

# PARETO BANK

## Financial Results – Fourth Quarter 2023

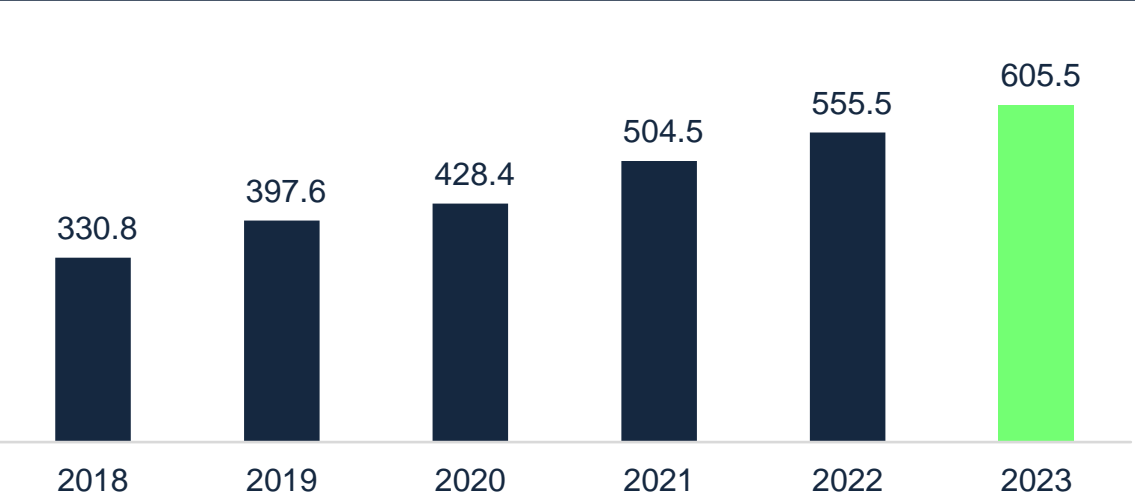
**Highlights**

Financials

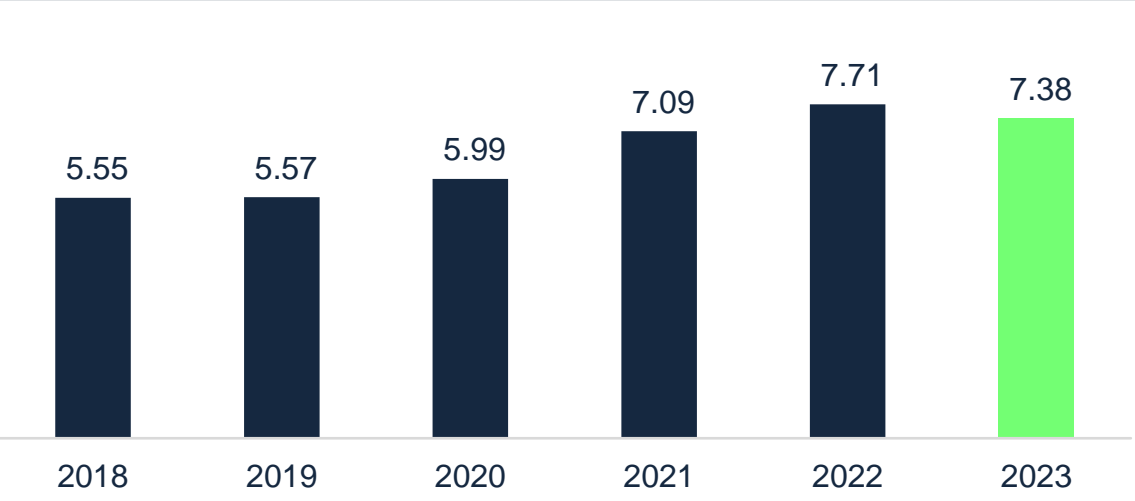
Business Area Update & Outlook

# RECORD HIGH PROFIT FOR 2023

## Profit after tax (NOKm)



## Earnings per share (NOK)

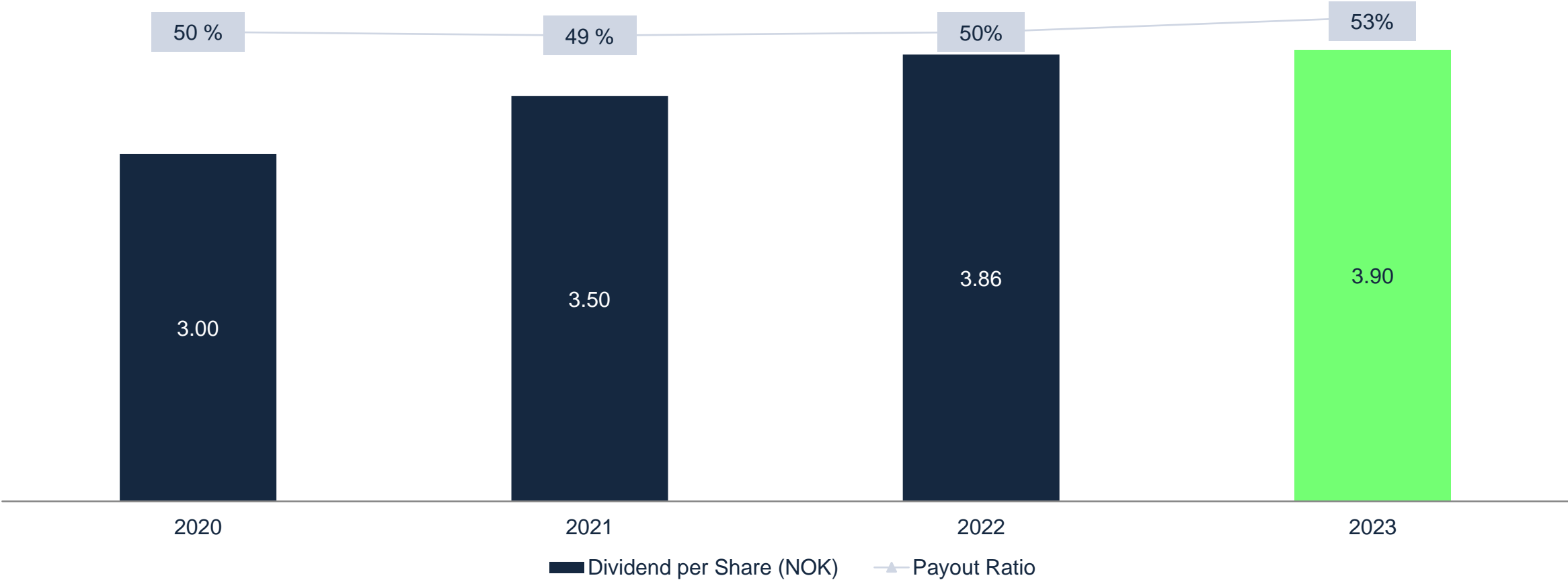


## Comments

- Profit after tax of NOK 605.5m (NOK 555.5m in Q4-22) driven by a strong net interest margin of 4.6 % (4.4 %) and lending growth of 7 % year-on-year.
- Return on equity after tax (ROE) 13.8 % (14.6 %). ROE will be affected by the private placement in September 2023 until the new capital is fully utilized.
- Excellent operational efficiency with cost/income ratio of 18.2 % (19.3 %).
- Higher than normal impairments at 0.68 % (0.27 %) of net lending. Individual impairments related to a limited number of commitments. Close collaboration with customers on solutions. Good loss absorption capacity.
- Attractive long-term growth opportunities at solid credit metrics and targeted profitability. Good growth capacity secured through private placement. A selective credit practice is maintained. Credit quality and profitability always comes first.

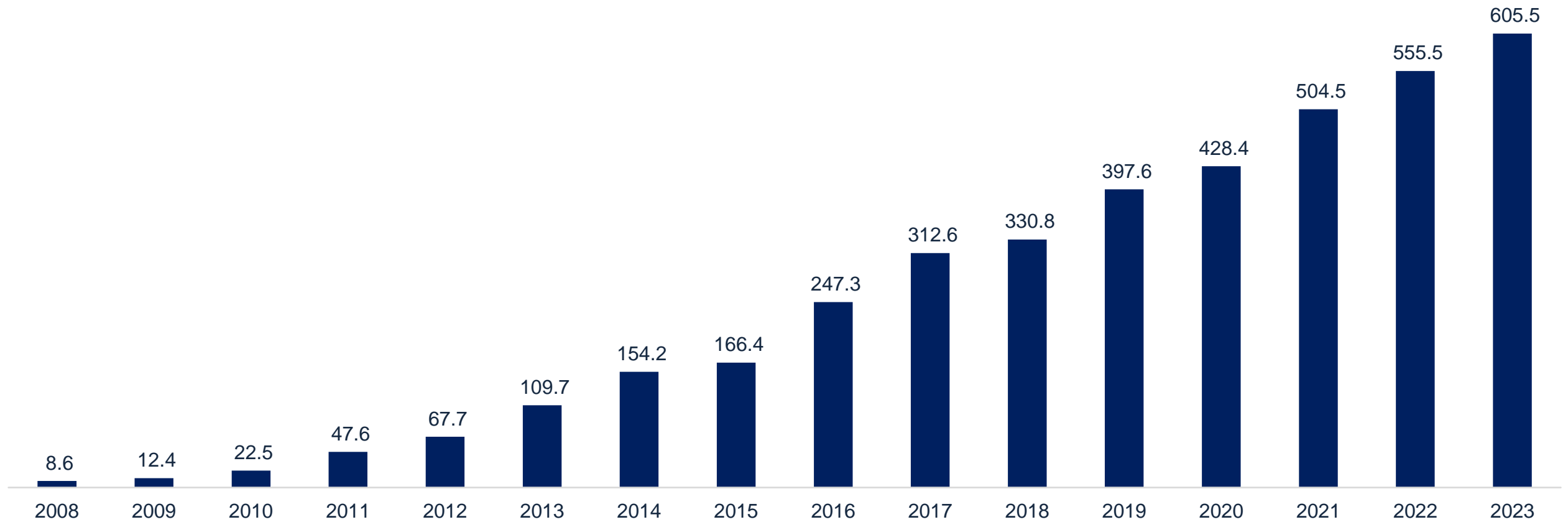
# DIVIDEND FOR 2023

Proposed dividend of NOK 3.90 per share



# ANNUAL PROFITS

Profit after tax (NOKm)



# FOURTH QUARTER 2023

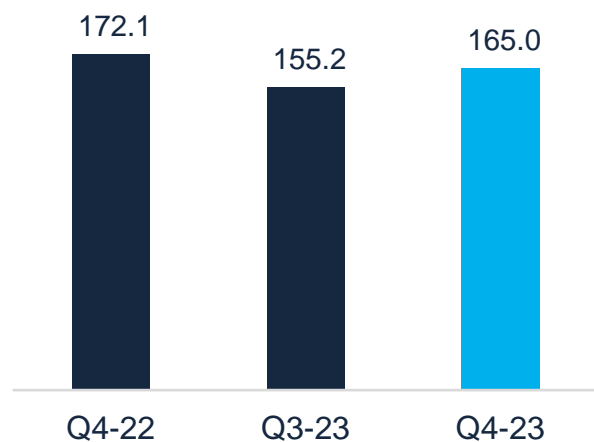
## Highlights

- Profit after tax NOK 165.0m (NOK 172.1m in Q4-22).
- Return on equity after tax 13.8 % (17.4 %).
- Strong net interest income NOK 297.3m (NOK 253.5m) due to increase in lending margin.
- Lending growth NOK 259m to NOK 18,518m. Growth within corporate and offshore financing and financing of commercial residential real estate.
- Total impairments of NOK 42.1m (reversal of NOK 1.2m). Net effect of individual impairments and write-offs NOK 29.0m (NOK 2.4m) and related to a limited number of commitments.

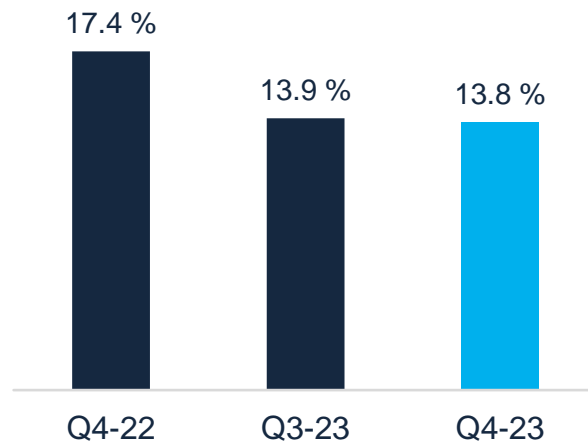


# KEY FIGURES

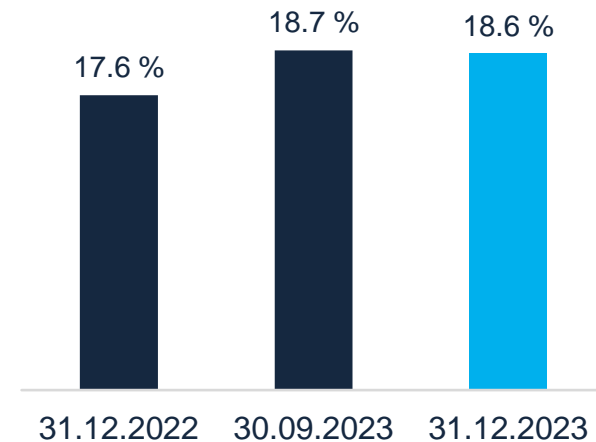
Profit after tax (NOKm)



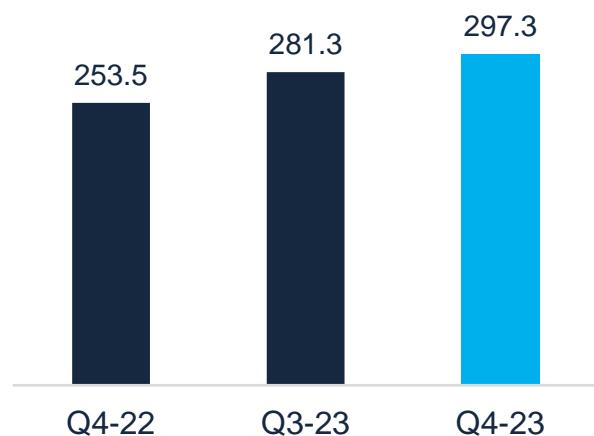
Return on Equity \*



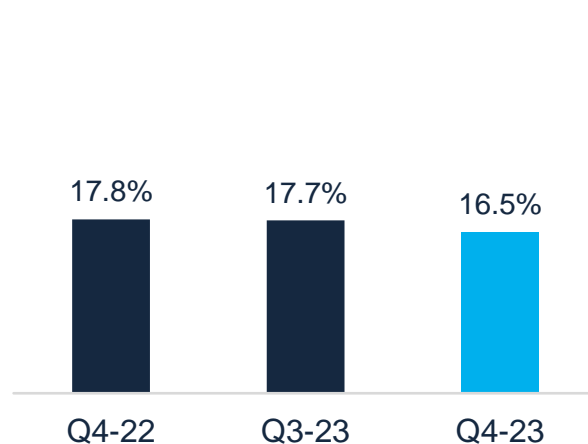
CET1 ratio



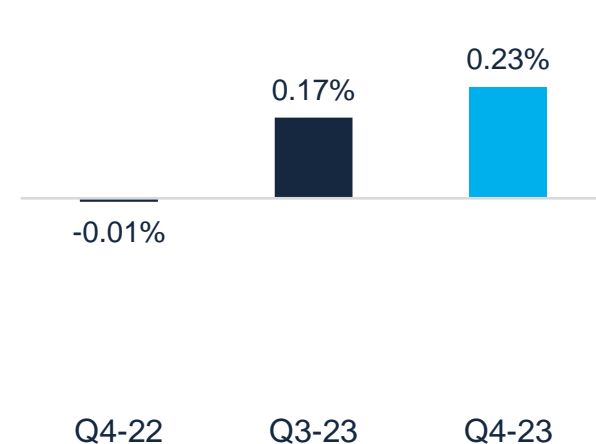
Net interest income (NOKm)



Cost/Income ratio



Loss ratio \*\*



Highlights

**Financials**

Business Area Update & Outlook



# INCOME STATEMENT

## P&L (NOKm)

	Q4-23	Q4-22	2023	2022
Net interest income	297.3	253.5	1,112.6	928.6
Net other operating income	12.1	20.7	6.7	36.7
<b>Total net income</b>	<b>309.4</b>	<b>274.2</b>	<b>1,119.4</b>	<b>965.3</b>
Total operating expenses	51.1	48.9	203.5	186.5
<b>Operating profit before impairments and losses</b>	<b>258.3</b>	<b>225.3</b>	<b>915.9</b>	<b>778.8</b>
Impairments and losses on loans and guarantees	42.1	-1.2	121.7	45.0
<b>Pre-tax operating profit</b>	<b>216.2</b>	<b>226.5</b>	<b>794.2</b>	<b>733.8</b>
Tax expense	51.2	54.3	188.7	178.3
<b>Profit for the period</b>	<b>165.0</b>	<b>172.1</b>	<b>605.5</b>	<b>555.5</b>
Earnings per share (NOK)	2.01	2.39	7.38	7.71
Return on equity	13.8 %	17.4 %	13.8 %	14.6 %
Cost/income ratio	16.5 %	17.8 %	18.2 %	19.3 %

Increased lending rates contributed to growth in interest income compared to the previous quarter. Improved return on liquidity reserve.

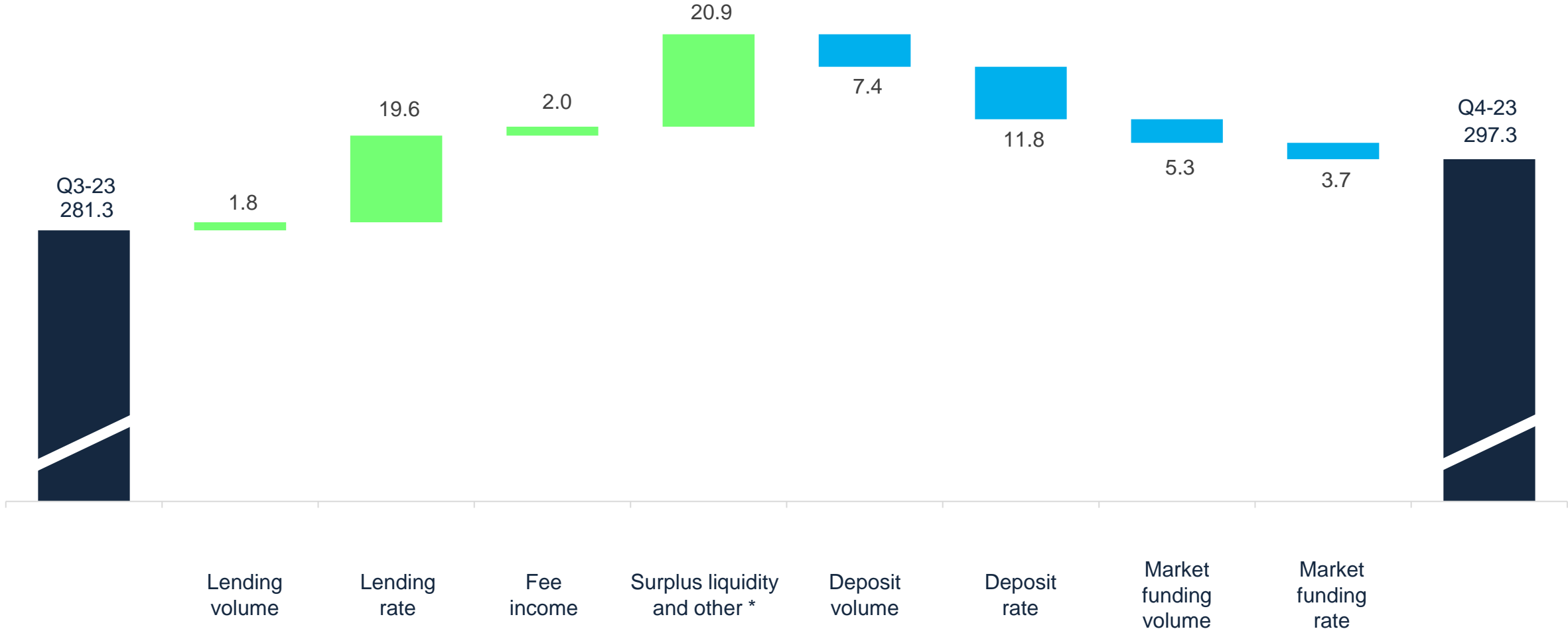
Strong growth in fixed-rate deposits led to a more diversified funding with a larger share of retail deposits. Deposit growth increased interest costs.

Value of financial instruments increased by NOK 10.0m (NOK 19.4m), primarily due to gains on bonds in the liquidity reserve.

Excellent cost efficiency with cost/income ratio of 16.5 %. Set off NOK 8.8m (NOK 11m) for employee bonus in Q4-23 and 32.2m (NOK 34.1m) for 2023.

Total impairments divided between model-based impairments of NOK 13.1m and individual impairments, including write-offs, of NOK 29.0m.

# CHANGE IN QUARTERLY NET INTEREST INCOME (NOKm)



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

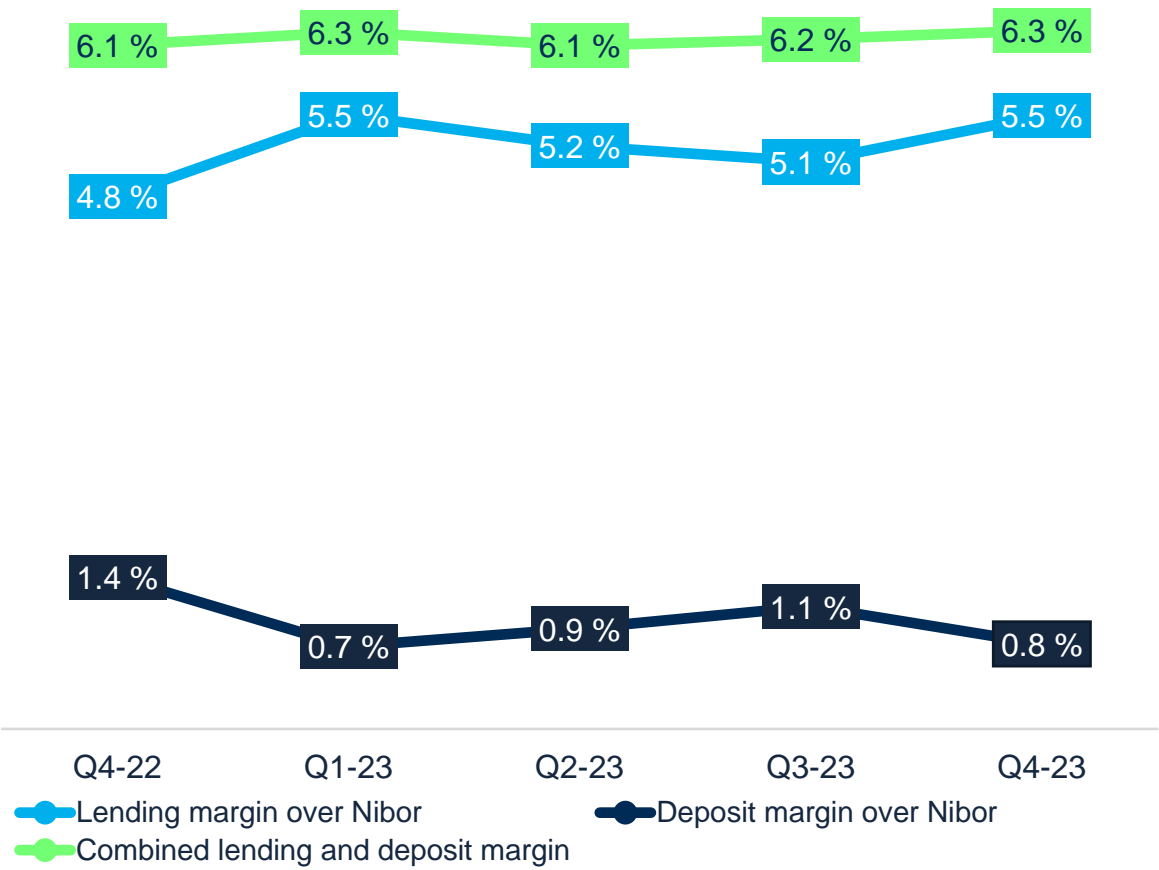
# CHANGE IN ANNUAL NET INTEREST INCOME (NOKm)



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

# INTEREST MARGINS

Lending and deposit margin



Net interest margin



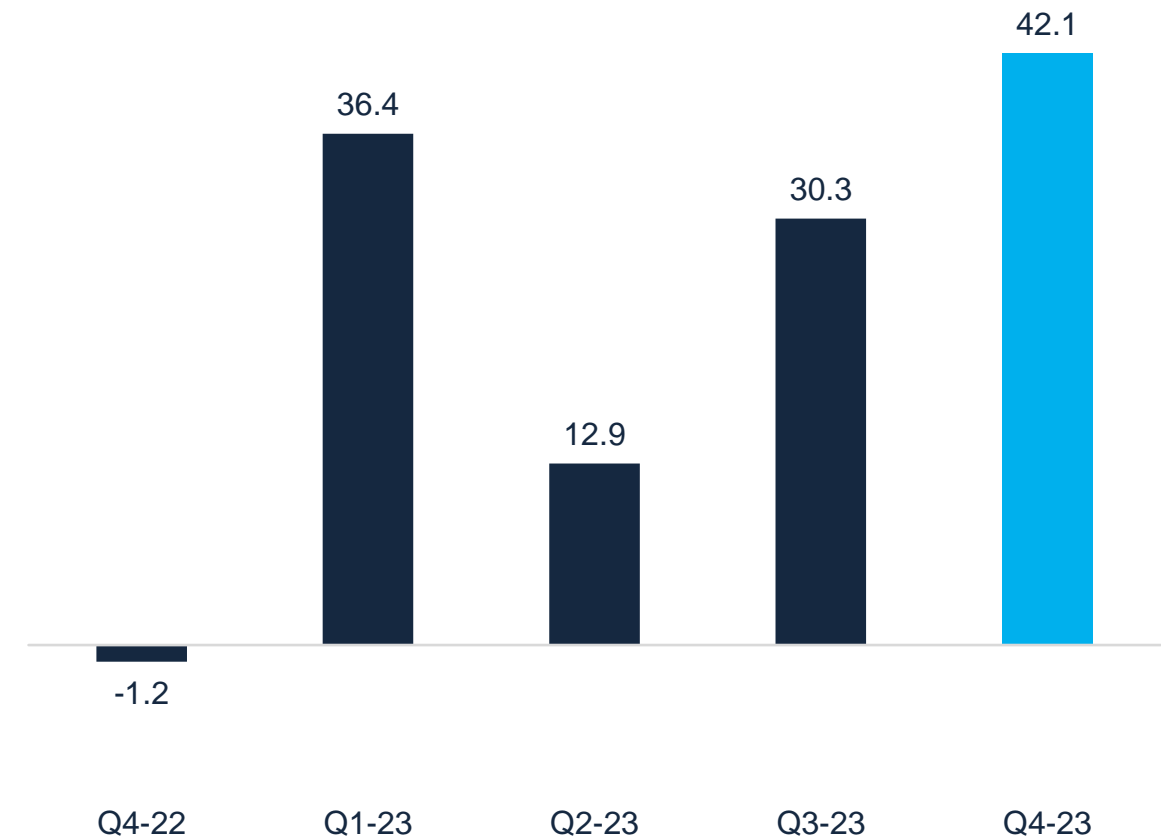
# QUARTERLY CHANGE IN IMPAIRMENTS

Impairments (NOKm)

	Q4-23	2023
Stage 1	12.2	18.6
Stage 2	0.9	13.3
Stage 3	-21.2	34.3
Write-offs	50.2	55.4
<b>Total impairments</b>	<b>42.1</b>	<b>121.7</b>

- Total model-based impairments in stage 1 and 2 were NOK 13.1m.
- Net effect of individual impairments in stage 3 and write-offs was NOK 29.0m Individual impairments on a limited number of residential property loans.
- Individual impairments are based on a probability-weighted average of three scenarios for future cash flows.
- Write-offs of NOK 50.2m linked to four commitments which have been in stage 3 for some time.

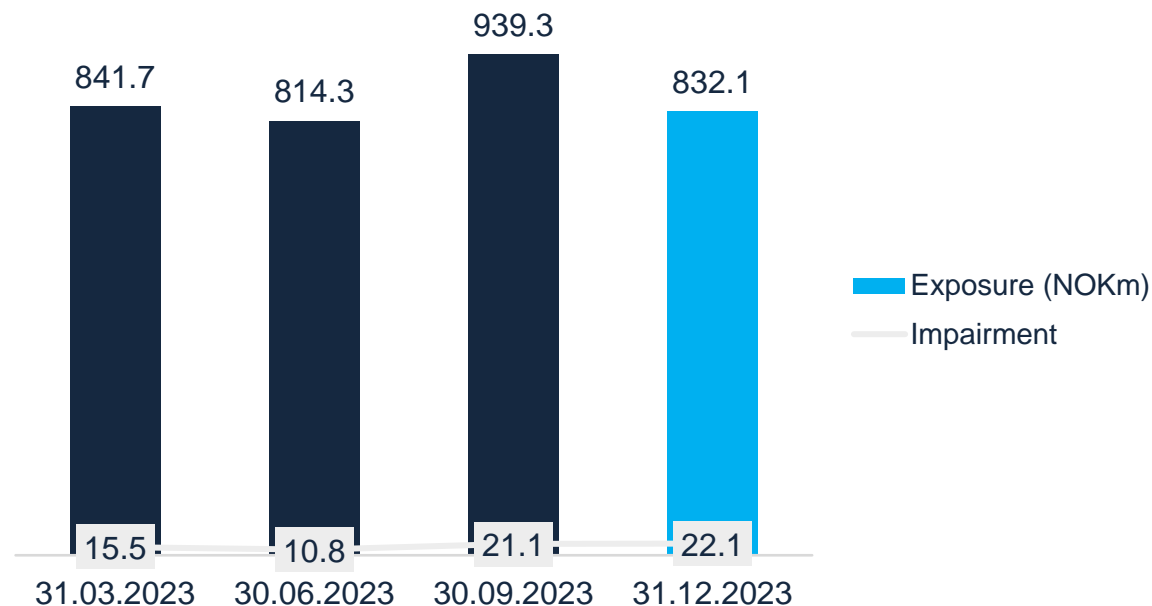
Impairments (NOKm)



# CHANGES IN STAGE 2 & 3

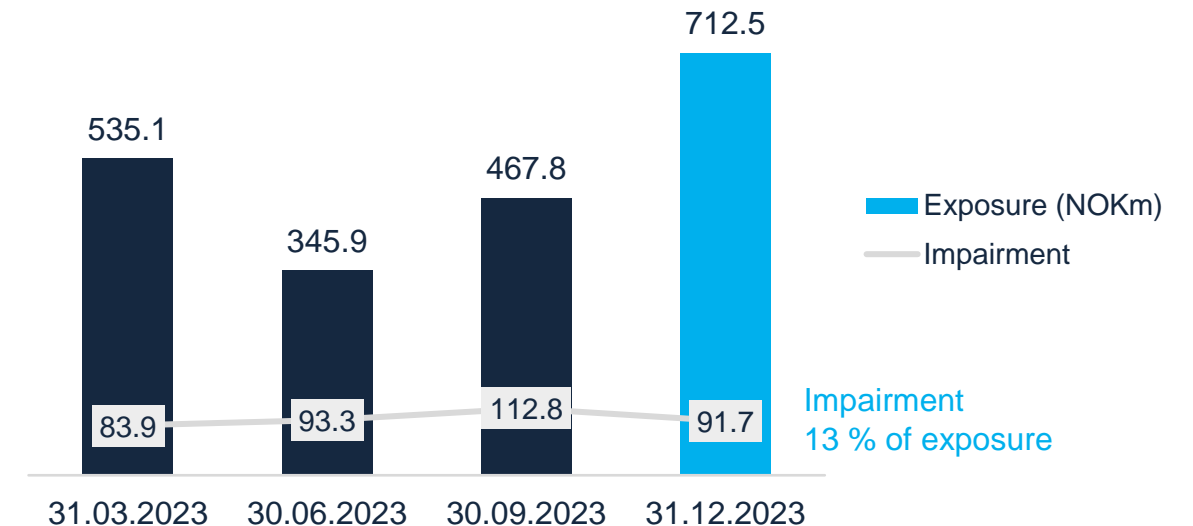
## Stage 2

- Commitments on watch list, under forbearance or where there has otherwise been a material increase in risk.
- Model-based impairments.
- Decrease in exposure due to fewer loans on watch list and migration of a small number of commitments to stage 3. Some increase in commitments between 30 and 90 days past due.

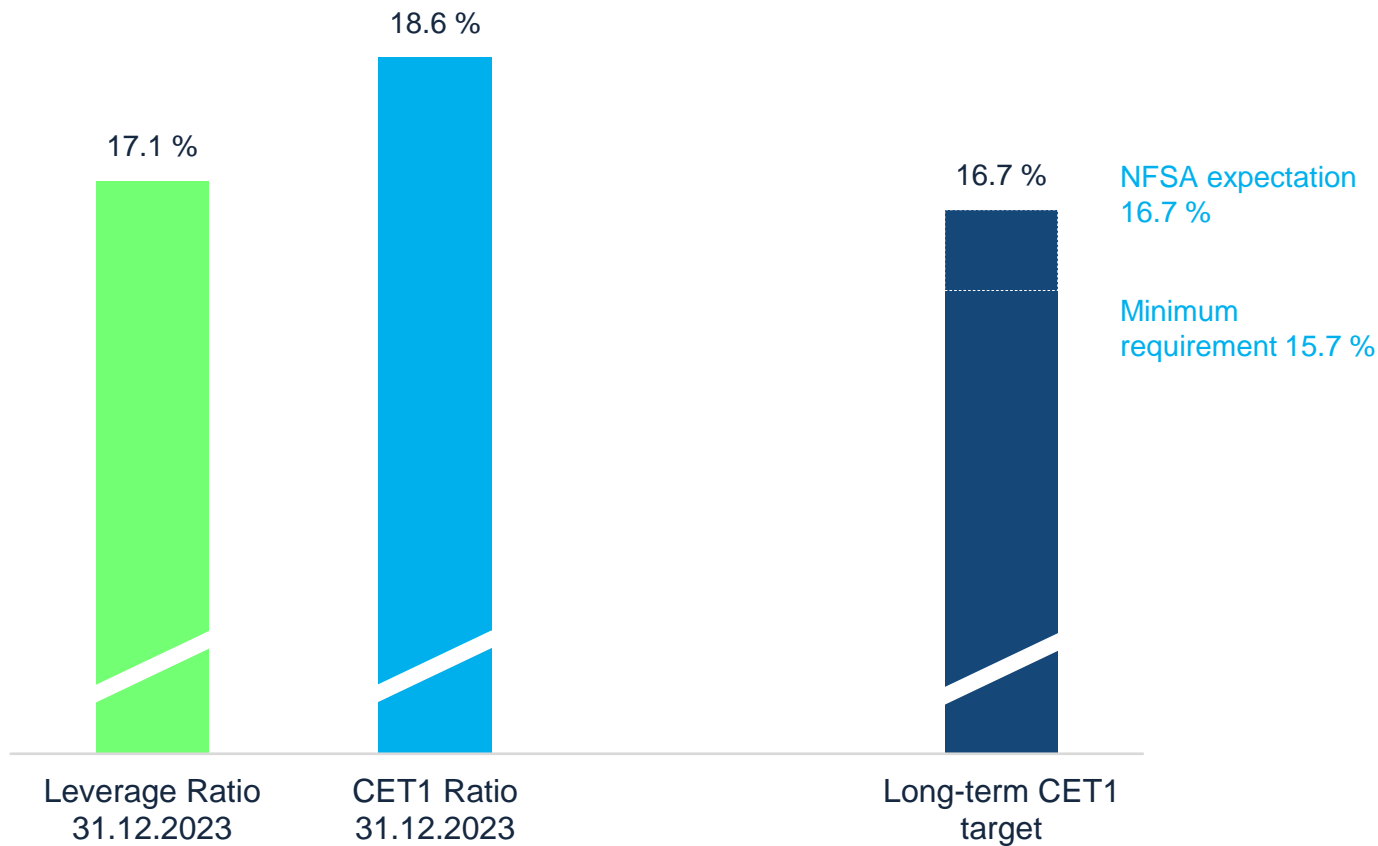


## Stage 3

- Commitments which are more than 90 days past due, 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. Increase due to migration of a small number of commitments to stage 3.



# SOLIDITY AND CAPITAL REQUIREMENTS



- Solid capital position due to private placement in September 2023.
- Capacity for profitable growth under good market conditions.
- Long-term capital target is a CET1 ratio of at least 16.7 %.
- Pareto Bank will hold a buffer above this target.
- Department of Finance has recommended implementation of EU's CRR3 framework in Norwegian law as of 1 January 2025. This will introduce more granularity in risk weighting, as well as new models for various risks.
- The new framework will be explored in the coming year.

Highlights

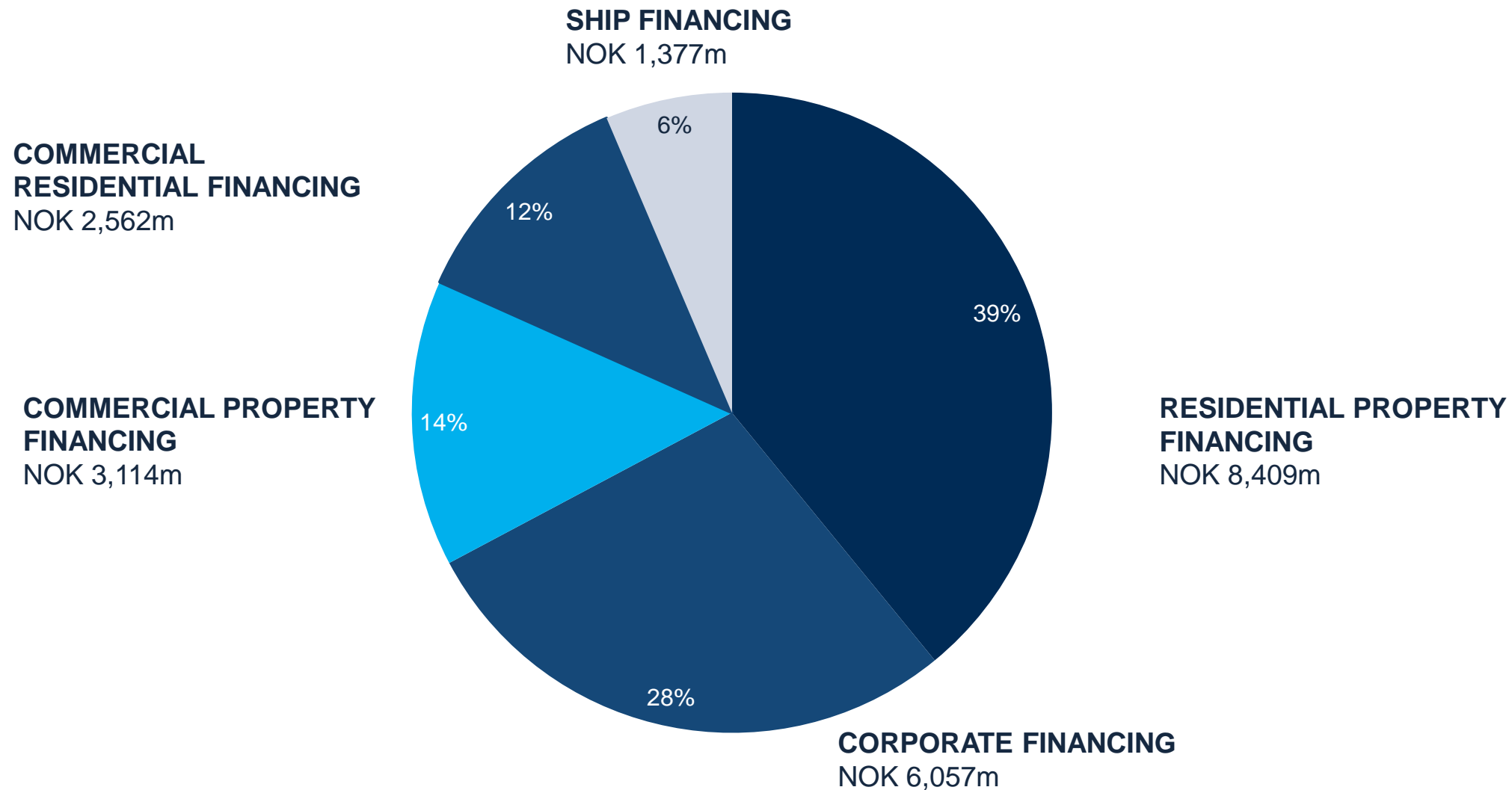
Financials

**Business Area Update & Outlook**



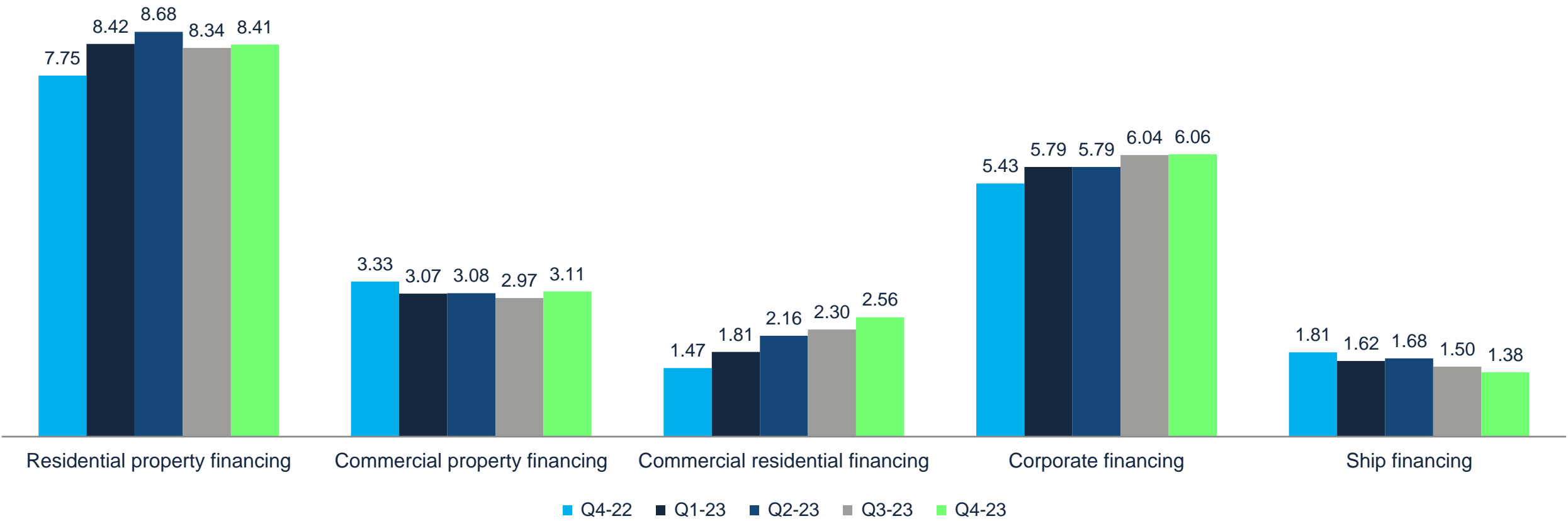
# A NICHE PLAYER FINANCING MEDIUM-SIZED ENTERPRISES

Exposure (NOKm)



# QUARTERLY EXPOSURE PER BUSINESS AREA

(NOKb)



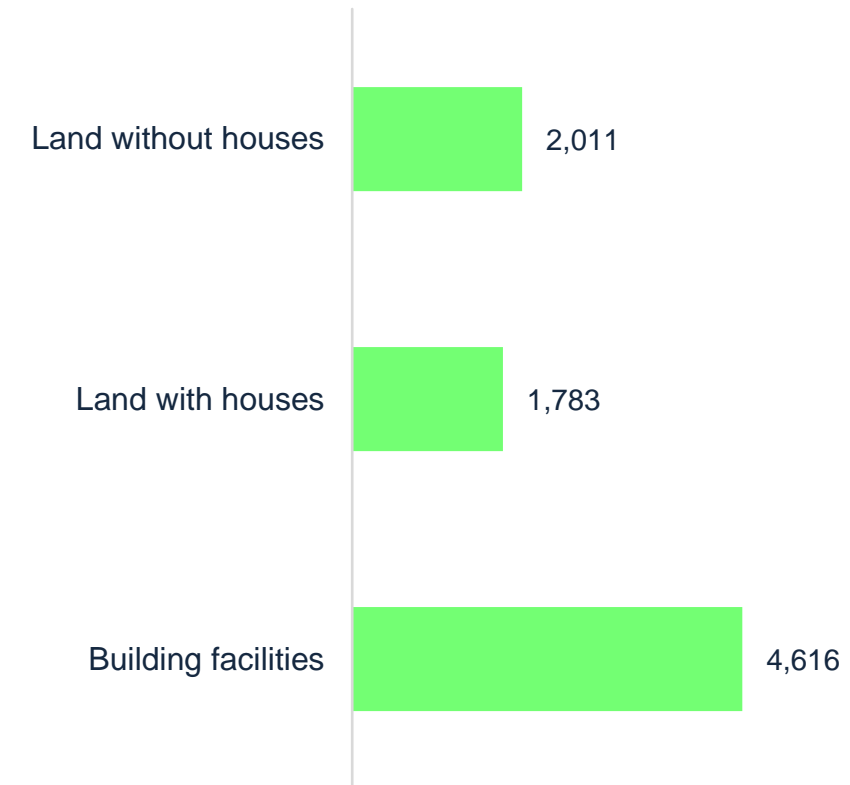
# RESIDENTIAL PROPERTY FINANCING

## 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 growth of NOK 71m in Q4-23.

### Residential property exposure (NOKm)

Total NOK 8,409m



# MARKET OUTLOOK

## Residential property

Higher interest rates and weak development in household disposable income may lead to a fall in housing prices.

Selective market where it is difficult to meet pre-sale requirements in many new-build projects. Easier for affordable housing in the outskirts of Oslo.

Wage inflation, the high cost of concrete and a weak currency keep construction costs high and project profitability under pressure.

Population growth has picked up. Accumulation of demand, lower housing supply and interest rate cut towards the end of 2024 may lead to a long-term rebound in the new-build market.



**Uncertain development in demand for financing and selective credit practice. Flat volume growth in Q1-24. Long-term rebound.**

# COMMERCIAL RESIDENTIAL & PROPERTY FINANCING

## Credit update

Commercial res. & prop. exposure (NOKm)

Total NOK 5,676m

- Commercial residential includes financing of housing for rent, while commercial property includes financing of commercial property.
- Exposure growth of NOK 264m within commercial residential property in Q4-23. Financing of a limited number of unsold units in new-build projects.
- Exposure growth of NOK 142m within commercial property in Q4-23.



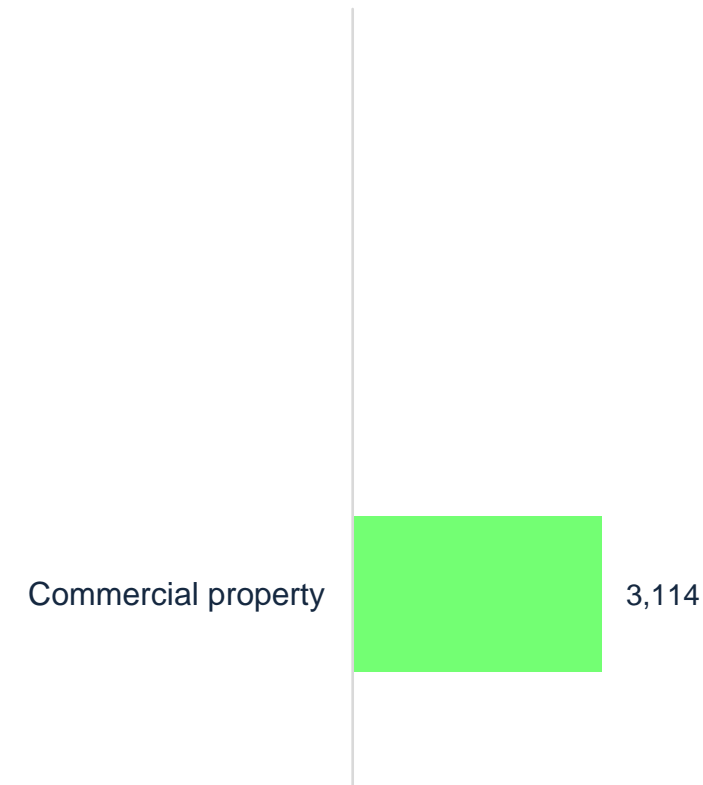
# COMMERCIAL PROPERTY FINANCING

## Credit update

Commercial property exposure (NOKm)

Total NOK 3,114m

- Financing of cash-flow based commercial property and development.
- 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

## Commercial property

Activity in the transaction market is expected to pick up towards the end of 2024.

Commercial property prices have fallen during 2023 and are expected to fall somewhat further. A moderate increase in yields is expected. Continued growth in rental income may compensate for the price fall.



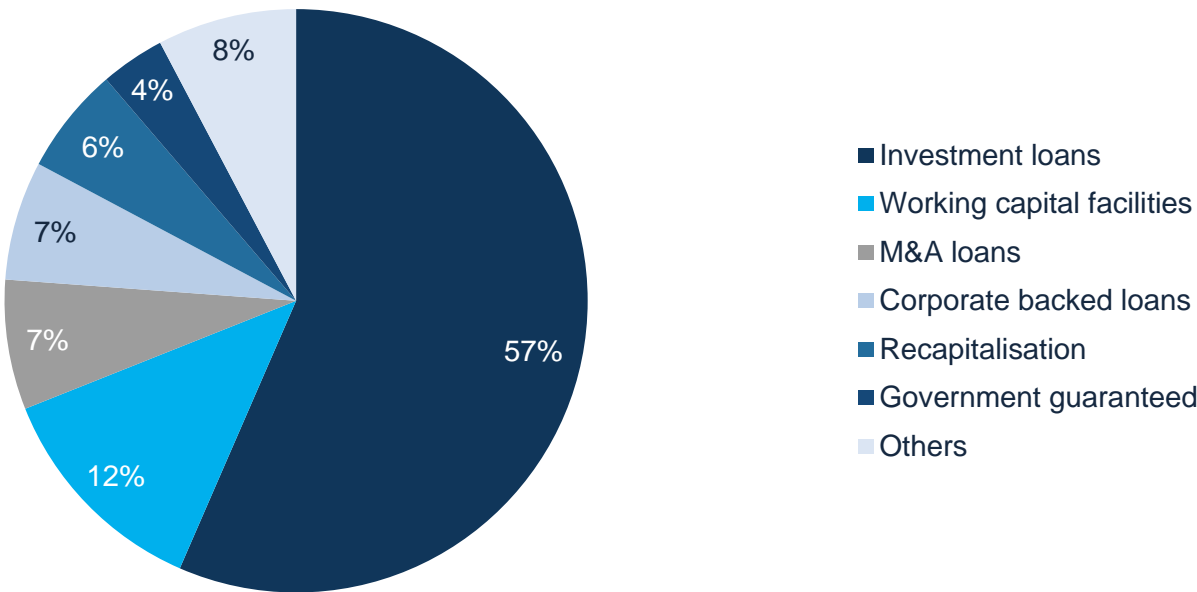
**Continued low risk appetite and cautious growth in Q1-24.**

# CORPORATE FINANCING

Exposure (NOKm)

Total NOK 6,057m

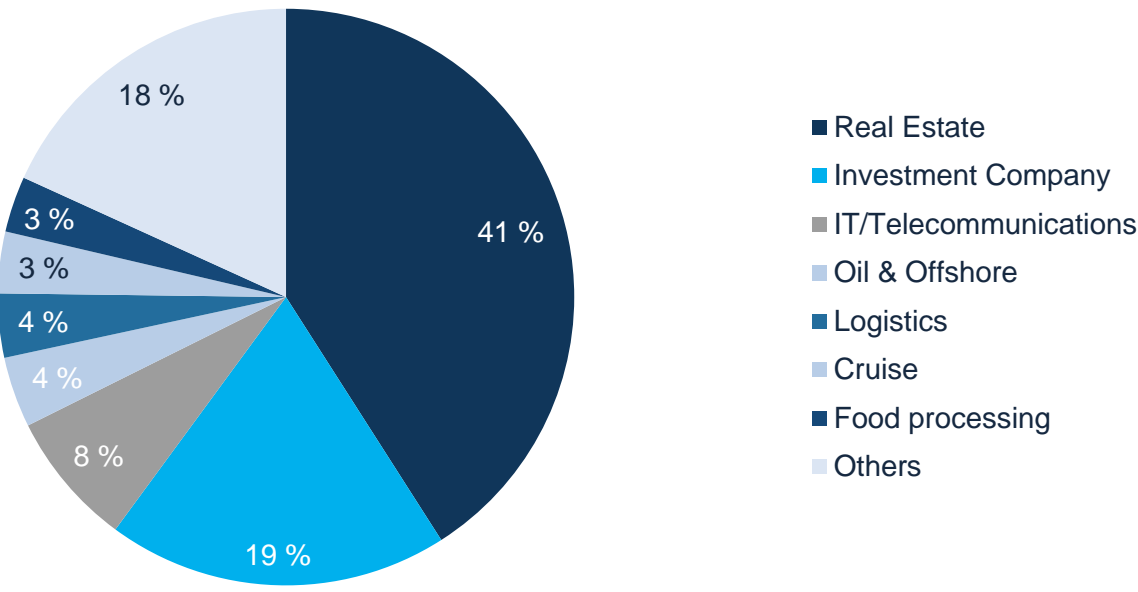
- Tailor-made financing solutions to medium-sized enterprises.



Credit update

Total NOK 6,057m

- Roughly unchanged exposure in Q4-23.
- Follow-up of a small number of customers (in stage 2 and 3) that are affected by lower demand, higher operational costs and increased financing costs.





# MARKET OUTLOOK

## Corporate

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

Corporate profitability is in general under pressure. Large differences in activity and profitability across industries.

Good deal flow expected for 2024. Strengthened brand awareness, niche focus and a specialized, customer-driven team with a high level of competence.



**Good long-term growth prospects. Selective credit practice continued. Moderate growth in Q1-24.**

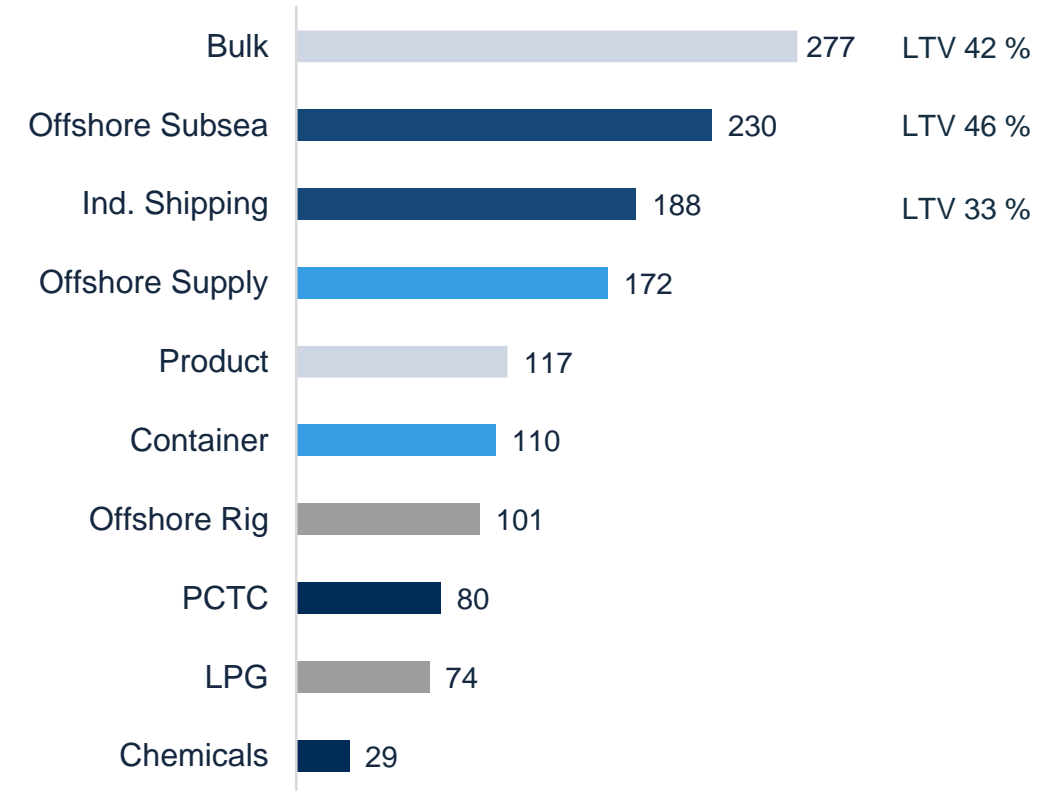
# SHIP FINANCING

## Credit update

- Conservative approach focusing on corporate customers with solid balance sheets, modern high-quality assets and equity contribution of minimum 45 %.
- Targeted customers are reputable Norwegian shipowners, family offices and the investment project market.
- Corporate loans make up 60 % of the exposure and loans to investment projects 40 %.
- Average commitment size USD 9.0m and largest exposure of USD 19.7m.
- Stable credit quality with an average weighted LTV of 36 %.
- Steep repayment profiles on loans. Exposure down in Q4-23.

### Exposure (NOKm)

Total NOK 1,377m



# MARKET OUTLOOK

## Shipping and offshore

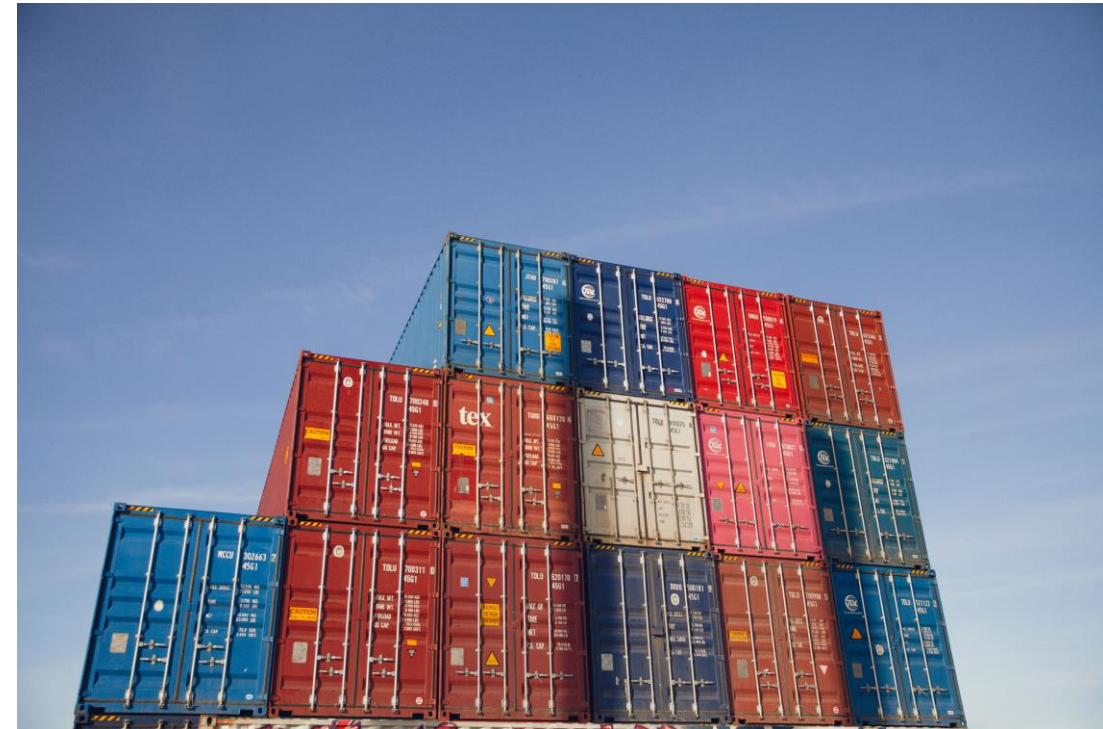
Moderate outlook for the dry bulk market with manageable supply growth. Uncertainty regarding demand given macroeconomic headwinds and fragile Chinese growth.

Strong tanker markets backed by low order books, continued strong end-user demand and increased trade growth.

Soft container market due to weak demand and rapid supply growth.

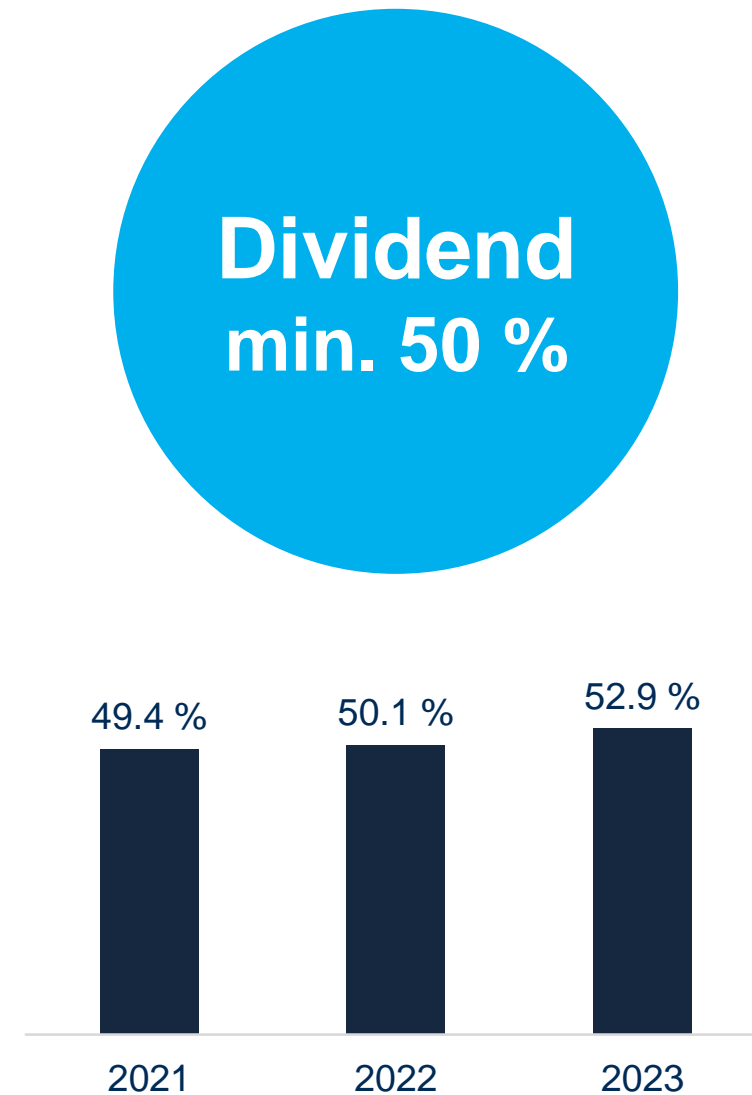
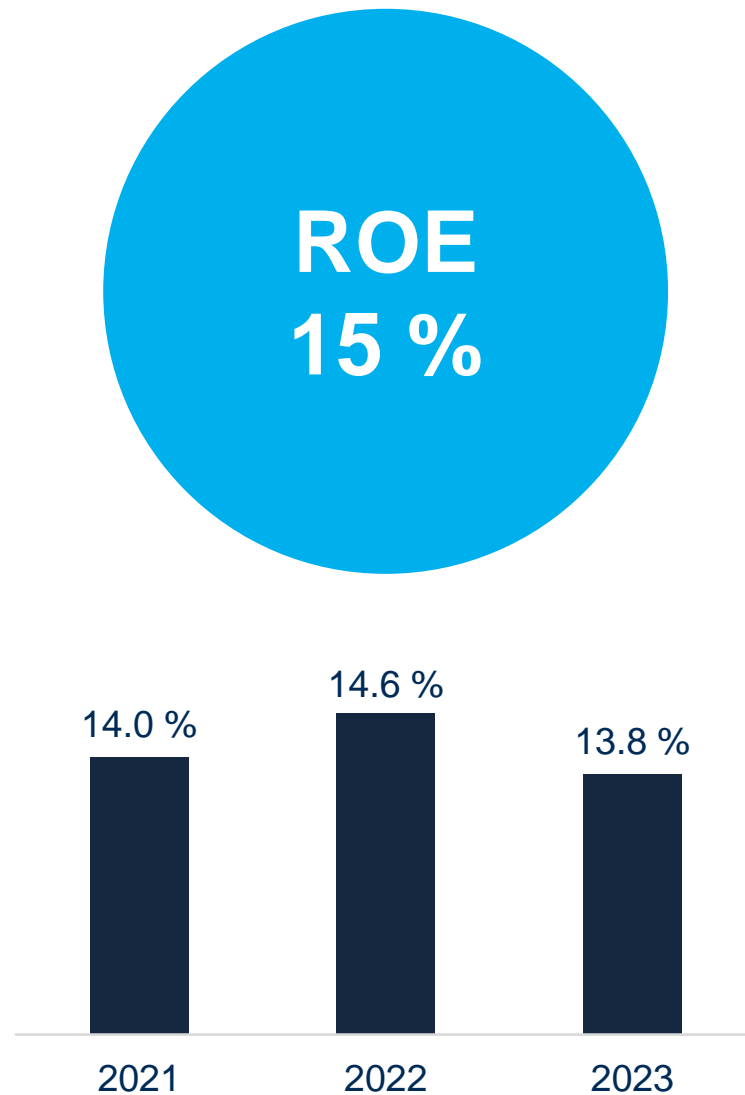
For other shipping segments, lower global economic growth is likely to have a negative impact on demand. The downside is mitigated by moderate supply growth.

Robust demand outlook in the offshore markets supported by strong increase in E&P spending. Limited fleet growth going forward and thus positive outlook.



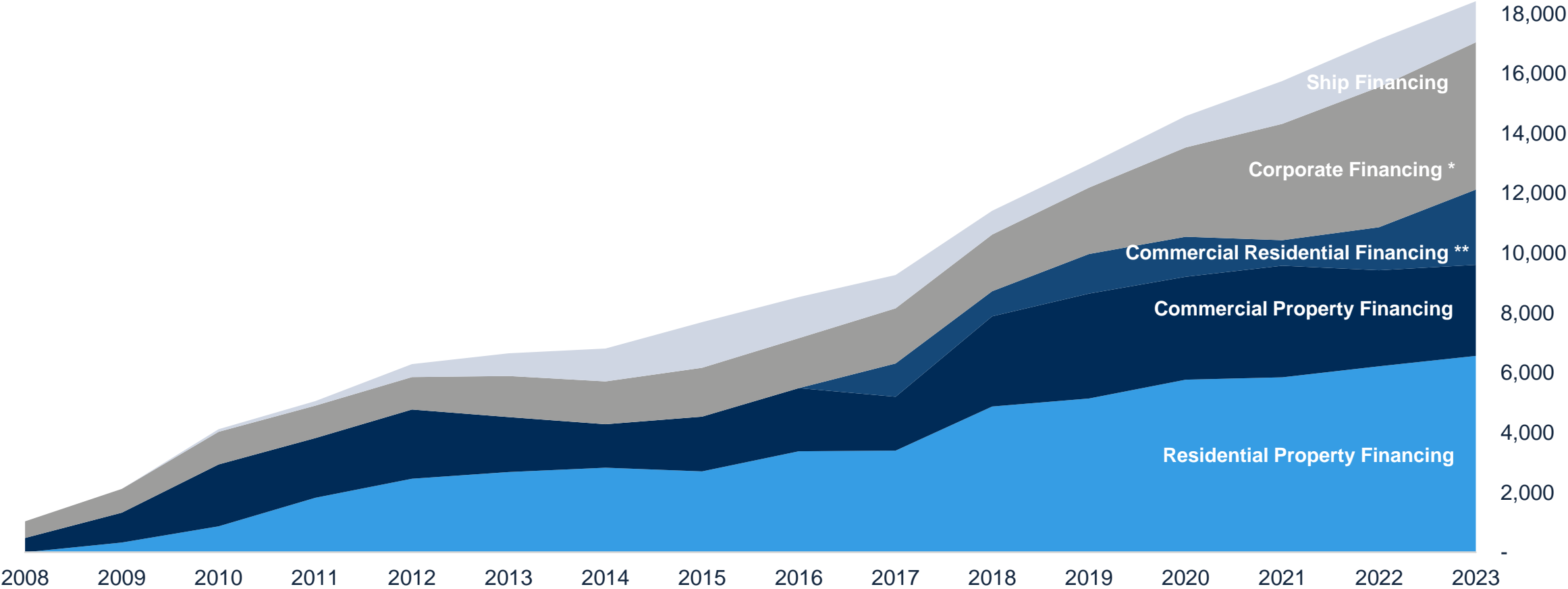
**Moderate growth in Q1-24 and mainly within offshore segments.**

# LONG-TERM AMBITIONS



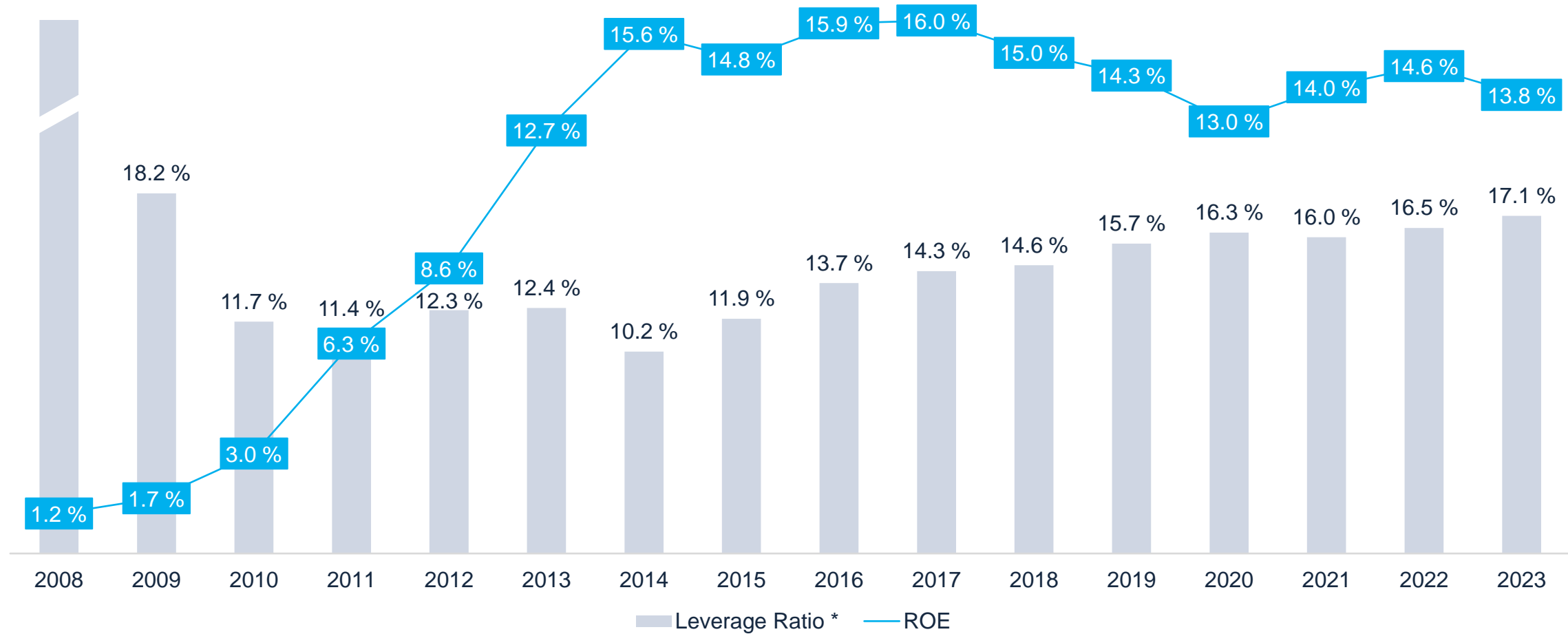
# LENDING GROWTH

Per business area (NOKm)



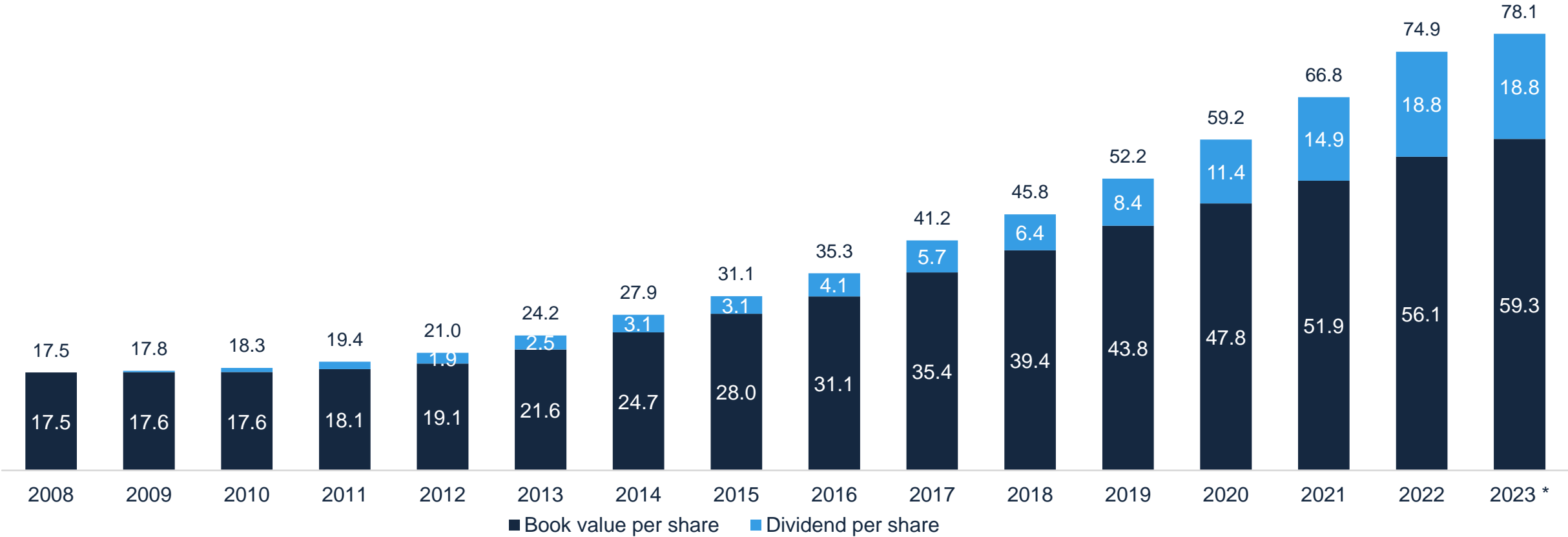
\*) Including securities financing  
\*\*) Commercial residential financing reported from 2017

# ROE AND LEVERAGE RATIO



# BOOK VALUE AND DIVIDEND PER SHARE

Cumulative since 2008 (NOK)



# APPENDIX



# LARGEST SHAREHOLDERS

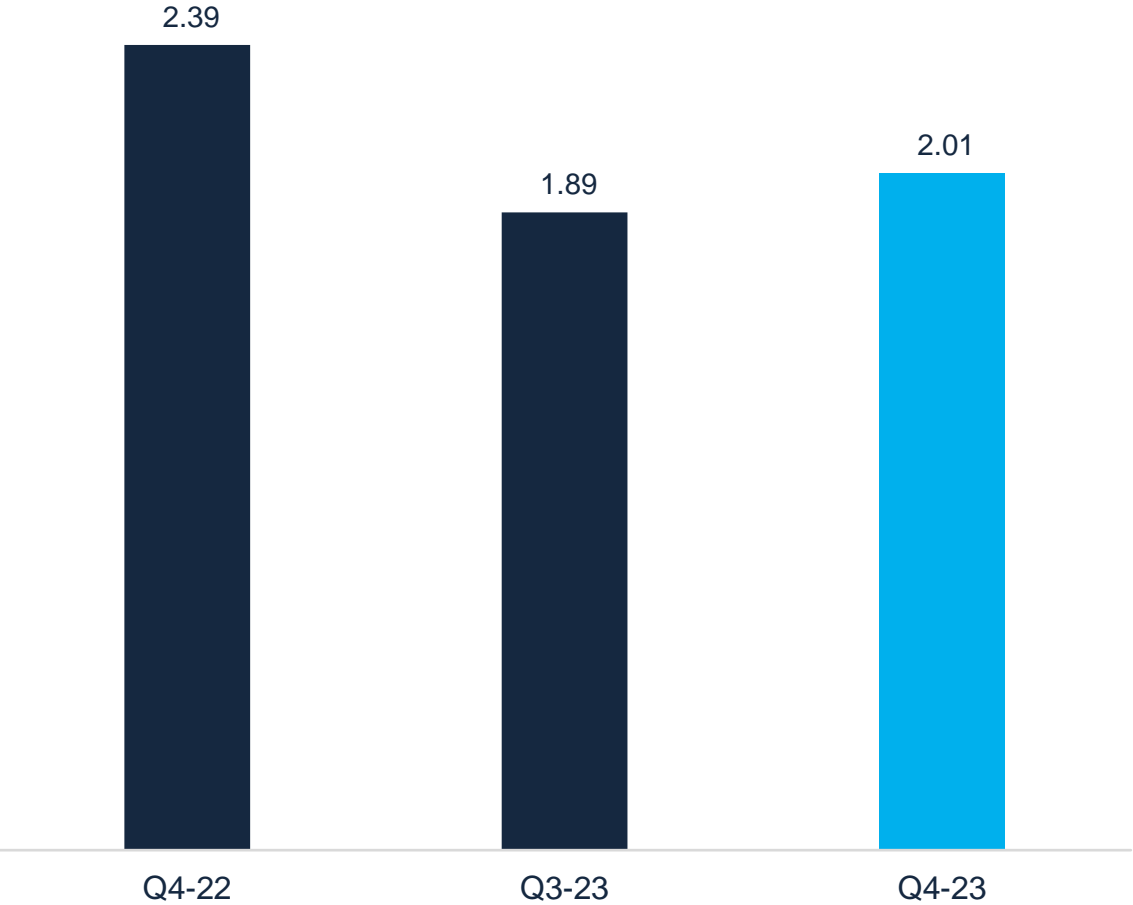
## 31 Desember 2023

	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	Verdipapirfondet Holberg Norge	2,227,309	2.90 %
6	Salt value AS	2,176,207	2.83 %
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	Catilina Invest AS	1,084,950	1.41 %
12	OM Holding AS	1,081,512	1.41 %
13	AS Audley	929,252	1.21 %
14	Lombard Int Assurance S.A.	900,820	1.17 %
15	Holmen Spesialfond	783,331	1.02 %
16	Stenshagen Invest AS	751,526	0.98 %
17	K11 Investor AS	750,000	0.98 %
18	Profond AS	747,426	0.97 %
19	Verdipapirfondet Fondsfinans Norge	725,000	0.94 %
20	Castel AS	708,684	0.92 %
<b>Sum TOP 20</b>		<b>49,879,462</b>	<b>64.96 %</b>
<b>Other shareholders</b>		<b>26,902,961</b>	<b>35.04 %</b>
<b>Total</b>		<b>76,782,423</b>	<b>100.00 %</b>

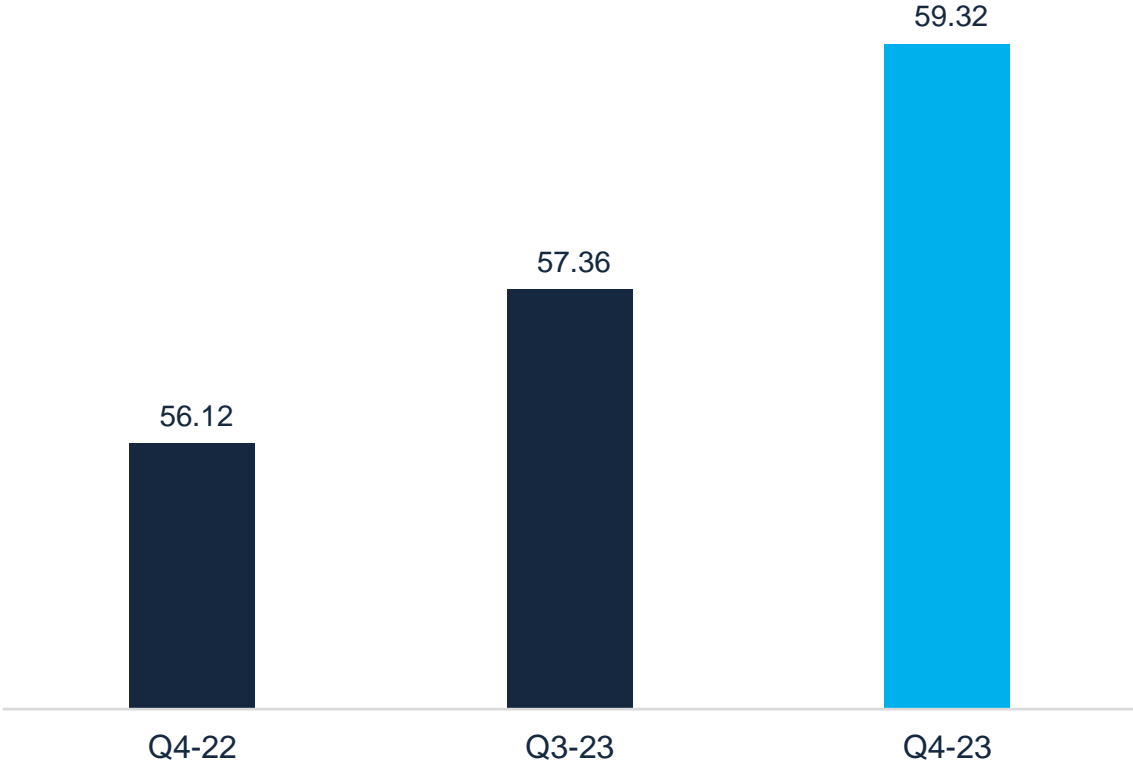
- The Company has 76,782,423 shares outstanding. One class of shares where each share carries one voting right.
- Diversified investor base with 3,541 shareholders.
- The Top 10 and 20 investors hold 54 % and 65 % of the shares respectively.
- Employees in Pareto Bank own 1.6 %.
- Top management and owners in the Pareto Group own 3.1 %.
- 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)

	Q4-23	Q3-23	Q2-23	Q1-23	Q4-22
Net interest income	297.3	281.3	271.5	262.5	253.5
Net other operating income	12.1	3.0	-5.4	-3.0	20.7
<b>Total net income</b>	<b>309.4</b>	<b>284.3</b>	<b>266.1</b>	<b>259.5</b>	<b>274.2</b>
Total operating expenses	51.1	50.4	51.4	50.5	48.9
<b>Operating profit before impairments and losses</b>	<b>258.3</b>	<b>233.9</b>	<b>214.7</b>	<b>209.0</b>	<b>225.3</b>
Impairments and losses on loans and guarantees	42.1	30.3	12.9	36.4	-1.2
<b>Pre-tax operating profit</b>	<b>216.2</b>	<b>203.6</b>	<b>201.8</b>	<b>172.7</b>	<b>226.5</b>
Tax expense	51.2	48.4	47.4	41.8	54.3
<b>Profit for the period</b>	<b>165.0</b>	<b>155.2</b>	<b>154.4</b>	<b>130.9</b>	<b>172.1</b>
Earnings per share (NOK)	2.01	1.89	2.03	1.79	2.39
Return on equity	13.8 %	13.9 %	14.8 %	13.0 %	17.4 %
Cost/income ratio	16.5 %	17.7 %	19.3 %	19.5 %	17.8 %

# QUARTERLY BALANCE SHEET

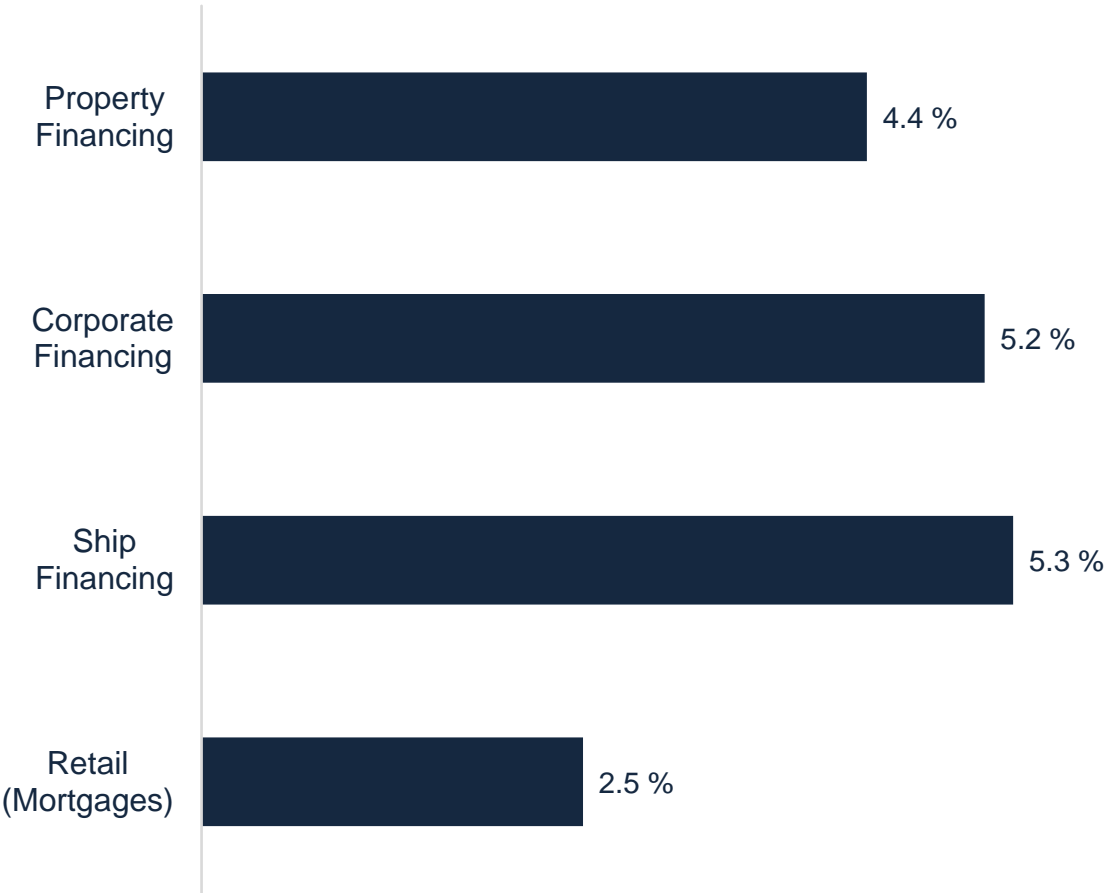
(NOKm)

	Q4-23	Q3-23	Q2-23	Q1-23	Q4-22
Loans to credit institutions	1,651	2,498	2,001	2,230	747
Loans to customers	18,518	18,260	18,344	17,707	17,346
Bonds and other securities	5,422	4,245	3,882	3,952	4,007
Shareholdings in associated companies	22	23	23	23	23
Other assets	234	164	218	157	173
<b>Total assets</b>	<b>25,847</b>	<b>25,189</b>	<b>24,468</b>	<b>24,069</b>	<b>22,296</b>
Deposits from customers and institutions	12,023	11,481	11,193	10,777	10,131
Senior securities issued	7,756	7,718	7,877	7,918	7,183
Other liabilities	363	437	331	627	341
Tier 2 subordinated securities issued	699	699	699	421	421
Additional tier 1 capital	450	450	450	551	300
Other equity	4,555	4,404	3,918	3,775	3,920
<b>Total liabilities and equity</b>	<b>25,847</b>	<b>25,189</b>	<b>24,468</b>	<b>24,069</b>	<b>22,296</b>

# MARGINS AND INTEREST CONTRIBUTION

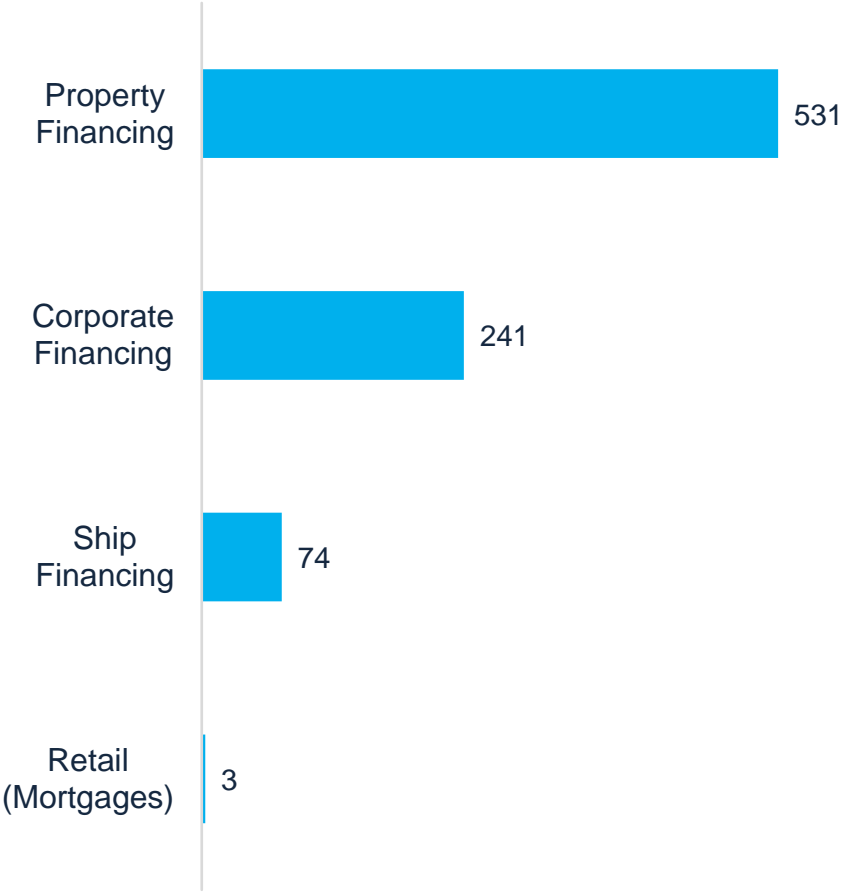
## Margins per business area

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

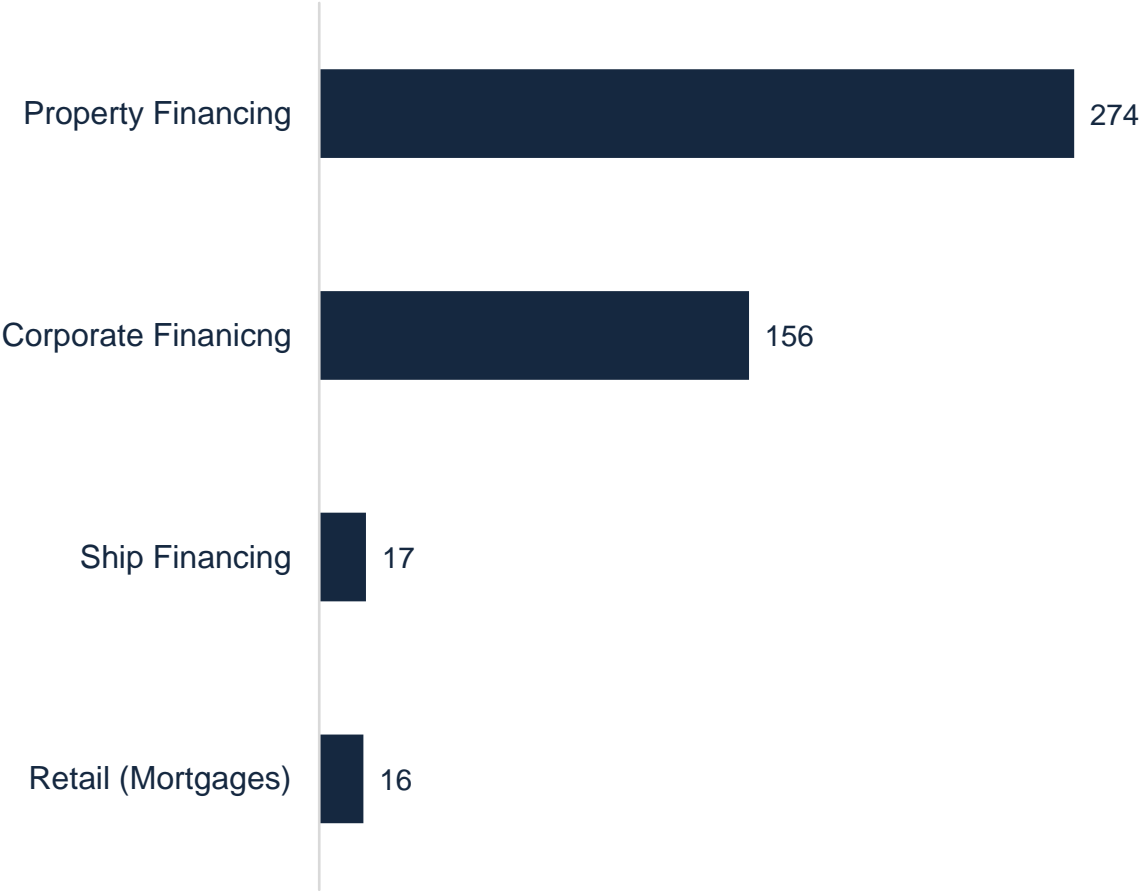


Note segment margins are estimated on the basis of terms of existing loans and will therefore differ from reported total lending margins. Loans granted under the state guaranteed SMB loan program and employee mortgages are excluded from this analysis.

Based on terms and 3M NIBOR as of 31.12.2023. Fixing in arrears for SOFR rates are estimated.

# NUMBER OF CUSTOMERS

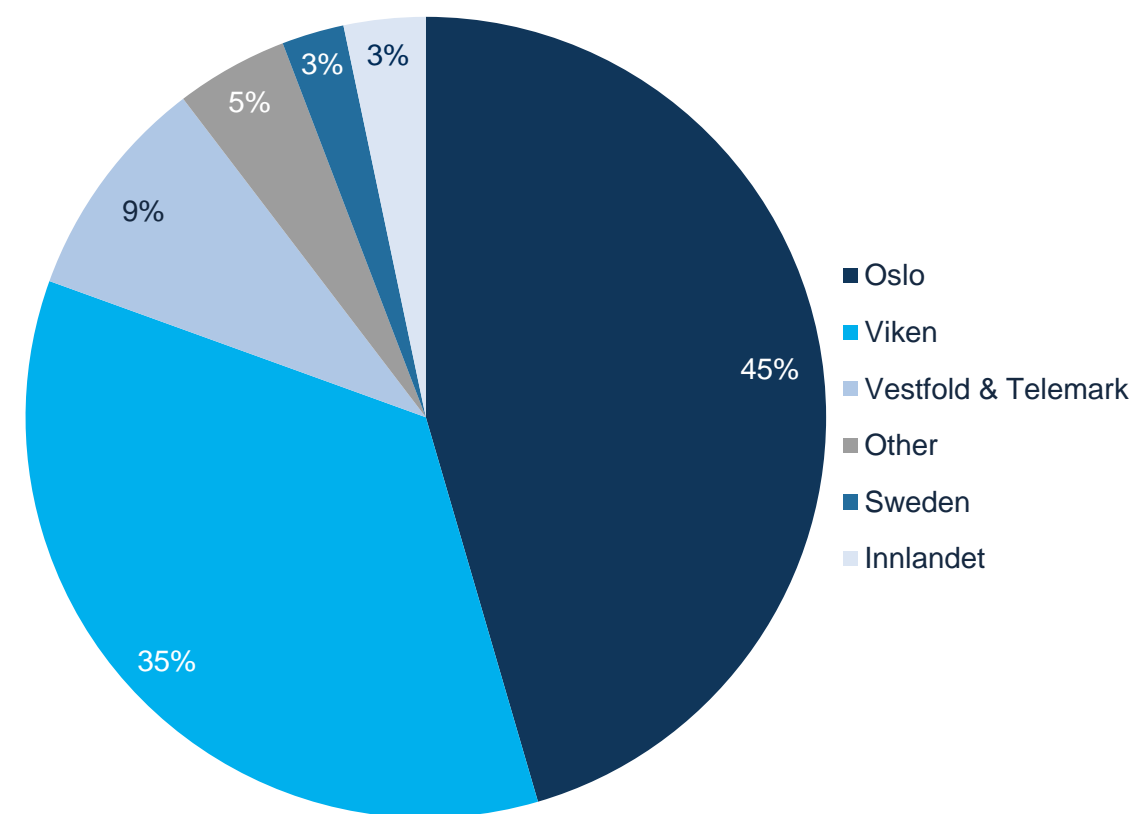
Per business area



# REAL ESTATE FINANCING EXPOSURE

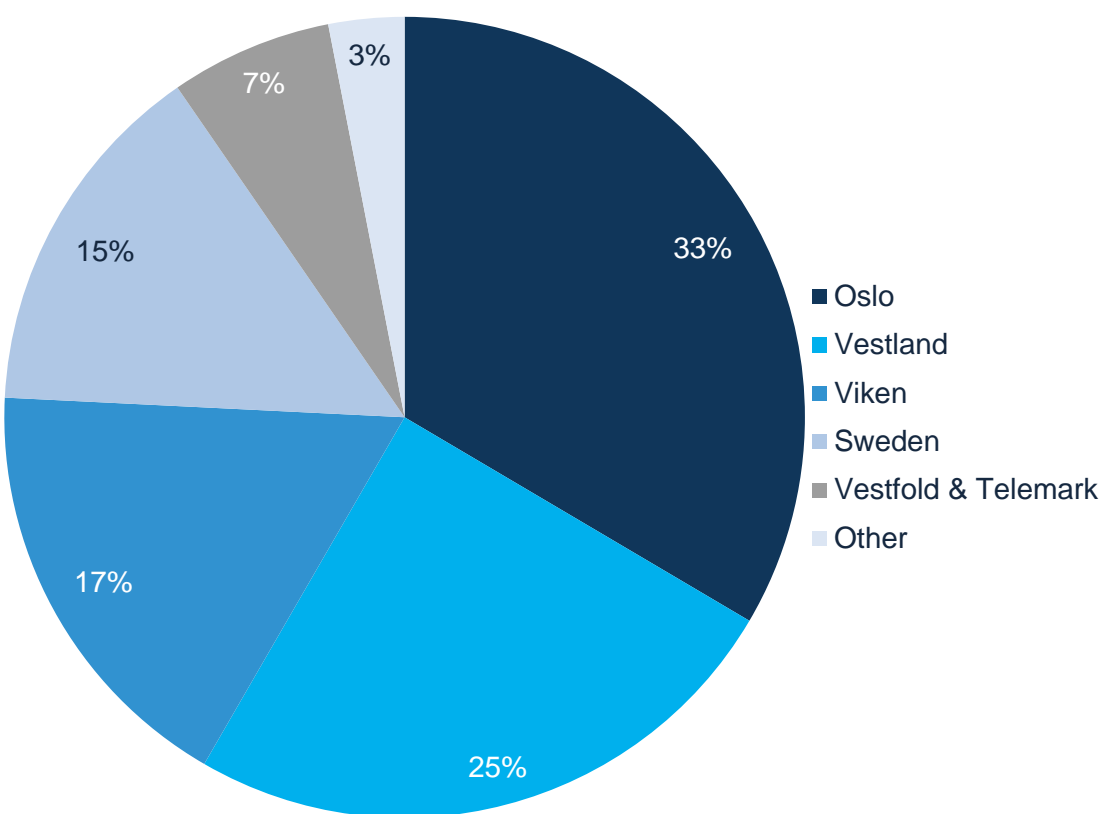
Geographical residential property exposure

Total NOK 10,971m\*



Geographical commercial property exposure

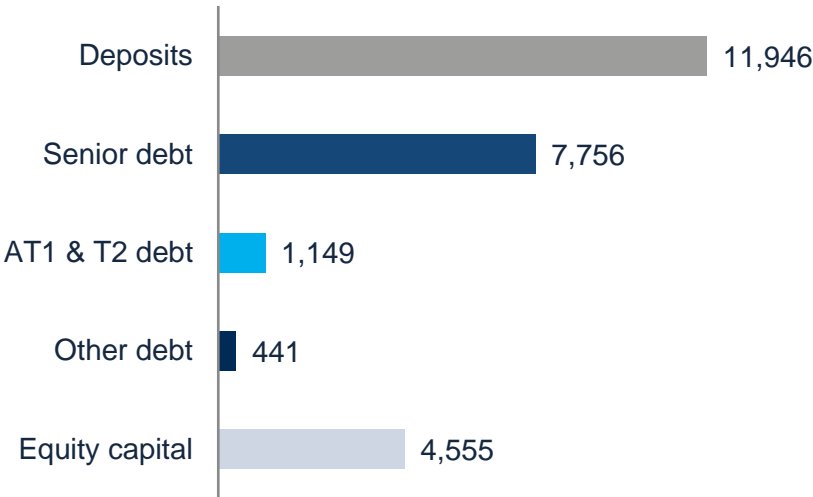
Total NOK 3,114m\*



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

# FUNDING

## Sources (NOKm)

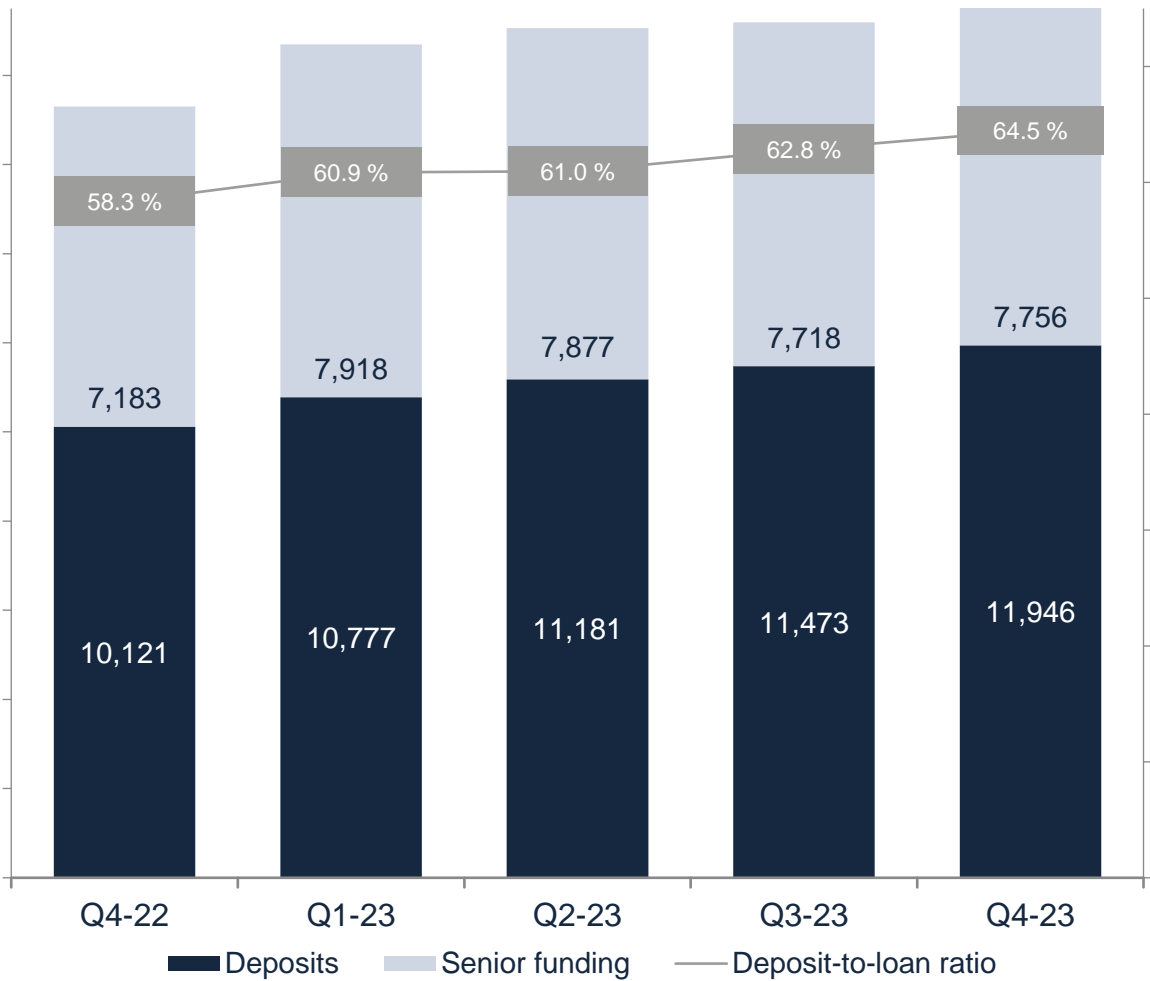


## Key funding and liquidity ratios

- Deposits with liquidity restrictions 73 %
- Corporate deposits 59 %
- Deposit-to-loan ratio 65 %
- Liquidity Coverage Ratio 688 %
- Net Stable Funding Ratio 144 %

## Deposits & senior debt

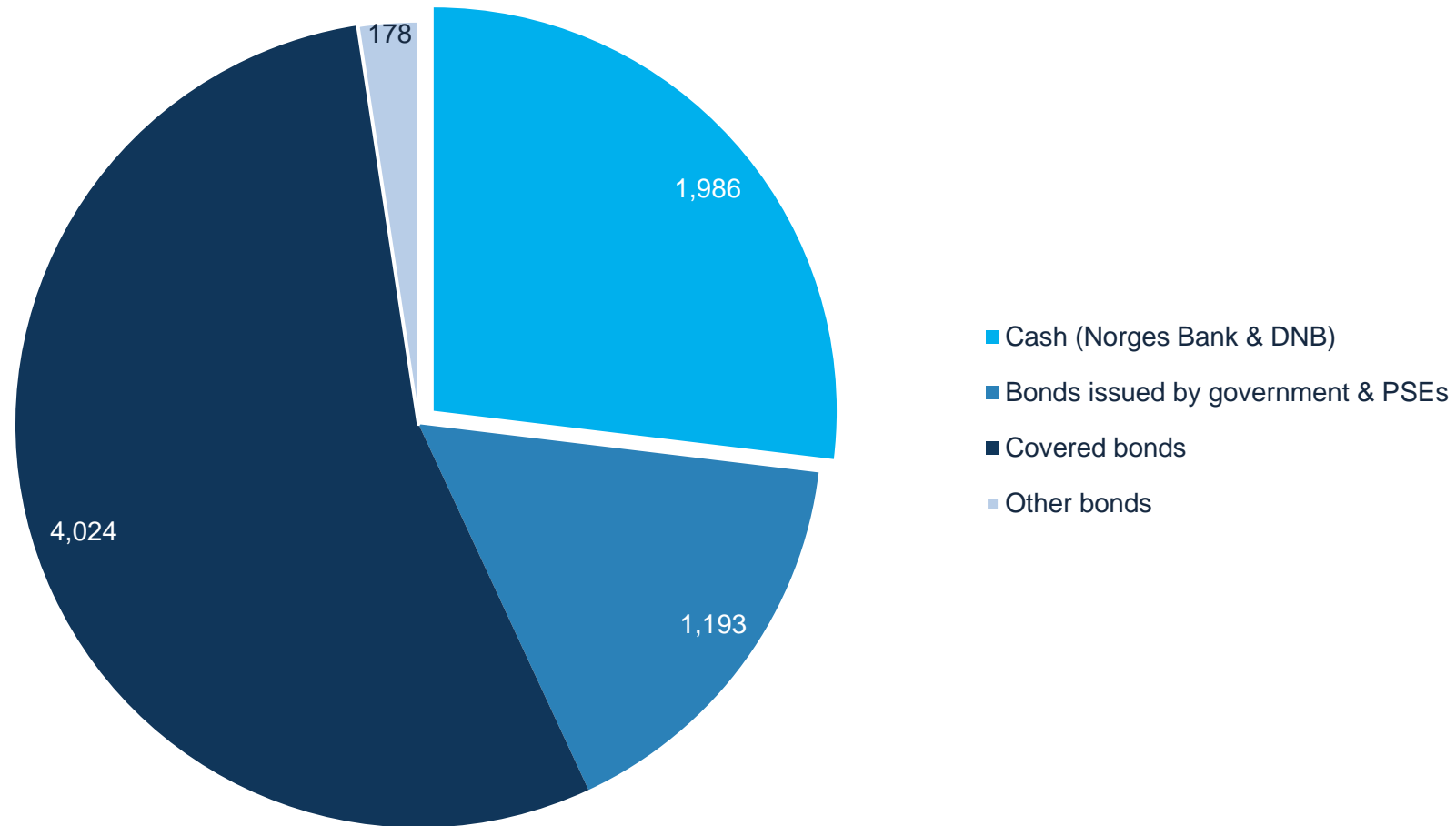
NOKm,  
Percent customer deposits of net lending to customers





# LIQUIDITY BUFFER

## Low credit and market risk (NOKm)

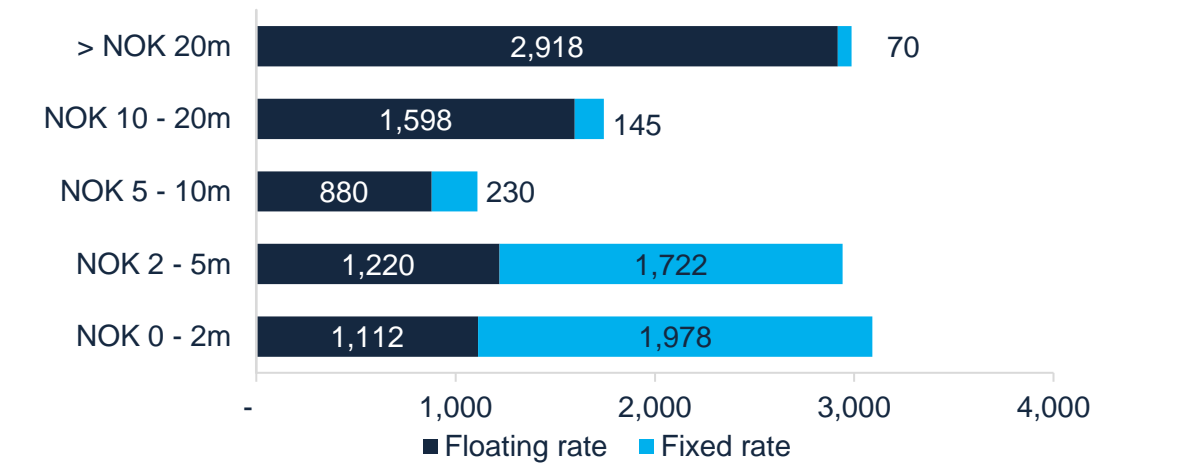


### Comments

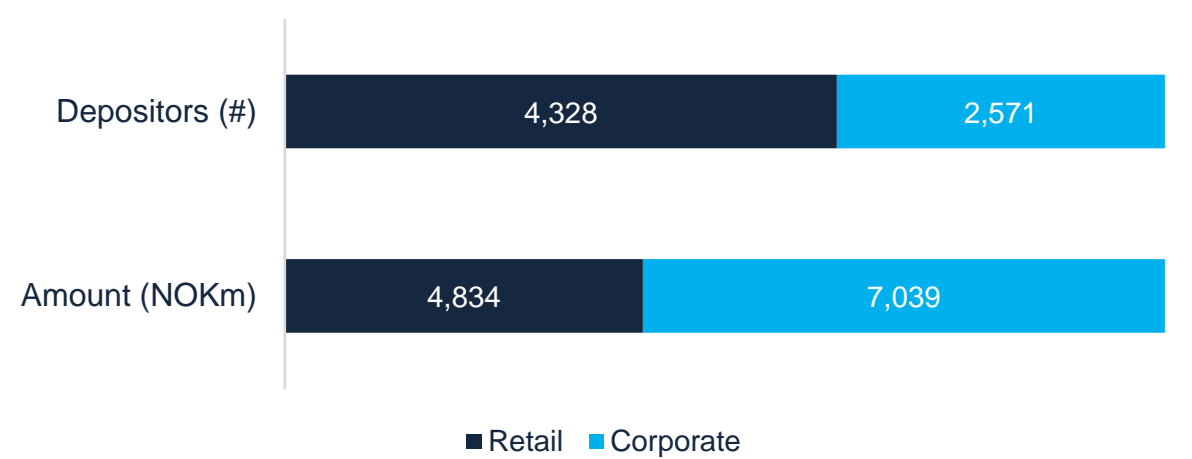
- Cash on hand.
- Highly liquid bonds.
- Low credit risk.
- No interest rate or foreign exchange risk.
- Access to central bank facilities and repo market.
- Marked to market.
- Assets qualify for LCR portfolio.

# CUSTOMER DEPOSITS

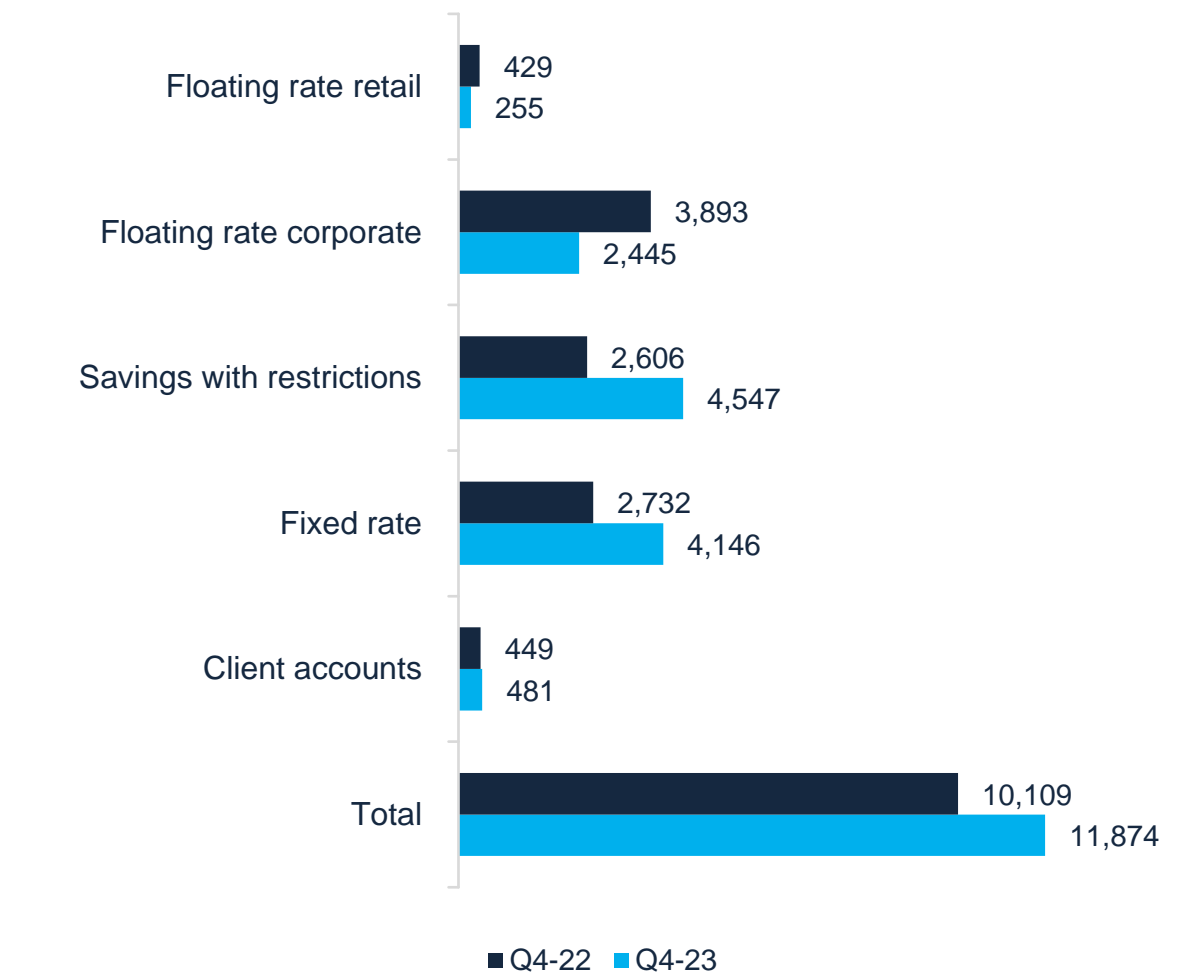
Deposits by size (NOKm)



Deposits by type (NOKm)

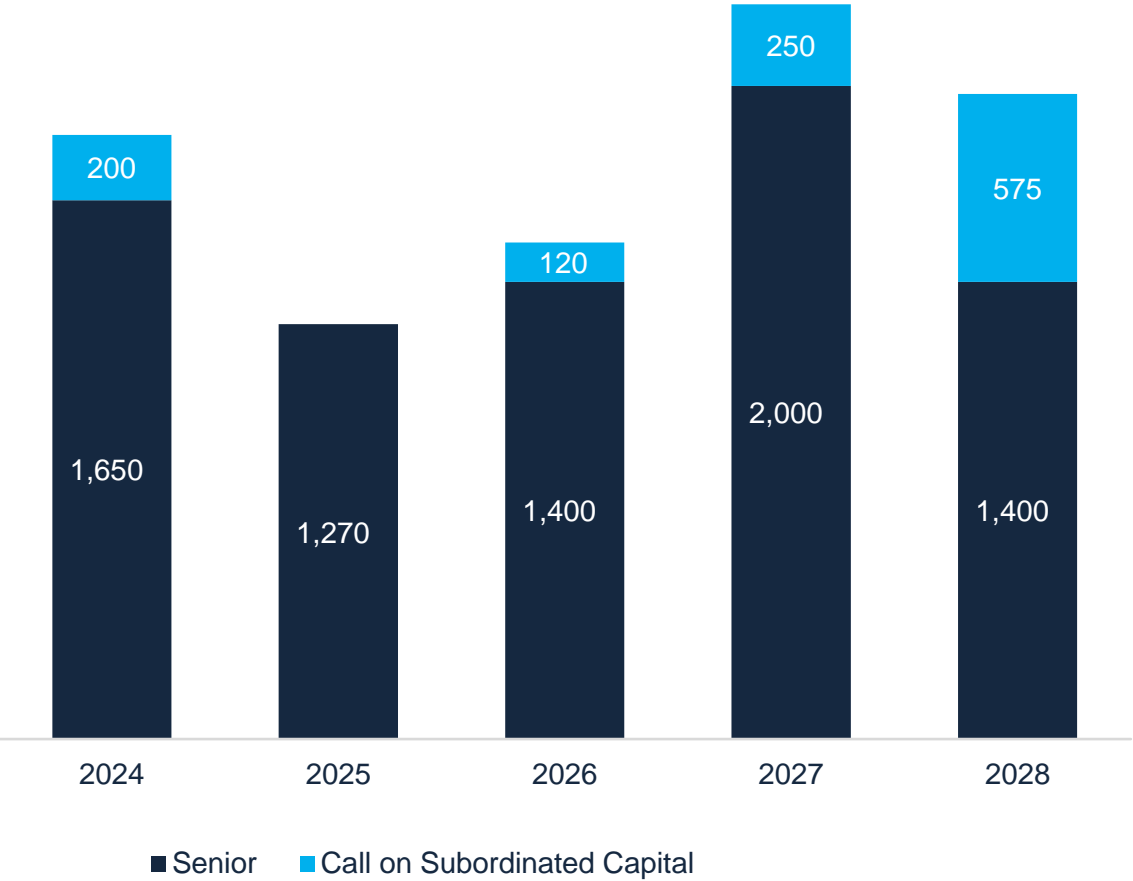


Deposits by product (NOKm)

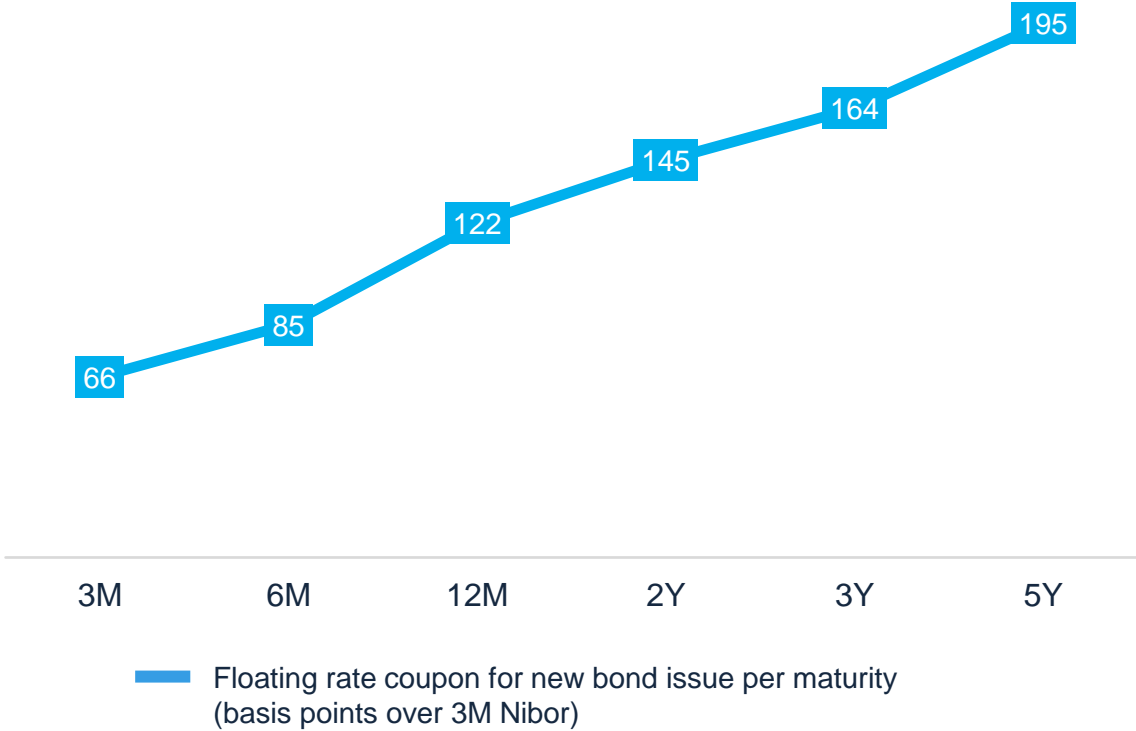


# MARKET FUNDING

Market funding maturities (NOKm) \*

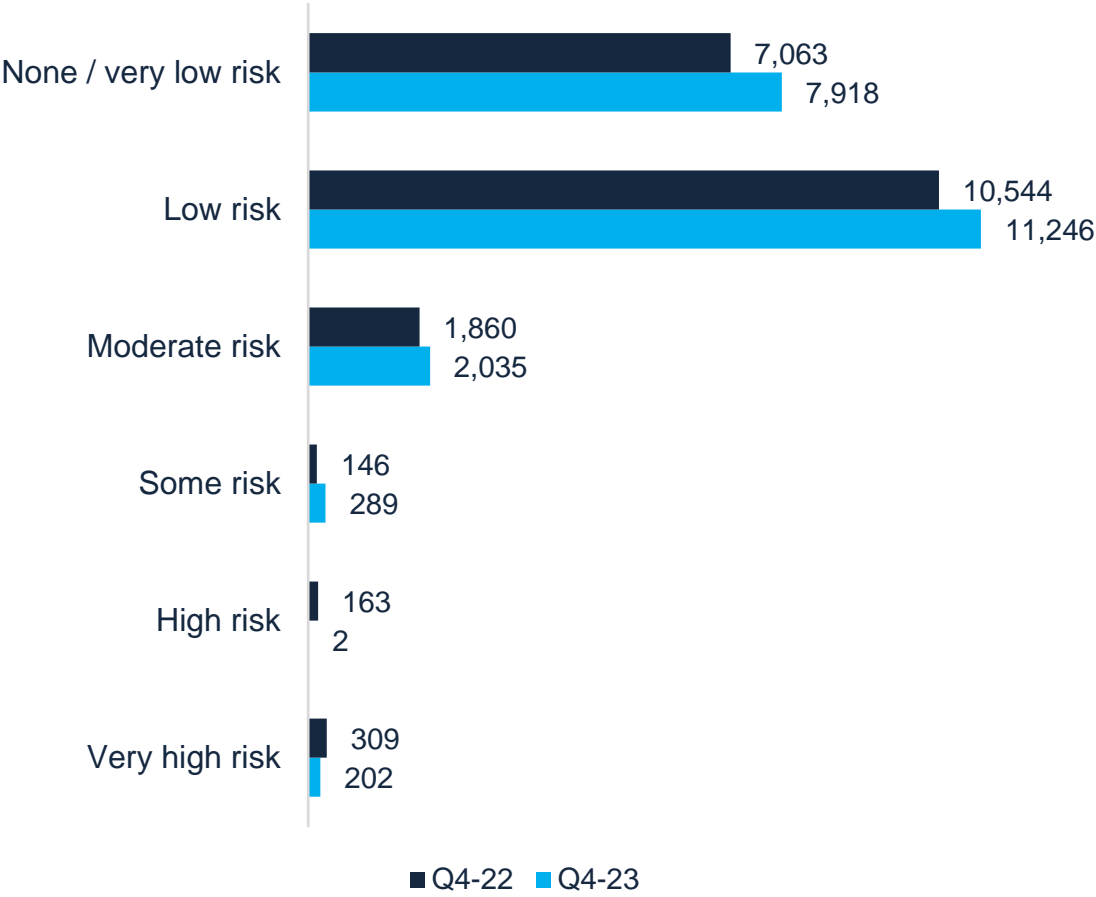


Cost of new market funding

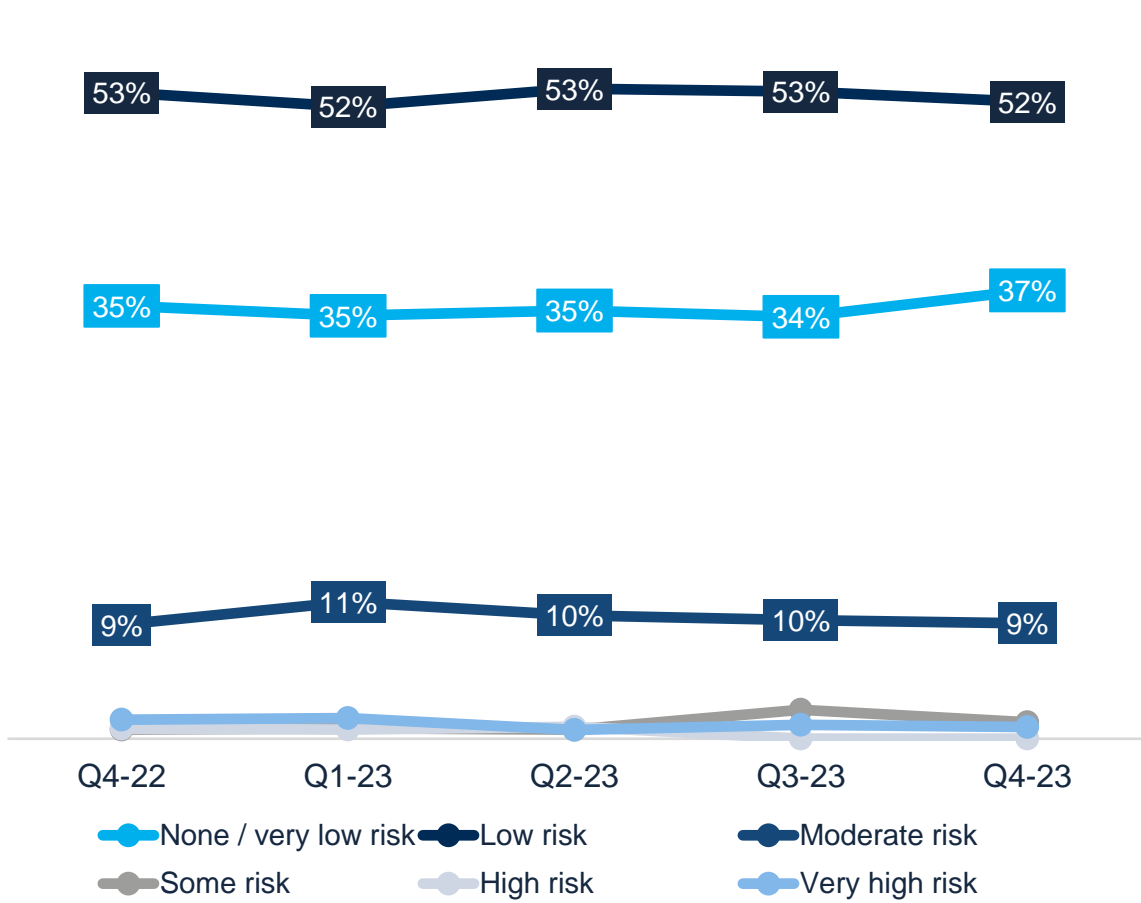


# COMMITMENTS BY RISK CLASSIFICATION

Risk classification (NOKm)

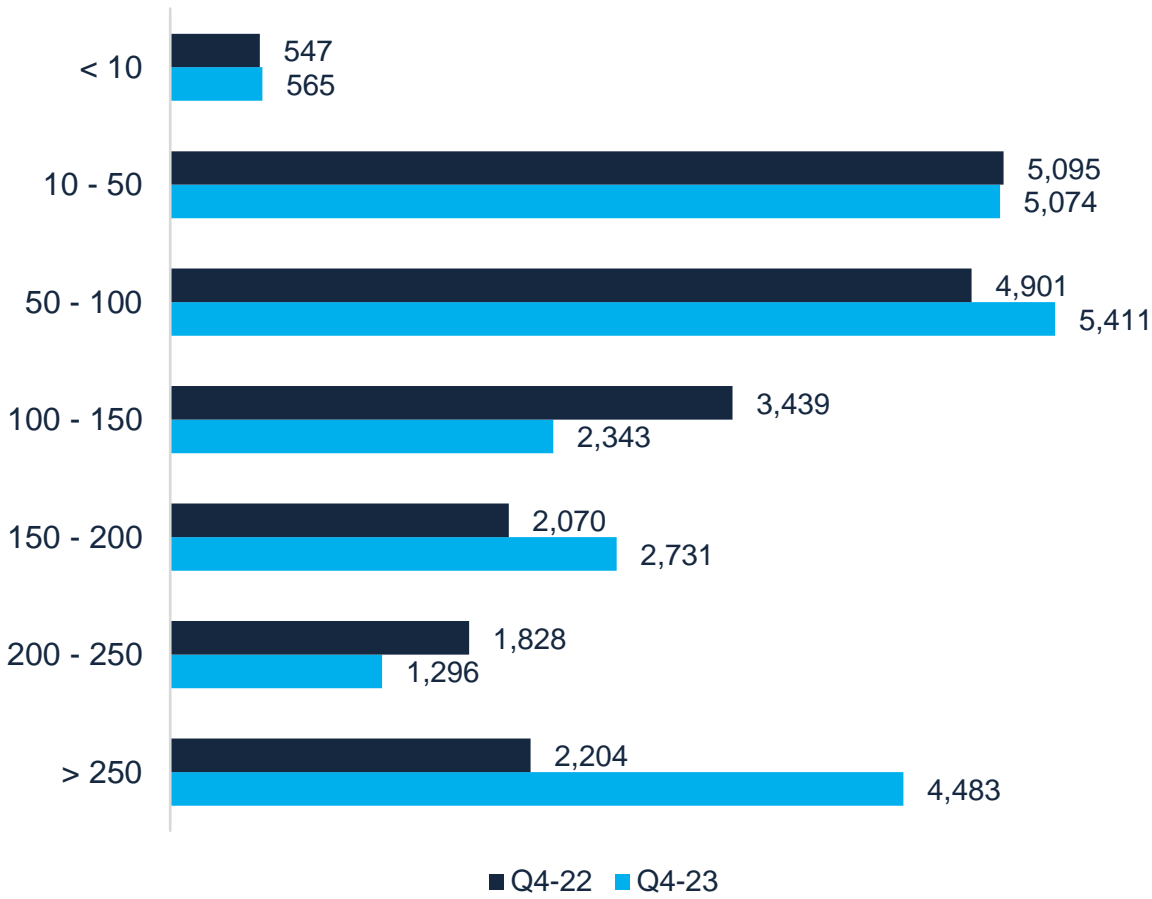


Historical risk classification

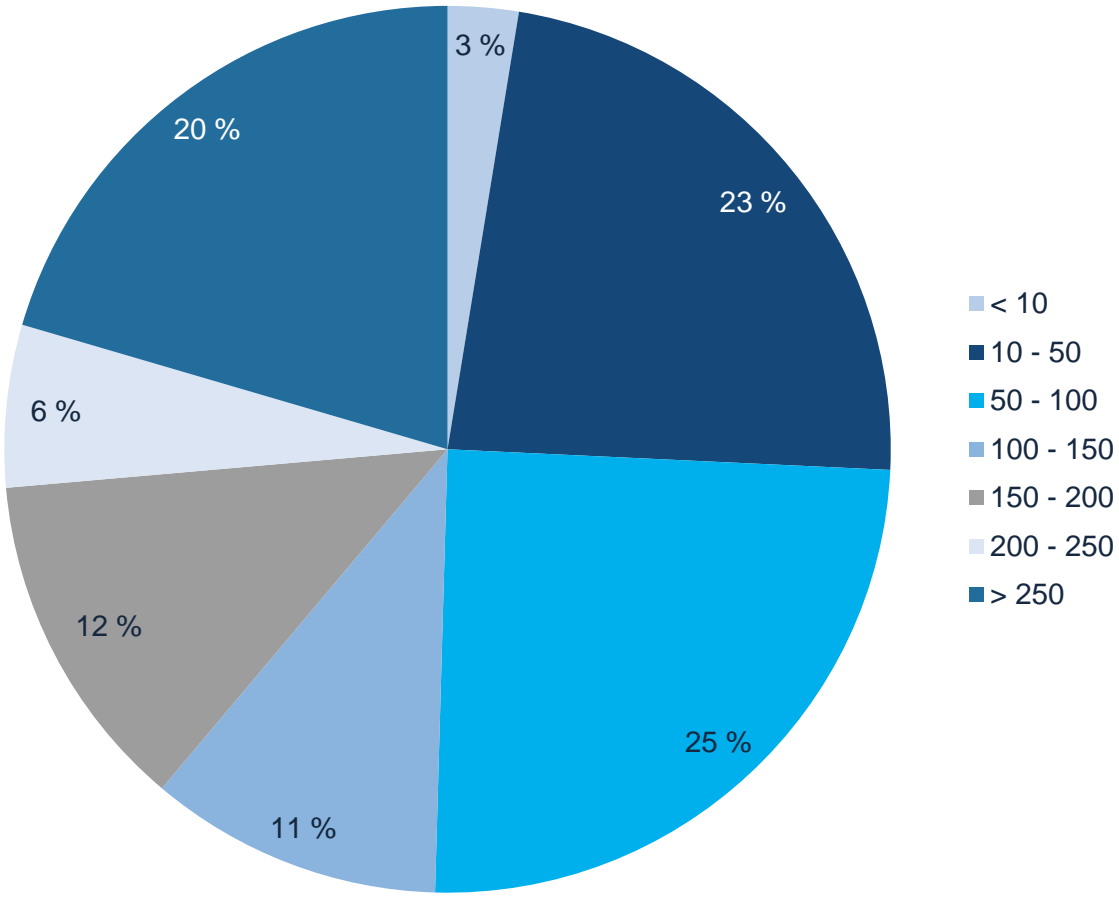


# COMMITMENTS BY SIZE

Commitment size per customer (NOKm)



Distribution of commitments by size (NOKm)



 Pareto bank