Pareto Bank ASA

Full Rating Report

LONG-TERM RATING

BBB+

OUTLOOK

Negative

SHORT-TERM RATING

N2

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RATING RATIONALE

Our 'BBB+' long-term issuer credit rating on Norway-based Pareto Bank ASA is supported by the bank's continued strong profitability before loan losses, driven by its niche strategy, higher net interest margins, and stronger cost efficiency compared with peers. The rating also reflects the bank's solid capitalisation and liquidity, as well as its diverse funding profile. In addition, we note Pareto Bank's well-developed risk governance framework, which helps mitigate the inherent risks associated with the bank's niche lending. Moreover, the strong domestic economy and well-regulated banking market also support our assessment.

The rating is constrained by our view that Pareto Bank's project finance exposures carry above-average risk, which weighs on our view of its operating environment, credit risk and loss performance. The bank's focus on project financing also results in elevated credit risk compared with a typical universal bank. We also view Pareto Bank's small size relative to its main competitors as a constraining factor.

NEGATIVE OUTLOOK

The outlook is negative, reflecting rising loan losses and elevated Stage 3 loans. Higher interest rates, increased newbuild prices and an overhang of rental apartments for sale have led to oversupply, extending the time required to meet pre-sale requirements and reducing demand for newbuilds. This has resulted in liquidity challenges for residential development contractors, a key market segment for Pareto Bank. While we believe there is a risk that improved credit quality may be delayed until interest rates decline and oversupply decreases, we acknowledge that Pareto Bank has loss-absorbing capacity due to strong pre-provision earnings and capitalisation.

DRIVERS FOR A STABLE OUTLOOK

- Improved credit quality and lower loan losses, at least in line with our forecast.
- Significant improvement in size and diversification.
- Commitment to a Tier 1 capital ratio above 22%.

POTENTIAL NEGATIVE RATING DRIVERS

- A prolonged period of weak credit quality and high loan losses.
- Tier 1 ratio below 18% for a protracted period.
- Weakened liquidity buffers and heightened refinancing risk.

Figure 1. Key credit metrics, 2022–2028

%	2022	2023	2024	2025	2026e	2027e	2028e
Net interest margin	4.4	4.6	4.6	4.6	4.8	4.8	4.8
Pre-provision income/REA	3.8	4.2	4.2	4.3	4.4	4.2	4.1
Cost-to-income	19.3	18.2	18.0	18.3	18.1	19.8	20.5
Return on ordinary equity	14.7	14.3	14.6	13.4	4.6	10.0	12.7
Loan losses/net loans	0.27	0.68	0.65	0.89	3.66	1.74	0.81
Net Stage 3/net loans	3.28	3.08	4.11	5.18	4.47	3.86	3.18
Tier 1 ratio	19.0	20.6	19.3	22.7	22.0	21.7	21.3

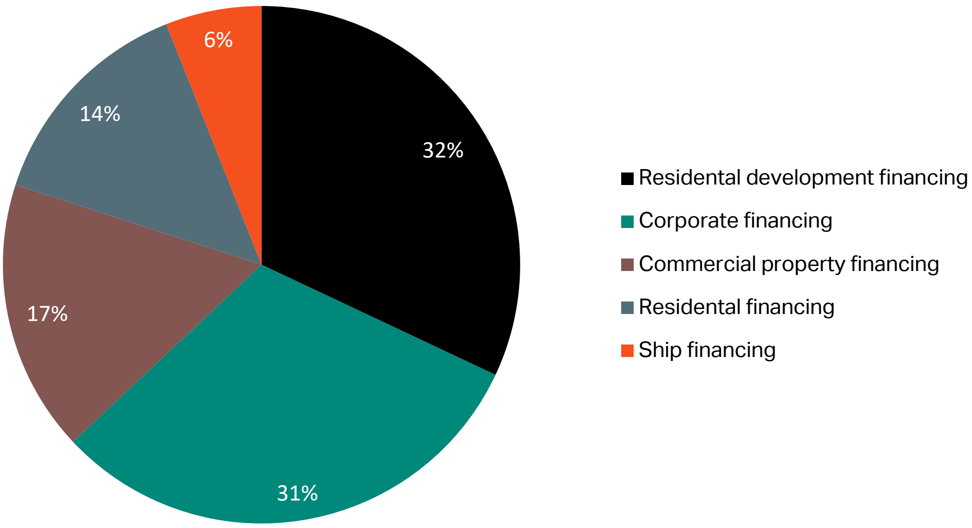
Source: company and NCR. e–estimate. REA–risk exposure amount. CET1–common equity Tier 1. All metrics adjusted in line with NCR methodology.

ISSUER PROFILE

Pareto Bank is a listed Norwegian niche bank with headquarters in Oslo. The bank was founded in 2007 and is, via a 20% ownership stake, associated with the Pareto Group, a financial services group specializing in brokerage, investment banking, asset management, and financing. Pareto Bank provides credit facilities, construction loans, refinancing, investment loans, and other corporate banking products. It is especially known for project financing, particularly in real estate, but also finances investments in securities as well as shipping projects.

Around 73% of Pareto Bank's NOK 19bn loan book is exposed to Norwegian borrowers, mainly in the Oslo region. The bank also has a growing operation in Sweden, where it has strong ambitions on the condition that it meets its profitability target.

Figure 2. Gross loans by sector, 30 Jun. 2026



Source: company.

Commercial bank with niche strategy

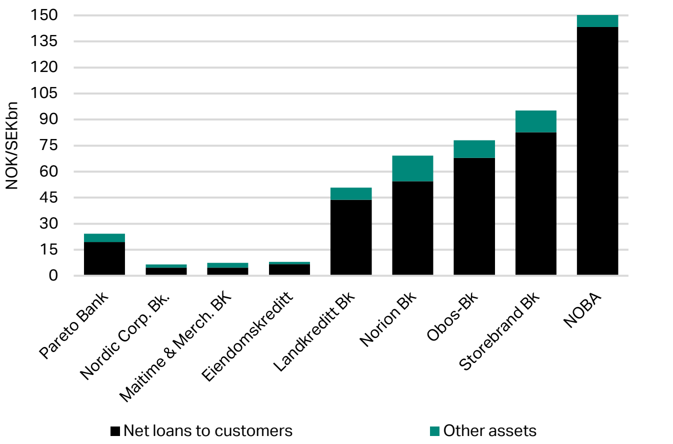
Competitive position

Pareto Bank is primarily an alternative lender in real estate development, corporate and shipping, offering higher margin financing than most large banks. As a specialized commercial bank, it has a significant market position within small-scale residential development and commercial property financing in eastern-Norway. While the bank is small, with about 0.5% domestic market share, its niche strategy within the SME segment enables it to work closely with clients who often require customized solutions and industry-specific expertise.

Pareto Bank does not compete for large commercial real estate projects, where the large commercial banks dominate. DNB is the bank's main competitor for smaller projects, while Norway's savings banks are occasionally competitors. The commercial banks and local savings banks are active in the market for corporate loans while large Norwegian regional banks, Maritime & Merchant Bank and, at times, German banks compete in the market for shipping loans.

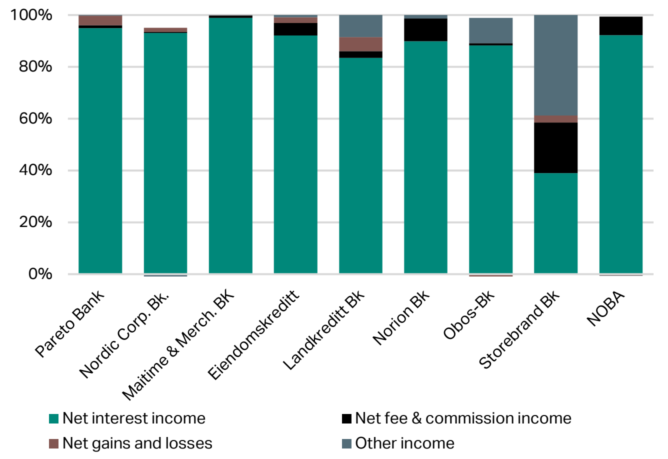
We believe that the bank has a stable market position, and that the fall in lending in 2025 was more due to adverse market conditions and the high ROE requirement than increased competition. Pareto Bank has been present in the Swedish market since 2014, with NOK 4bn in lending as of 30 Jun. 2026. It only established a branch office in Stockholm in 2025 and is a small challenger in Sweden's residential development financing and commercial property lending markets. However, it maintains strong growth ambitions in Sweden, provided it achieves sufficient return on equity. We note that the bank's smaller size limits its competitiveness in large construction projects but allows for greater flexibility in loan origination.

Figure 3. Nordic niche banks' net loans and total assets, 30 Jun. 2026



Source: companies.

Figure 4. Revenue source split comparison per 30 Jun 2026



Source: companies.

Risk governance

High credit risk requires strong risk management

Our view of Pareto Bank's risk governance framework balances its appetite for high credit risk and high-margin loans with its good risk management track record. The bank established a risk and audit committee after reaching the threshold of NOK 20bn in lending. It has developed robust internal risk monitoring and reporting arrangements, which increase transparency around its risk appetite and enable it to adapt its underwriting to changes in the risk performance of its credit portfolios. Pareto Bank has established risk appetites, risk indicators and limits for all identified risk areas and compares its financial risk exposure across risk types. We note, however, that the bank has not avoided deteriorating credit quality in the current weak market environment for residential development financing.

We believe that the bank demonstrates strong awareness and management of the elevated money laundering and other illicit activity risks prevalent in real estate development and construction. In addition to legal and regulatory risks, the bank also faces reputational risk, such as from illegal labour practices on construction sites.

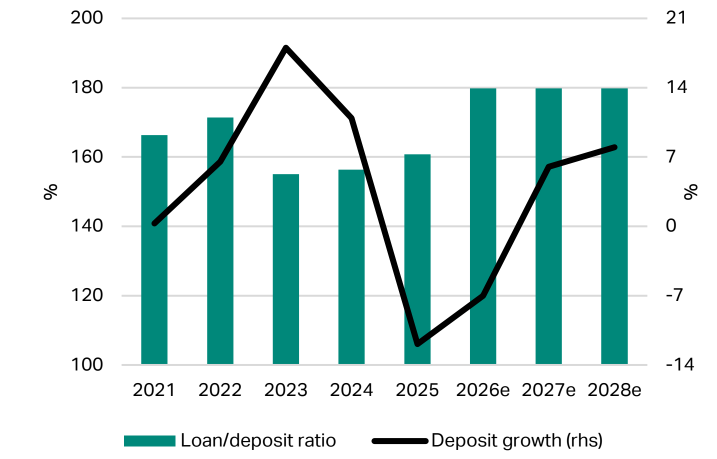
Strong liquidity and diverse funding profile

Funding and liquidity

We view Pareto Bank's management of liquidity as satisfactory. Pareto Bank is primarily funded by customer deposits. However, the bank comes from a position of excess liquidity, and due to low near-term loan growth prospects, a decline in customer deposits has increased its loan to deposit ratio in the last 12 months from 141% to 179%. It has so far only tapped the Norwegian deposit market, where competition has eased recent years due to lower lending growth among consumer lenders, which had been aggressive in the market for deposits.

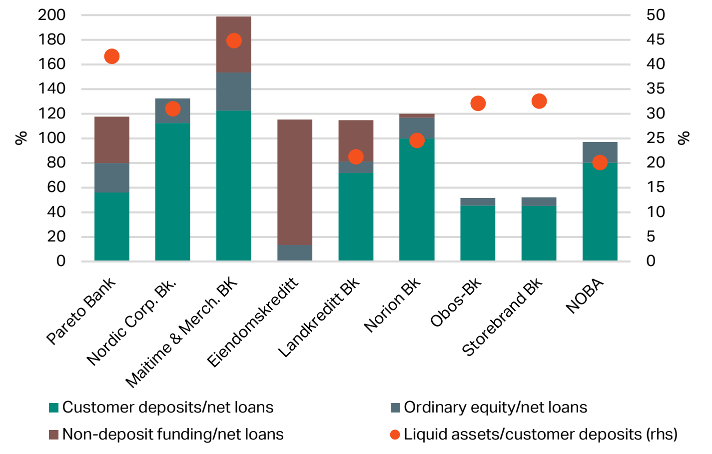
Senior unsecured bonds are the other main funding source (36% of net lending). Average time to maturity is about two years, which is satisfactory given the high turnaround in Pareto Bank's loan book. As of 30 Jun. 2026, the liquidity coverage ratio was 543%, and the net stable funding ratio stood at 146%, well above the minimum 100% requirement.

Figure 5. Deposit metrics, 2020-2028e



Source: company and NCR. e–estimate.

Figure 6. Nordic niche banks' funding profiles, 30 Jun 2026



Source: companies.

CREDIT RISK PROFILE

Operating environment

Cyclical weakness in Norwegian real estate project financing

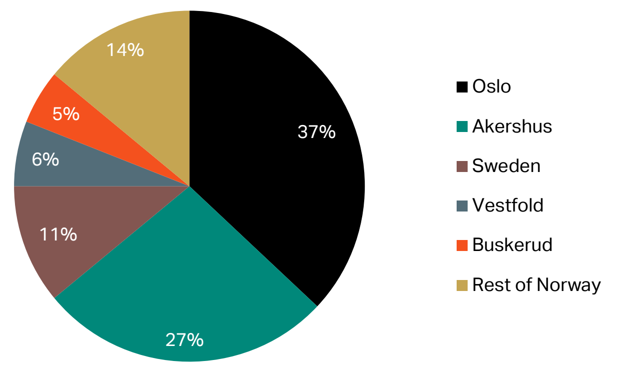
We consider a balance of national and sectorial factors in our assessment of Pareto Bank's operating environment. Our assessment reflects that the bank's real estate, corporate and shipping lending carry higher-than-average risk. For this reason, we consider the operating environment as weaker than reflected in our national banking assessment. Our national banking environment assessment focuses on Norway, as the bank's share of lending in Sweden remains modest compared with levels in Norway, and the bank's regulatory domicile is Norway.

High interest rates in Norway have weakened residential development market, with lower demand and strong supply of used apartments in Oslo lengthening the time needed to meet pre-sale requirements. Demand for new-builds and commercial real estate transactions has also remained subdued. While lower rates and pent-up demand should support the market over time, we expect only a gradual recovery in the near-to-medium term.

Corporate financing demand remains strong, helped by strong deal flow, few loan redemptions and growth in Sweden. Lower interest rates and stronger economic activity should support the segment going forward.

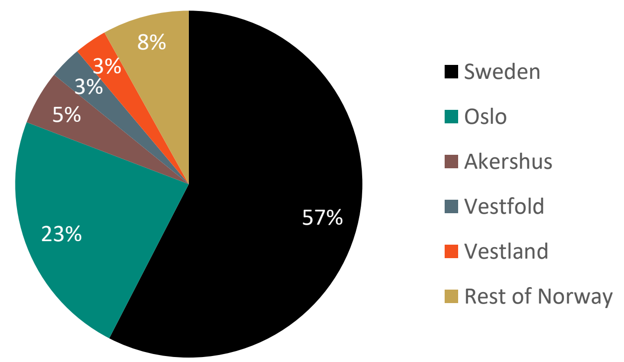
The bank's shipping and offshore financing is well diversified. While focused on Norway, the segment is influenced by global economic conditions and the oil sector. Ineffective trade patterns have led to strong shipping markets in 2026.

Figure 7. Geographical residential property exposure, 30 Jun. 2026



Source: company.

Figure 8. Geographical commercial property exposure, 30 Jun. 2026



Source: compan.

Credit and market risk

Pareto Bank is exposed to concentration risk in its market segments, which also carry significant cyclical risk. This is reflected in the bank's increase in Stage 3 loans (see Figure 9) which has surpassed the increase for the overall Norwegian bank sector. We expect geographic concentration risk to remain moderate, as exposures are primarily in the Oslo region and other major cities.

The bank's relatively high lending margins indicate that portfolio risk is moderate to high. Realised losses over the bank's 19-year history have averaged a modest 0.1% of gross lending annually, but have increased to 0.23% year-to-date per 30 Jul. 2026. We generally believe that project financing exposures carry higher risk compared with secured property management lending. The bank's pre-sale requirements for project financing and requirement that collateral covers a 50% price fall mitigates some of the downside risk.

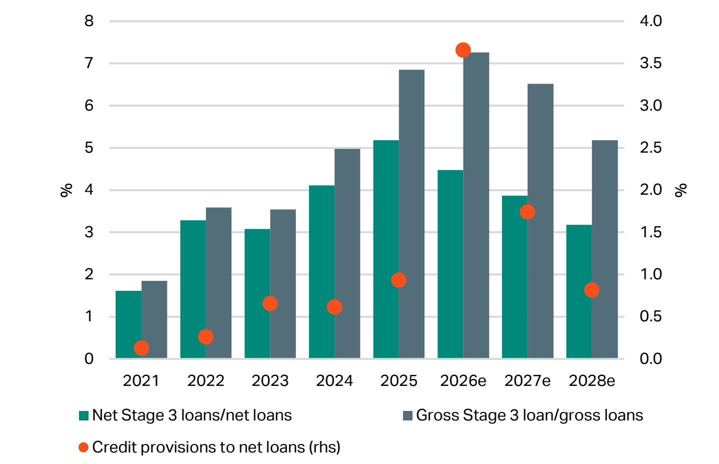
We do not consider market risk to be material for Pareto Bank due to its low-risk liquidity portfolio.

High but manageable loan losses

Loss performance

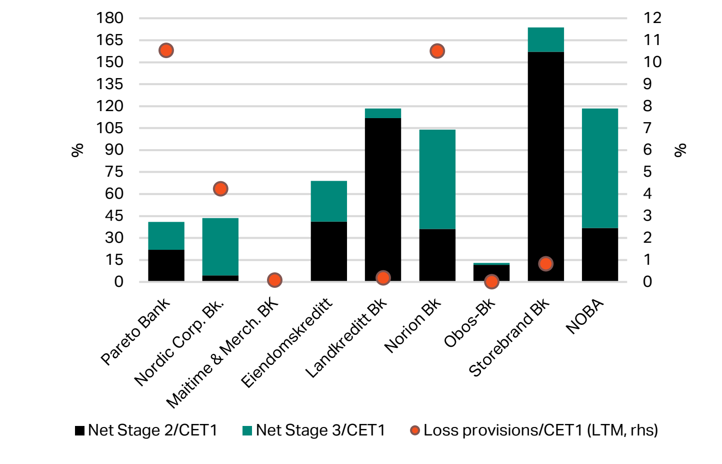
Pareto Bank's booked losses and Stage 3 loans have risen markedly in recent years, and has accelerated in recent quarters. The increase is mainly due to a weak property market that has delayed the completion of many residential projects. We expect loan losses to peak in 2026, but to remain elevated over our forecast horizon. However, lower interest rates from 2027 should support a stronger property market and gradual declines in Stage 3 loans and loan losses. We expect loan losses to decrease to 0.8% of net loans in 2028 from an expected 3.7% in 2026.

Figure 9. Asset quality metrics, 2021–2028e



Source: company and NCR. e–estimate.

Figure 10. Asset quality in relation to capitalisation, 30 Jun. 2026



Source: companies. CET1-Common Equity Tier 1. LTM-last twelve months.

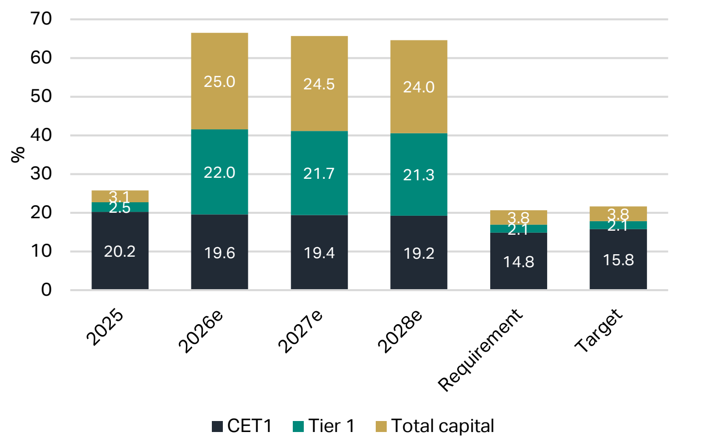
CAPITAL GENERATION

Well capitalised through our forecast horizon

Capital

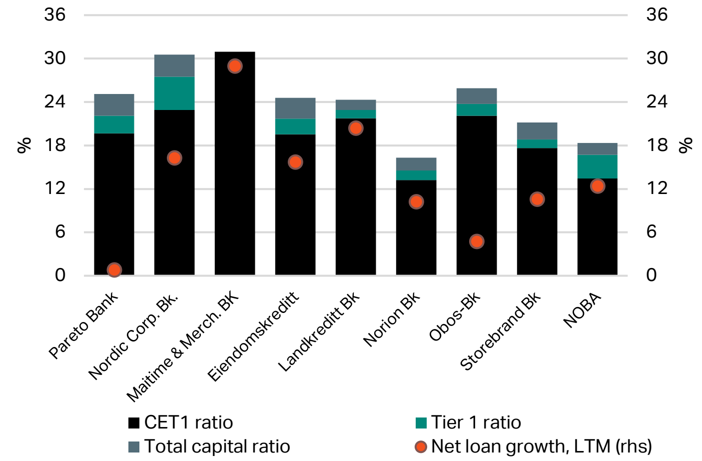
Pareto Bank reported a CET1 ratio of 19.7% and a Tier 1 ratio of 22.1% as of 30 Jun. 2026 (19.9%/22.3% including 50% of year-to-date profit). The CET1 ratio is significantly higher than the target of15.8% (including a 1pp management buffer). The dividend policy indicates a payout ratio of at least 50%, and we expect the bank to distribute 50% of profits during 2026–2028. Weak demand for residential development financing is likely to persist through 2027, but loan growth should continue in the Swedish market. Overall, we expect loan growth of 4% in 2026, 6% in 2027, and 8% in 2028. Given our single-digit ROE estimates for 2026 and 2027, we expect the bank to gradually reduce its capital ratios in our base case. We also anticipate a modest decline in capital requirements, reflecting stronger loan growth in Sweden, where requirements are about 4pp lower than in Norway.

Figure 11. Forecast capital ratios vs. requirements, 2024–2028e



Source: company and NCR. e–estimate.

Figure 12. Nordic niche banks' capital ratios and loan growth, 30 Jun. 2026



Source: companies.

Earnings

Pareto Bank relies on net interest income as its primary source of core income. A strong net interest margin supports the bank's excellent cost-to-income ratio and robust pre-provision profitability. We expect the bank to maintain strong profitability, with PPI/REA above 4% and a cost-to-income ratio around 20% over our forecast horizon.

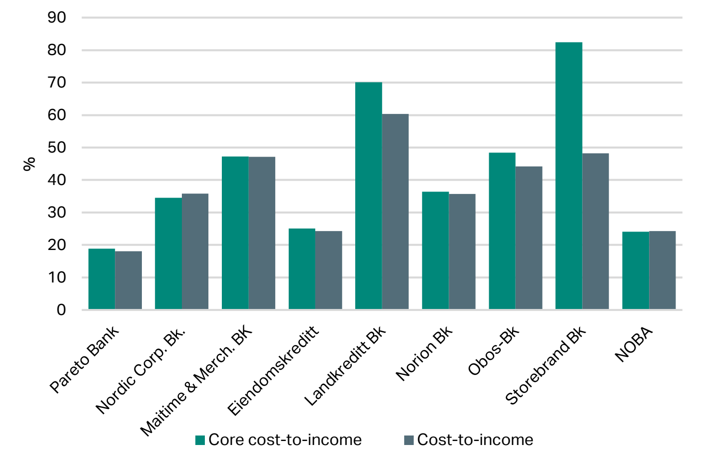
While Pareto Bank's cost efficiency is exceptionally strong given its business model, we find that niche bank peers focused on consumer lending have higher net interest margins and risk-adjusted pre-provision returns. Nevertheless, the bank's ROE is usually comparable with that of Nordic niche banks, despite Pareto Bank's higher capitalisation.

Figure 13. Capital projection assumptions

%	2026e	2027e	2028e
Net interest margin	4.8	4.8	4.8
Loan growth	4.0	6.0	8.0
Return on equity	4.6	10.0	12.7
Dividend rate	50	50	50

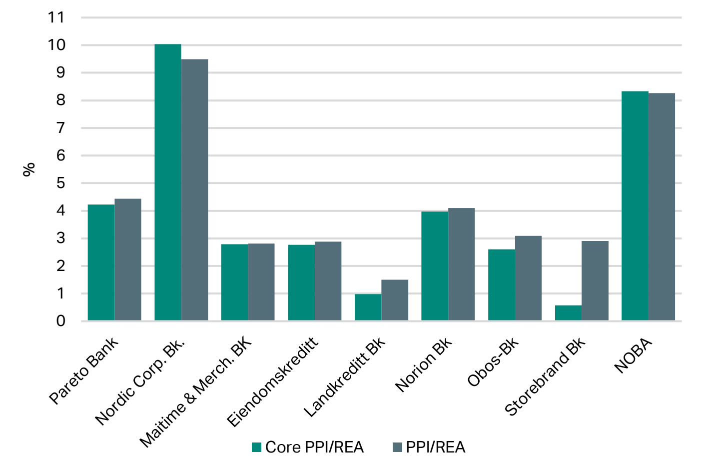
Source: NCR. e–estimate. All metrics adjusted in line with NCR methodology.

Figure 7. Nordic niche banks' cost efficiency metrics, LTM to 30 Jun. 2026



Source: companies. LTM-last twelve months. Core representes net interest income and net fee & commission income.

Figure 8. Nordic niche banks' PPI to REA, LTM to 30 Jun. 2026



Source: companies.

SUPPORT ANALYSIS

We assess the company's ownership as neutral according to our group and government methodology. However, we believe that the current owners will be supportive to finance profitable growth, as we saw when the bank issued NOK 350m in new equity in a private placement in 2023.

Figure 16. Largest owners

Owner	Share of capital
Pareto AS	20.0%
Société Générale	8.0%
AWC AS	6.8%

Source: company.

ISSUE AND SHORT-TERM RATINGS

Figure17. Issue and short-term ratings

	Rating
Senior unsecured	BBB+
Tier 2	BBB
Additional tier 1	BB+
Short-term rating	N2; strong liquidity due to access to central bank funding and LCR above 200% over the last four quarters.

Short-term and issue ratings are mapped to the long-term issuer rating, in accordance with our Financial Institutions Rating Methodology. In cases where two alternatives for short-term ratings are possible, the short-term rating is assigned based on liquidity being strong, adequate, or weak, as applicable. See definitions in the methodology.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS

We consider ESG factors throughout our analysis, when they are material to our credit assessment.

Figure 19. Priority ESG factors

Issue/area	Risk/opportunity	Impacted subsections (impact on credit assessment*)
Risk governance	Reputational risk associated with ownership structure and related-party lending. Track record of incidents.	Risk governance (0) Competitive position (0)
Responsible lending	Regulatory scrutiny. Media attention. Reputational brand damage. Social concerns in construction sector.	Operating environment (-) Risk governance (-)
Physical climate risk to collateral	Climate-related damage to real estate collateral (closely linked to supervision of insurance). Longer-term effects on market values in flood risk areas.	Credit risk (-) Loss performance (0)
Anti-money laundering capacity	Risk of sanctions and fraud. Insufficient control of customers.	Risk governance (-)

*Defined on a 5-step scale ranging from double minus (--) to double plus (++), with (--) representing the most negative impact and (++) the most positive.

METHODOLOGIES USED

(i) Financial Institutions Rating Methodology, 12 May 2025.
(ii) Rating Principles, 14 Feb. 2024.
(iii) Group and Government Support Rating Methodology, 14 Feb. 2024.

RELEVANT RESEARCH

(i) Kapitalstarka sparbanker – tillväxten hänger på efterfrågan, 7 May 2026
(ii) Nordic corporates well prepared for improving demand in 2026, 14 Jan. 2026
(iii) Nordic niche banks focus on optimisation and scalability in 2026, 13 Jan. 2026
(iv) Swedish savings banks face little drama in 2026, 12 Jan. 2026
(v) Capital strength sets Norwegian savings banks up for 2026 growth, 9 Jan. 2026

Figure 20. Pareto Bank key financial data, 2022–Q2 2026 YTD

Key credit metrics (%)	FY 2022	FY 2023	FY 2024	FY 2025	Q2 2026 YTD
INCOME COMPOSITION					
Net interest income to op. revenue	96.2	99.4	97.9	93.8	96.4
Net fee income to op. revenue	0.6	1.2	1.2	1.0	1.1
Net gains and losses/operating revenue	2.7	-0.8	0.7	5.1	2.1
Net other income to op. revenue	0.5	0.2	0.2	0.2	0.3
EARNINGS					
Net interest income to financial assets	4.4	4.6	4.6	4.6	4.8
Net interest income to net loans	5.6	6.2	6.3	6.2	6.2
Pre-provision income to REA	3.8	4.2	4.2	4.3	4.4
Core pre-provision income to REA (NII & NF&C)	3.6	4.3	4.2	4.1	4.3
Return on ordinary equity	14.7	14.3	14.6	13.4	4.6
Return on assets	2.6	2.5	2.6	2.6	0.9
Cost-to-income ratio	19.3	18.2	18.0	18.3	17.9
Core cost-to-income ratio (NII & NF&C)	20.0	18.1	18.1	19.4	18.4
CAPITAL					
CET1 ratio	17.6	18.6	17.2	20.2	19.7
Tier 1 ratio	19.0	20.6	19.3	22.7	22.1
Capital ratio	21.1	23.7	21.9	25.8	25.1
REA to assets	92.2	87.3	96.6	88.3	94.9
Dividend payout ratio	48.5	48.5	49.5		90.9
Leverage ratio	16.5	17.1	17.1	18.2	18.8
GROWTH					
Asset growth	11.6	15.9	5.4	-7.0	-4.3
Loan growth	9.7	6.8	11.9	-9.4	3.4
Deposit growth	6.5	18.0	10.9	-11.9	-7.0
LOSS PERFORMANCE					
Credit provisions to net loans	0.27	0.68	0.65	0.89	3.74
Stage 3 coverage ratio	9.15	13.84	18.62	26.06	40.63
Stage 3 loans to gross loans	3.59	3.54	4.98	6.85	7.25
Net stage 3 loans to net loans	3.28	3.08	4.11	5.18	4.47
Net stage 3 loans/ordinary equity	14.53	12.53	17.41	18.74	18.59
FUNDING & LIQUIDITY					
Loan to deposit ratio	171.4	155.0	156.3	160.8	178.7
Liquid assets to deposit ratio	46.7	59.0	47.4	53.5	41.7
Net stable funding ratio	147.0	144.0	165.0	162.0	146.0
Liquidity coverage ratio	238.0	688.0	511.0	512.0	543.0

Key financials (NOKm)	FY 2022	FY 2023	FY 2024	FY 2025	Q2 2026 YTD
BALANCE SHEET					
Total assets	22,296	25,847	27,237	25,337	24,257
Total tangible assets	22,263	25,804	27,199	25,298	24,218
Total financial assets	22,181	25,725	27,099	25,156	23,998
Net loans and advances to customers	17,346	18,518	20,713	18,774	19,406
Liquid assets	4,727	7,045	6,286	6,245	4,523
Customer deposits	10,121	11,946	13,249	11,674	10,858
Issued securities	7,603	8,455	8,047	7,443	7,950
of which other senior debt	7,183	7,756	7,347	6,743	7,250
of which subordinated debt	421	699	700	700	701
Total equity	4,220	5,005	5,437	5,741	5,216
of which ordinary equity	3,920	4,555	4,887	5,191	4,666
CAPITAL					
Common equity tier 1	3,611	4,203	4,520	4,527	4,531
Tier 1	3,911	4,653	5,070	5,077	5,081
Total capital	4,331	5,348	5,765	5,772	5,776
REA	20,563	22,558	26,308	22,372	23,010
INCOME STATEMENT					
Operating revenues	965	1,119	1,253	1,295	609
Pre-provision operating profit	779	916	1,028	1,058	500
Impairments	45	122	127	175	357
Net Income	555	605	687	676	114

Source: company. FY–full year. YTD–year to date.

Figure 21. Pareto Bank rating scorecard

Subfactors	Impact	Score
National banking environment	5.0%	a
Sector exposure assessment	15.0%	bb+
Regional assessment	-	-
Cross border assessment	-	-
Operating environment	20.0%	bbb-
Risk governance	7.5%	a-
Capital	17.5%	a+
Funding and liquidity	15.0%	a-
Credit and market risk	10.0%	bb
Risk appetite	50.0%	a-
Competitive position	15.0%	bb+
Earnings	7.5%	aa
Loss performance	7.5%	bb+
Performance indicators	15.0%	a-
Indicative credit assessment		**bbb+**
Peer comparison		Neutral
Transitions		Neutral
Borderline assessments		Neutral
Stand-alone credit assessment		**bbb+**
Ownership		Neutral
Capital structure protection		Neutral
Rating caps		Neutral
Issuer rating		**BBB+**
Outlook		Negative
Short-term rating		**N2**

Figure 22. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB+
Tier 2	BBB
Additional Tier 1	BB+

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NORDIC CREDIT RATING AS

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