

# PARETO BANK

## Financial Results – Second Quarter 2024

# Highlights

## Financials

## Business Area Update & Outlook

# SECOND QUARTER 2024

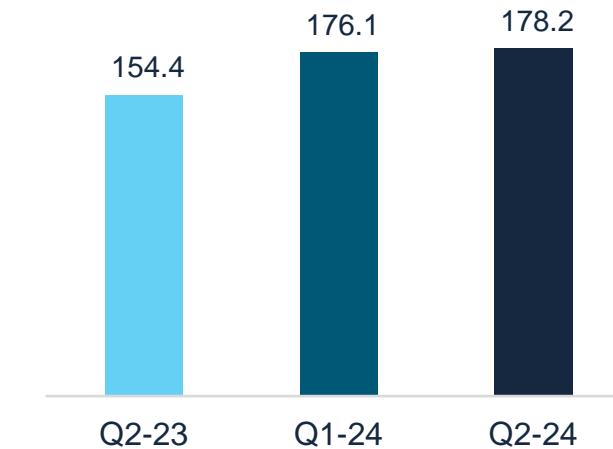
## Highlights

- Profit after tax NOK 178.2m (NOK 154.4m in Q2-23).
- Return on equity after tax 14.2 % (14.8 %).
- Steady net interest income of NOK 303.0m (NOK 271.5m).
- Activity picked up at the end of the quarter. Improved activity in residential development and good deal flow in corporate and offshore financing.
- Lending to customers grew by NOK 657m to NOK 19,585m (NOK 18,344m).
- Total impairments of NOK 26.0m (NOK 12.9m), linked to a small number of commitments primarily within financing of residential property.

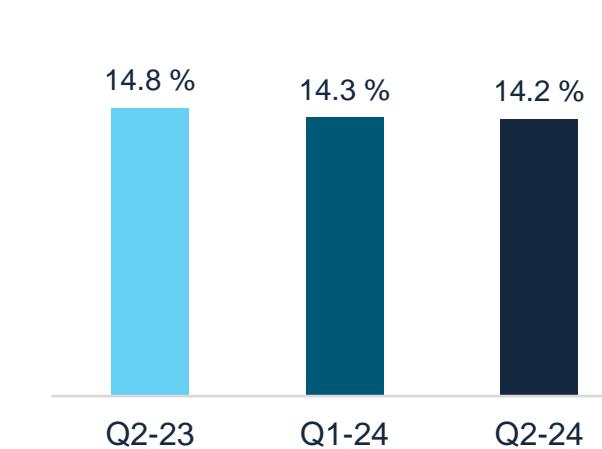


# KEY FIGURES

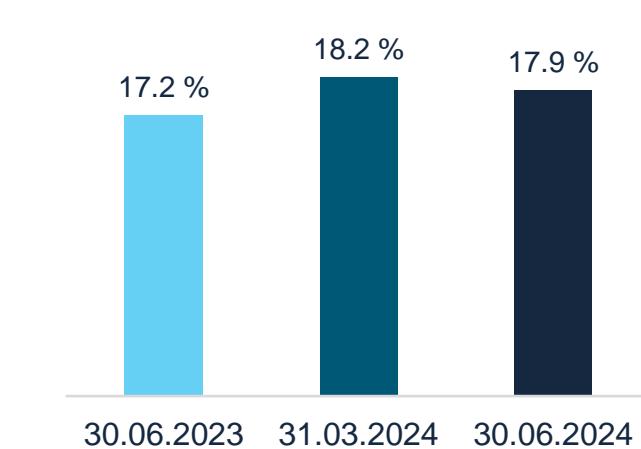
## Profit after tax (NOKm)



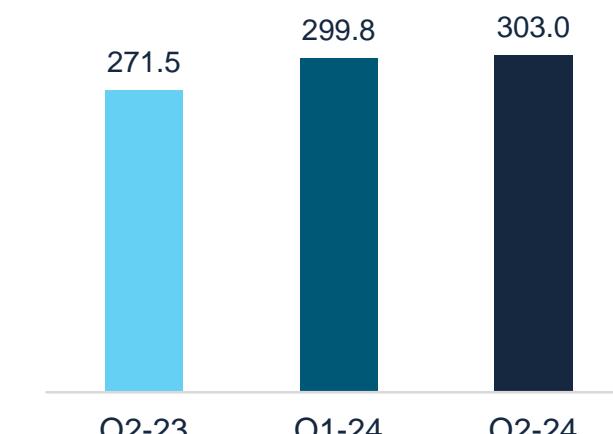
## Return on Equity \*



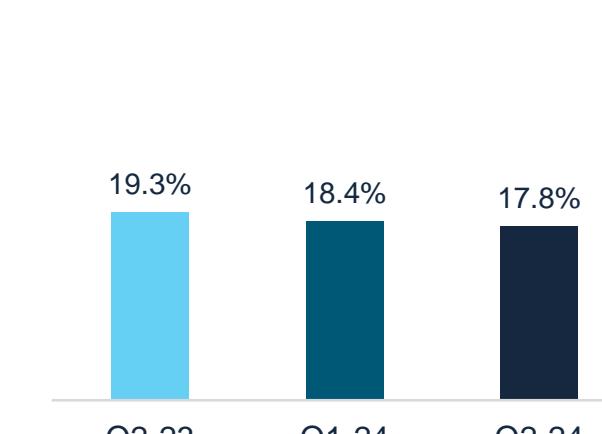
## CET1 ratio



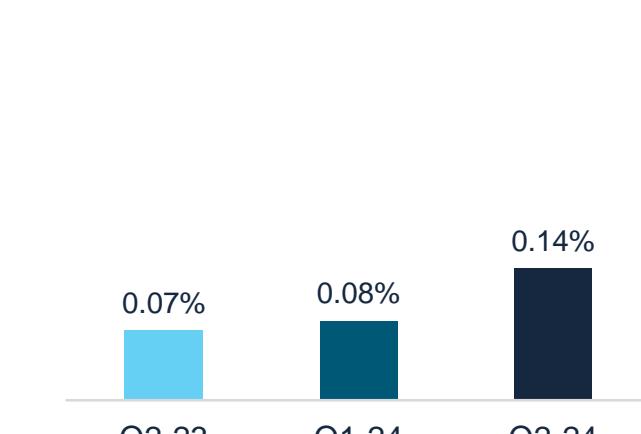
## Net interest income (NOKm)



## Cost/Income ratio



## Loss ratio \*\*



# Highlights Financials Business Area Update & Outlook

# INCOME STATEMENT

## P&L (NOKm)

	Q2-24	Q2-23	H1-24	H1-23
Net interest income	303.0	271.5	602.8	534.0
Net other operating income	12.5	-5.4	14.9	-8.4
<b>Total net income</b>	<b>315.5</b>	<b>266.1</b>	<b>617.7</b>	<b>525.7</b>
Total operating expenses	56.3	51.4	111.9	102.0
<b>Operating profit before impairments and losses</b>	<b>259.3</b>	<b>214.7</b>	<b>505.8</b>	<b>423.7</b>
Impairments and losses on loans and guarantees	26.0	12.9	41.3	49.3
<b>Pre-tax operating profit</b>	<b>233.2</b>	<b>201.8</b>	<b>464.5</b>	<b>374.4</b>
Tax expense	55.1	47.4	110.2	89.1
<b>Profit for the period</b>	<b>178.2</b>	<b>154.4</b>	<b>354.3</b>	<b>285.3</b>
Earnings per share (NOK)	2.15	2.03	4.31	3.83
Return on equity	14.2 %	14.8 %	14.3 %	13.8 %
Cost/income ratio	17.8 %	19.3 %	18.1 %	19.4 %

Marginal increase in lending margin.

Stable average lending volume. Volume picked up strongly at the end of the quarter.

Lower credit premiums on bonds in liquidity portfolio. Value of financial instruments increased by NOK 8.1m (decrease of NOK 10.2m).

Operational efficiency with cost/income ratio of 17.8%. NOK 9.8m (NOK 8.5m) accrued for employee bonus. Increased investment in business support systems.

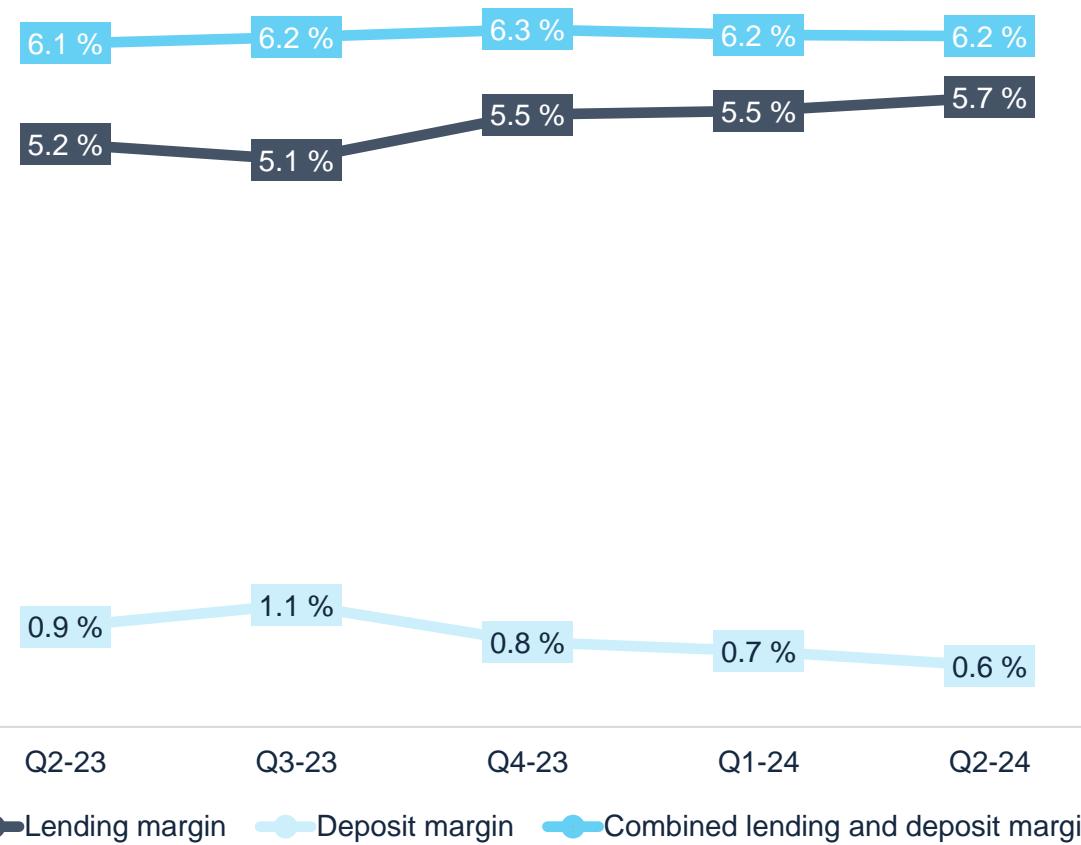
Improved macroeconomic outlook led to net reduction of NOK 2.9m in model-based impairments. NOK 28.9m in individual impairments on principal and interest income.

# CHANGE IN QUARTERLY NET INTEREST INCOME (NOKm)

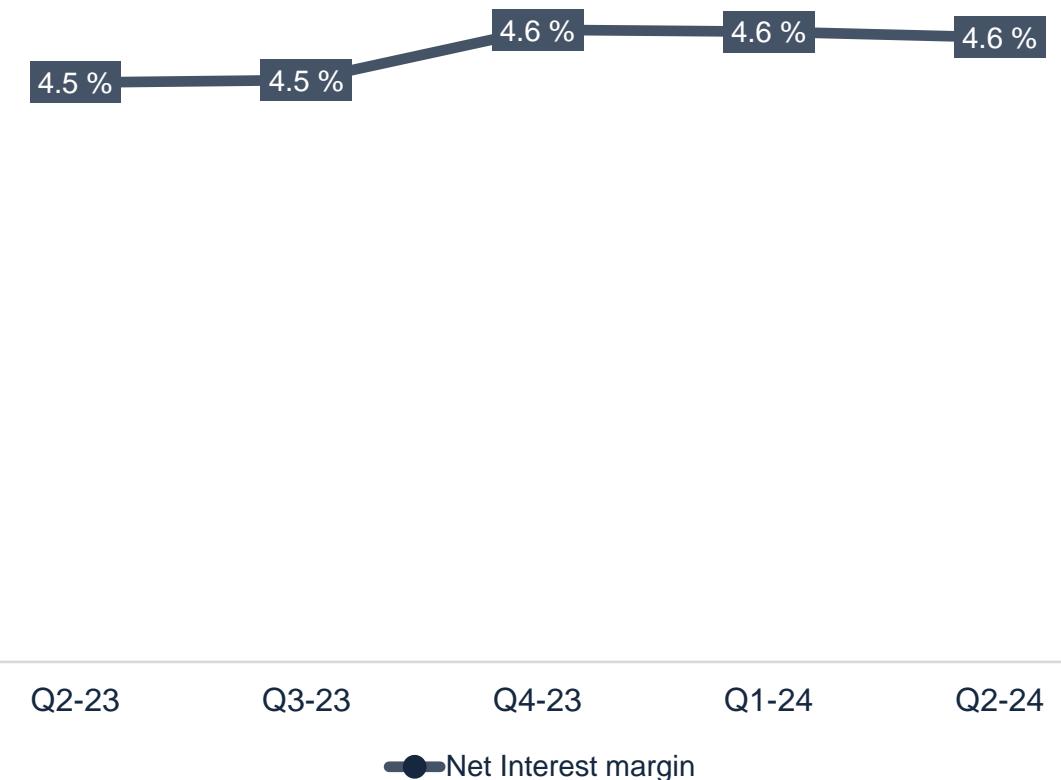


# INTEREST MARGINS

## Lending and deposit margin



## Net interest margin

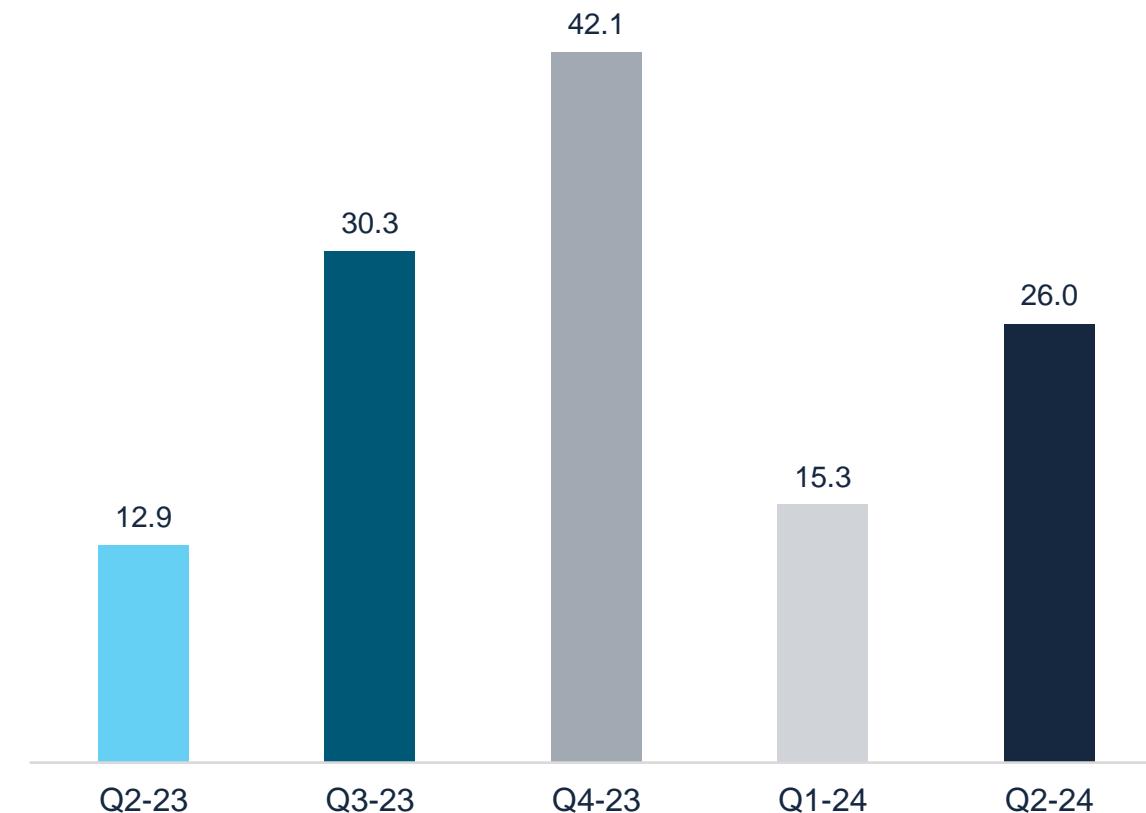


# QUARTERLY CHANGE IN IMPAIRMENTS

## Impairments (NOKm)

	Q2-24	Q1-24
Stage 1	-3.0	8.3
Stage 2	0.1	-8.7
Stage 3	26.7	15.7
Write-offs	2.2	0
<b>Total impairments</b>	<b>26.0</b>	<b>15.3</b>

## Impairments (NOKm)

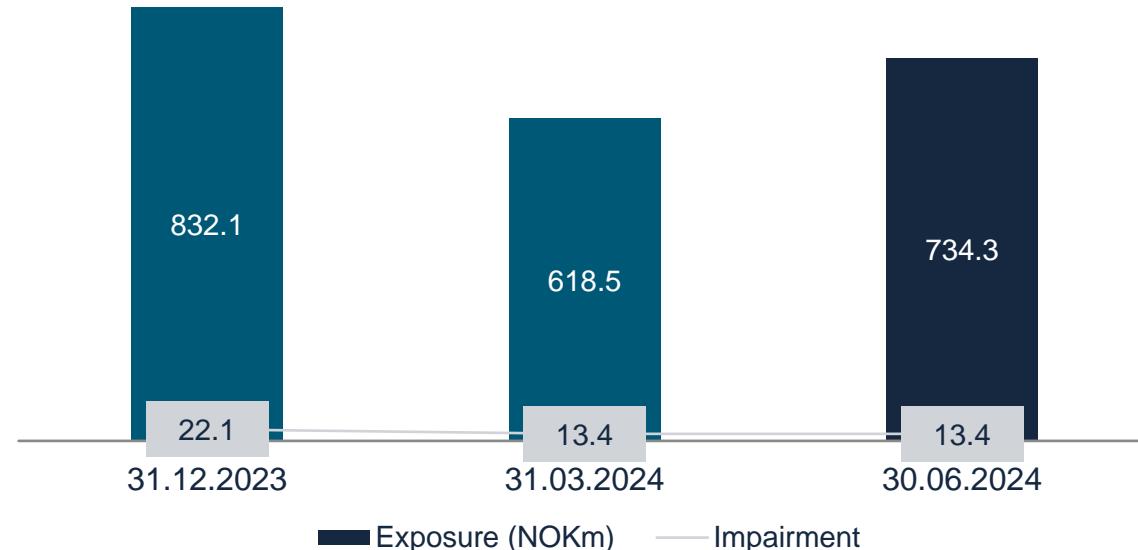


- Reduction of model-based impairments by NOK 2.9m came primarily from adjustments in macroeconomic scenarios based on improved growth outlook and an uptick in new-build sales.
- Individual impairments in stage 3 of NOK 26.7m, primarily in residential property. This includes NOK 5m in impairment of interest rate income.
- Impairments may be higher than they have been historically in H2-24, given the significantly higher level of interest rates.

# CHANGES IN STAGE 2 & 3

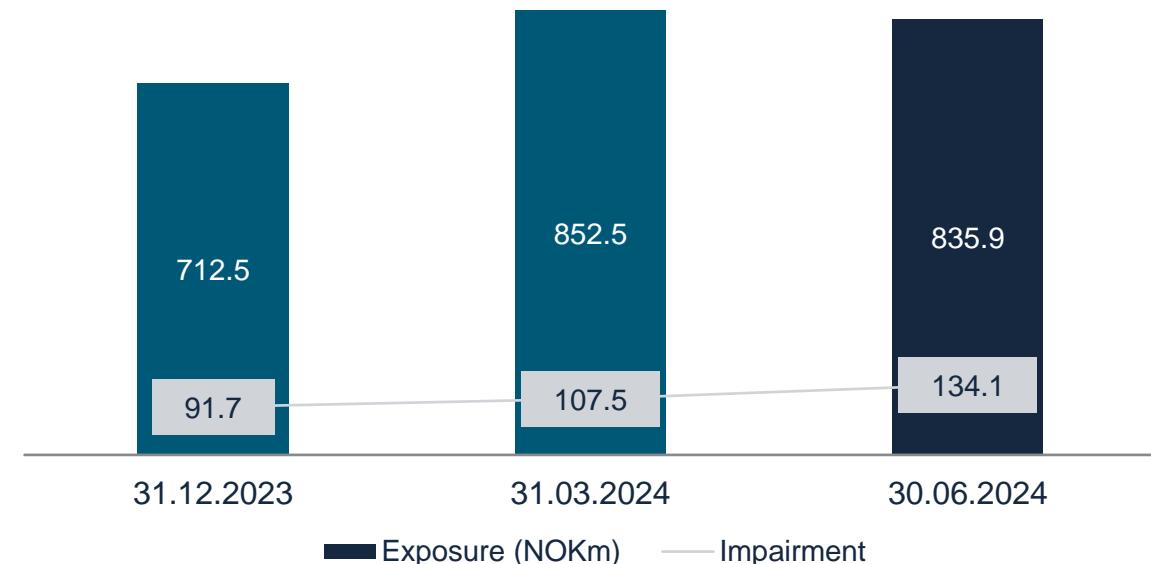
## Stage 2

- Commitments on watch list, under forbearance or where there has otherwise been a material increase in risk.
- Migration of a few commitments from stage 1 which have been placed on watch list, placed in forbearance or are over 30 days past due.

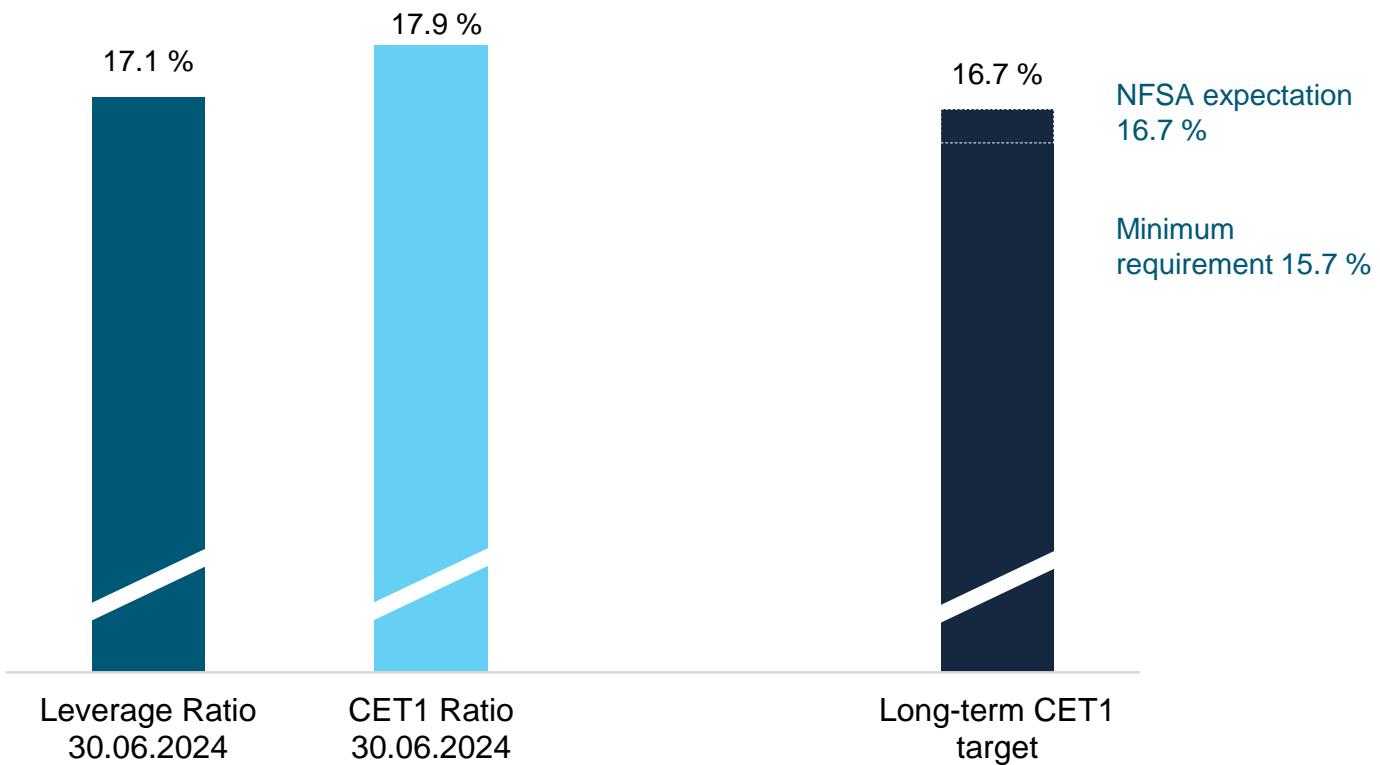


## Stage 3

- 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.
- Stage 3 comprised primarily of commitments within financing of residential property, in addition to a small number of commitments in commercial property and corporate financing.
- Little change in the composition of stage 3 commitments compared to the previous quarter.



# SOLIDITY AND CAPITAL REQUIREMENTS



- Long-term capital target is a CET1 ratio of at least 16.7 %.
- Pareto Bank will hold a buffer above this target.
- CRR3 is expected to have a moderately positive impact on Pareto Bank's CET1 ratio.
- Lower capital requirement for operational risk and commercial property lending with moderate LTV.
- Counter-balanced by higher capital requirements for loan commitments and development of commercial property.

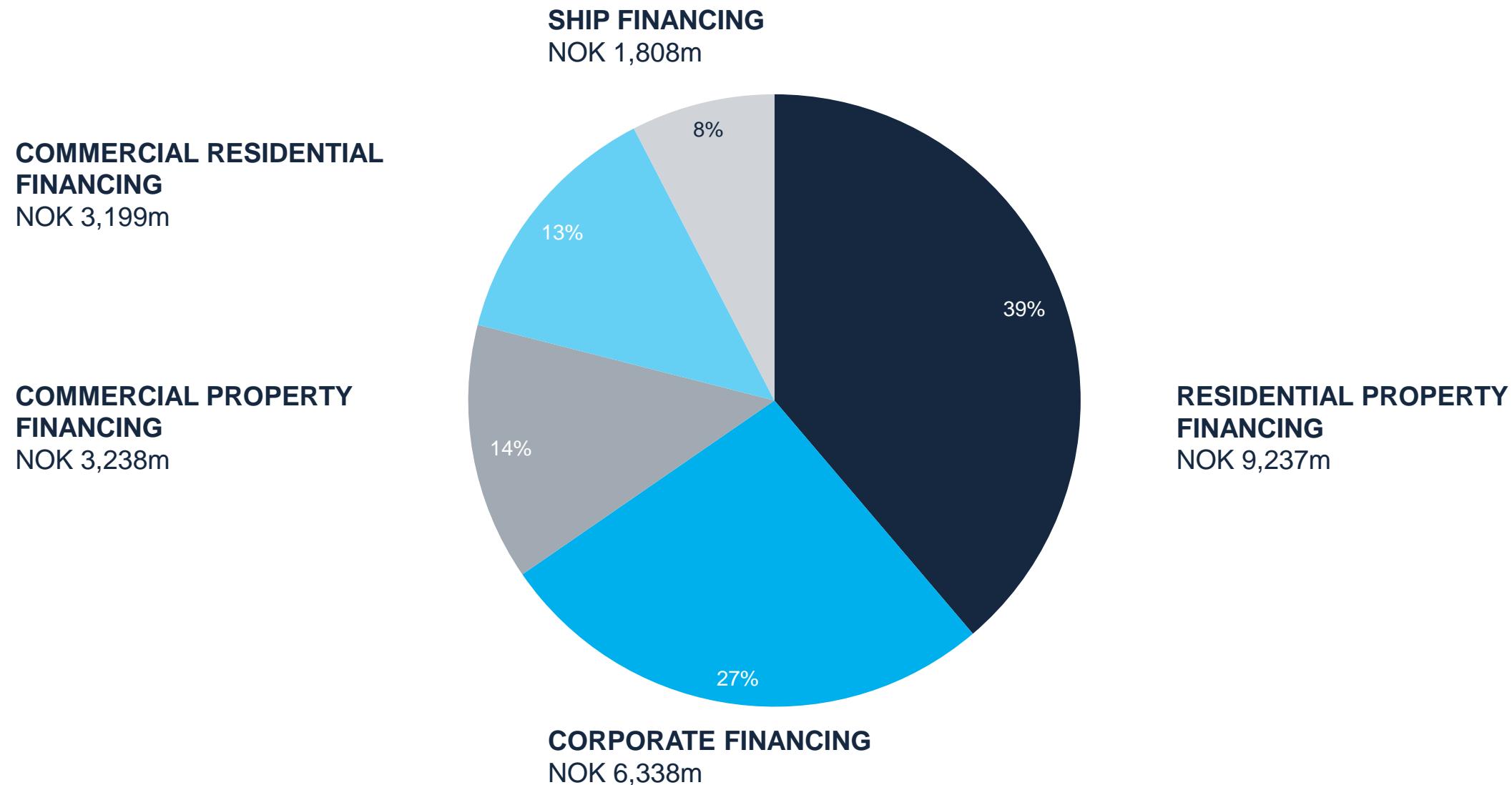
Highlights

Financials

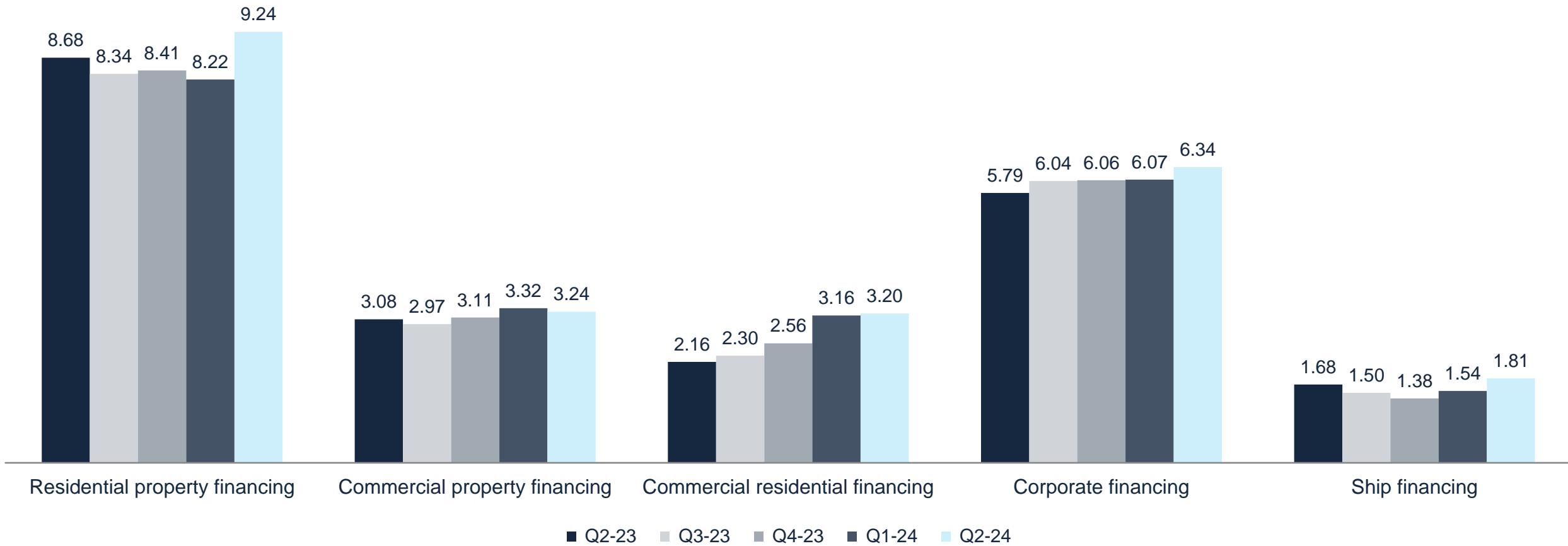
**Business Area Update & Outlook**

# A NICHE PLAYER FINANCING MEDIUM-SIZED ENTERPRISES

## Exposure (NOKm)



# QUARTERLY EXPOSURE PER BUSINESS AREA (NOKb)



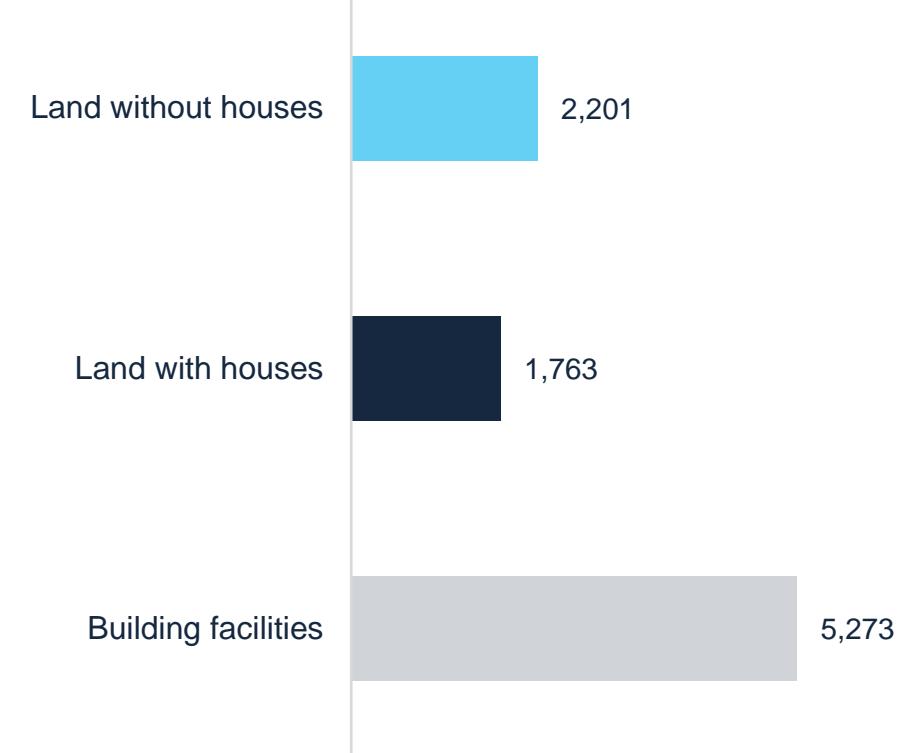
# RESIDENTIAL PROPERTY FINANCING

## 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.
- In general, higher contractor risk due to inflation and lower activity.
- Close follow-up of a small number of projects (in stage 2 or 3) that have been affected by inflation, increased financing costs and unsold units.
- Frequent customer dialogue and reporting, as well as third-party monitoring.
- Exposure growth of NOK 1,020m in Q2-24.

### Residential property exposure (NOKm)

Total NOK 9,237m



# MARKET OUTLOOK

## Residential property

A more positive sentiment in the new-build market.

Sales in ongoing projects are gradually picking up, and it is somewhat easier to meet pre-sale requirements.

Activity and demand for financing have improved. The interest rate has peaked. Unemployment is low and population growth has picked up.



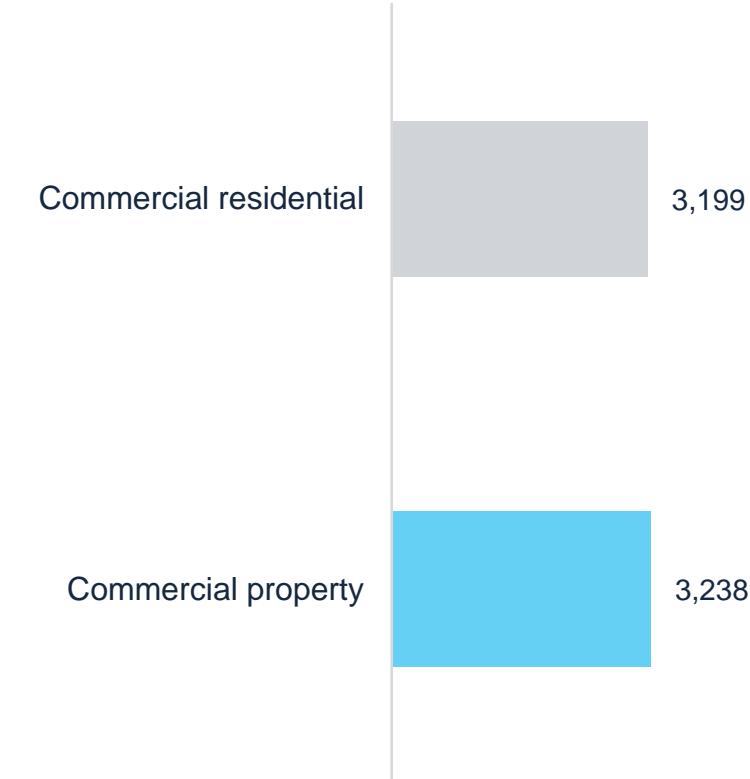
**Cautious lending growth is expected for Q3-24.**

# COMMERCIAL RESIDENTIAL & PROPERTY FINANCING

## Credit update

- Commercial residential includes financing of housing for rent or sale, while commercial property is financing of non-residential commercial property (office, logistics, retail, etc.).
- Exposure growth of NOK 40m within commercial residential property in Q2-24. Financing of acquired units for sale or rental and some unsold units in new-build projects.
- Exposure down with NOK 78m within commercial property in Q2-24.

Commercial res. & prop. exposure (NOKm) Total NOK 6,436m



# COMMERCIAL PROPERTY FINANCING

## Credit update

- 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 continued.
- Property valuations are based on both external and internal assessments and on different valuation methods.
- Second priority financing amounts to approximately NOK 2.0 billion. Normally share pledge and guarantees in addition to property pledge.
- Follow-up of a limited number of customers (in stage 2 and 3) due to a more demanding liquidity situation.

Commercial property exposure (NOKm)

Total NOK 3,238m

Commercial property

3,238

# MARKET OUTLOOK

## Commercial property

Commercial property prices seem to be stabilizing after a fall in 2023.

Nevertheless, price development is uncertain. There is still a gap between sellers' and buyers' price expectations and interest rates remain high.

Continued demand and growth in rental income compensate for a price fall for offices with attractive location in Oslo.



**Flat lending volume is expected for Q3-24.**

# NEXT STEP IN SWEDEN

## Solid track record and market rationale

- Ten years of experience in financing real estate projects for both Norwegian and Swedish customers in Sweden. Large network of clients and partners established.
- Attractive niche of medium-sized customers. The four dominant Swedish banks finance larger customers. Some smaller institutions service SME's, but none are specialized on tailor-made financing within real estate.
- Favourable risk/reward with attractive LTV's and high lending margins and fees.
- Strict credit parameters and strong underwriting standards.
- ROE above ambition of 15 %.

## Long-term goal

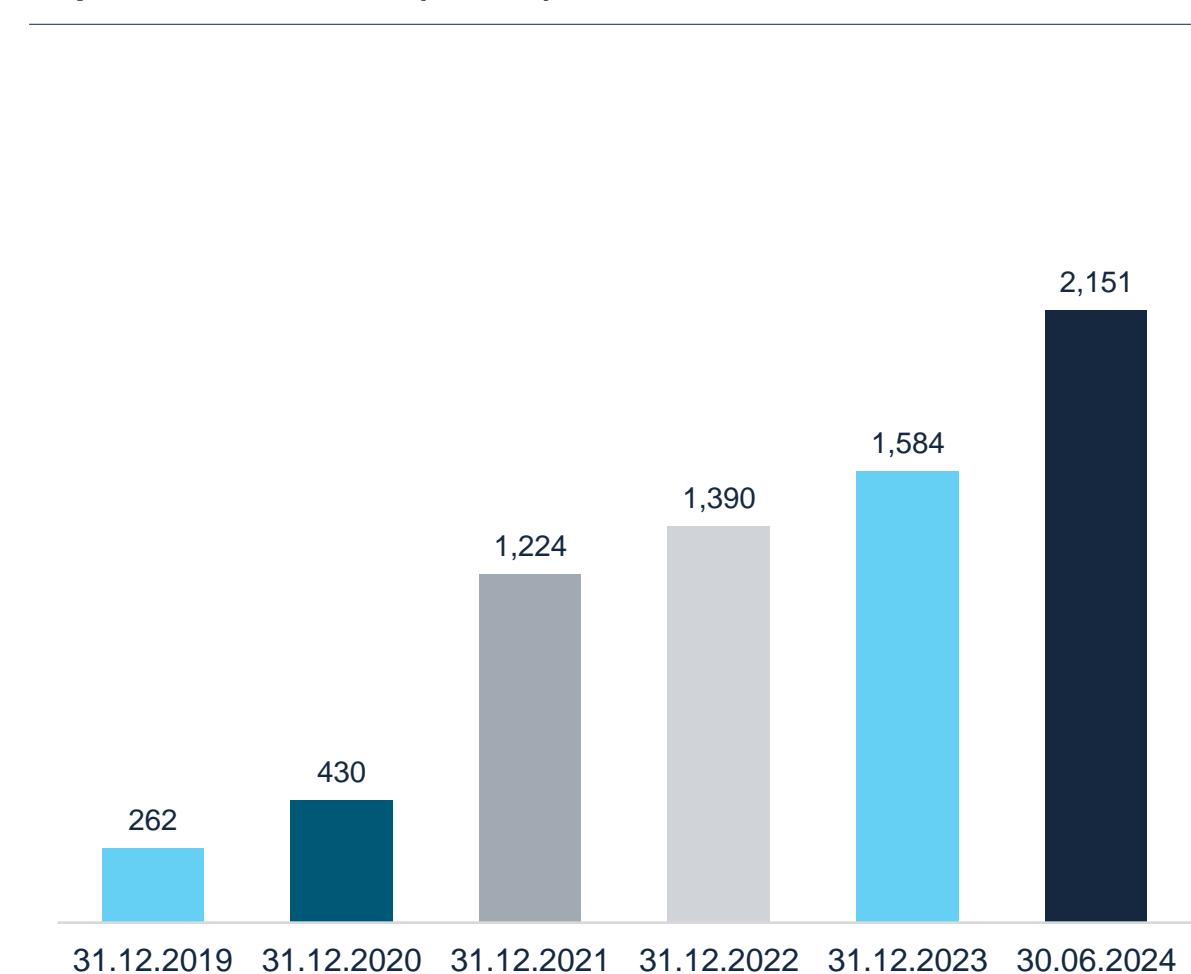
- To build a diversified, robust and profitable loan portfolio in Sweden.

## Branch establishment

- The Swedish FSA has granted Pareto Bank a license to establish a branch in Sweden.

## Exposure in Sweden (NOKm)

Total NOK 2,151m

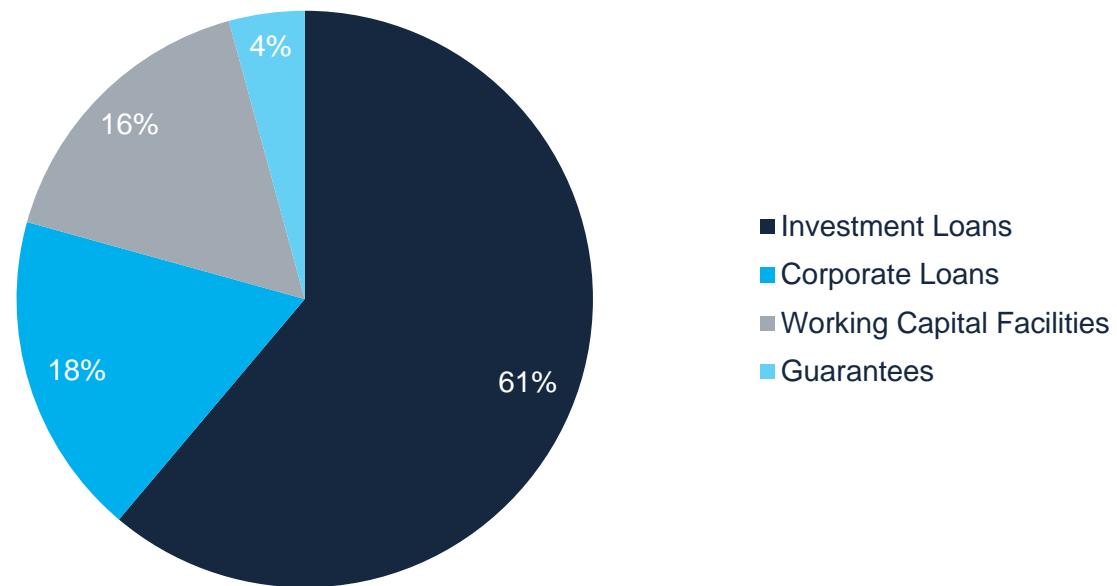


# CORPORATE FINANCING

## Exposure (NOKm)

Total NOK 6,338m

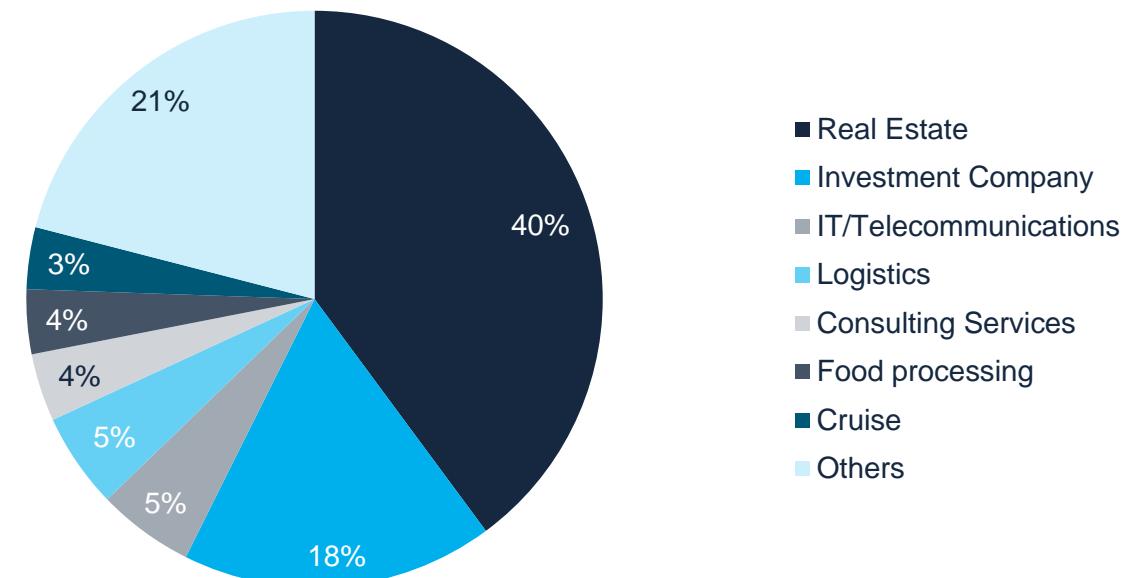
- Tailor-made financing solutions to medium-sized enterprises.



## Credit update

Total NOK 6,338m

- Exposure growth of NOK 266m in Q2-24.
- Stable credit quality.



# MARKET OUTLOOK

## Corporate

A specialized, customer-driven and experienced team with strong track record makes Pareto Bank an attractive partner for medium-sized businesses.

Differences in activity and profitability across industries are met with a selective credit practice.

Strong deal flow in Q2-24 is expected to persist in the next quarter. Good long-term growth prospects. Still a small player in the large space for corporate lending.

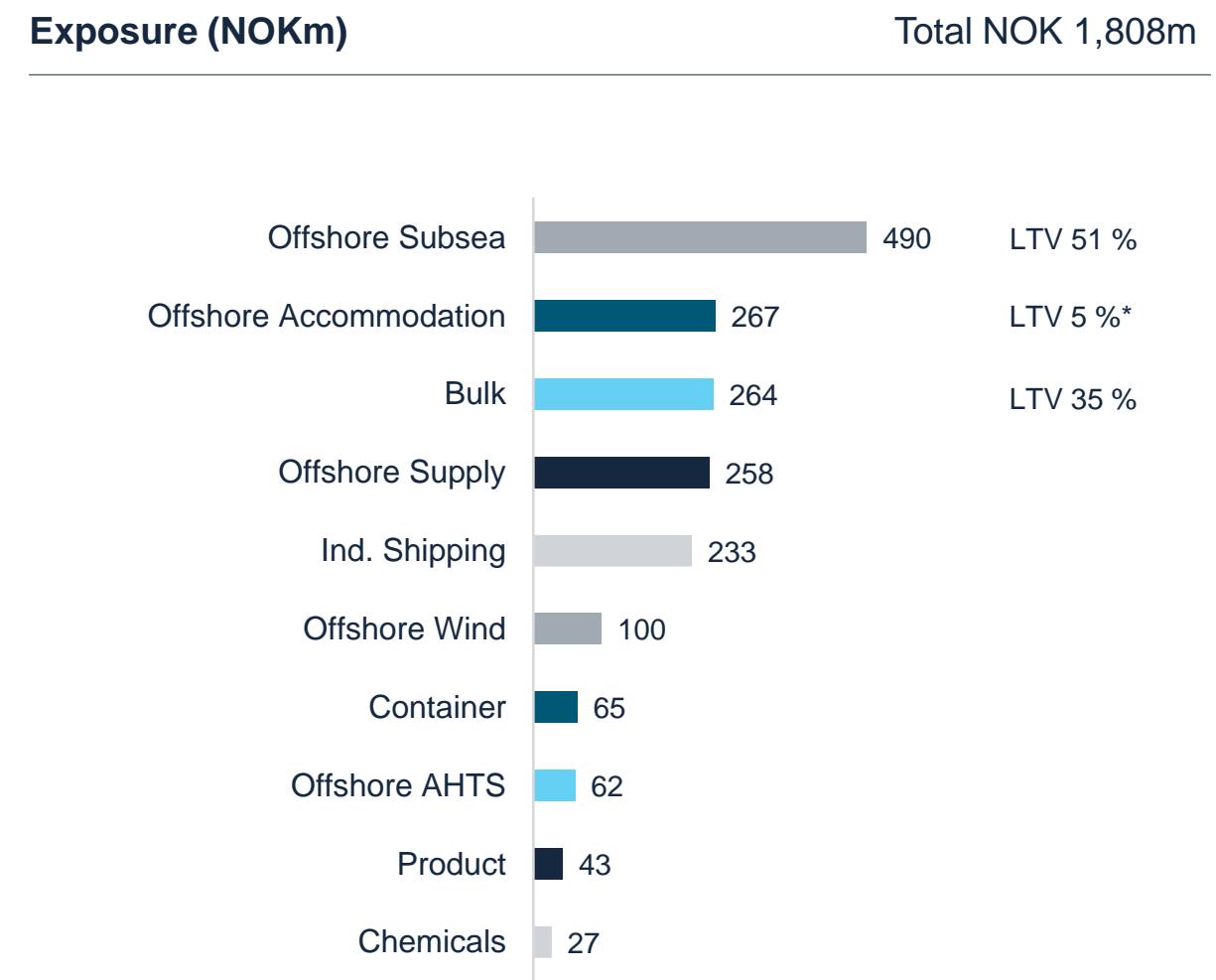


**Moderate growth expected in Q3-24.**

# 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 73 % of the exposure and loans to investment projects 27 %.
- Average commitment size USD 12.1m and largest exposure USD 27.3m.
- Stable credit quality with an average weighted LTV of 41 %.<sup>\*\*</sup>
- Steep repayment profiles on loans.
- Exposure growth of NOK 268m in Q2-24.



\*) Credit exposure towards Offshore Accommodation: Revolving credit facility.

\*\*) Excluding the Offshore Accommodation revolving credit facility with very low LTV.

# MARKET OUTLOOK

## Shipping and offshore

Healthy outlook for the dry bulk market due to low supply growth. Uncertainty on demand side as Chinese growth and global economic growth soften.

Strong tanker markets backed by modest supply growth, continued strong end-user demand and increased trade growth.

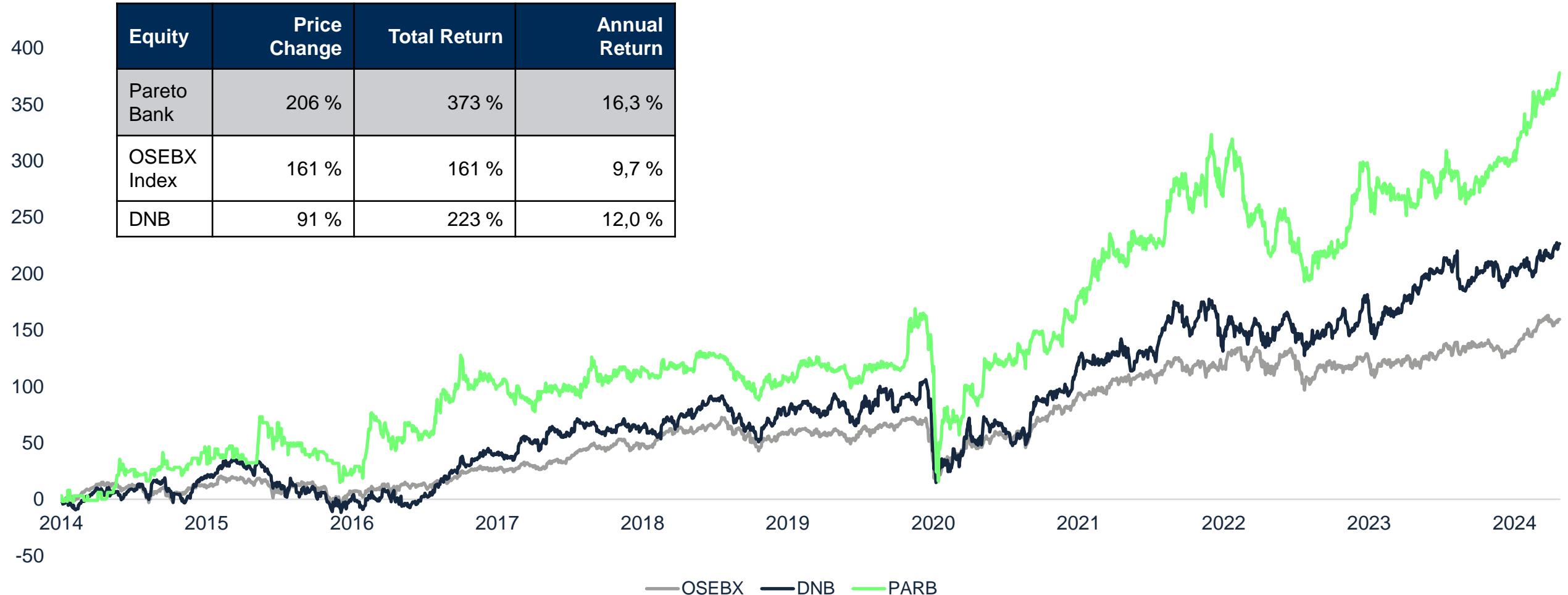
The re-routing of container vessels due to Red Sea disruption has led to a significant demand increase and increased waiting time in ports. Reversal of the disruption will most likely lead to downward pressure on rates as high supply growth regain key attention.

Robust demand outlook for the offshore markets supported by strong increase in E&P spending and limited fleet growth.



**Moderate growth in both shipping and offshore segments is expected for Q3-24.**

# TOTAL RETURN



# APPENDIX

# LARGEST SHAREHOLDERS

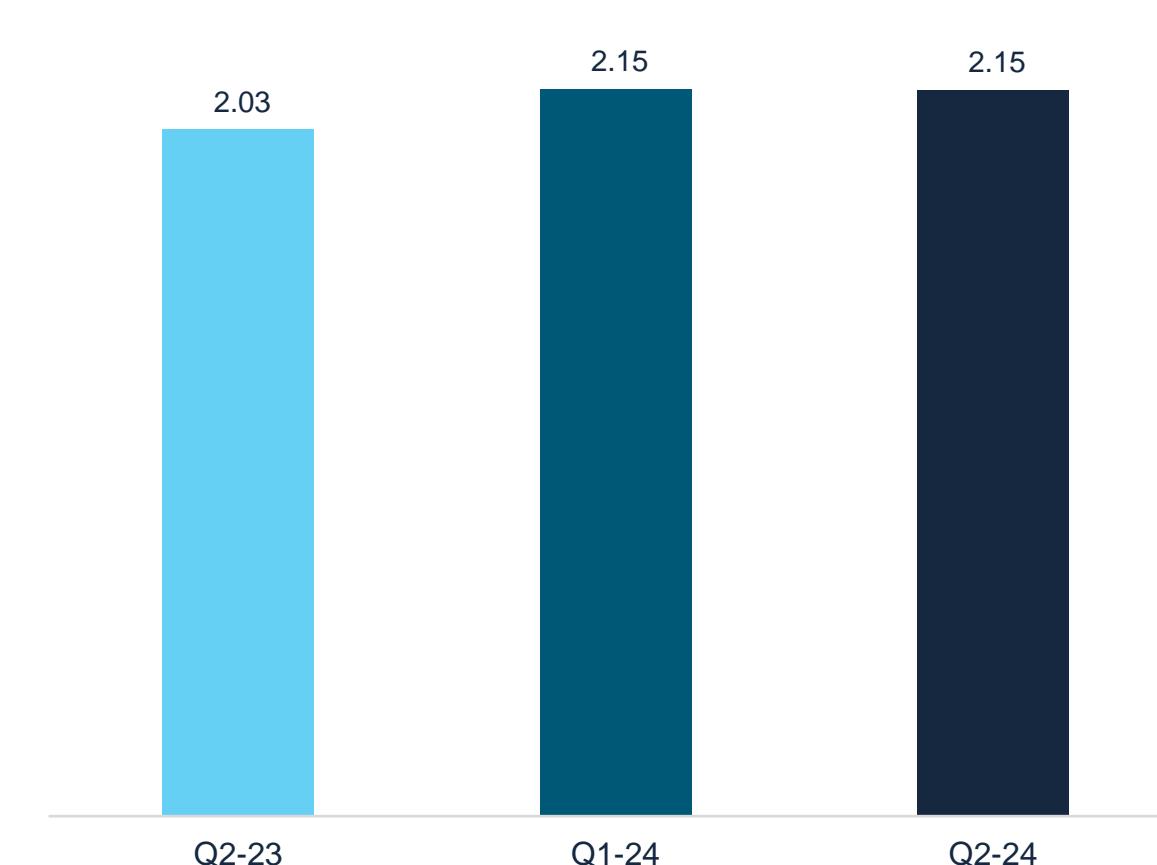
30 June 2024

	Name	Shares	% Total
1	Pareto AS	15,356,484	20.00 %
2	Société Générale	6,943,049	9.04 %
3	AWC AS	4,712,451	6.14 %
4	Hjellegjerde Invest AS	3,803,301	4.95 %
5	Verdipapirfondet Holberg Norge	2,227,309	2.90 %
6	Salt value AS	2,221,207	2.89 %
7	Landkredit Utbytte	2,077,835	2.71 %
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	1,251,512	1.63 %
12	Catilina Invest AS	1,134,950	1.48 %
13	AS Audley	929,252	1.21 %
14	Lombard Int Assurance S.A.	900,820	1.17 %
15	Stenshagen Invest AS	751,526	0.98 %
16	K11 Investor AS	750,000	0.98 %
17	Profond AS	738,890	0.96 %
18	Verdipapirfondet Fondsfianans Norge	725,000	0.94 %
19	Castel AS	708,684	0.92 %
20	Skandinaviska Enskilda Banken AB	688,889	0.90 %
<b>Sum TOP 20</b>		<b>51,191,805</b>	<b>66.67 %</b>
<b>Other shareholders</b>		<b>25,590,618</b>	<b>33.33 %</b>
<b>Total</b>		<b>76,782,423</b>	<b>100.00 %</b>

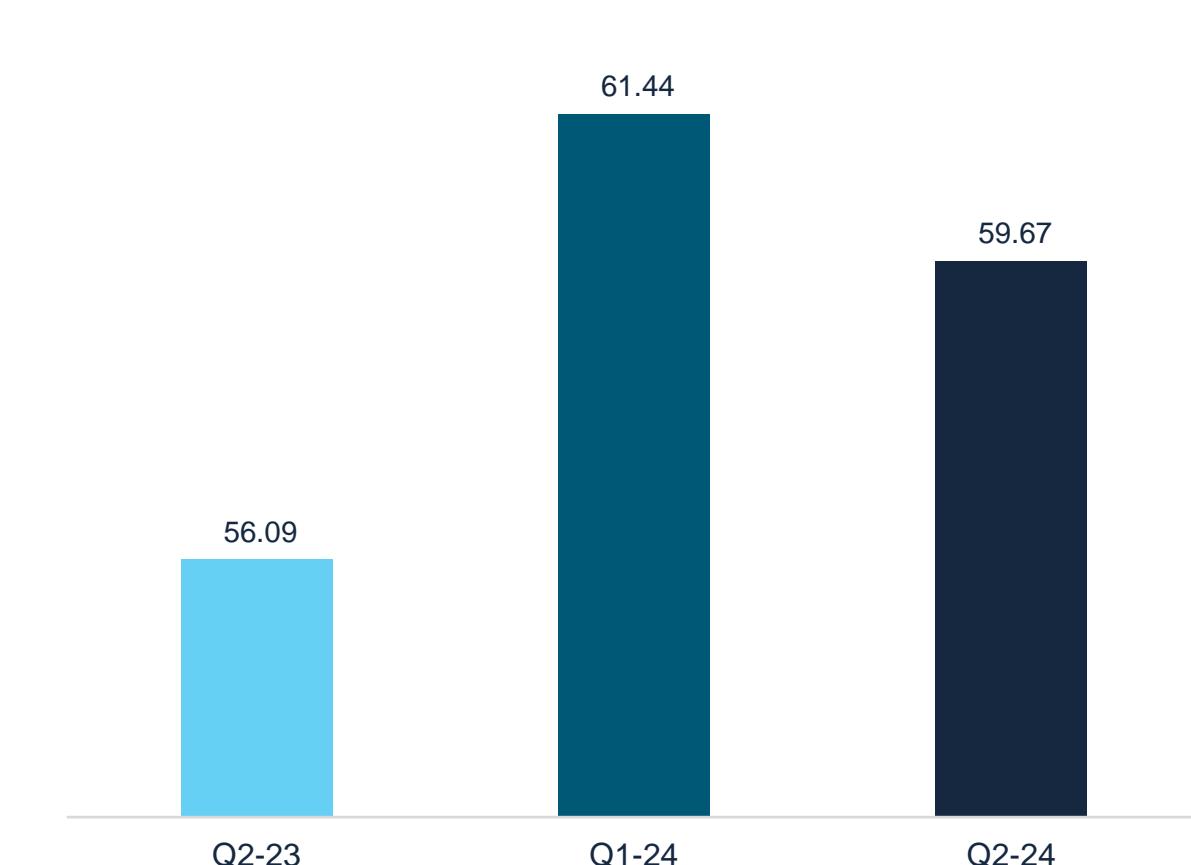
- The Company has 76,782,423 shares outstanding. One class of shares where each share carries one voting right.
- Diversified investor base with 3,618 shareholders.
- The Top 10 and 20 investors hold 55 % and 67 % of the shares respectively.
- Employees in Pareto Bank own 1.6 %.
- Top management and 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)

	Q2-24	Q1-24	Q4-23	Q3-23	Q2-23
Net interest income	303.0	299.8	297.3	281.3	271.5
Net other operating income	12.5	2.4	12.1	3.0	-5.4
<b>Total net income</b>	<b>315.5</b>	<b>302.2</b>	<b>309.4</b>	<b>284.3</b>	<b>266.1</b>
Total operating expenses	56.3	55.6	51.1	50.4	51.4
<b>Operating profit before impairments and losses</b>	<b>259.3</b>	<b>246.6</b>	<b>258.3</b>	<b>233.9</b>	<b>214.7</b>
Impairments and losses on loans and guarantees	26.0	15.3	42.1	30.3	12.9
<b>Pre-tax operating profit</b>	<b>233.2</b>	<b>231.3</b>	<b>216.2</b>	<b>203.6</b>	<b>201.8</b>
Tax expense	55.1	55.2	51.2	48.4	47.4
<b>Profit for the period</b>	<b>178.2</b>	<b>176.1</b>	<b>165.0</b>	<b>155.2</b>	<b>154.4</b>
Earnings per share (NOK)	2.15	2.15	2.01	1.89	2.03
Return on equity	14.2 %	14.3 %	13.8 %	13.9 %	14.8 %
Cost/income ratio	17.8 %	18.4 %	16.5 %	17.7 %	19.3 %

# QUARTERLY BALANCE SHEET

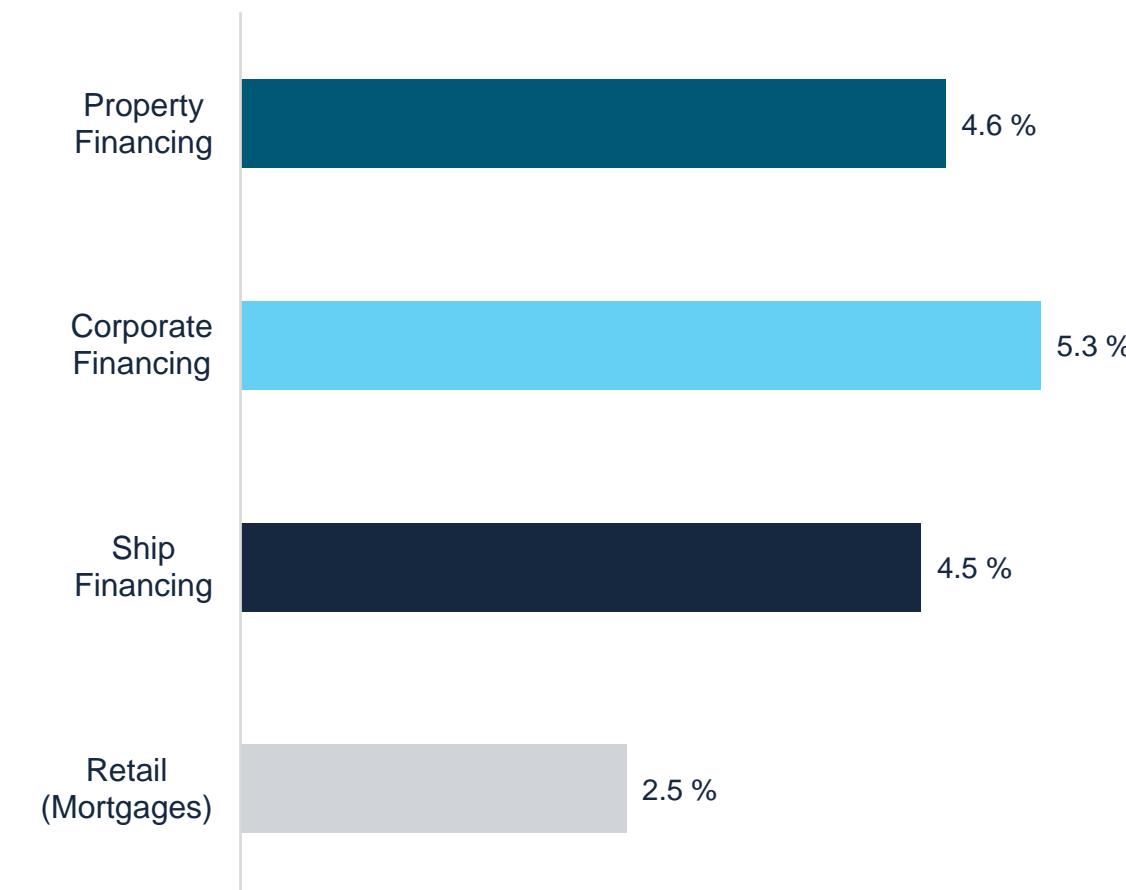
## (NOKm)

	Q2-24	Q1-24	Q4-23	Q3-23	Q2-23
Loans to credit institutions	1,432	1,174	1,651	2,498	2,001
Loans to customers	19,585	18,928	18,518	18,260	18,344
Bonds and other securities	5,331	5,923	5,422	4,245	3,882
Shareholdings in associated companies	22	22	22	23	23
Other assets	213	172	234	164	218
<b>Total assets</b>	<b>26,583</b>	<b>26,219</b>	<b>25,847</b>	<b>25,189</b>	<b>24,468</b>
Deposits from customers and institutions	13,046	12,392	12,023	11,481	11,193
Senior securities issued	7,366	7,570	7,756	7,718	7,877
Other liabilities	339	391	363	437	331
Tier 2 subordinated securities issued	700	699	699	699	699
Additional tier 1 capital	550	450	450	450	450
Other equity	4,582	4,717	4,555	4,404	3,918
<b>Total liabilities and equity</b>	<b>26,583</b>	<b>26,219</b>	<b>25,847</b>	<b>25,189</b>	<b>24,468</b>

# MARGINS AND INTEREST CONTRIBUTION

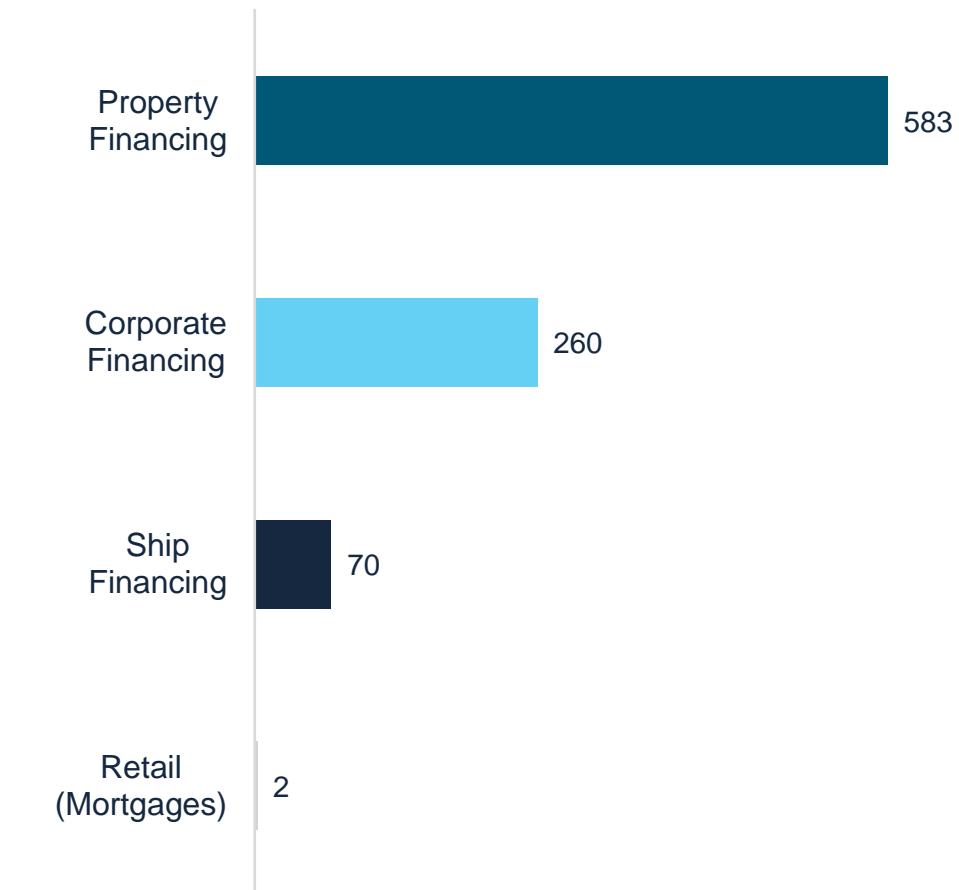
## Margins per business area

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



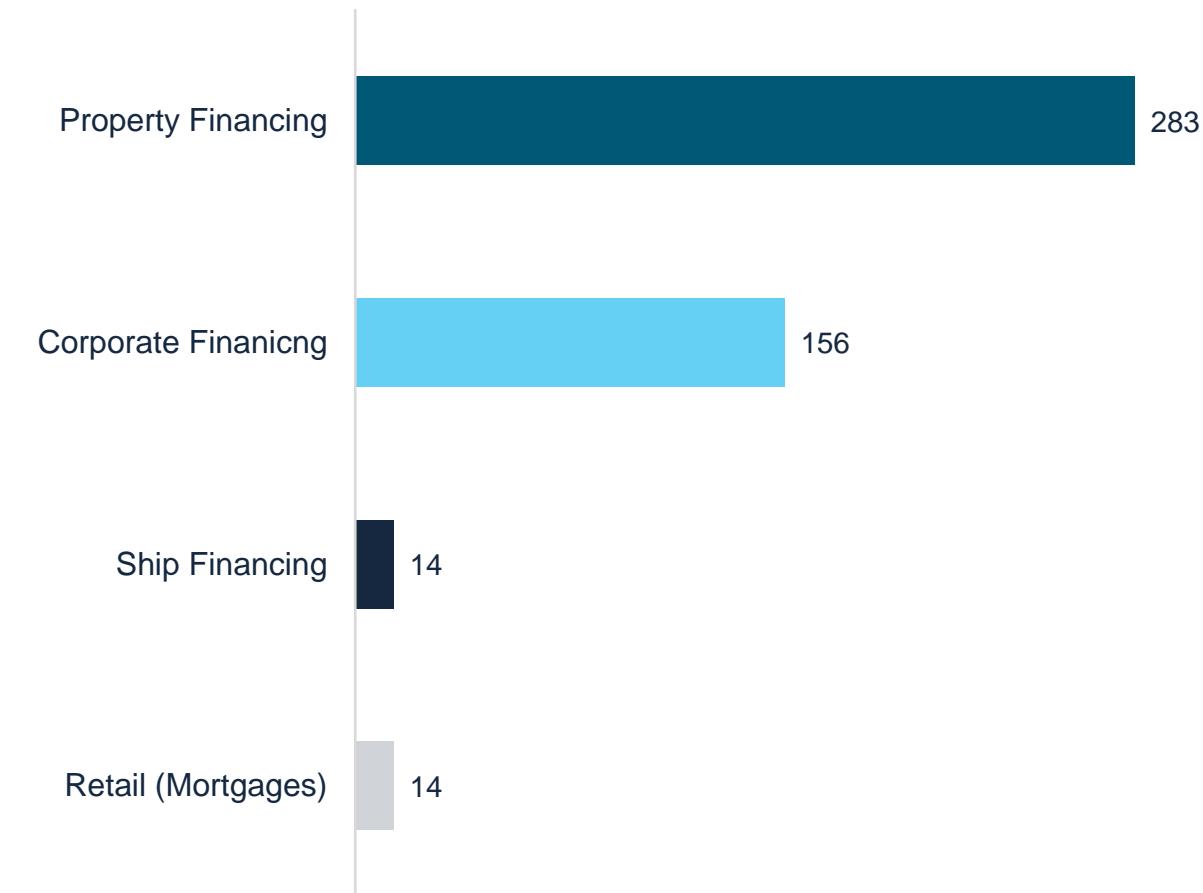
## Interest contribution per business area

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



# NUMBER OF CUSTOMERS

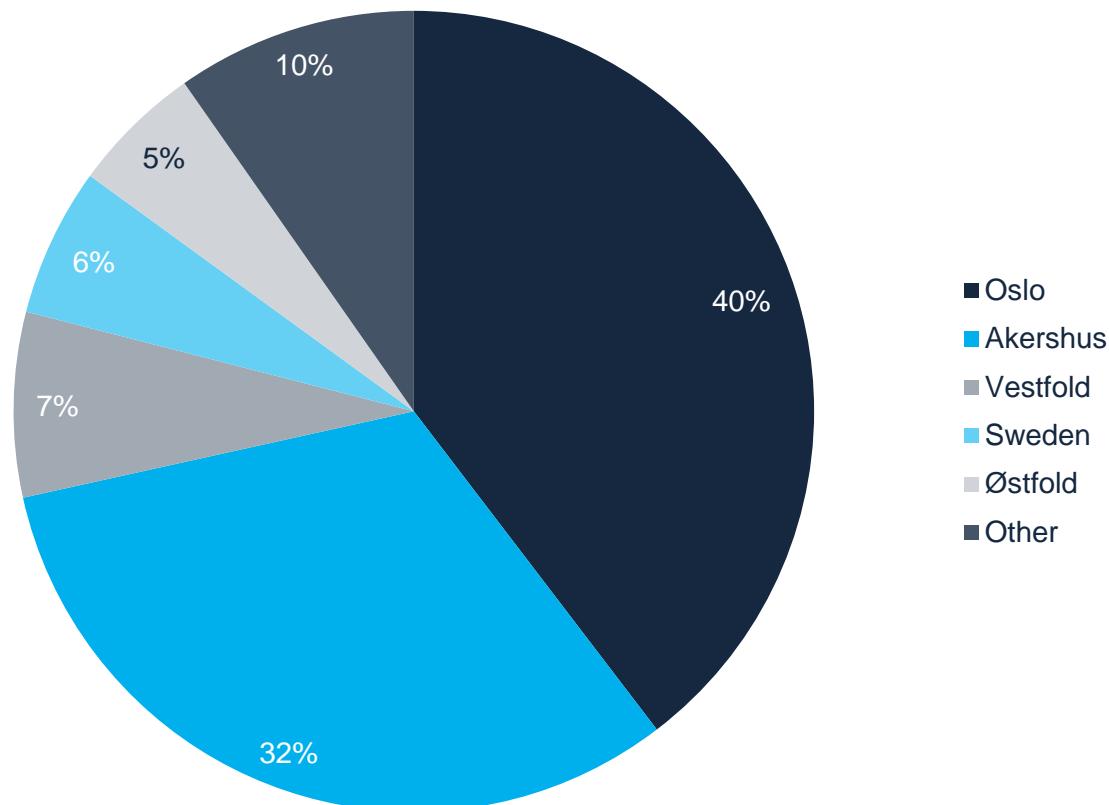
## Per business area



# REAL ESTATE FINANCING EXPOSURE

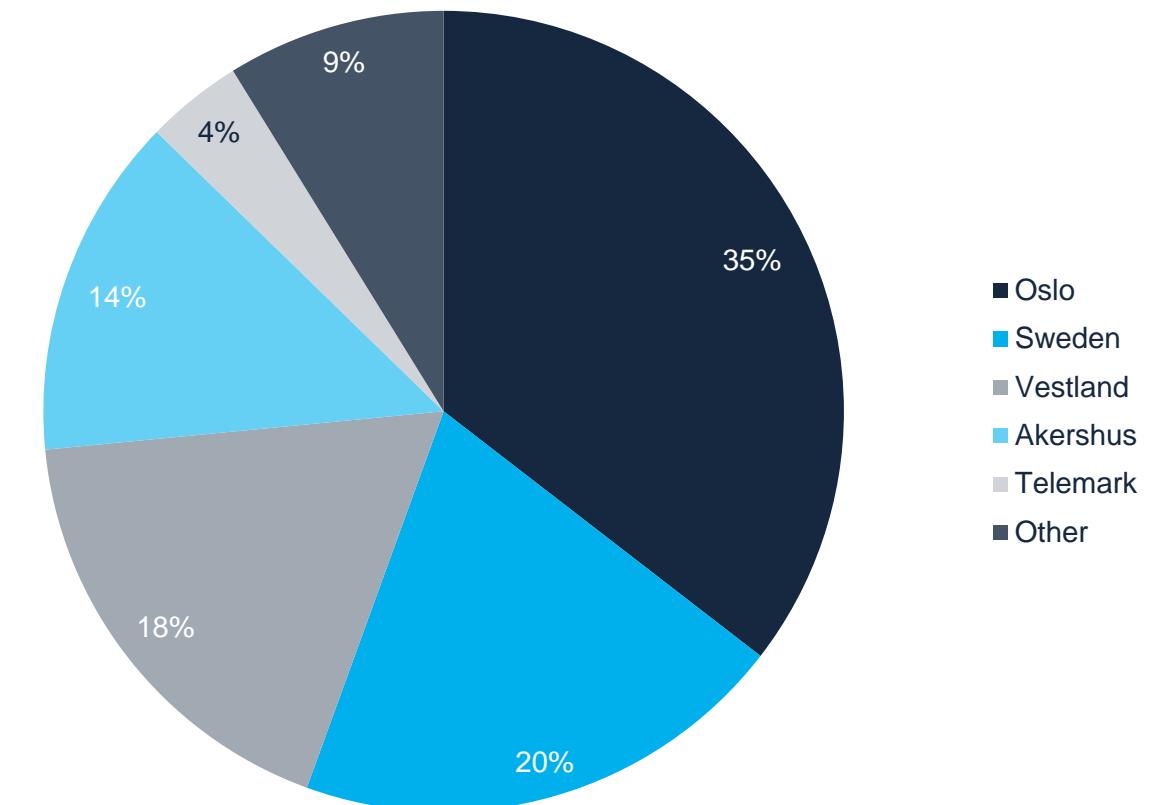
Geographical residential property exposure

Total NOK 12,436m\*



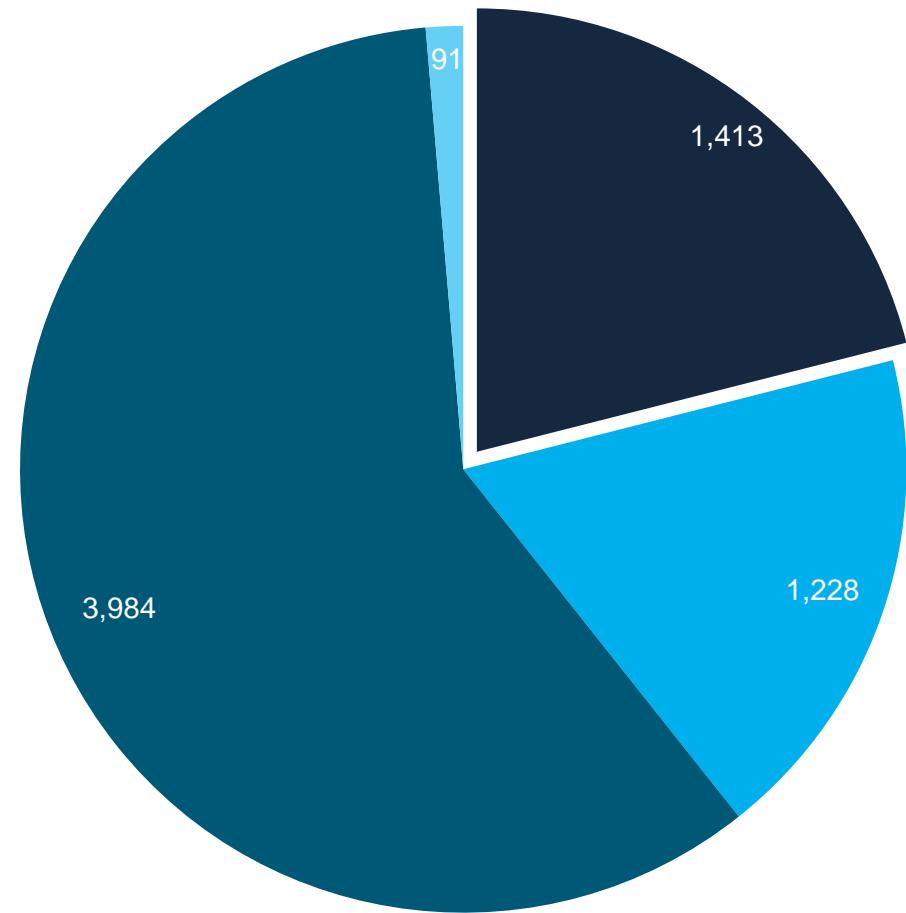
Geographical commercial property exposure

Total NOK 3,238m\*



# LIQUIDITY BUFFER

## Low credit and market risk (NOKm)



- Cash (Norges Bank & DNB)
- Bonds issued by government & PSEs
- Covered bonds
- Senior financials

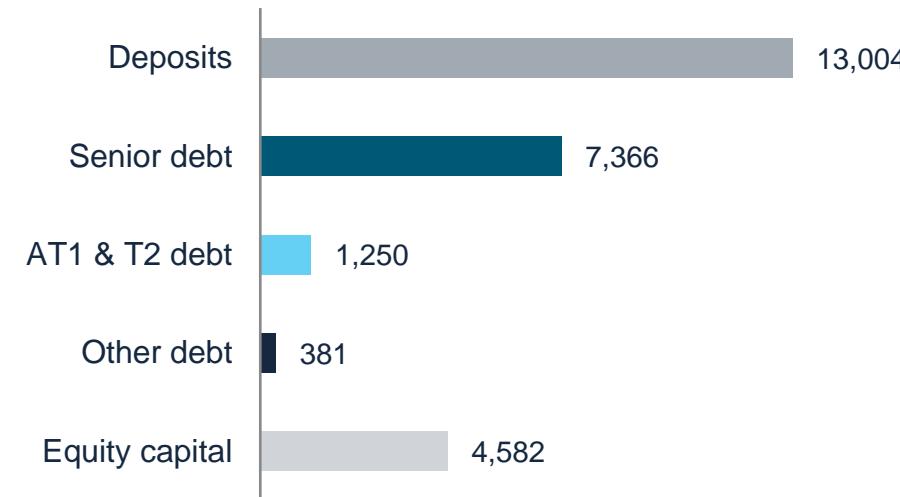
### Comments

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- 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.

# FUNDING

## Sources (NOKm)

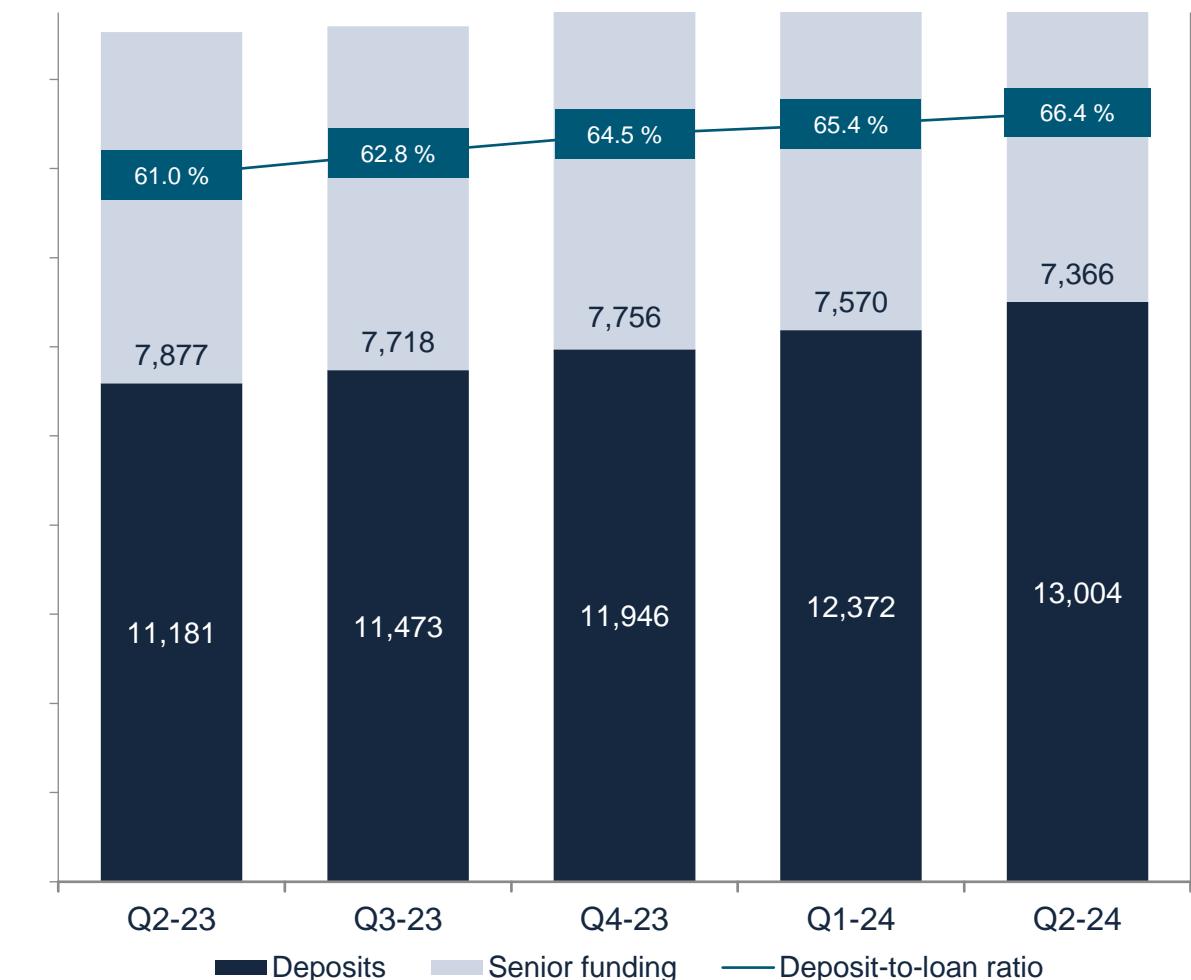


## Key funding and liquidity ratios

- Deposits with liquidity restrictions 65 %
- Corporate deposits 58 %
- Deposit-to-loan ratio 66 %
- Liquidity Coverage Ratio 399 %
- Net Stable Funding Ratio 143 %

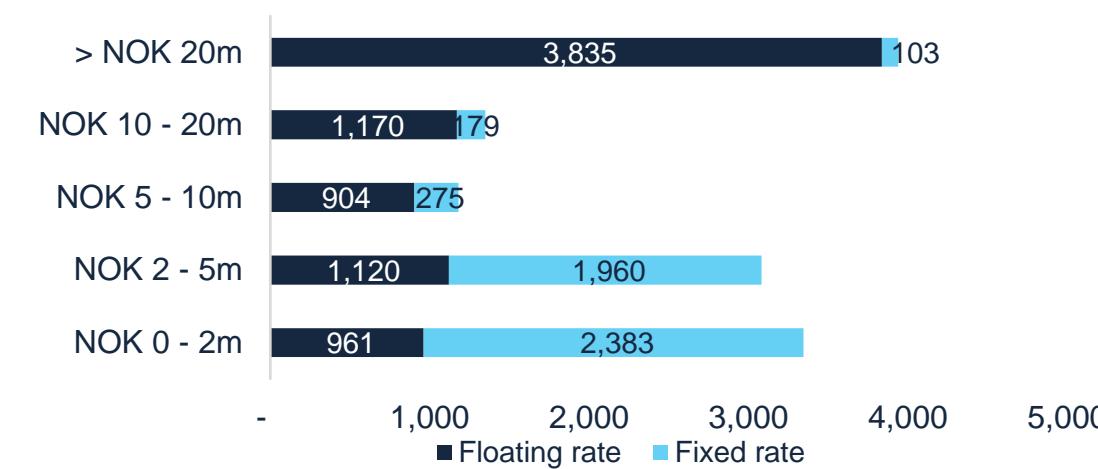
## Deposits & senior debt

NOKm,  
Percent customer deposits of net lending to customers



# CUSTOMER DEPOSITS

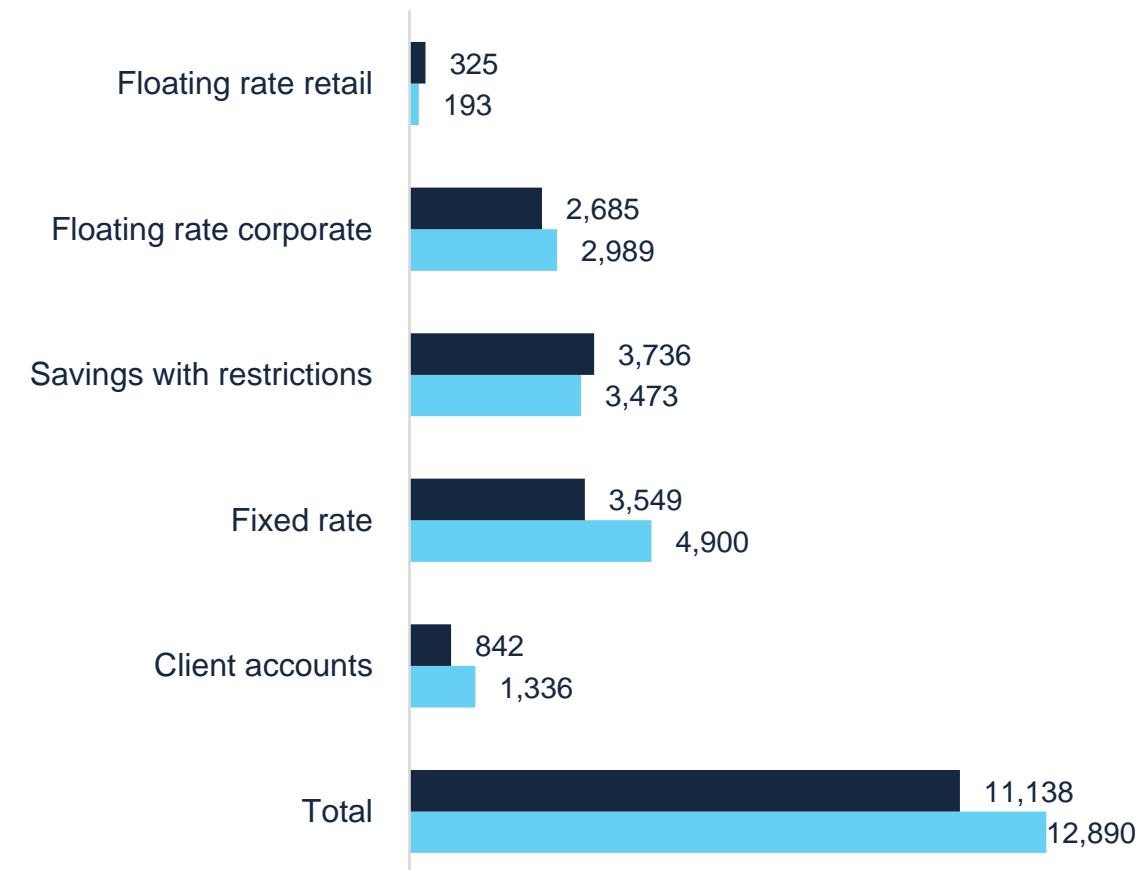
## Deposits by size (NOKm)



## Deposits by type (NOKm)

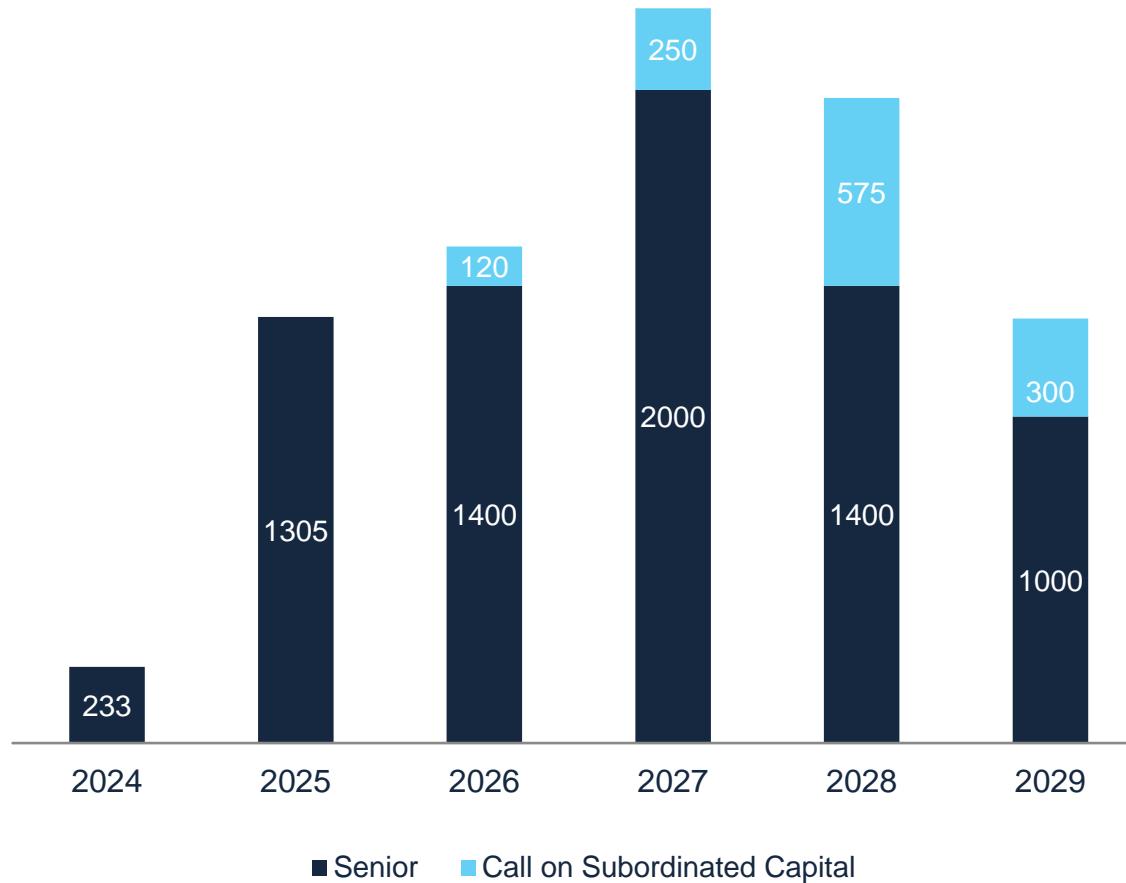


## Deposits by product (NOKm)



# MARKET FUNDING

## Market funding maturities (NOKm) \*

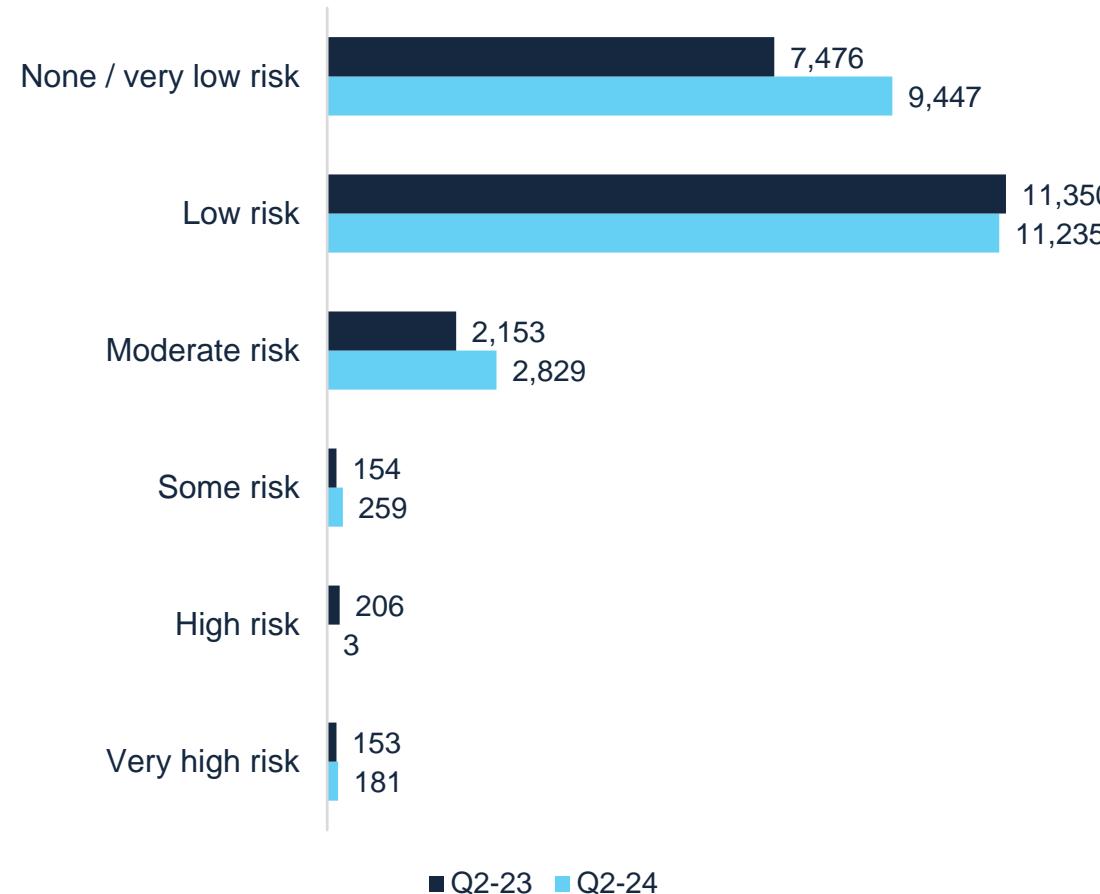


## Cost of new market funding

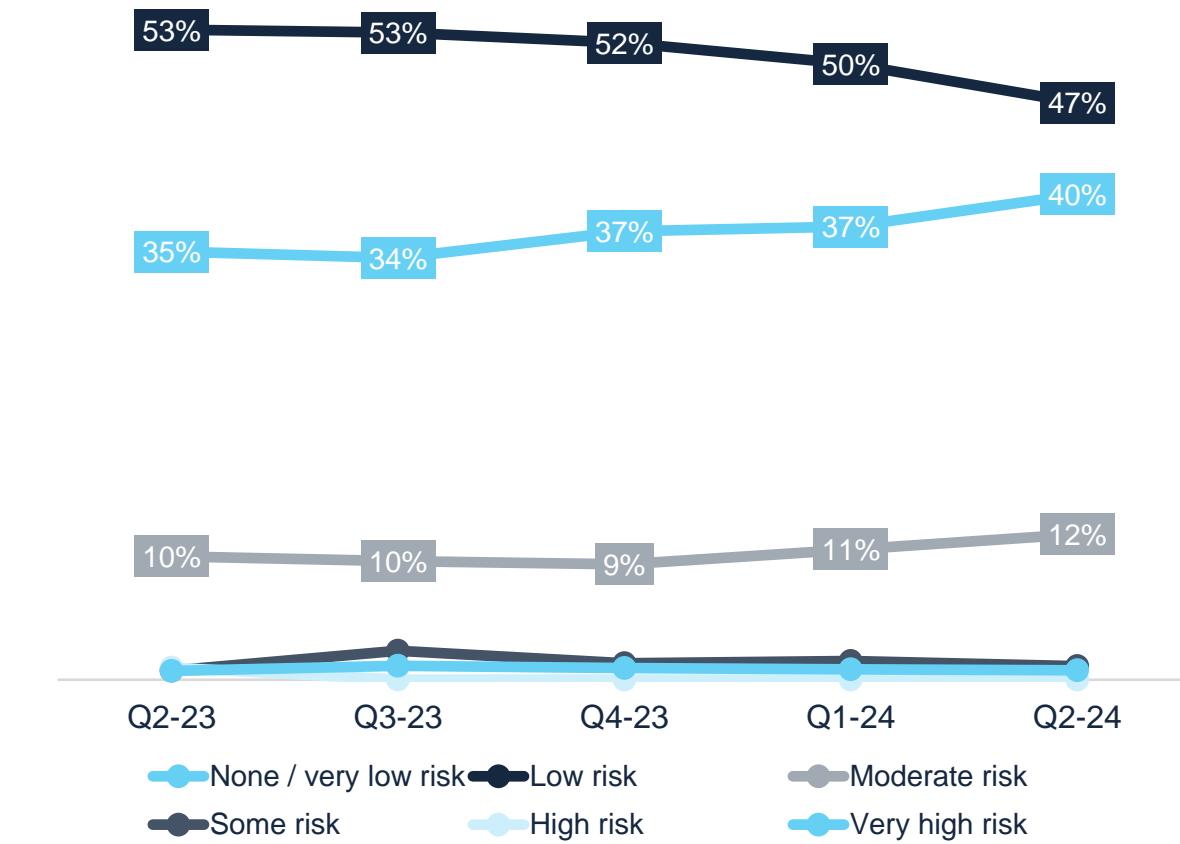


# COMMITMENTS BY RISK CLASSIFICATION

Risk classification (NOKm)

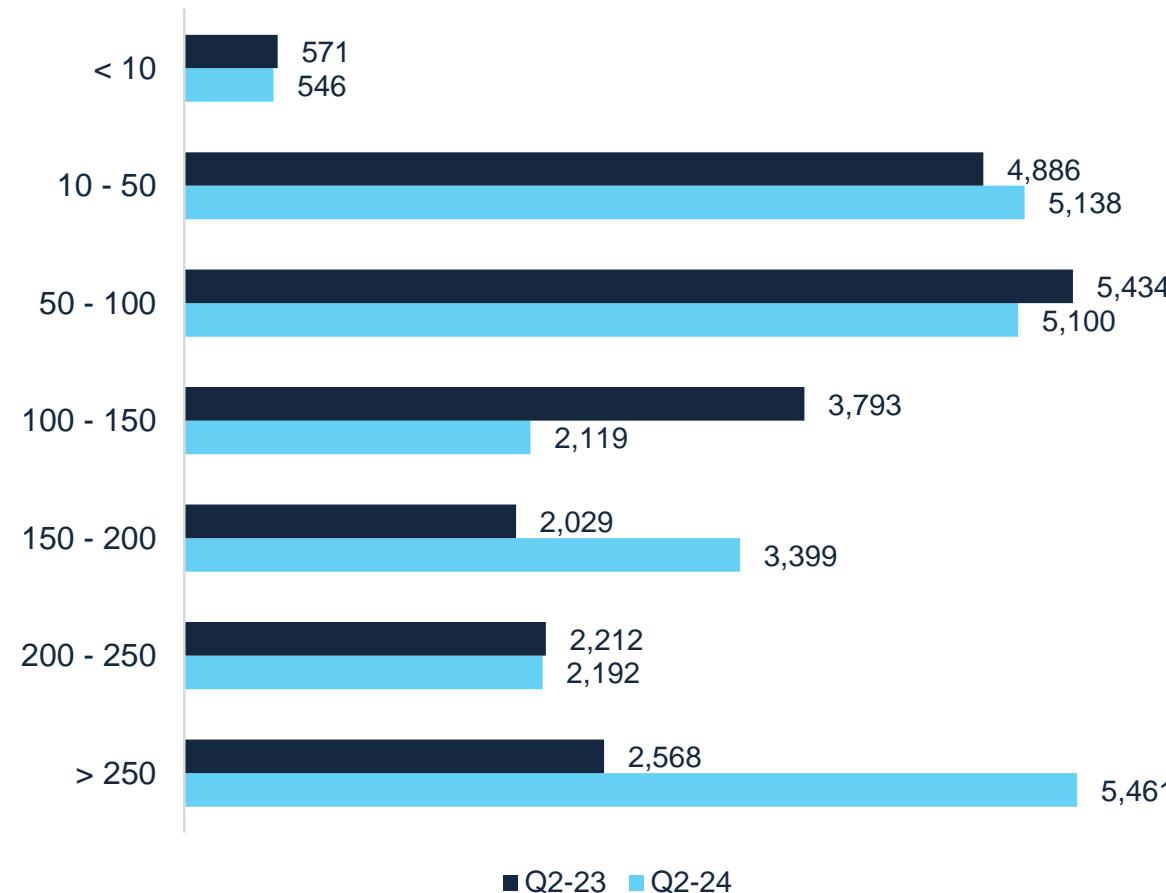


Historical risk classification

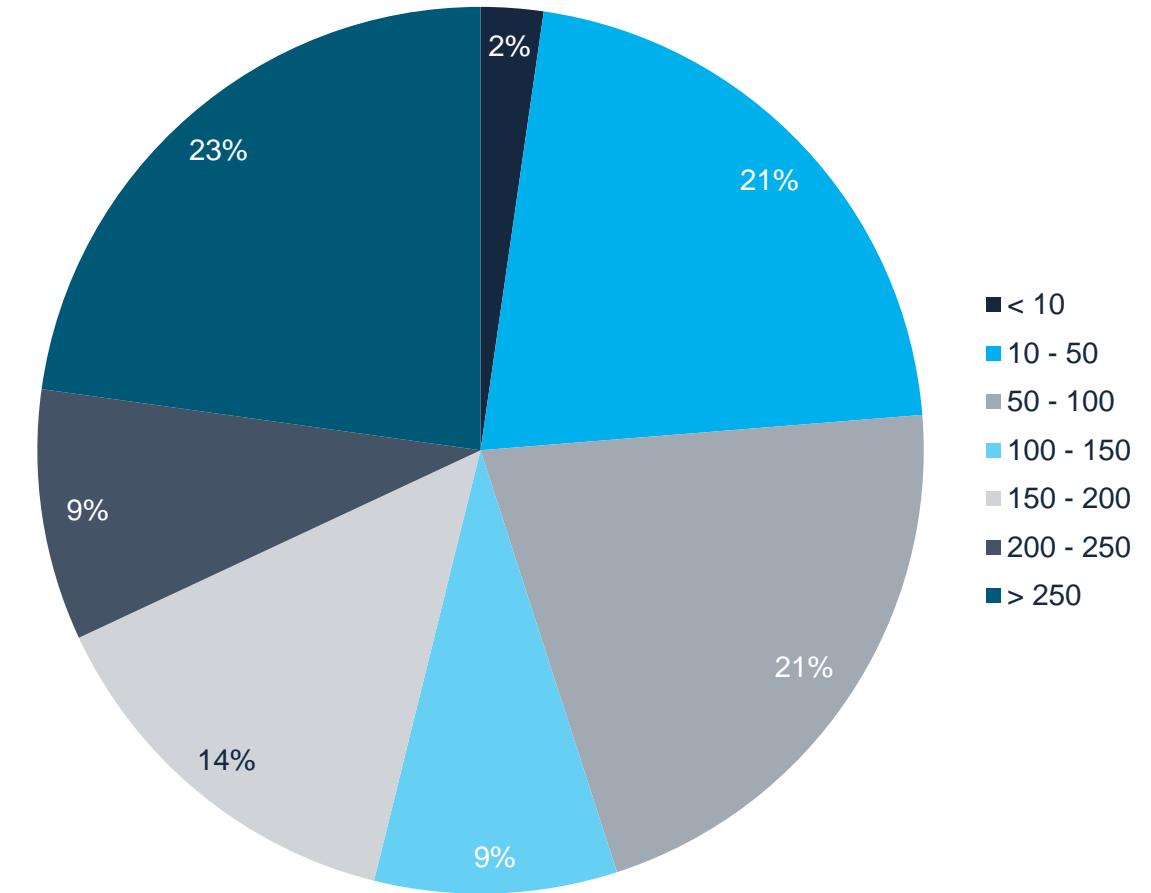


# COMMITMENTS BY SIZE

Commitment size per customer (NOKm)



Distribution of commitments by size (NOKm)



 Pareto bank