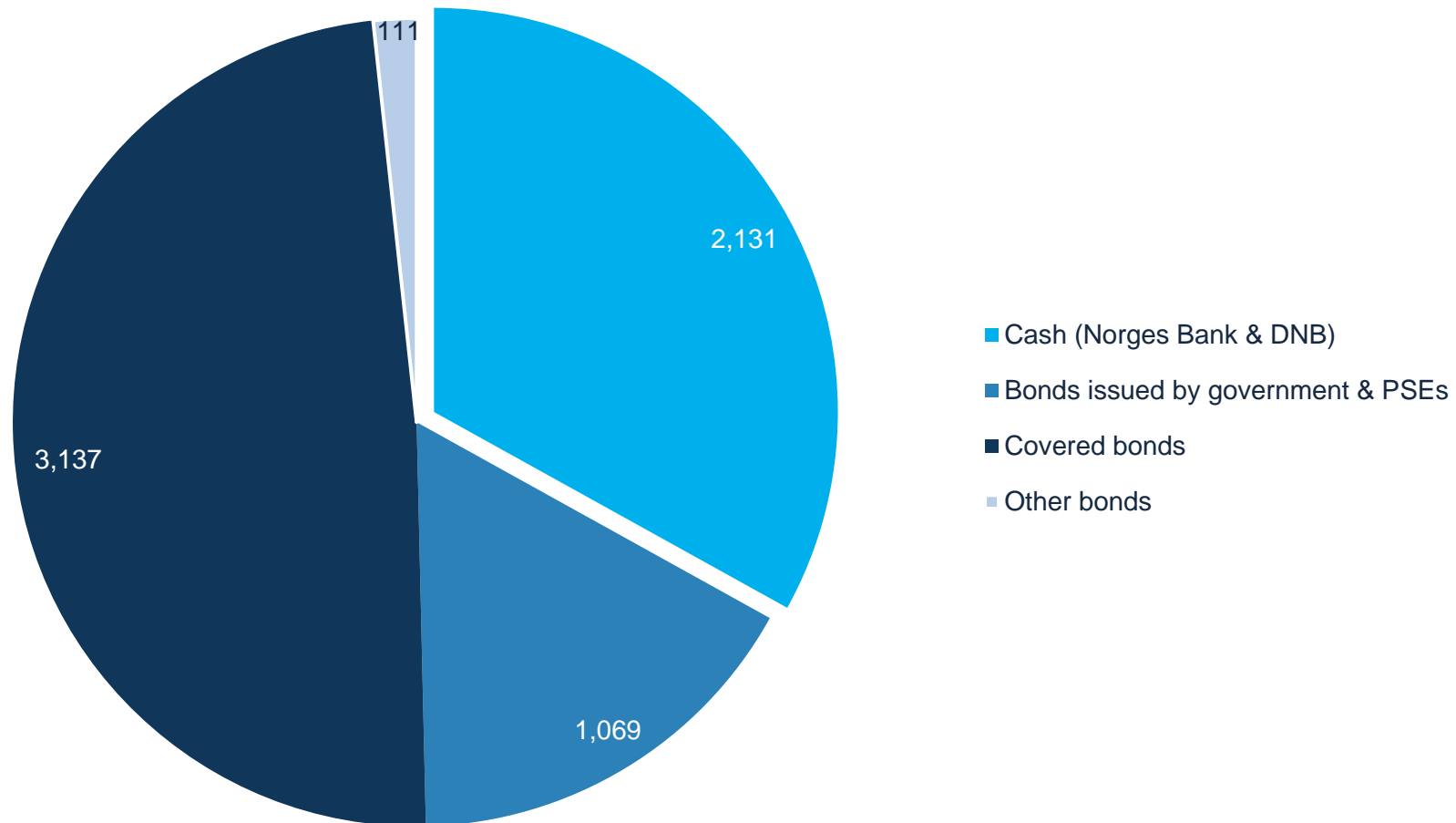
Deposits & senior debt

NOKm,
Percent customer deposits of net lending to customers



LIQUIDITY BUFFER

Low credit and market risk (NOKm)

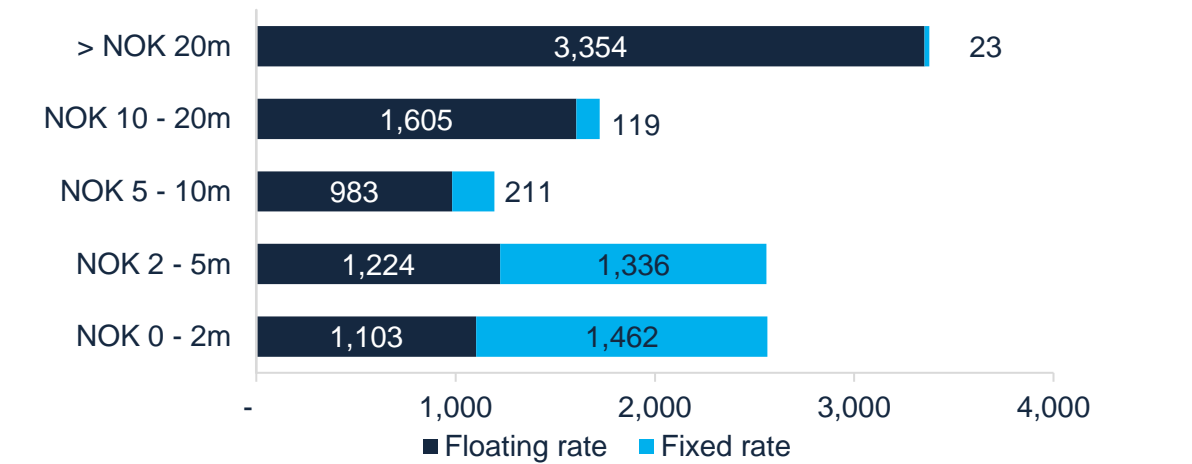


Comments

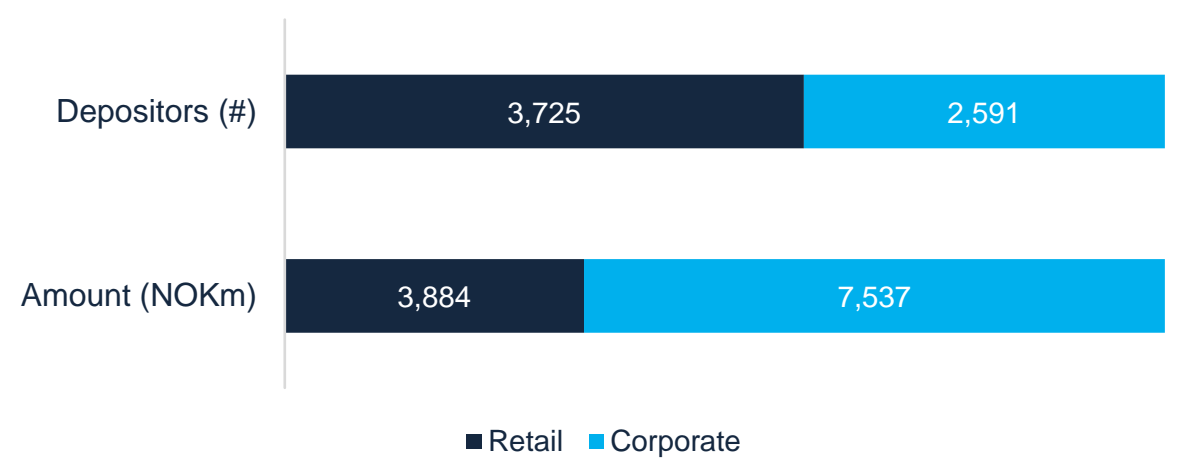
- Cash on hand.
- Highly liquid bonds.
- Low credit risk.
- No interest rate or foreign exchange risk.
- Access to central bank facilities and repo market.
- Marked to market.
- Assets qualify for LCR portfolio.

CUSTOMER DEPOSITS

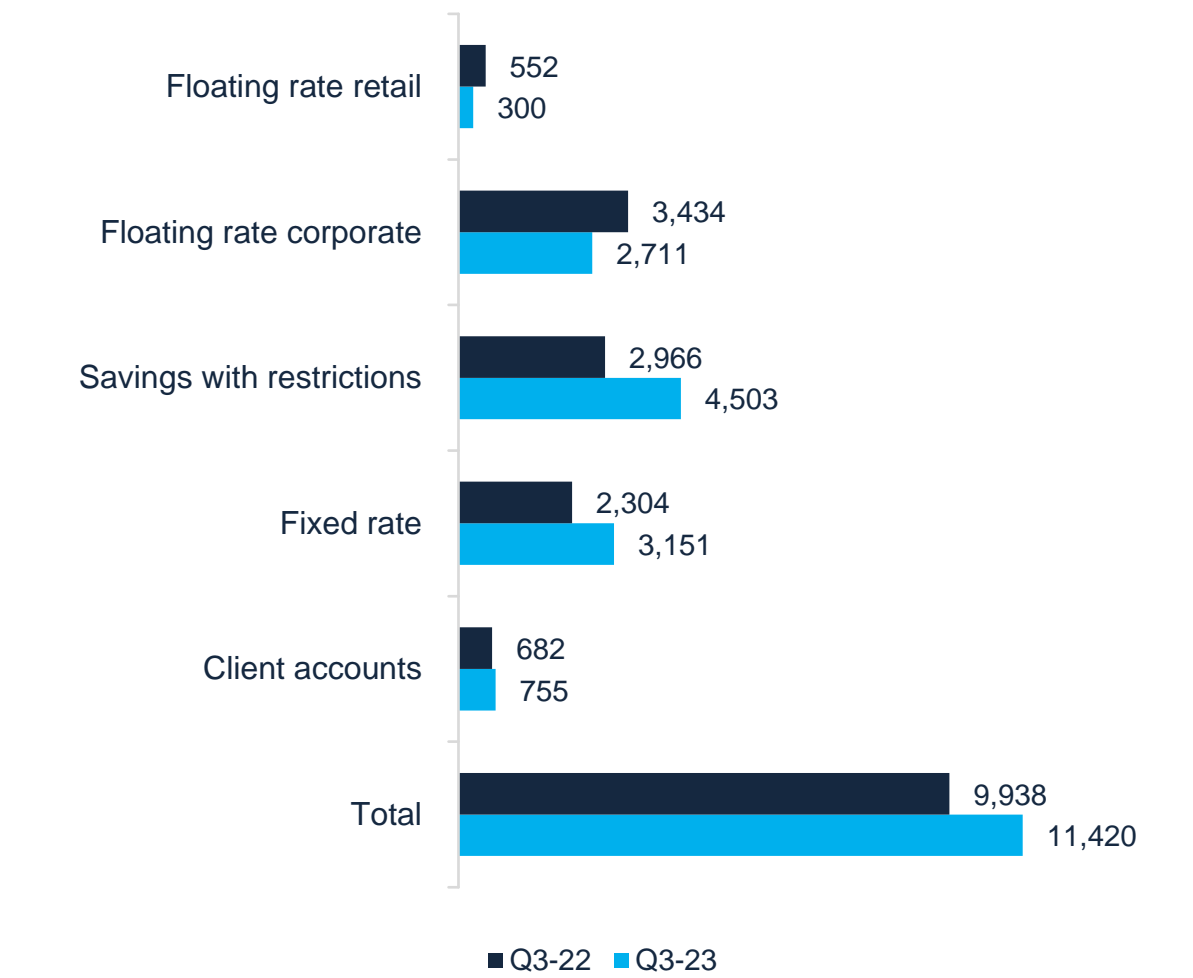
Deposits by size (NOKm)



Deposits by type (NOKm)

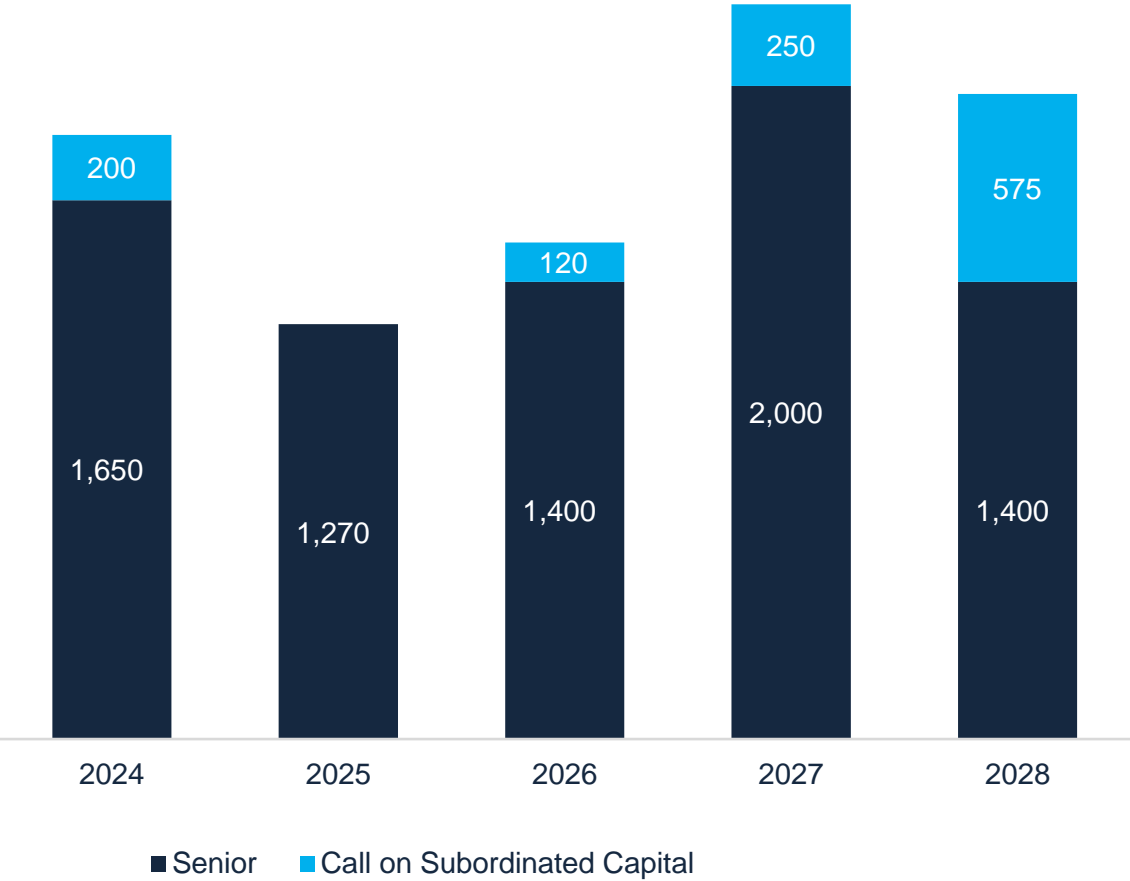


Deposits by product (NOKm)

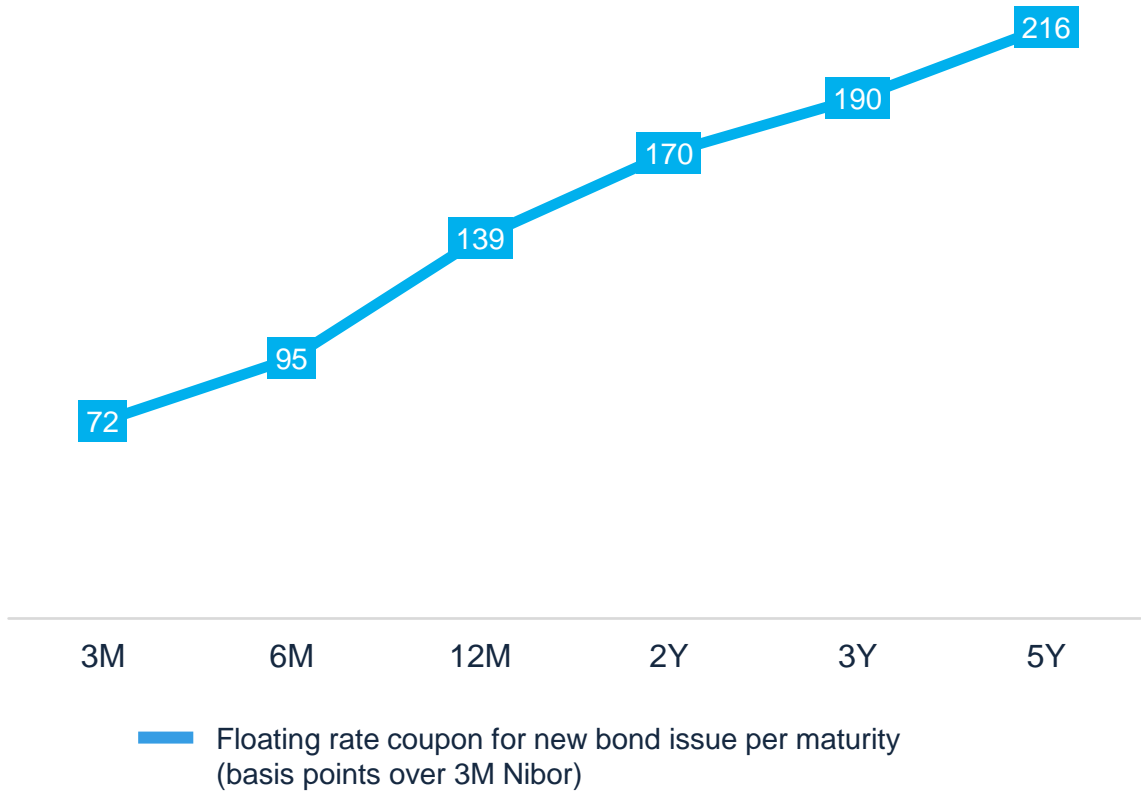


MARKET FUNDING

Market funding maturities (NOKm) *

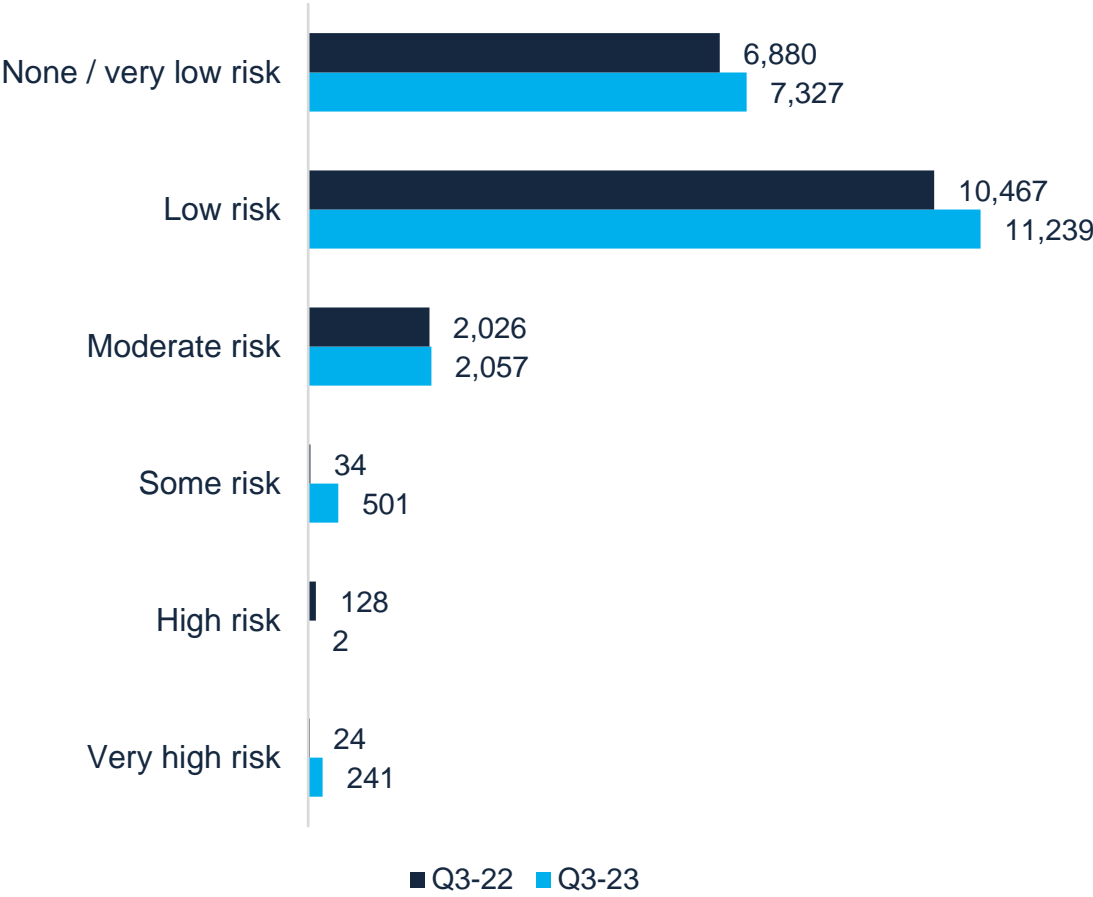


Cost of new market funding

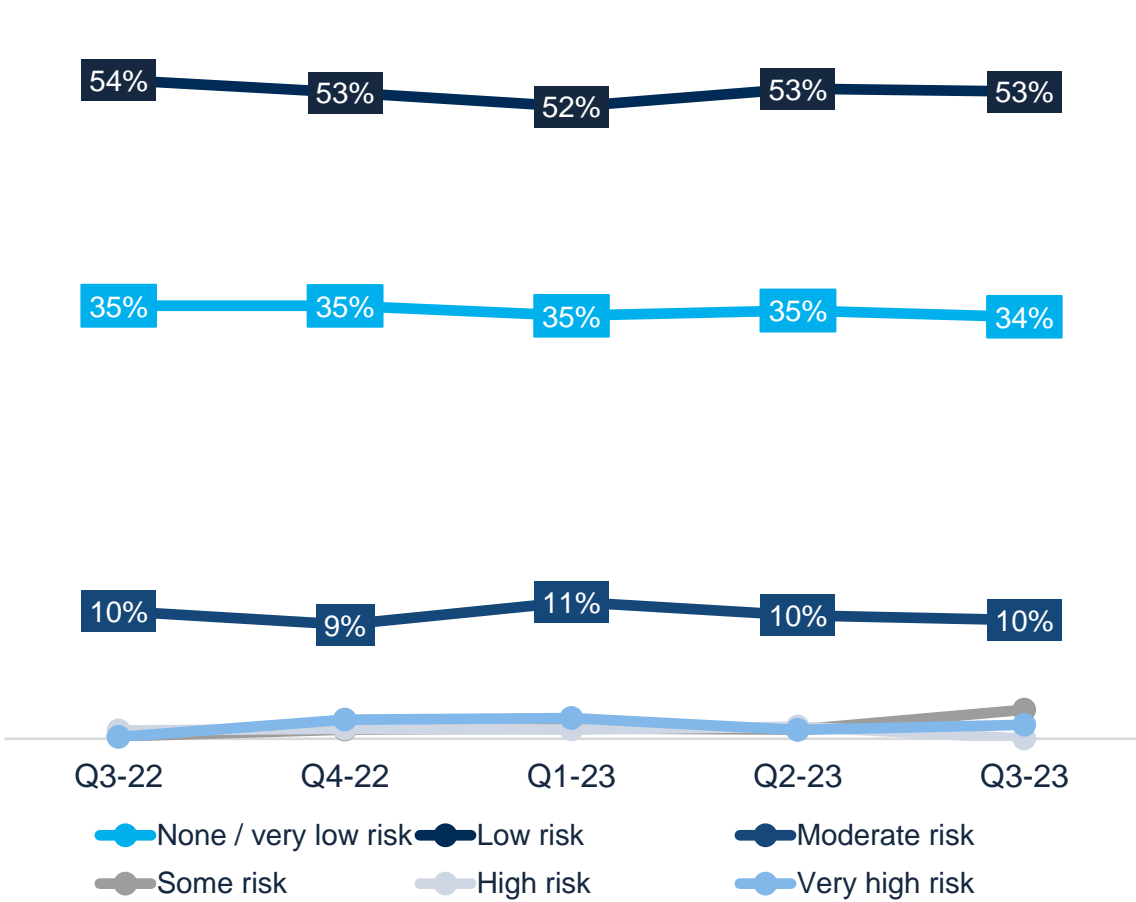


COMMITMENTS BY RISK CLASSIFICATION

Risk classification (NOKm)

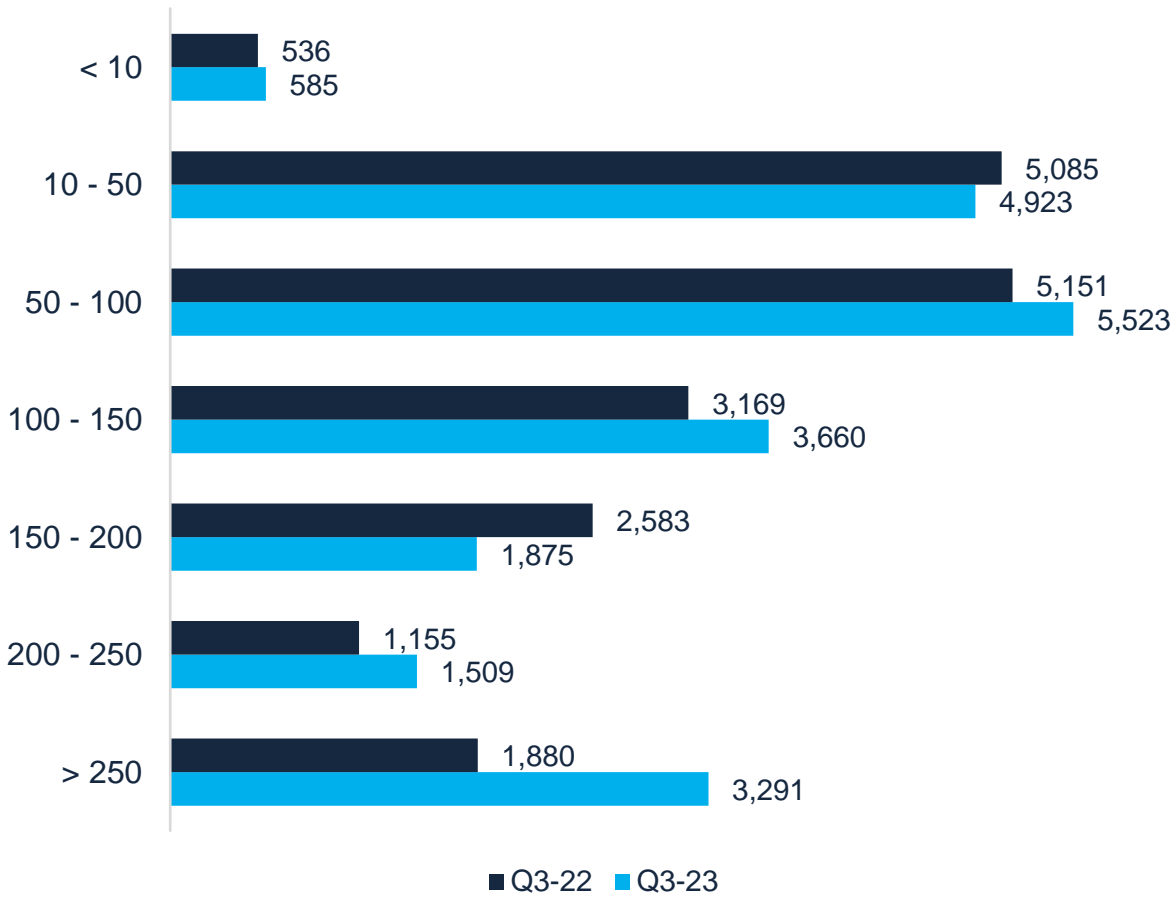


Historical risk classification

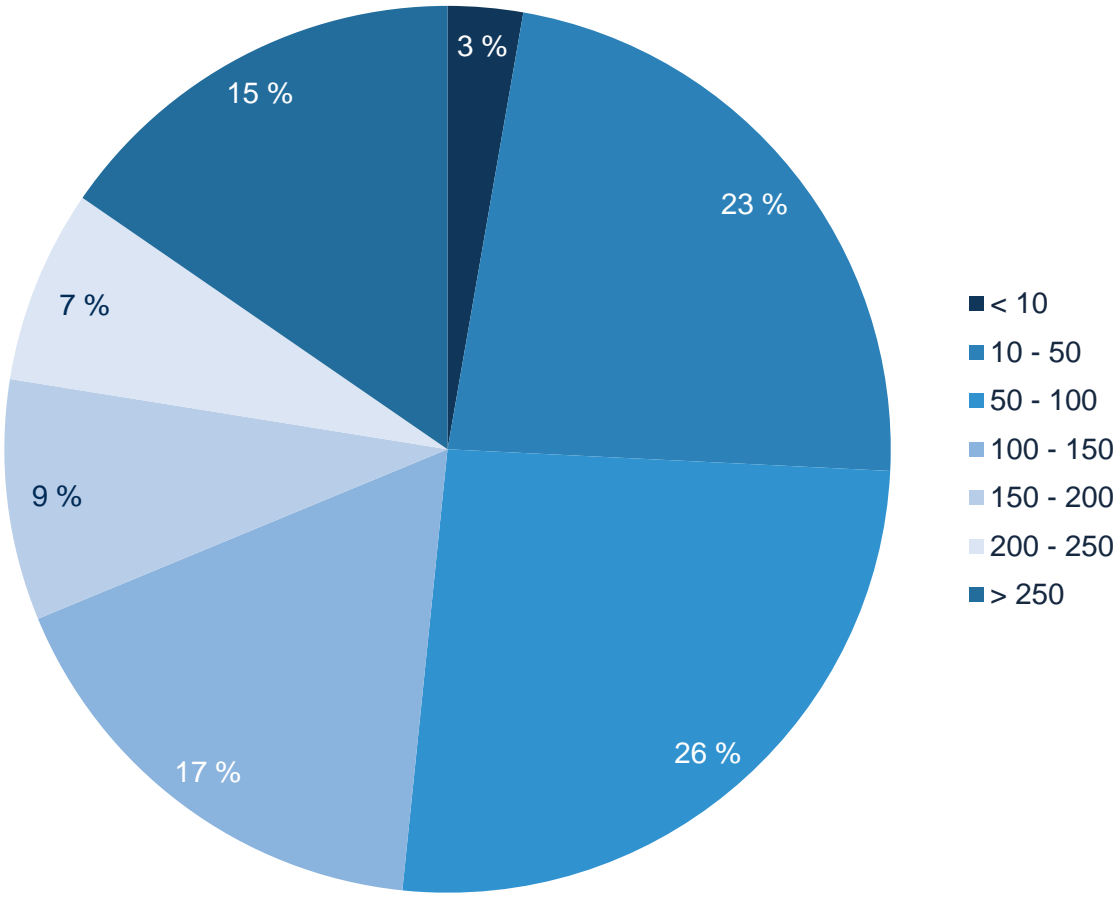


COMMITMENTS BY SIZE

Commitment size per customer (NOKm)

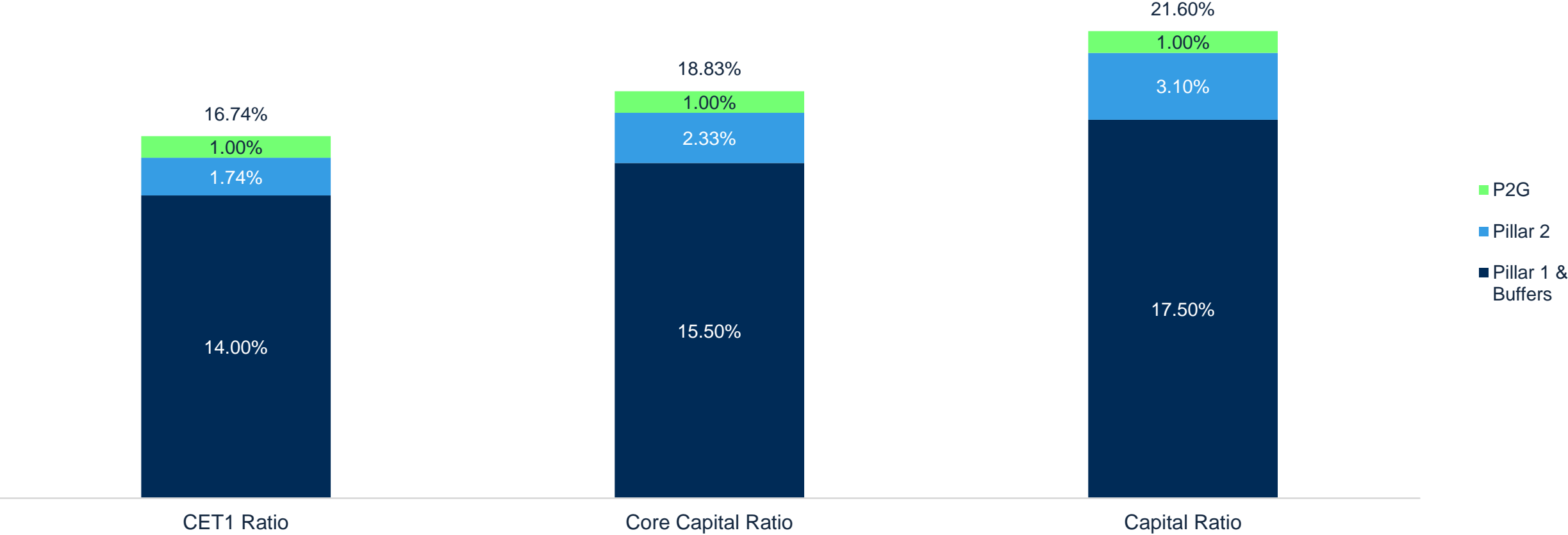


Distribution of commitments by size (NOKm)



CAPITAL REQUIREMENTS

Expected as of year-end 2023



Pareto bank | 15år