

# PARETO BANK

## Financial Results – Second Quarter 2021



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# SECOND QUARTER 2021

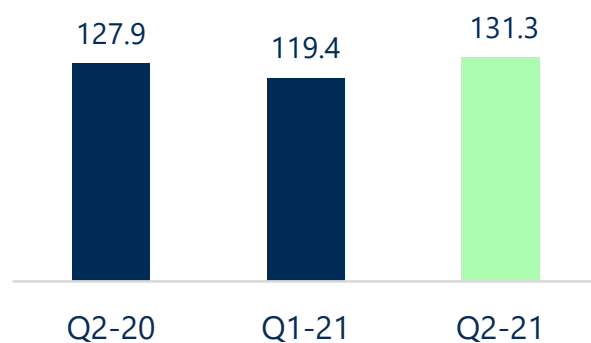
## Highlights

- Profit after tax NOK 131.3m (NOK 127.9m).
- Return on equity after tax 14.7 % (15.7 %).
- Activity in all areas. Profitable lending growth. High credit quality.
- Net interest income NOK 213.3m (NOK 183.8m). Healthy lending margins and lending-related fee income.
- Lending to customers climbed NOK 221m to NOK 15,310m (NOK 14,235m).
- Reversal of impairments NOK 3.4m (NOK 0.1m). Partially reversing Covid-related impairments made in Q1-20. Stage 3 impairments remained stable.
- Outlook is more positive than in previous quarters. Gradual reopening with lower infection rates and vaccination.

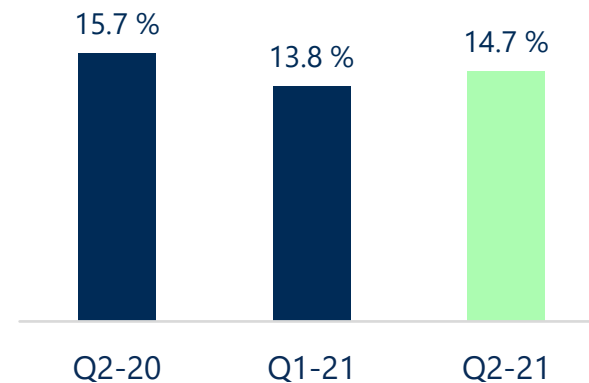


# KEY FIGURES

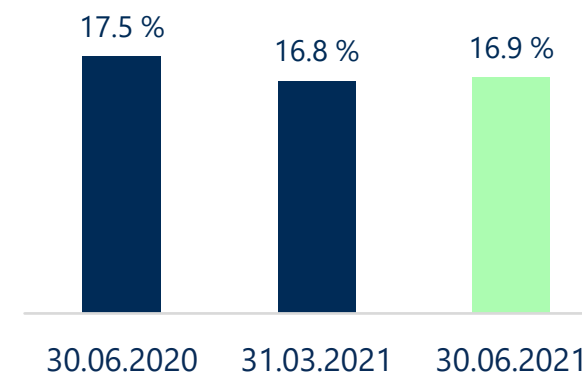
## Profit after tax (NOKm)



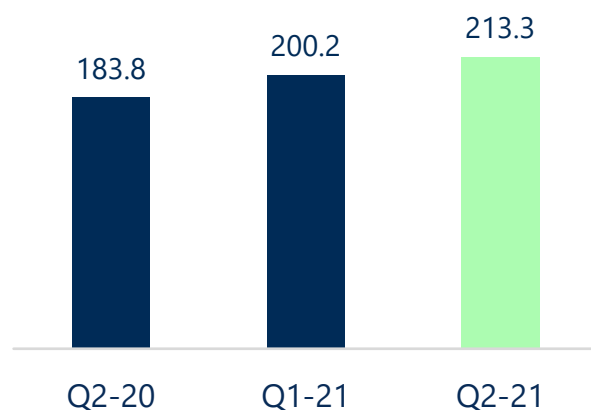
## Return on Equity \*



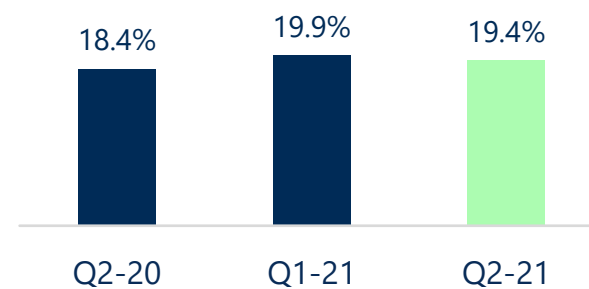
## CET1 ratio



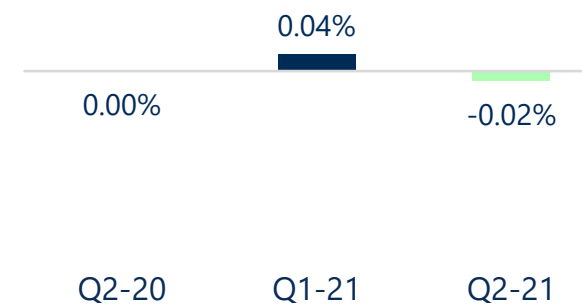
## Net interest income (NOKm)



## Cost/Income ratio



## Loss ratio \*\*



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# INCOME STATEMENT

## P&L (NOKm)

|   | Q2-21        | Q2-20        | H1-21        | H1-20        |
|---|--------------|--------------|--------------|--------------|
| <b>Net interest income</b>                            | <b>213.3</b> | <b>183.8</b> | <b>413.5</b> | <b>367.7</b> |
| <b>Net other operating income</b>                     | <b>-1.4</b>  | <b>23.9</b>  | <b>3.6</b>   | <b>7.0</b>   |
| <b>Total net income</b>                               | <b>212.0</b> | <b>207.7</b> | <b>417.1</b> | <b>374.7</b> |
| <b>Total operating expenses</b>                       | <b>41.0</b>  | <b>38.1</b>  | <b>81.9</b>  | <b>71.2</b>  |
| <b>Operating profit before impairments and losses</b> | <b>171.0</b> | <b>169.5</b> | <b>335.2</b> | <b>303.5</b> |
| <b>Impairments and losses on loans and guarantees</b> | <b>-3.4</b>  | <b>-0.1</b>  | <b>2.4</b>   | <b>40.1</b>  |
| <b>Pre-tax operating profit</b>                       | <b>174.3</b> | <b>169.7</b> | <b>332.8</b> | <b>263.4</b> |
| <b>Tax expense</b>                                    | <b>43.0</b>  | <b>41.7</b>  | <b>82.1</b>  | <b>64.4</b>  |
| <b>Profit for the period</b>                          | <b>131.3</b> | <b>127.9</b> | <b>250.7</b> | <b>198.9</b> |

|                          |        |        |        |        |
|--------------------------|--------|--------|--------|--------|
| Earnings per share (NOK) | 1.85   | 1.79   | 3.52   | 2.77   |
| Return on equity         | 14.7 % | 15.7 % | 14.2 % | 12.3 % |
| Cost/income ratio        | 19.4 % | 18.4 % | 19.6 % | 19.0 % |

Activity remained high in the second quarter. Lending margins improved with good lending-related fee income. Funding costs fell due to lower market rates, improved bond spreads and lower volume of fixed-rate deposits.

Little change in other operating income, including value of financial instruments. Bond prices have plateaued. Financial market gains were unusually high in the previous year due to market volatility.

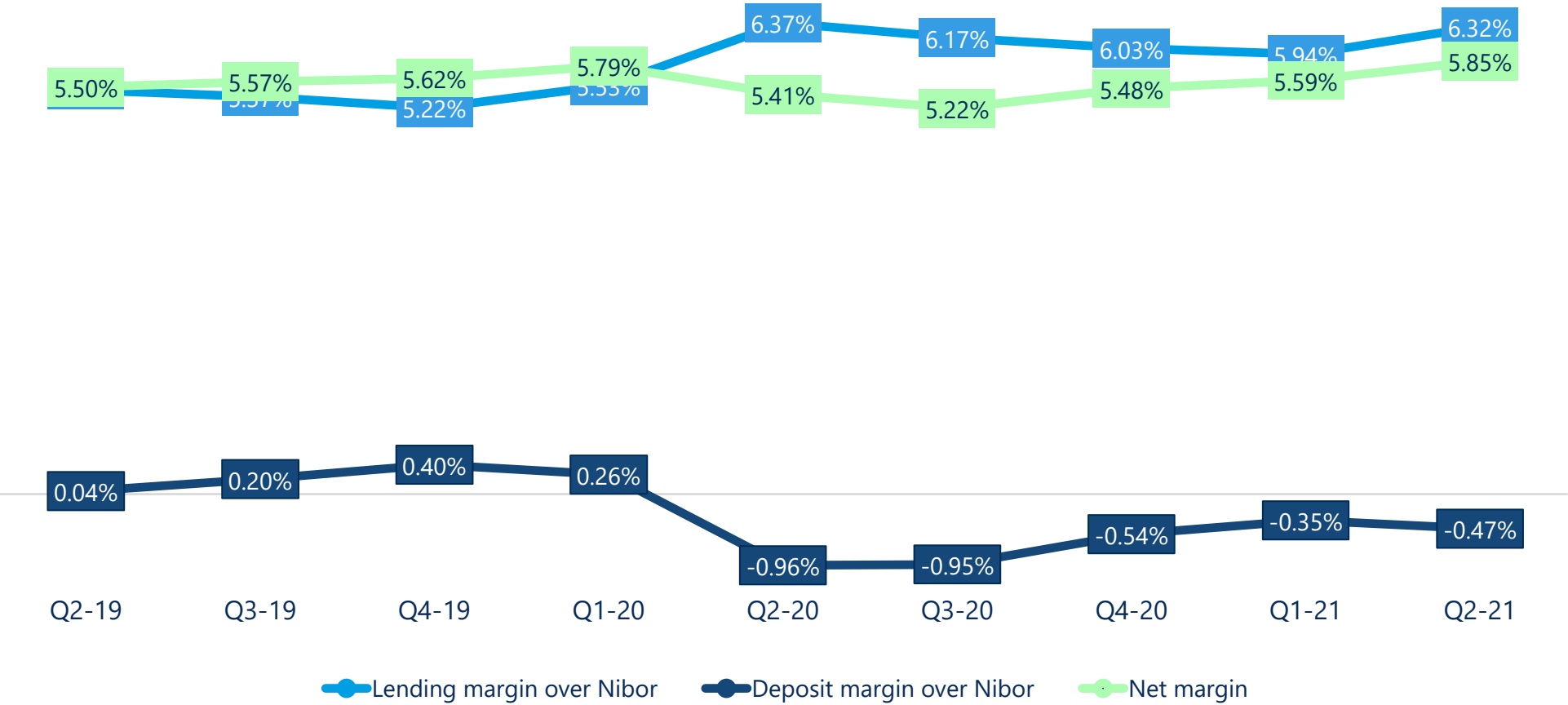
Increase in costs due to growing activity and increased office rent. Set off NOK 7.4m (NOK 8.2m) for employee bonus in Q2-21.

Positive growth outlook has led to lower probabilities of negative macro-scenarios, reversing impairments in stage 1 og 2 by NOK 11.1m. Increase of NOK 7.0m in individual impairments.



# NET INTEREST MARGIN

Improved lending margins

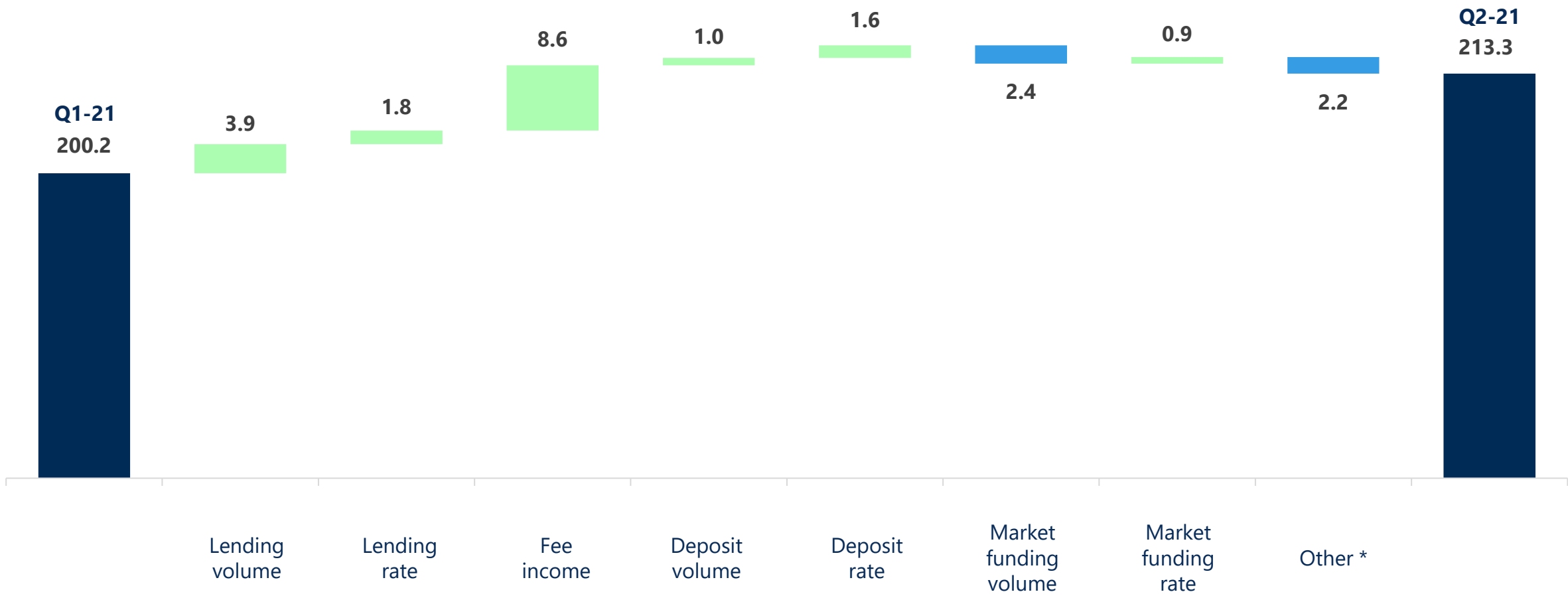


## Comments

- Stable pricing.
- Higher lending-related fee income compared to last year.
- Lower Nibor rates.
- Rate cut in PM deposits to take effect in August.
- Norges Bank expected to increase rates in September.

# QUARTERLY CHANGE IN NET INTEREST INCOME

Improved fee income (NOKm)

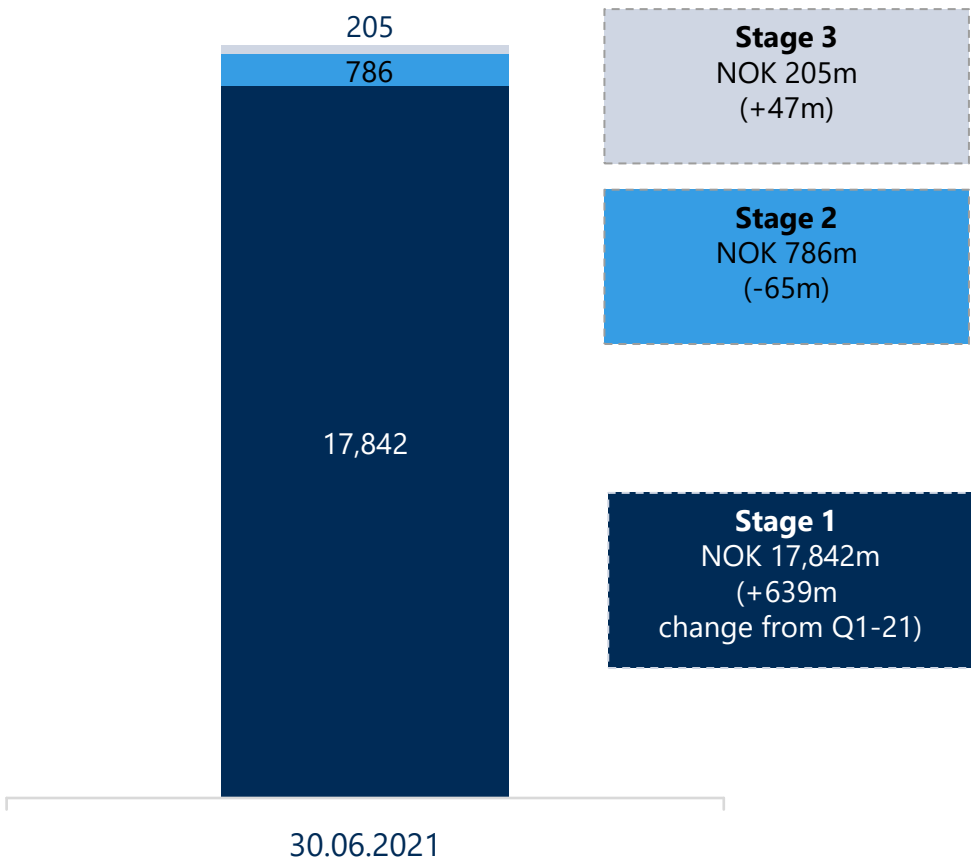


\*) Other net interest income includes return on surplus liquidity and fee paid to Norwegian Banks' Guarantee Fund

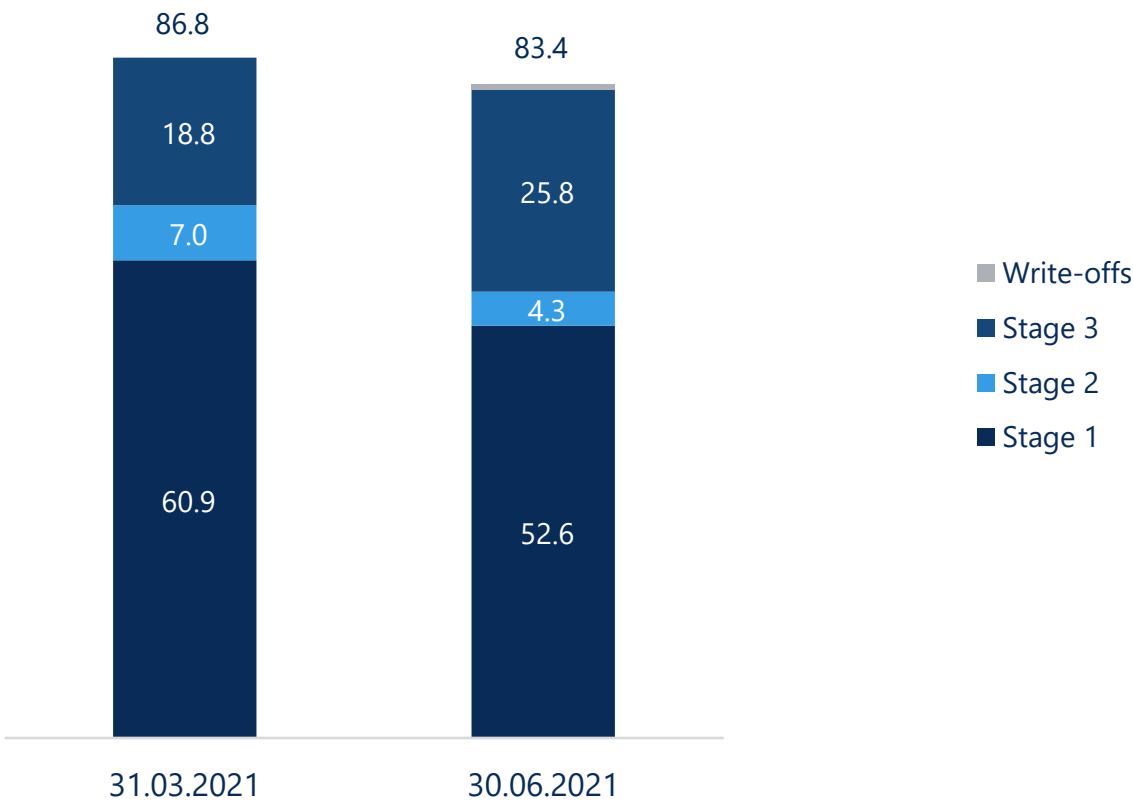


# GRADUALLY REVERSING MODEL BASED IMPAIRMENTS

Credit exposure by IFRS9 stage (NOKm)

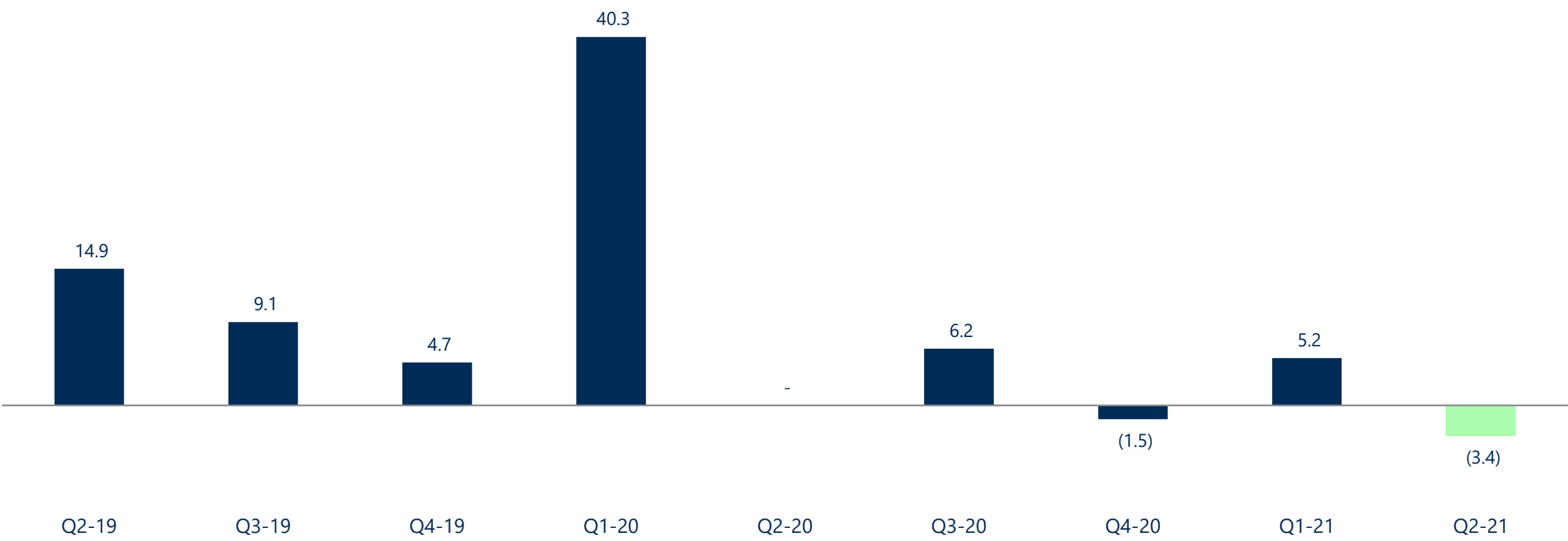


Impairments and losses by stage (NOKm)



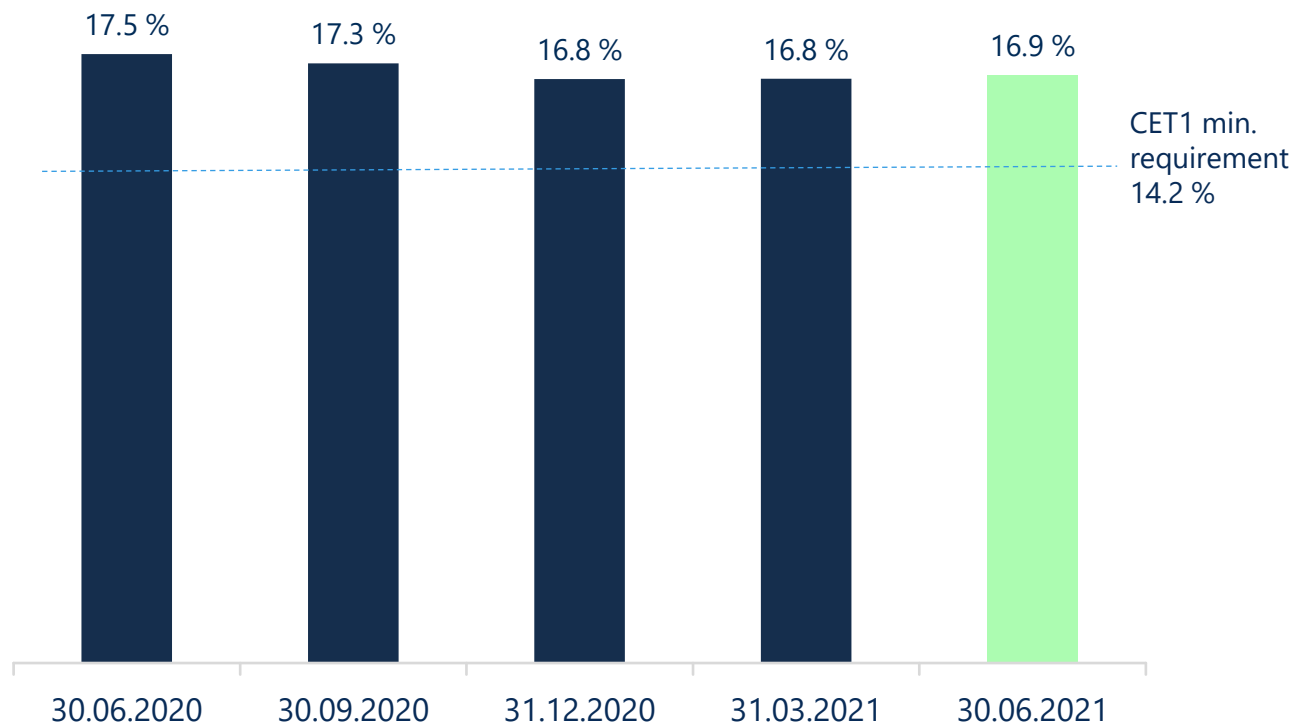
# CREDIT QUALITY DURING COVID

Historical impairments and losses (NOKm)



# CLARIFICATION ON RISK WEIGHTING

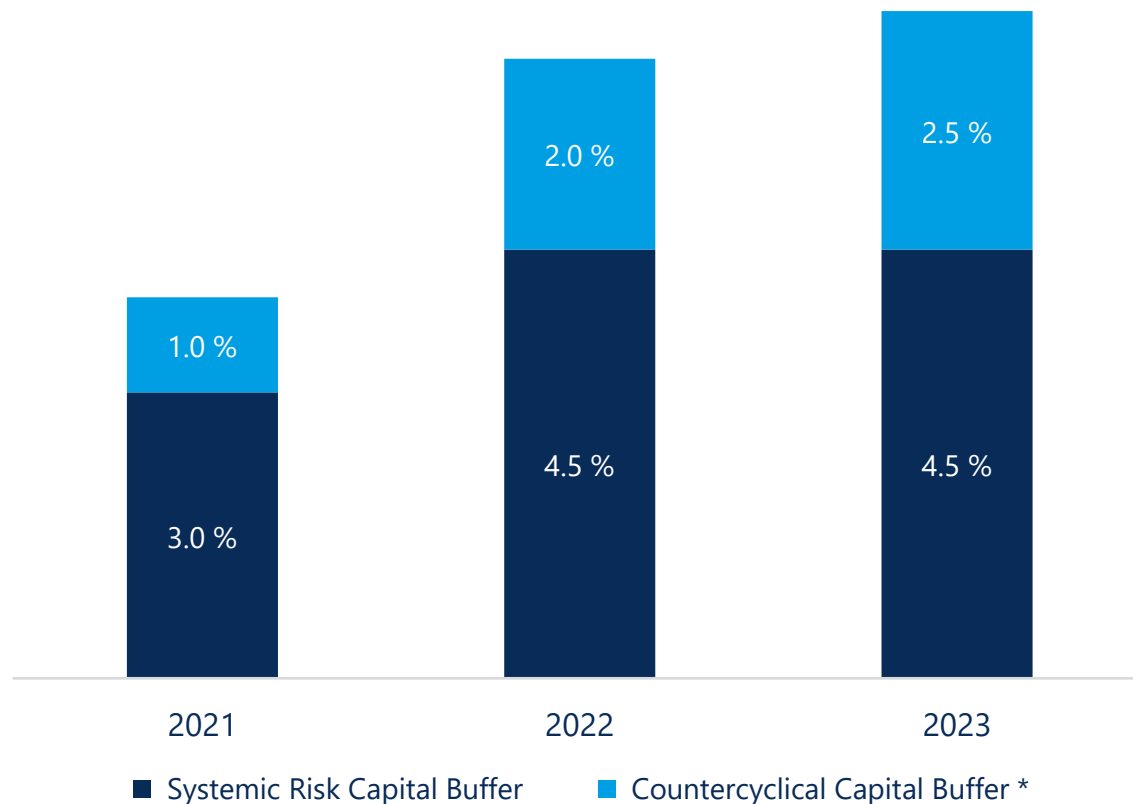
## Core Equity Tier 1 Ratio (CET1)



- Clarification on risk weighting of real estate project financing from the Department of Finance and the NFSA.
- Commitments with legally binding presale of above 50 % are classified as corporate exposure and thereby given a risk weight of 100 %. Commitments with presale of less than 50 % are classified as high risk with a risk weight of 150 %.
- The change of method from the method used in Q4-20 and Q1-21 has not materially changed CET1.
- Pilar 2 evaluation (SREP) expected in the second half of 2021.
- Leverage ratio 16.3 % at 30.06.2021.

# CHANGES IN CAPITAL BUFFER REQUIREMENTS

(percentage of risk-weighted assets)

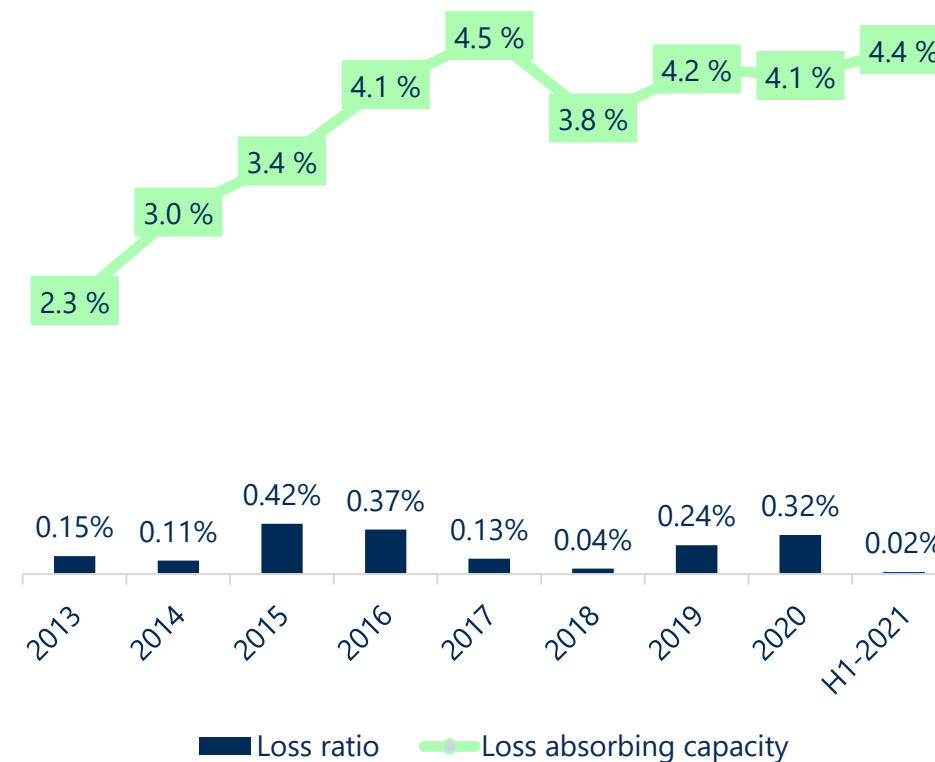


- The systemic risk capital buffer will increase by 1.5 percentage points at year-end 2022 for banks using the standardized approach.
- The Department of Finance has announced an increase in the countercyclical capital buffer of 0.5 percentage points to take effect on 30 June 2022. A further increase in this buffer is expected to take effect by year-end 2022 and the remainder by year-end 2023.
- Capital buffer requirements are expected to increase in total by 3 percentage points by 2023.
- The SMB discount phase 2 is expected to be implemented as a part of CRR2/CRD V ("*bankpakken*") in late 2021 or the beginning of 2022. This will increase the number of loans qualifying for a lower risk-weight and lift CET1 all else equal by about 2 percentage points or more.
- Pareto Bank is set to meet the increased capital requirements through robust solidity, profitability and controlled lending growth.

# PROFITABILITY PROTECTS AGAINST LOSSES

- Pareto Bank has remained profitable during the Covid-pandemic.
- Profits can absorb losses of up to 4.4 % of gross lending. Loss ratio has largely been under 0.3 % in the past years.
- Good track record on credit quality even during challenging times. Centralized credit decisions and dynamic credit policy has led to low losses.
- Profitability builds capital and protects against future losses.

## Loss absorbing capacity



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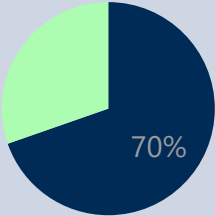
Highlights

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# A NICHE PLAYER FINANCING MEDIUM SIZED ENTERPRISES

| Business Areas     | Focus  | Credits / Customers   | Exposure   | Sweet spot                             |
|--------------------|--|---|--|--|
| <b>REAL ESTATE</b> | The specialized real estate developer bank for Eastern Norway and larger Norwegian cities. | Land acquisition financing<br>Property construction facilities<br>Commercial property financing         |  <p>70%</p> <p><b>NOKm 13,081</b></p> | <b>NOKm 50 - 100</b><br><b>1-3 yrs</b> |
| <b>CORPORATE</b>   | A provider of tailor-made financing solutions.   | M&A financing<br>Bridge loans<br>Investment loans<br>Working capital facilities<br>Securities financing |  <p>24%</p> <p><b>NOKm 4,522</b></p> | <b>NOKm 20 - 50</b><br><b>1-3 yrs</b>  |
| <b>SHIPPING</b>    | Norwegian ship owners, family offices and the investment project market.                   | First priority financing  |  <p>6%</p> <p><b>NOKm 1,090</b></p> | <b>USDm 10 - 20</b><br><b>3-5 yrs</b>  |



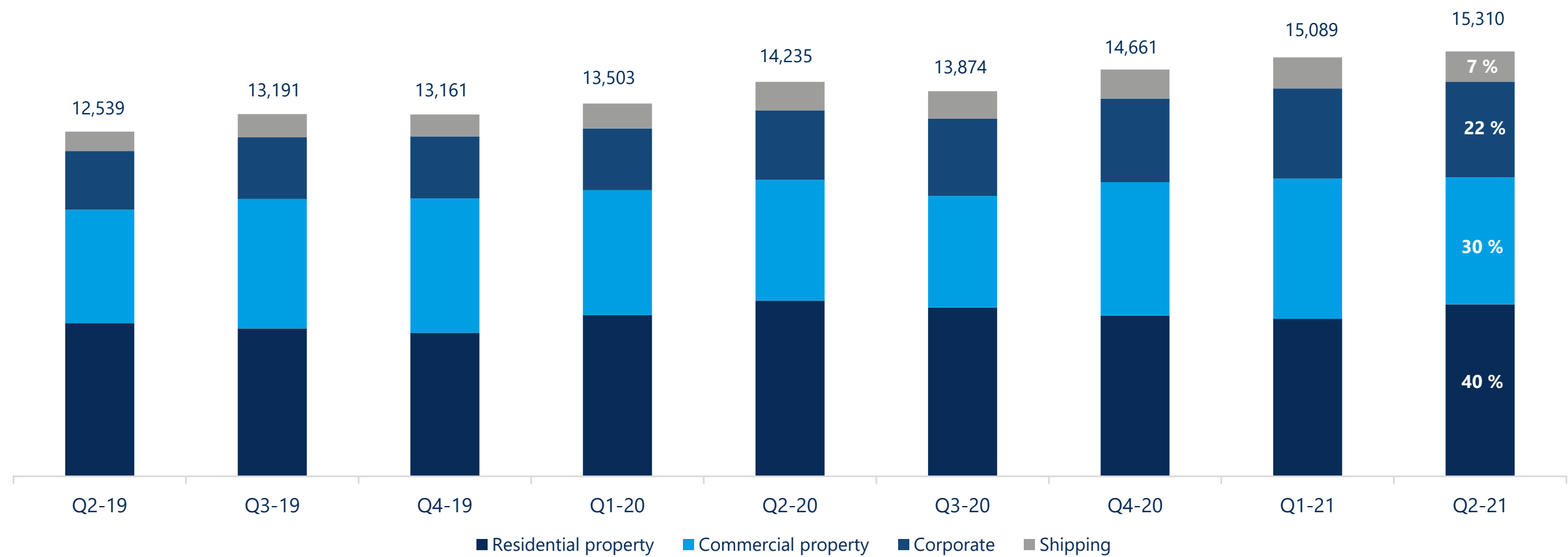
# EXPOSURE PER BUSINESS AREA

(NOKm)



# STEADY LENDING GROWTH AND INCREASED DIVERSIFICATION

Lending to customers (NOKm)



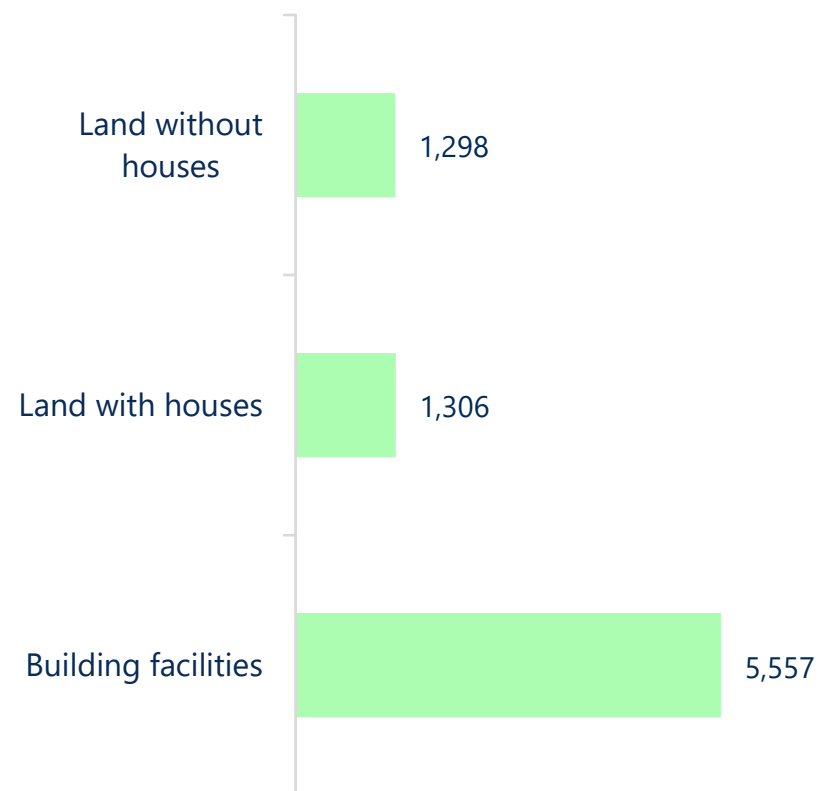
# RESIDENTIAL PROPERTY

## Credit update

- 160 customers with average commitment of NOK 51m.
- 30 % residential exposure in Oslo and 50 % in Viken.
- Increase in construction costs, particularly for lumber and steel, is a general challenge. Reduced mobility of labour due to Covid-19 is the main reason.
- Stable credit quality.

### Residential property exposure (NOKm)

Total NOK 8,160m



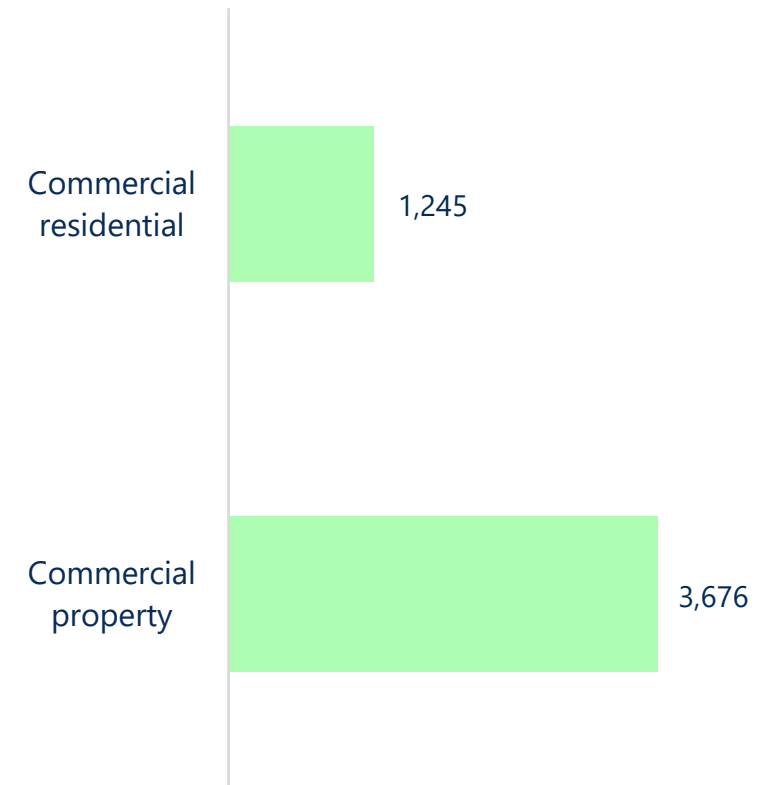
# COMMERCIAL PROPERTY

## Credit update

- 103 customers with average commitment of NOK 48m.
- 32 % commercial property exposure in Oslo and 25 % in Viken.
- 85 % of commercial property exposure is long-term cash-flow based, while the remainder is development.
- Development projects normally have long-term rental agreements in place.
- Commercial residential exposure consists of completed residential units.
- Stable credit quality and manageable impact of Covid-19 so far.

### Commercial property exposure (NOKm)

Total NOK 4,921m

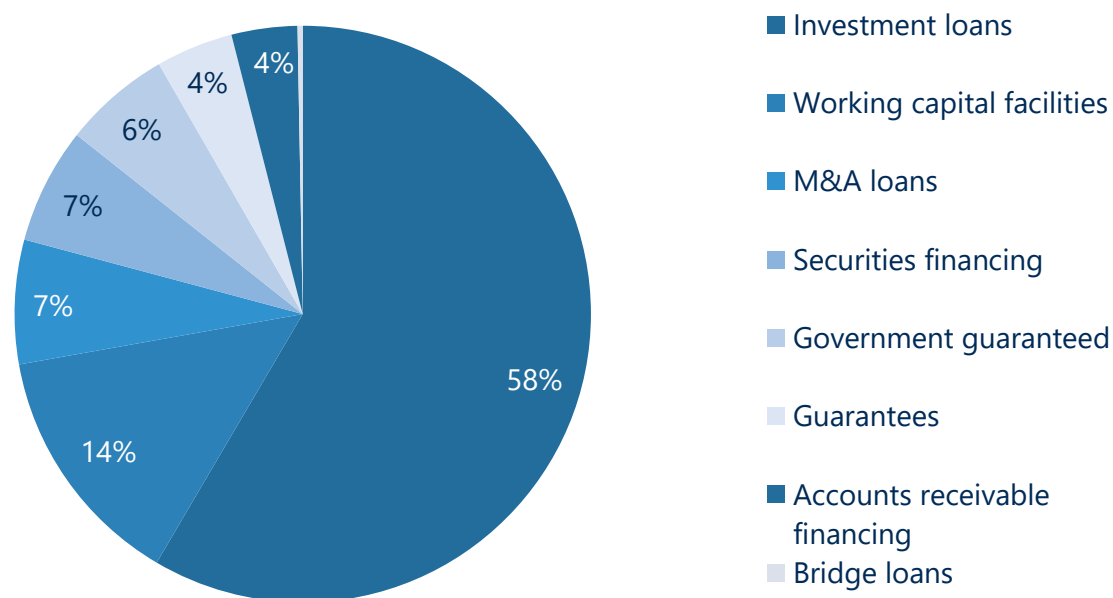


# CORPORATE

## Diversified exposure

Total NOK 4,522m

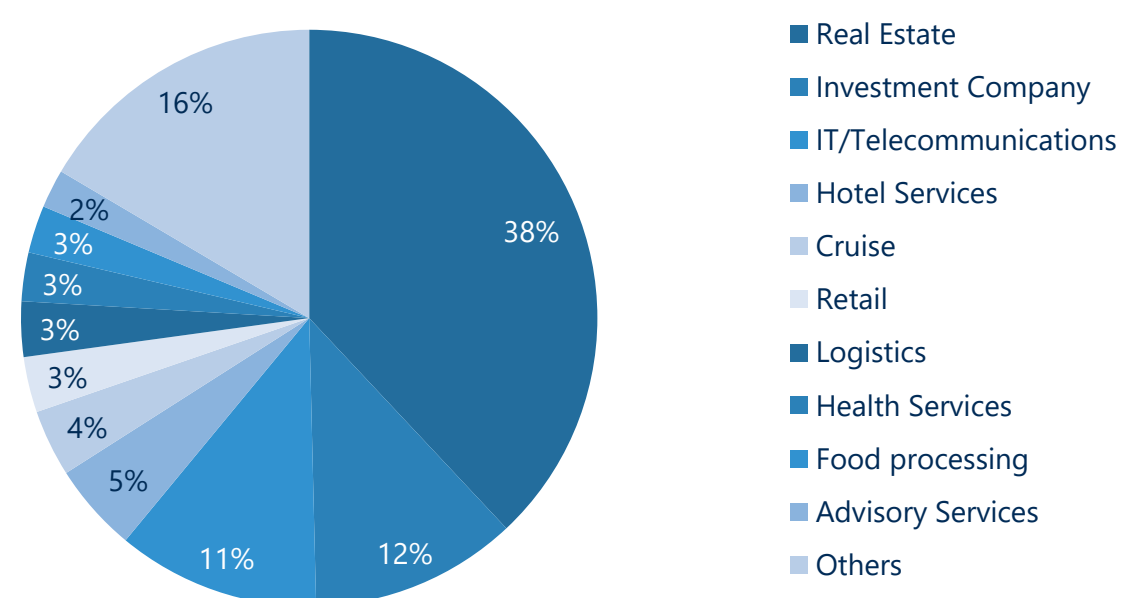
- 77 consolidated corporate customers with average commitment of NOK 52.8m.
- 19 consolidated securities financing customers with average commitment of NOK 15.4m.
- 23 consolidated receivables financing customers with average commitment of NOK 7.2m.



## Credit update

Total NOK 4,522m

- Improved credit quality for customers earlier hit by Covid-19 due to reopening.
- Total exposure under the state-guaranteed SME loan program further reduced from NOK 317m to NOK 276m.



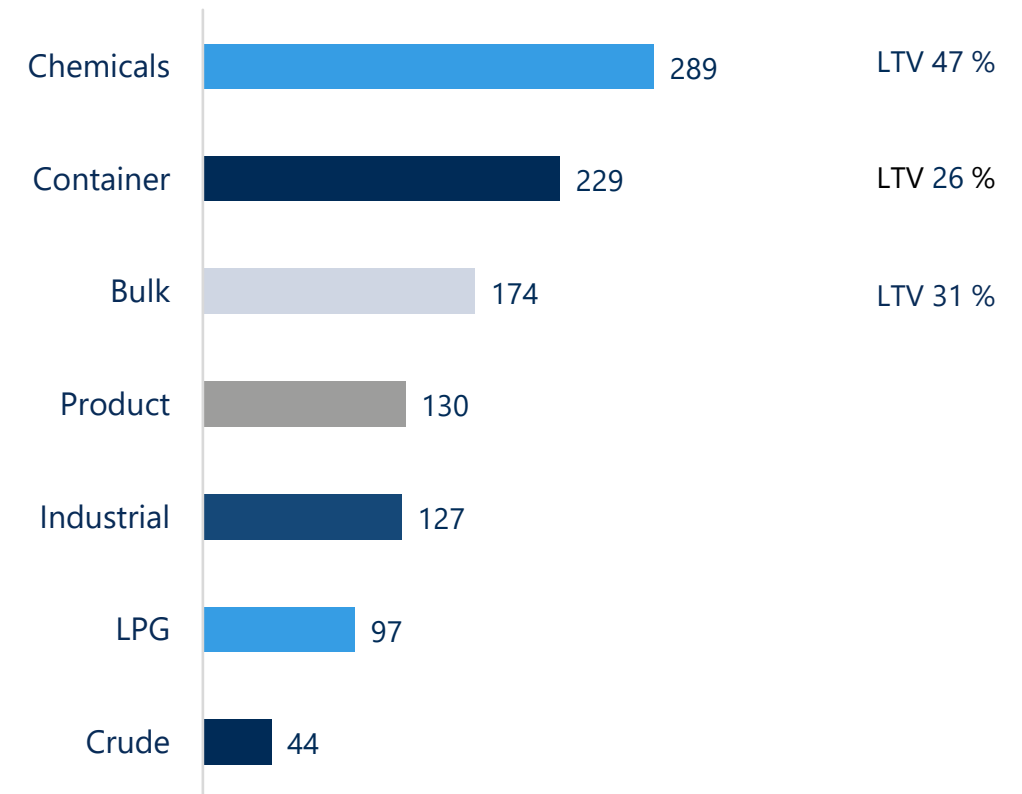
# SHIPPING

## Credit update

- 22 customers and 35 vessels.
- Largest exposure USD 12.1m and average commitment size USD 5.5m.
- Only shipping, no offshore exposure.
- Average LTV of the portfolio is 38 %.
- Stable credit quality.

### Exposure (NOKm)

Total NOK 1,090m



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# A RETURN TO NORMAL

- High vaccination coverage and lower infection rates have allowed Norway to begin a return to normal.
- Economic growth is expected to increase in the second half of 2021.
- Spread of the delta variant of the Covid-19 virus could threaten the reopening and positive economic outlook.
- Norges Bank expects to hike rates in September if growth and employment continue to improve.
- A good deal flow is expected going forward as the situation normalizes.
- Impairments made in Q1-20 due to the outbreak of Covid-19 will be gradually be reversed.



# MARKET OUTLOOK

## Real estate

### Residential property

- Expectations of higher mortgage rates may influence residential property prices. A more balanced market is expected. The development will be contingent on the future rate path.
- Declining price growth in Oslo and parts of Romerike (Jessheim). Demand for small houses (*småhus*) is still good.
- Continued good deal flow is expected. However, several large residential property projects will be completed in H2-2021 and this will affect net lending growth.

### Commercial property

- The office market continues to be strong, driven by a positive economic outlook and low interest rates. This trend is expected to continue. However, an increase in interest rates may lead to higher yields and lower property values.
- Logistics have had a strong development due to increased online shopping. This strength in property values is expected to hold even when stores and offices reopen.
- Sustained activity and moderate net lending growth expected in H2-2021.

# MARKET OUTLOOK

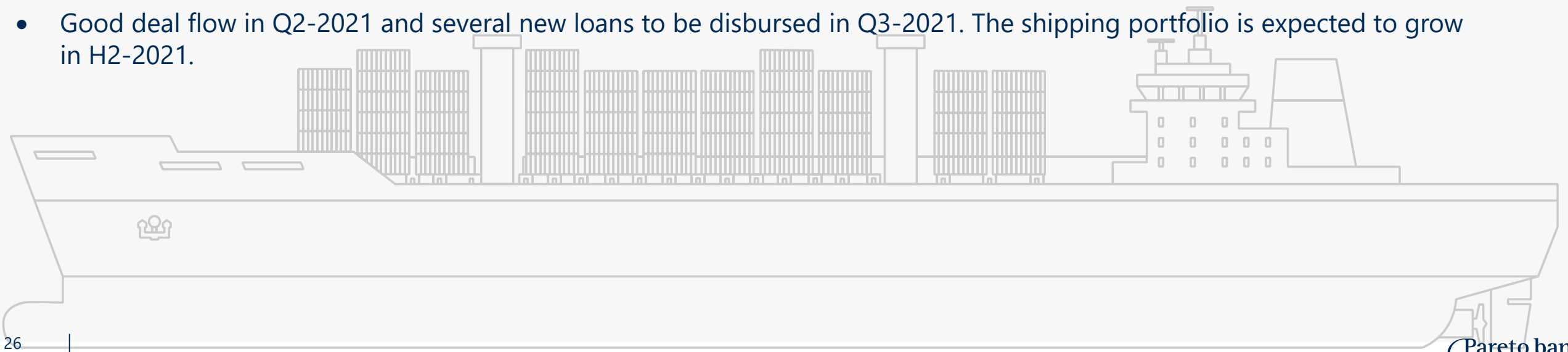
## Corporate

- Strong deal flow and continued growth in Q2-2021.
- Steady deal flow to continue. H2-2021 lending growth expected to be in line with H1-2021.
- Sales activities and team strengthened in Q2-2021.
- Market potential: Pareto Bank has a small share of a large corporate lending space.
- Further growth is based on increased brand awareness, a short decision process, an outstanding credit assessment team and a high level of personal service.
- Well positioned in target market: medium sized businesses with revenue between NOK 10m and NOK 500m.
- A broad product offering to medium-sized businesses in place with tailor-made financing solutions, receivables financing (Pareto Driftskreditt) and daily banking services.
- Focus on corporates in the greater Oslo area where regional savings banks do not have a strong footprint. Deal size is often too small to be of interest for the large commercial banks.

# MARKET OUTLOOK

## Shipping

- Dry bulk and container markets have benefitted in particular from a strong global economic outlook for 2021 due to economic stimulus in 2020.
- Other shipping segments have also developed positively, but tanker markets are still weak due to lower oil demand. Further easing of Covid-19 restrictions is expected to have a positive impact on tanker markets.
- Most shipping segments are expected to stay healthy over the next couple of years due to a promising demand growth and, more importantly, a manageable supply side.
- Pareto Bank applies a conservative credit policy as the sector's cyclicalities is high. Moderate loan-to-value and conservative minimum cash requirements. Professional management and long-term industrial owners.
- Good deal flow in Q2-2021 and several new loans to be disbursed in Q3-2021. The shipping portfolio is expected to grow in H2-2021.



# SUSTAINABILITY

## **SAMMEN SETTER VI SPOR FOR FREMtiden**

Internal sustainability task force with representatives from the management team. Sustainability work supervised by the Board.

Responsible lending is a priority. ESG is addressed in all credit memos. Developing tools to systematically assess ESG factors on both customer level and bank level.

Developing and caring for employees is another priority. Culture code, leadership principles, bottom-up strategy process, internal training programs, employee development plans, and a profit-sharing model make up the foundation for this work.

First annual sustainability report published in Q2-2021.

Entered into a partnership with the Norwegian Blue Cross (*Blå Kors*) in Q2-2021.

Developing a sustainability library (*bærekraftsbibliotek*) for Pareto Bank's website during H2-2021

Several ESG activities in process. Sustainability policy to be treated by the Board in H2-2021.

# LONG-TERM AMBITIONS

|                         | Long-term ambition  | YTD                        |  |
|-------------------------|---------------------|----------------------------|--|
| <b>RETURN ON EQUITY</b> | <b>14.0 %</b>       | <b>14.2 %</b>              | <p>Healthy profitability in H1-2021.</p> <p>Long term profitability supported by lending growth, stable net margin and portfolio quality.</p>                            |
| <b>DIVIDEND POLICY</b>  | <b>50 % or more</b> | <b>Up to 25 % for 2020</b> | <p>The Board has an authorization to distribute up to NOK 1.50 per share of the 2020 profit, and will evaluate a distribution in connection with the Q3-2021 report.</p> |

# APPENDIX



# LARGEST SHAREHOLDERS

30 June 2021

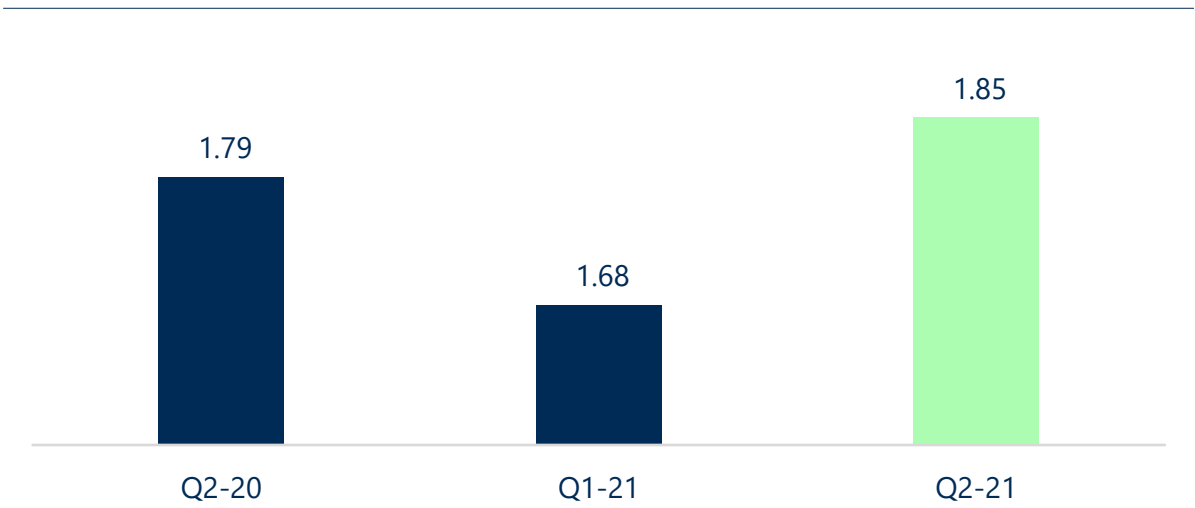
|    | Name                           | Shares            | % total         |
|----|--------------------------------|-------------------|-----------------|
| 1  | Pareto AS                      | 13,823,610        | 19.79 %         |
| 2  | Société Générale               | 6,943,049         | 9.94 %          |
| 3  | Hjellegjerde Invest AS         | 2,800,000         | 4.01 %          |
| 4  | Landkreditt Utbytte            | 2,549,945         | 3.65 %          |
| 5  | Rune Bentsen AS                | 1,945,491         | 2.79 %          |
| 6  | Svemorka Holding AS            | 1,928,683         | 2.76 %          |
| 7  | Kolberg Motors AS              | 1,725,000         | 2.47 %          |
| 8  | AWC AS                         | 1,300,000         | 1.86 %          |
| 9  | Verdipapirfondet Holberg Norge | 1,300,000         | 1.86 %          |
| 10 | K11 Investor AS                | 1,295,492         | 1.85 %          |
| 11 | Dragesund Invest AS            | 1,146,564         | 1.64 %          |
| 12 | OM Holding AS                  | 1,140,351         | 1.63 %          |
| 13 | Salt Value AS                  | 1,025,128         | 1.47 %          |
| 14 | Lombard Int Assurance S.A.     | 900,820           | 1.29 %          |
| 15 | Profond AS                     | 765,259           | 1.10 %          |
| 16 | Belvedere AS                   | 750,347           | 1.07 %          |
| 17 | Hausta Investor AS             | 700,000           | 1.00 %          |
| 18 | Castel AS                      | 640,000           | 0.92 %          |
| 19 | Catilina Invest AS             | 598,501           | 0.86 %          |
| 20 | Danske Invest Norge Vekst      | 575,000           | 0.82 %          |
|    | <b>Sum TOP 20</b>              | <b>43,853,240</b> | <b>62.78 %</b>  |
|    | <b>Other shareholders</b>      | <b>25,998,490</b> | <b>37.22 %</b>  |
|    | <b>Total</b>                   | <b>69,851,730</b> | <b>100.00 %</b> |

## Comments

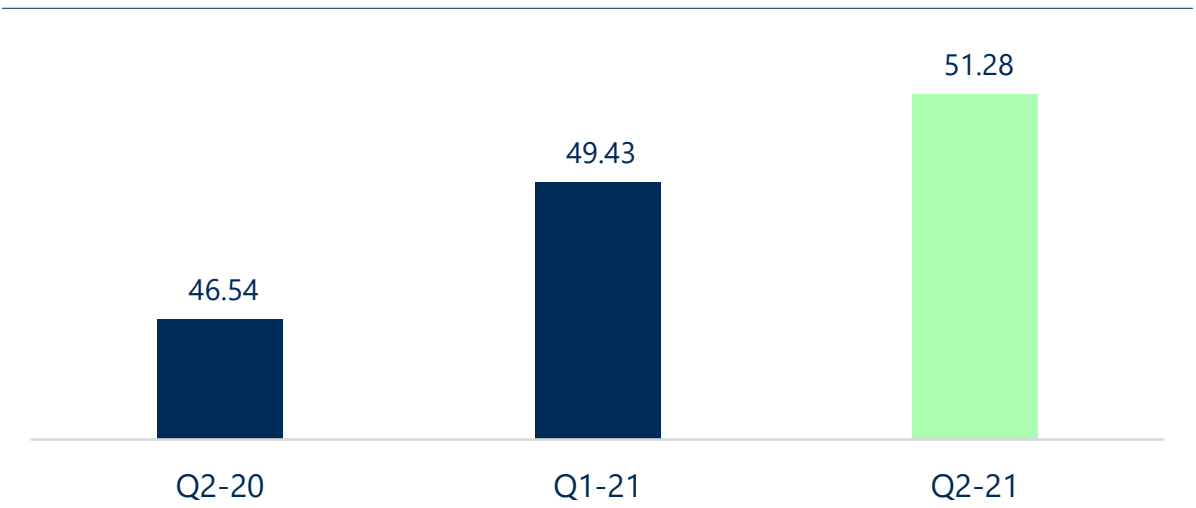
- The Company has 69,851,730 shares outstanding. One class of shares where each share carries one voting right.
- Diversified investor base with 3,119 shareholders.
- The Top 10 and 20 investors hold 51 % and 63 % of the shares respectively.
- Employees in Pareto Bank own 1.6 %.
- Top Management in the Pareto Group owns 3.0 %.
- All employees are covered by an annual bonus compensation scheme settled primarily in Pareto Bank shares.

# THE SHARE

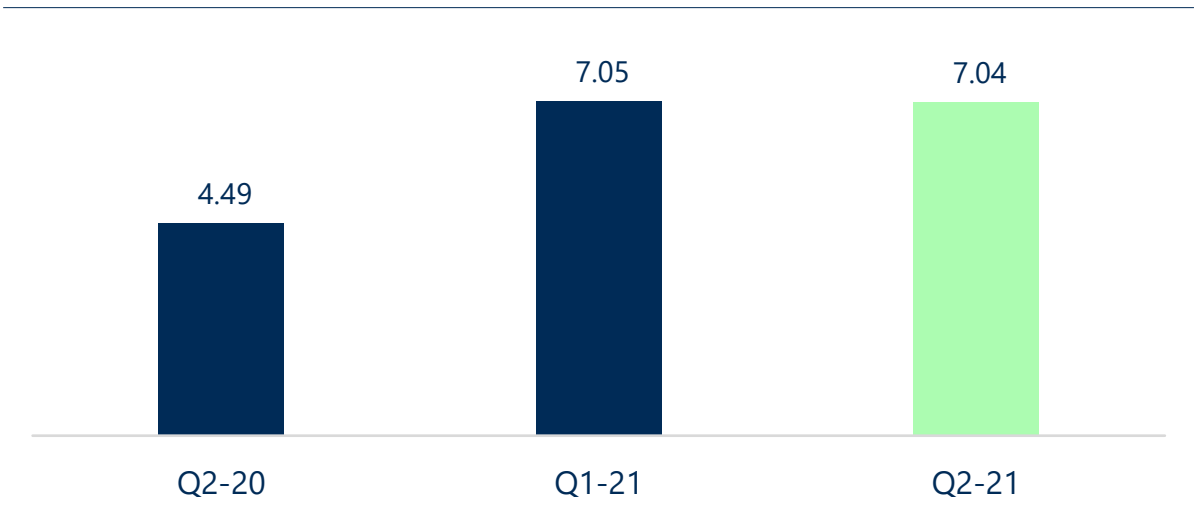
Earnings per share (NOK)



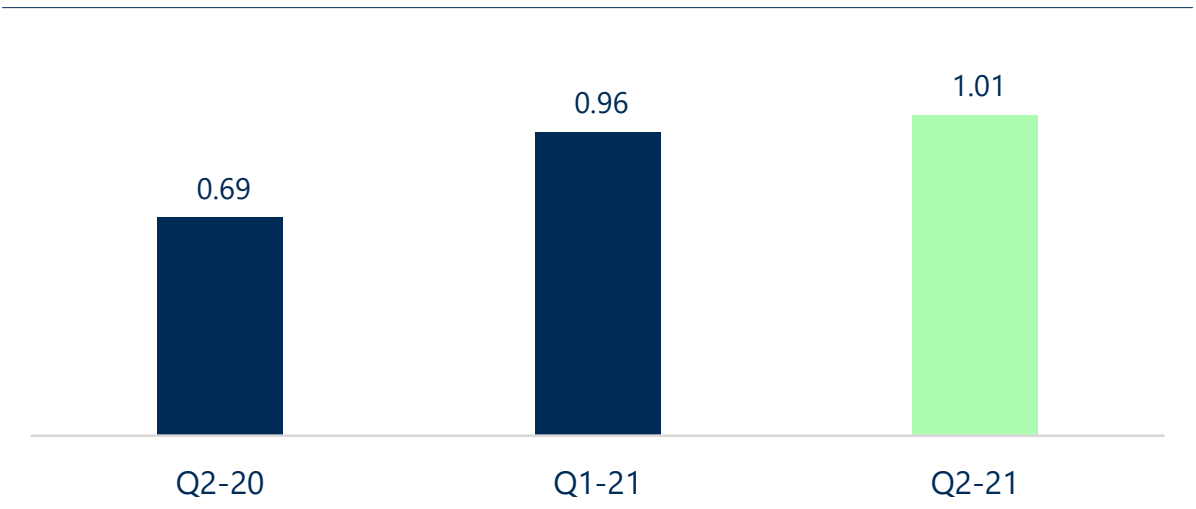
Book equity per share (NOK)



Price / Earnings



Price / Book



# QUARTERLY INCOME STATEMENT

## P&L (NOKm)

|   | Q2-21        | Q1-21        | Q4-20        | Q3-20        | Q2-20        |
|---|--------------|--------------|--------------|--------------|--------------|
| <b>Net interest income</b>                            | <b>213.3</b> | <b>200.2</b> | <b>191.0</b> | <b>188.2</b> | <b>183.8</b> |
| <b>Net other operating income</b>                     | <b>-1.4</b>  | <b>4.9</b>   | <b>13.7</b>  | <b>-13.1</b> | <b>23.9</b>  |
| <b>Total net income</b>                               | <b>212.0</b> | <b>205.1</b> | <b>204.6</b> | <b>175.2</b> | <b>207.7</b> |
| <b>Total operating expenses</b>                       | <b>41.0</b>  | <b>40.9</b>  | <b>40.9</b>  | <b>32.4</b>  | <b>38.1</b>  |
| <b>Operating profit before impairments and losses</b> | <b>171.0</b> | <b>164.2</b> | <b>163.7</b> | <b>142.7</b> | <b>169.5</b> |
| <b>Impairments and losses on loans and guarantees</b> | <b>-3.4</b>  | <b>5.8</b>   | <b>-1.5</b>  | <b>6.2</b>   | <b>-0.1</b>  |
| <b>Pre-tax operating profit</b>                       | <b>174.3</b> | <b>158.4</b> | <b>165.2</b> | <b>136.5</b> | <b>169.7</b> |
| <b>Tax expense</b>                                    | <b>43.0</b>  | <b>39.0</b>  | <b>38.7</b>  | <b>33.7</b>  | <b>41.7</b>  |
| <b>Profit for the period</b>                          | <b>131.3</b> | <b>119.4</b> | <b>126.5</b> | <b>102.9</b> | <b>127.9</b> |

|                          |        |        |        |        |        |
|--------------------------|--------|--------|--------|--------|--------|
| Earnings per share (NOK) | 1.85   | 1.68   | 1.77   | 1.45   | 1.79   |
| Return on equity         | 14.7 % | 13.8 % | 14.8 % | 12.2 % | 15.7 % |
| Cost/income ratio        | 19.4 % | 19.9 % | 20.0 % | 18.5 % | 18.4 % |

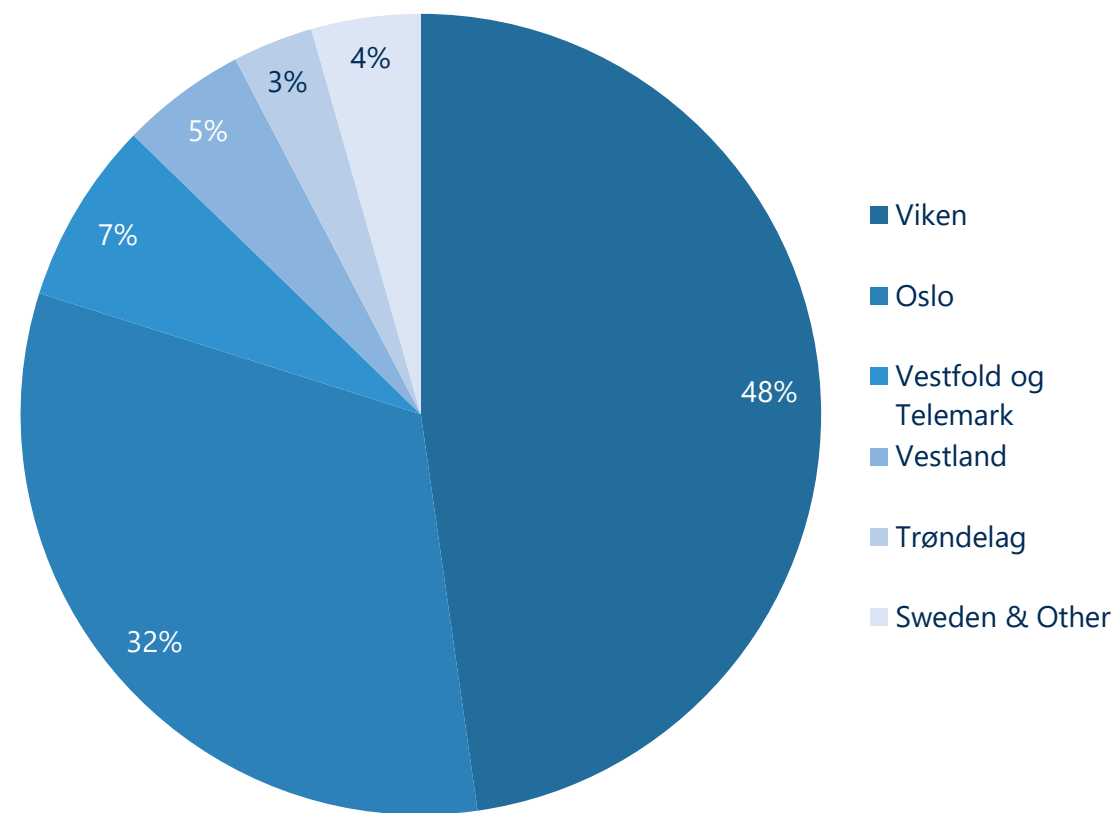
# QUARTERLY BALANCE SHEET

## BS (NOKm)

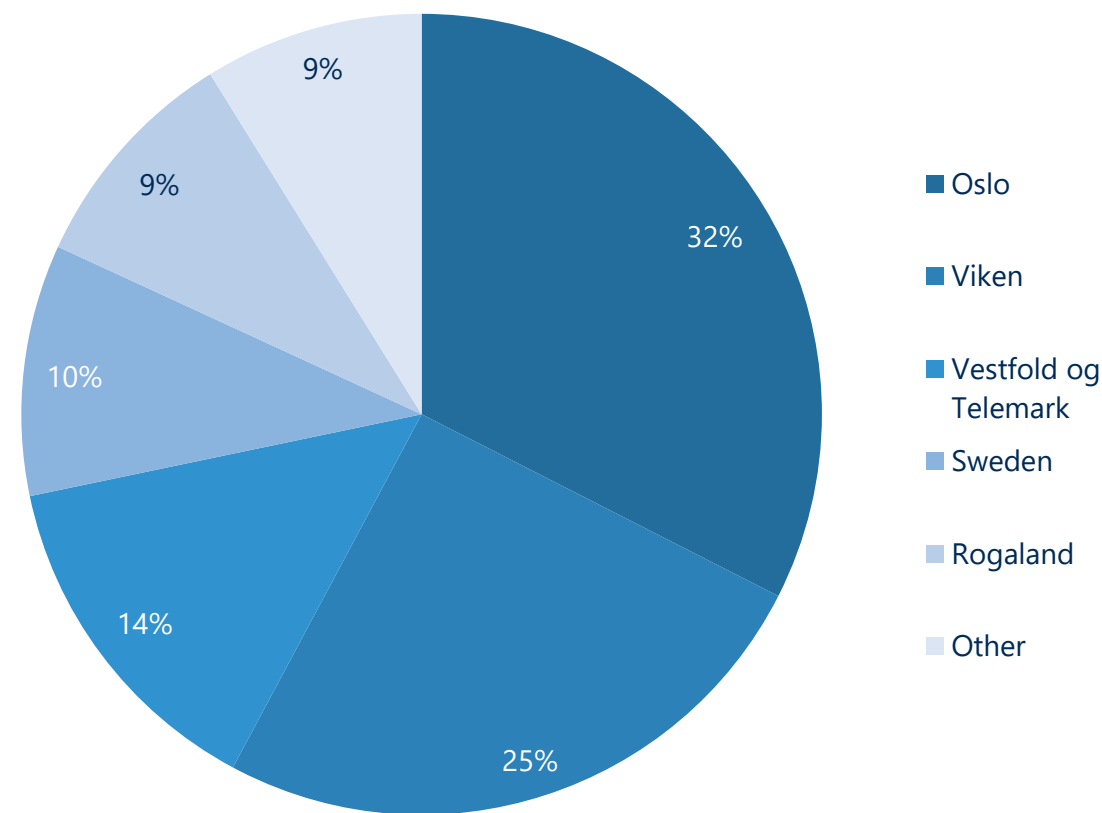
|  | Q2-21         | Q1-21         | Q4-20         | Q3-20         | Q2-20         |
|--|---------------|---------------|---------------|---------------|---------------|
| Loans to credit institutions             | 1,750         | 273           | 1,081         | 1,938         | 1,610         |
| Loans to customers                       | 15,310        | 15,089        | 14,661        | 13,874        | 14,235        |
| Bonds and other securities               | 2,734         | 3,235         | 3,612         | 4,395         | 3,703         |
| Shareholdings in associated companies    | 22            | 26            | 26            | 23            | 23            |
| Other assets                             | 104           | 124           | 98            | 78            | 75            |
| <b>Total assets</b>                      | <b>19,920</b> | <b>18,747</b> | <b>19,478</b> | <b>20,309</b> | <b>19,646</b> |
| Deposits from customers and institutions | 9,960         | 9,792         | 10,499        | 11,266        | 10,497        |
| Senior securities issued                 | 5,645         | 4,770         | 4,935         | 4,956         | 5,192         |
| Other liabilities                        | 245           | 261           | 237           | 266           | 237           |
| Tier 2 subordinated securities issued    | 288           | 270           | 270           | 270           | 270           |
| Additional tier 1 capital                | 200           | 200           | 200           | 200           | 200           |
| Other equity                             | 3,582         | 3,453         | 3,336         | 3,351         | 3,251         |
| <b>Total liabilities and equity</b>      | <b>19,920</b> | <b>18,747</b> | <b>19,478</b> | <b>20,309</b> | <b>19,646</b> |

# REAL ESTATE EXPOSURE

Geographical residential property exposure



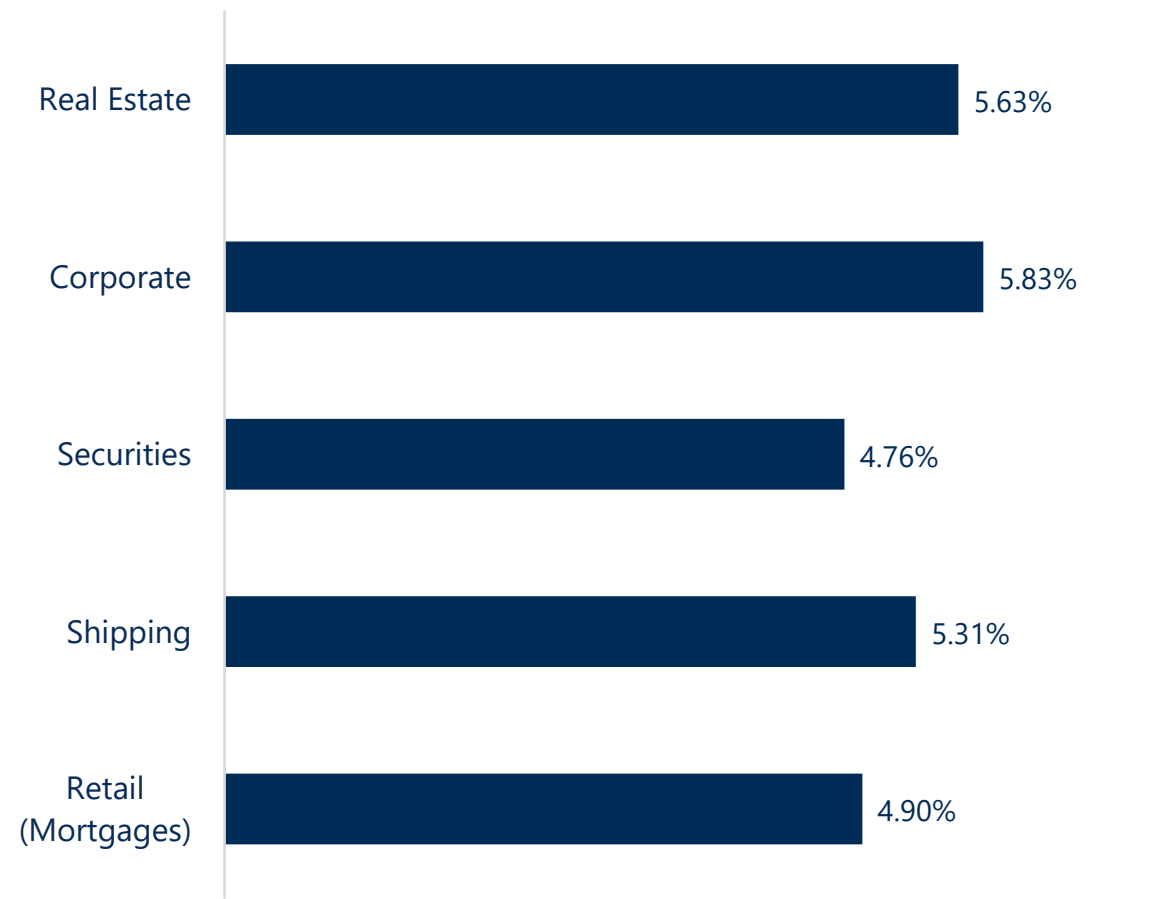
Geographical commercial property exposure



# MARGINS AND INTEREST CONTRIBUTION

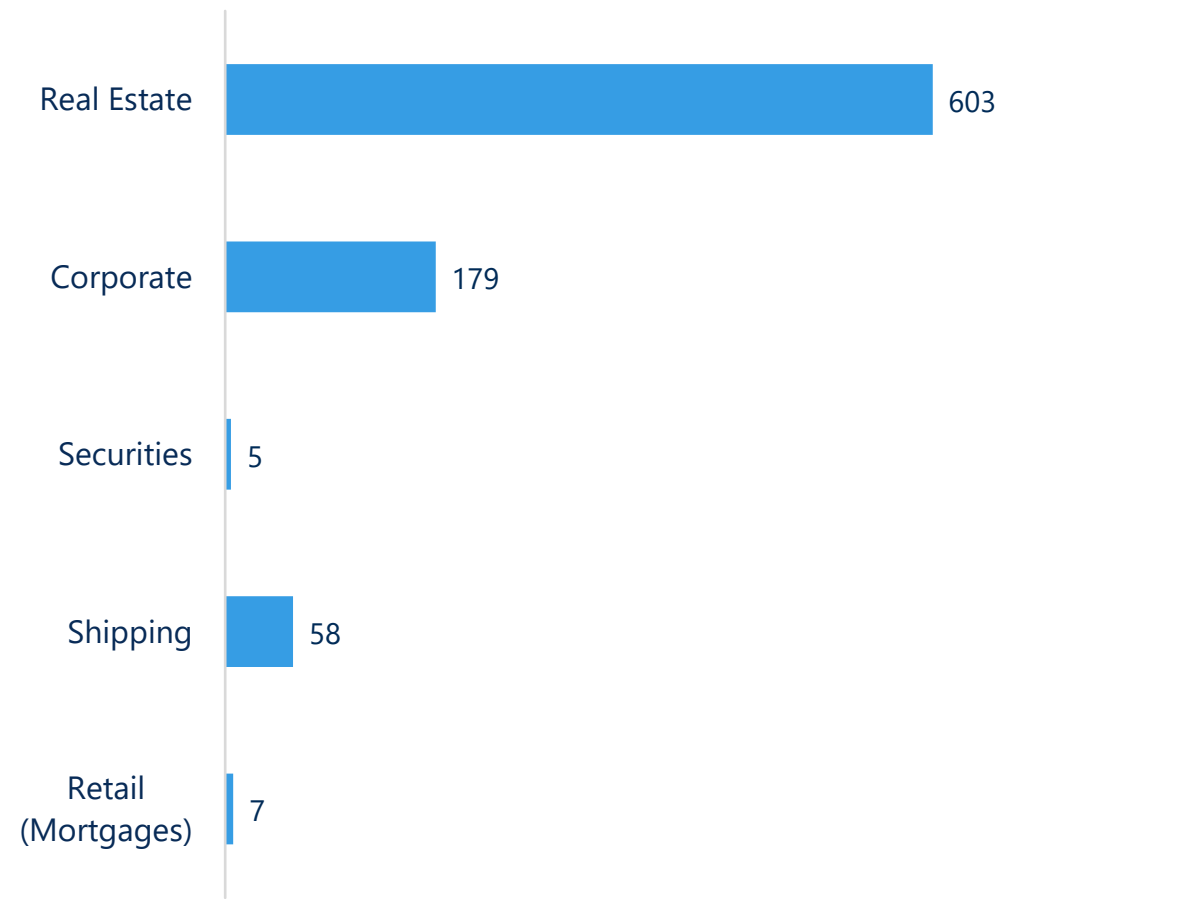
## Margins per business area

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



## Interest contribution per business area

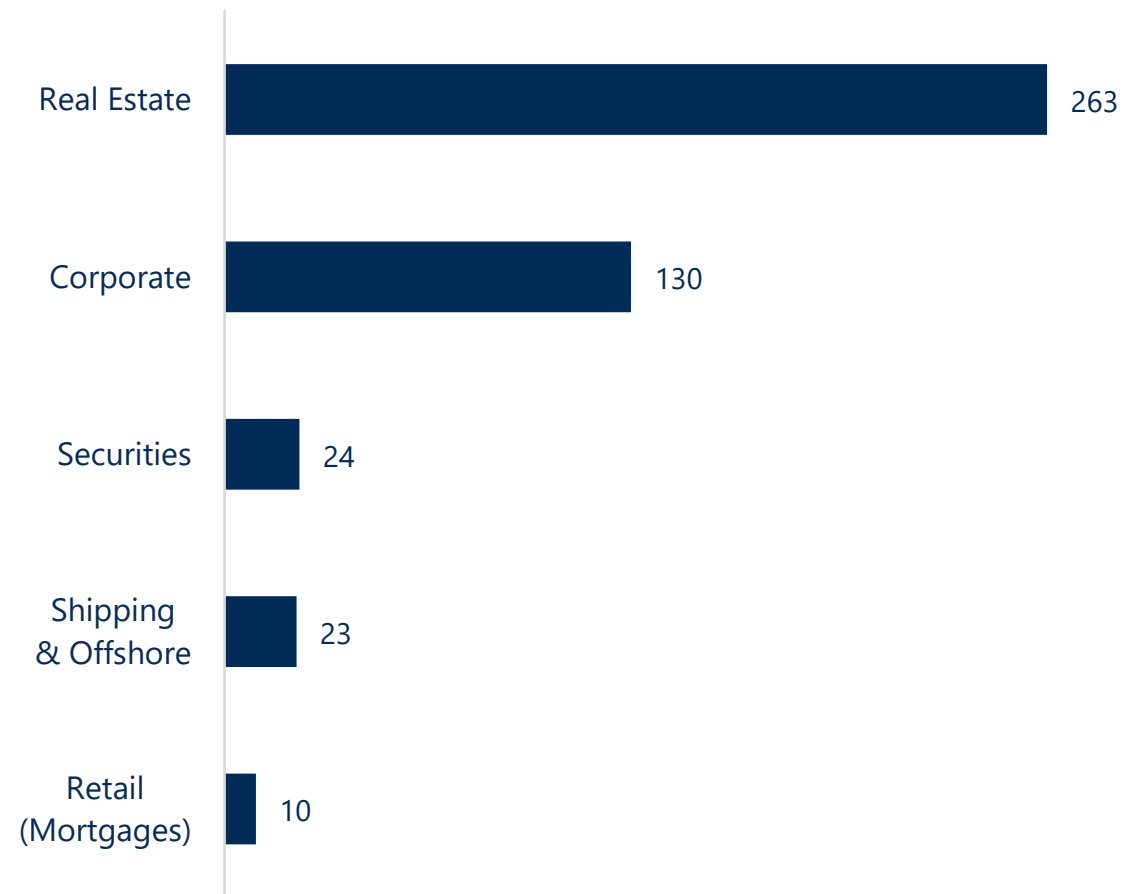
NOKm, estimated interest contribution including commissions, excluding front and back-end fees over 3M Nibor or similar rate



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

Based on terms and 3M NIBOR as of 30.06.2021

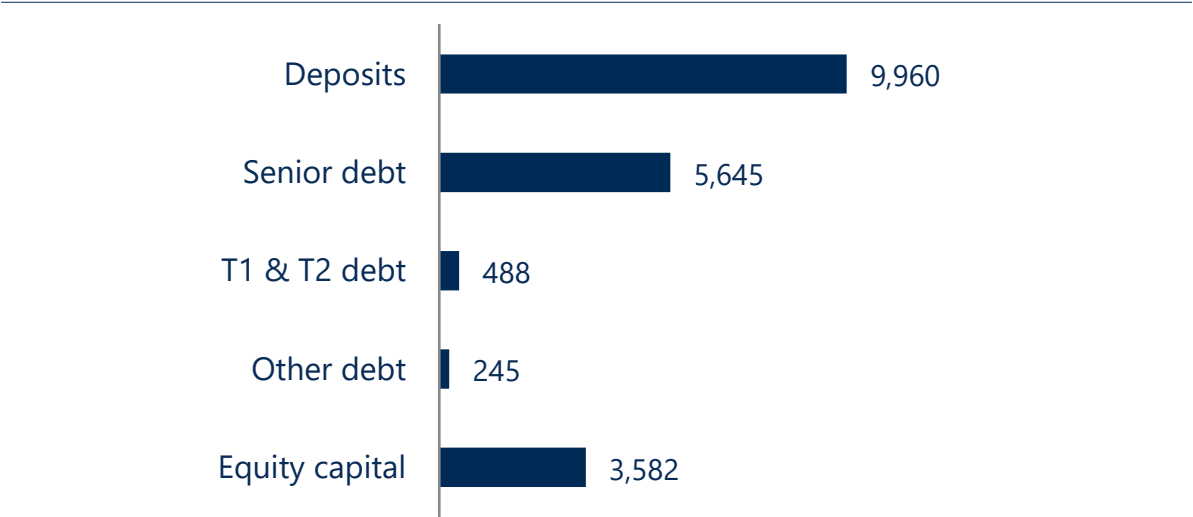
# NUMBER OF CUSTOMERS per business area



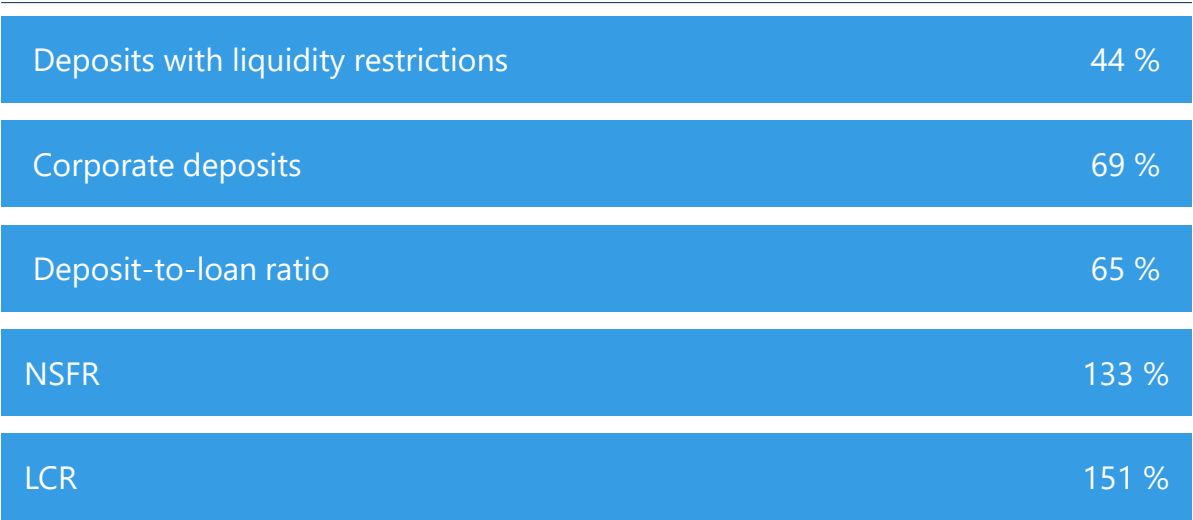


# FUNDING

## Sources (NOKm)

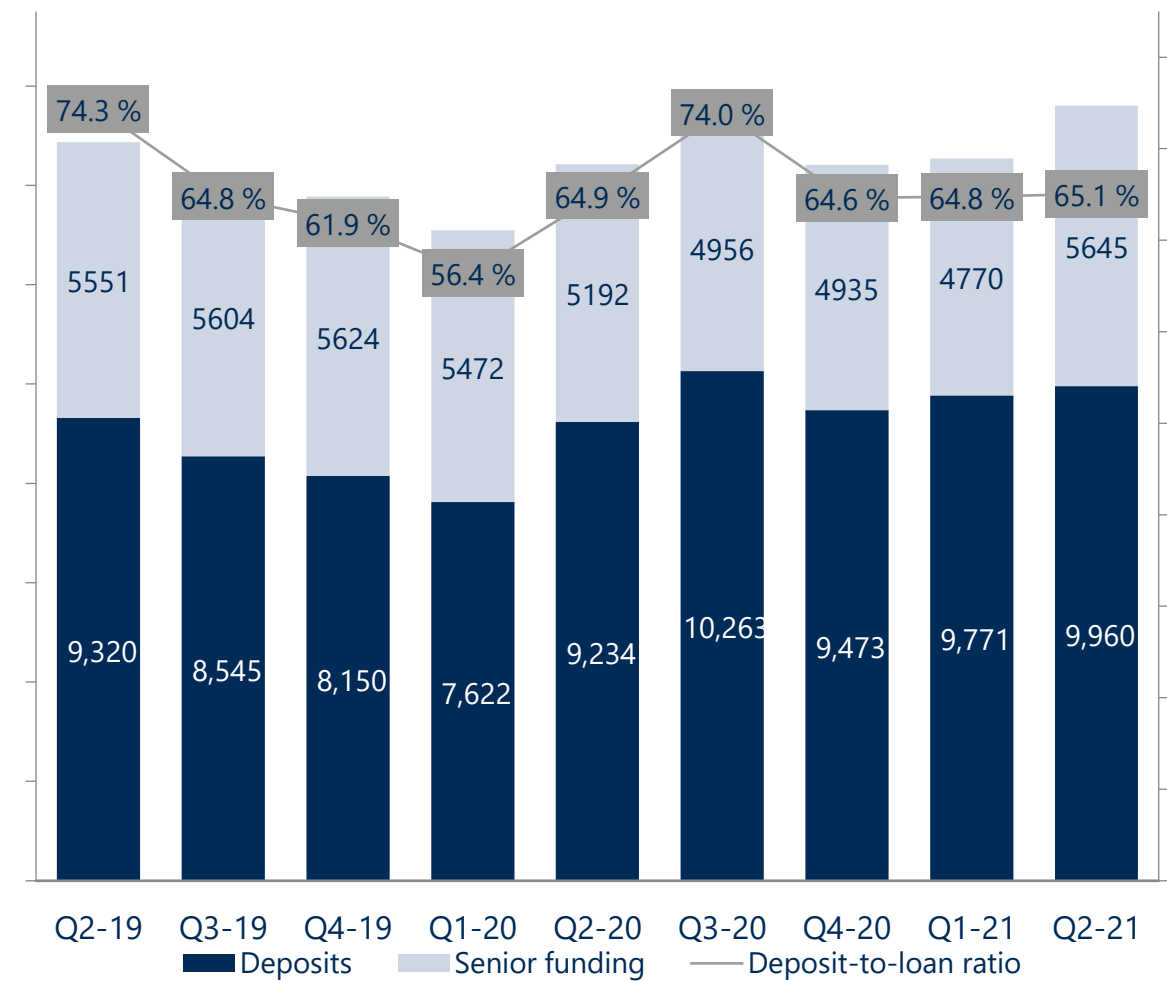


## Key ratios



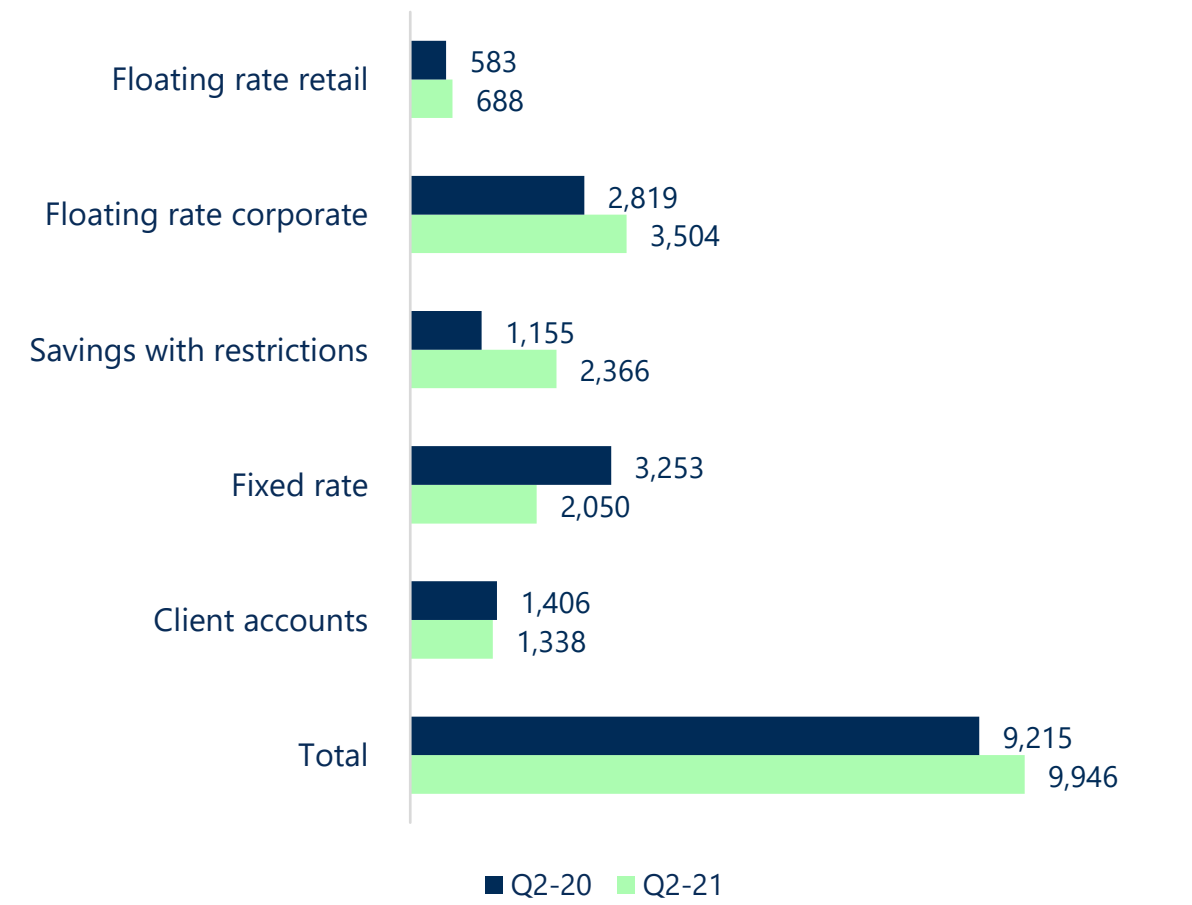
## Deposits & senior debt

NOKm,  
Percent customer deposits of net lending to customers

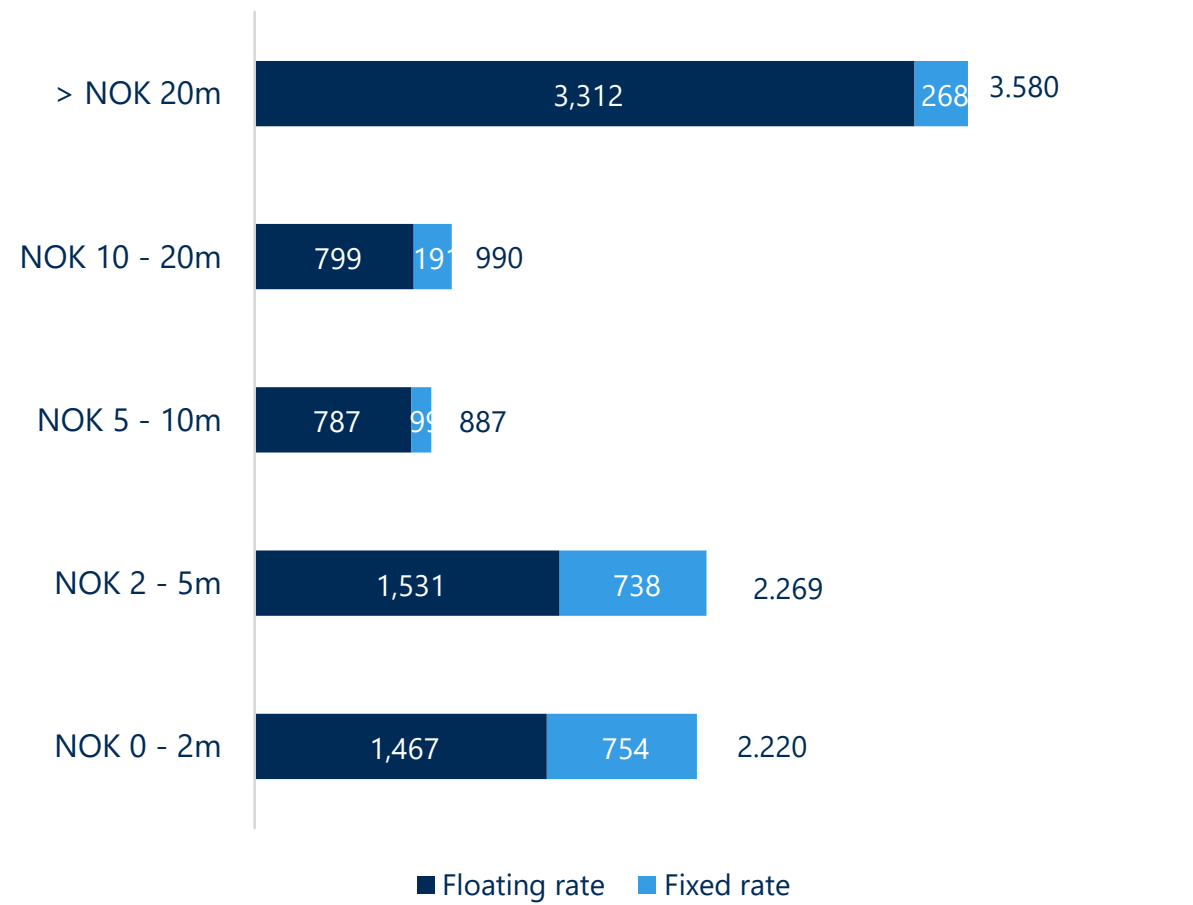


# CUSTOMER DEPOSITS

Deposits by product (NOKm)

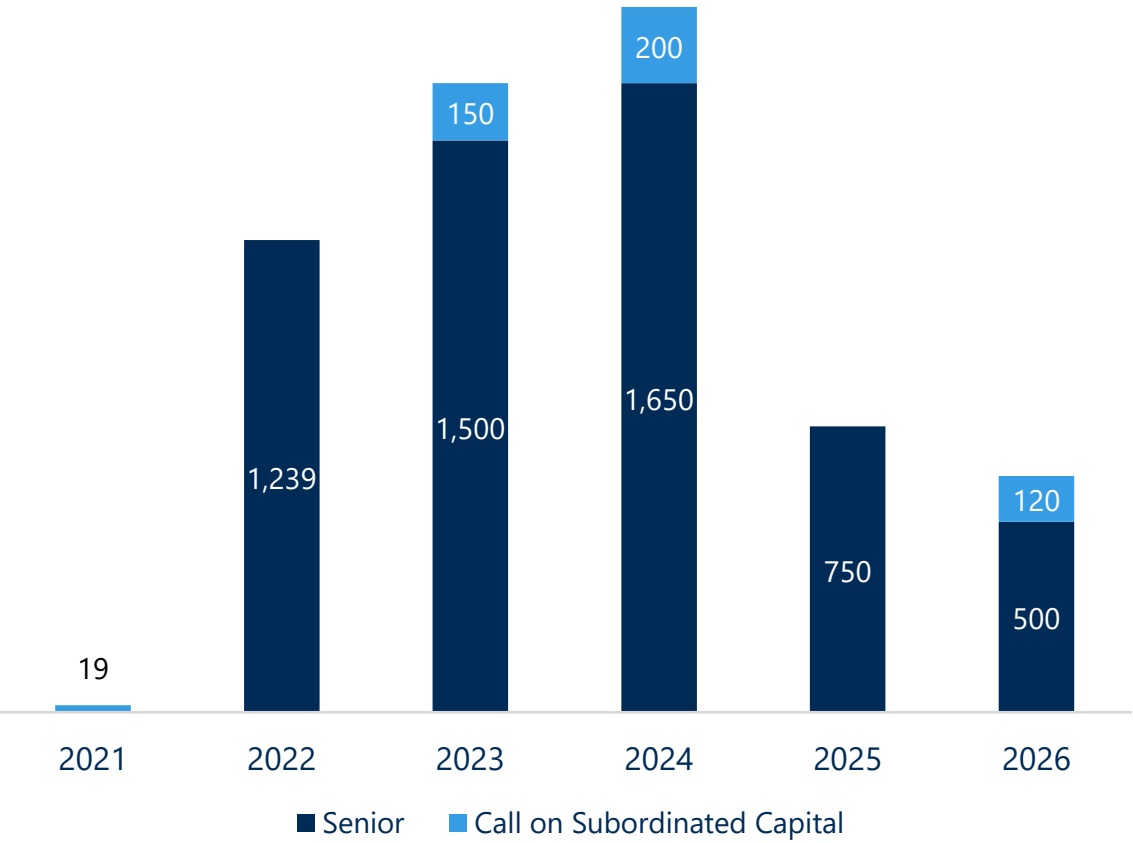


Deposits by size (NOKm)

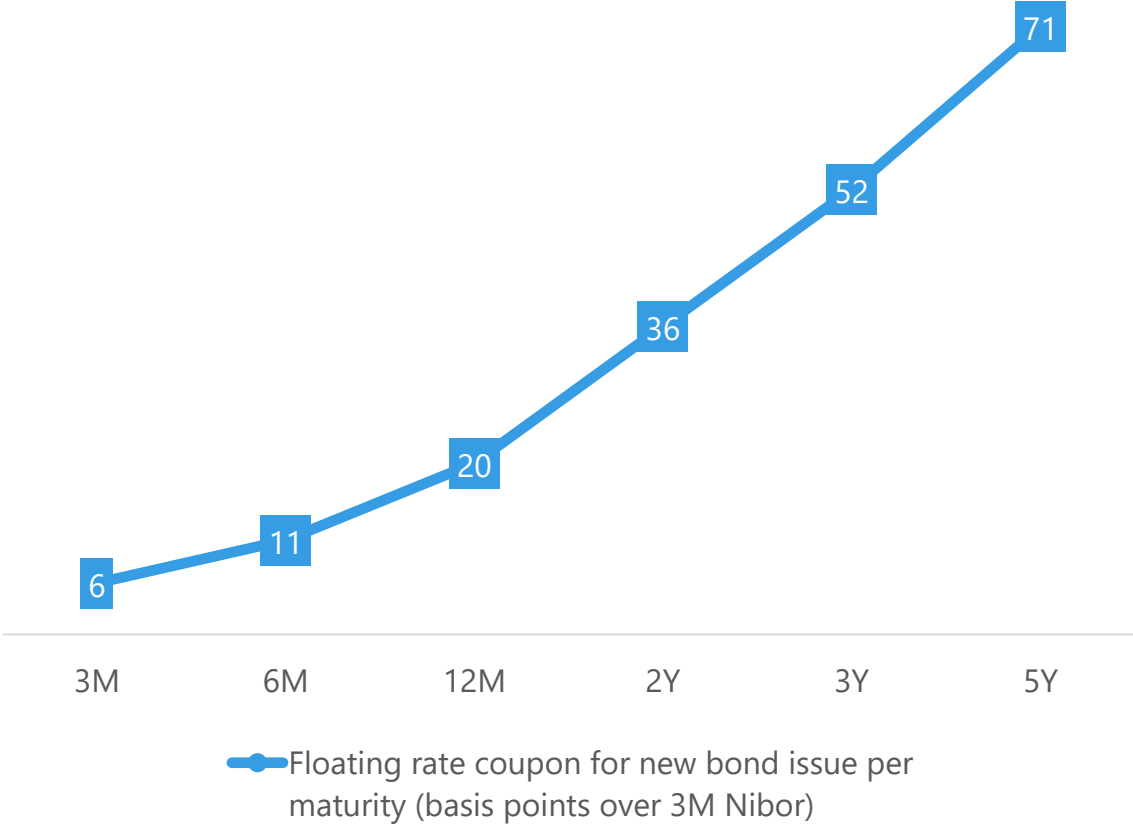


# MARKET FUNDING

Market funding maturities (NOKm) \*

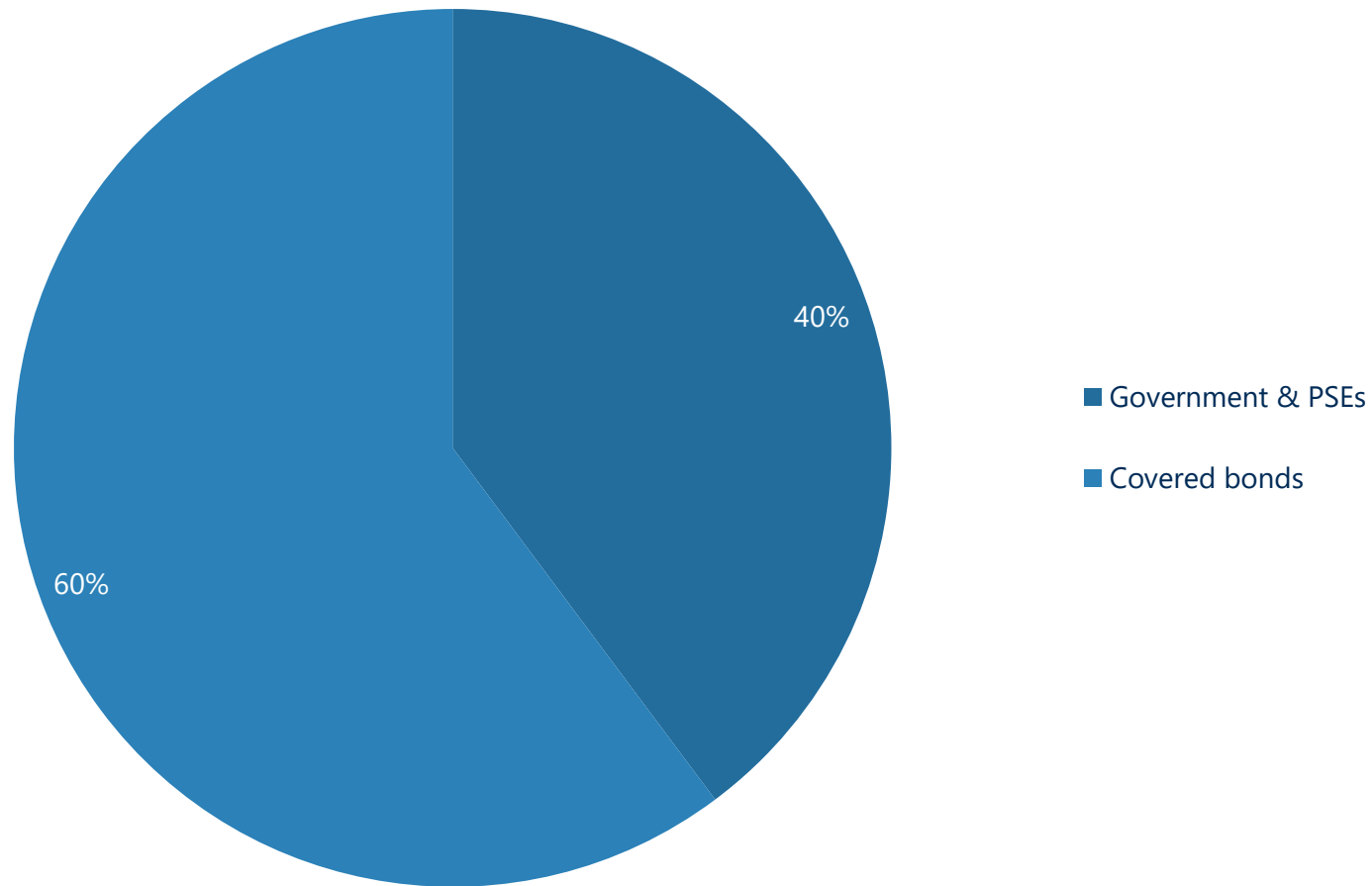


Cost of new market funding



# SURPLUS LIQUIDITY

## Bond portfolio



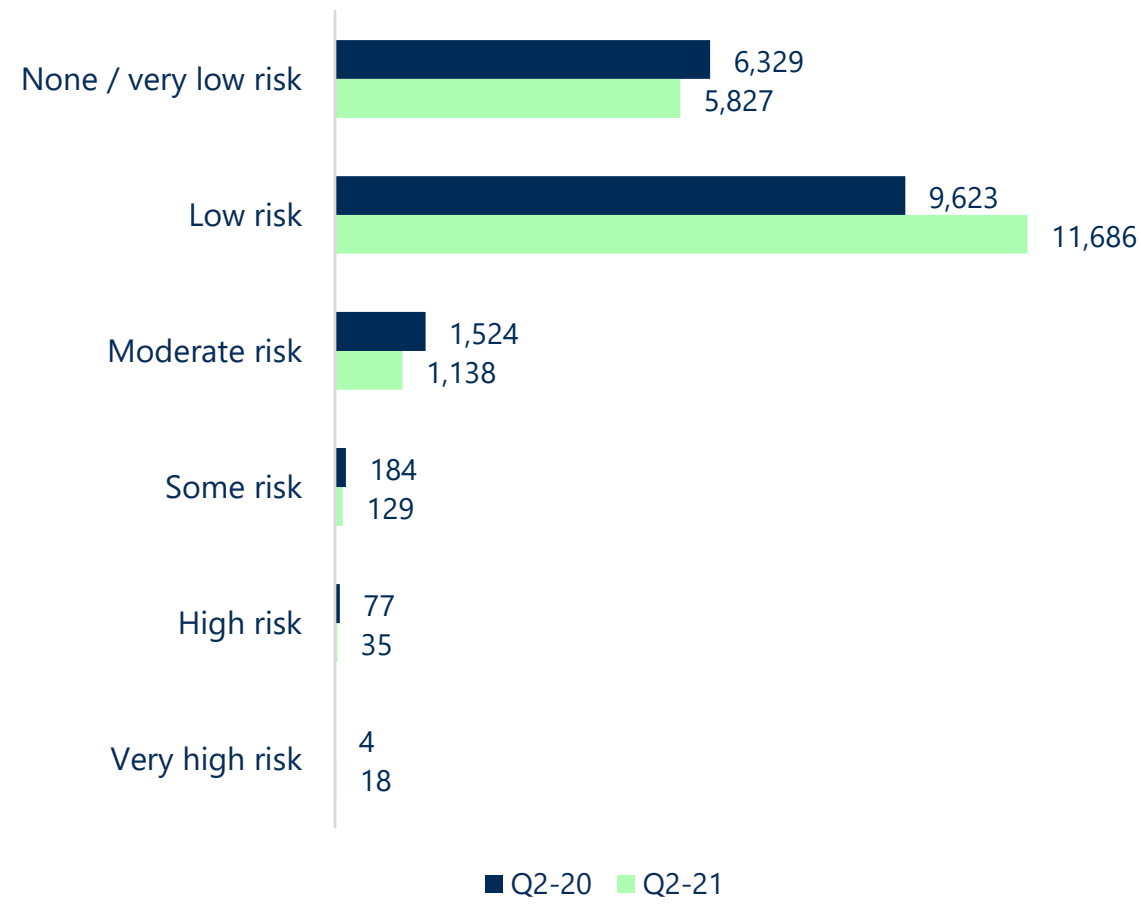
### Comments

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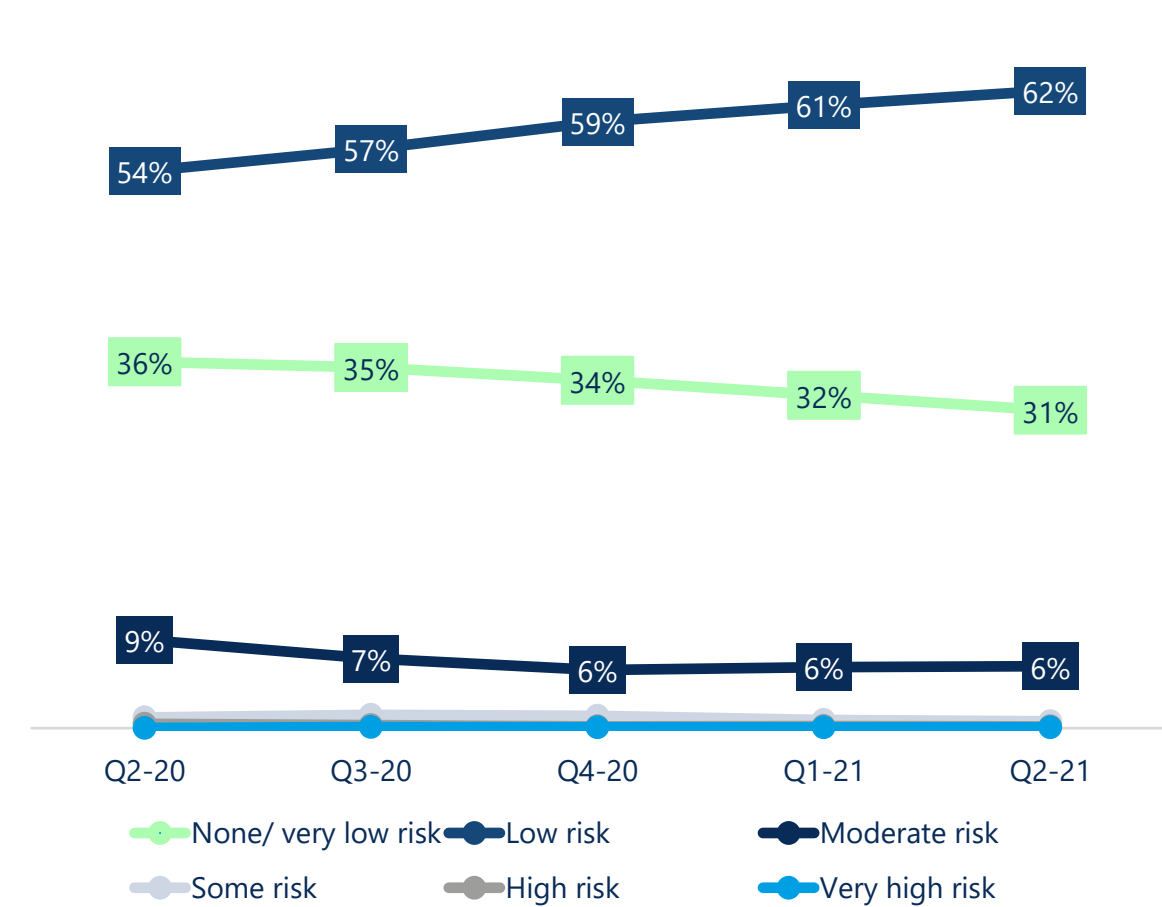
- Market value of bonds and funds comprising surplus liquidity.
- Liquidity is comprised of cash and highly liquid bonds.
- High share of government & PSEs to reduce credit spread risk and increase short-term liquidity.
- Large share of covered bonds, mainly short to medium maturities.

# COMMITMENTS BY RISK CLASSIFICATION

Risk classification (NOKm)

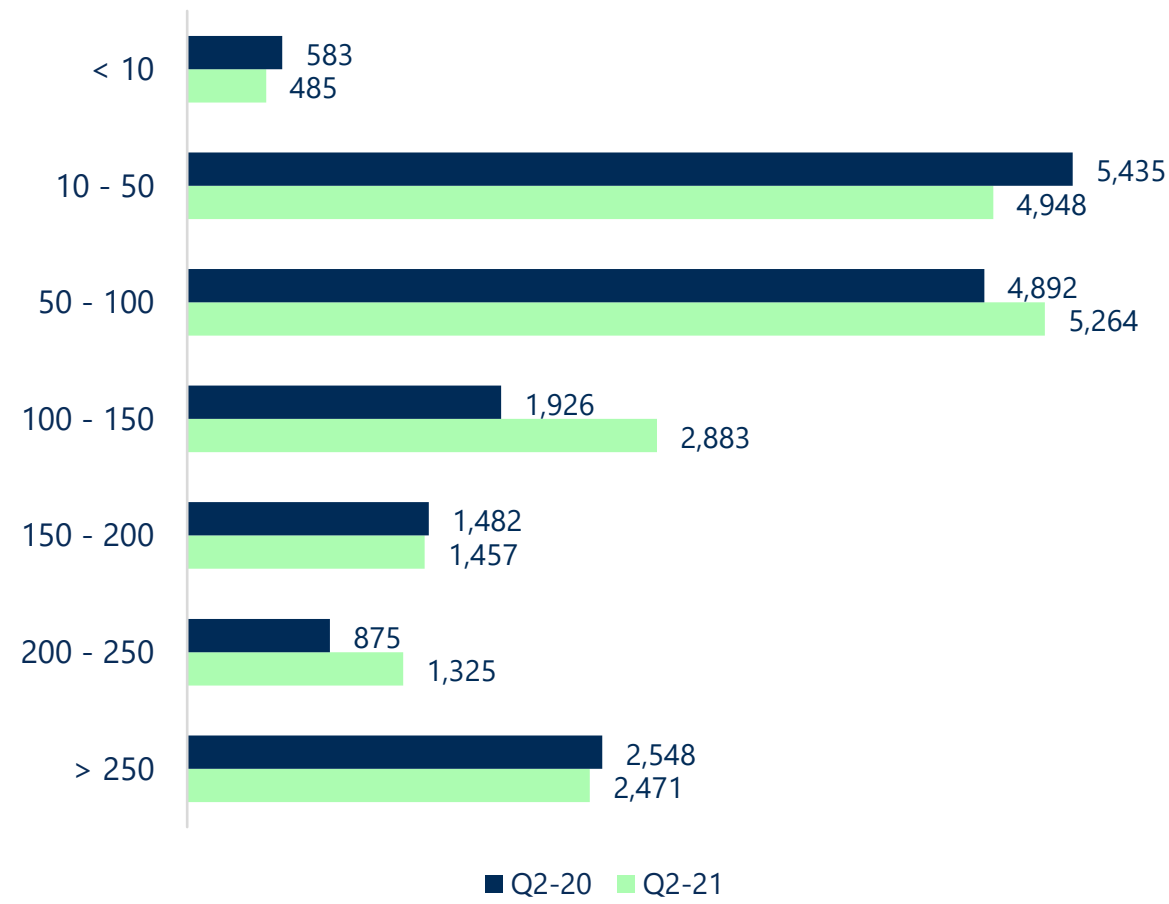


Historical risk classification

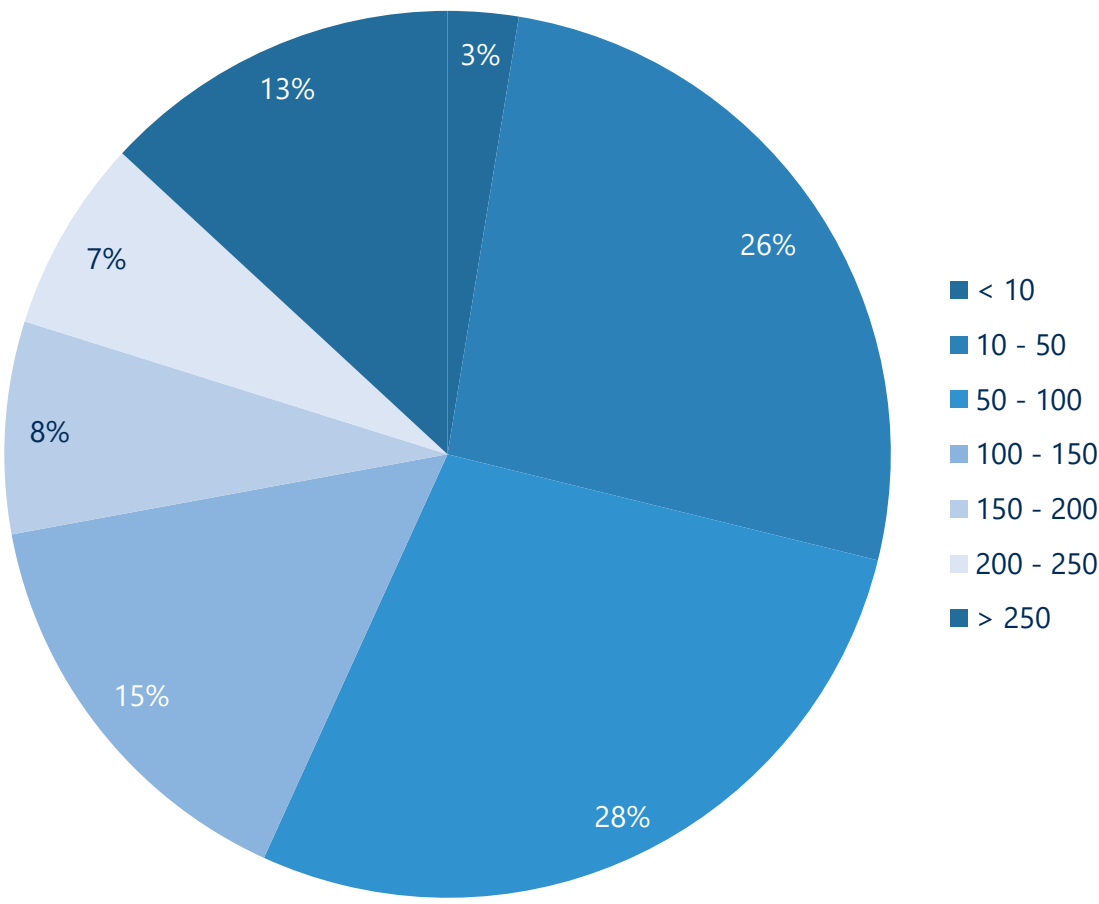


# COMMITMENTS BY SIZE

Commitment size per customer (NOKm)



Distribution of commitments by size (NOKm)



 Pareto bank