Pareto Bank ASA

Rating Action Report

LONG-TERM RATING

BBB+

OUTLOOK

Negative

SHORT-TERM RATING

N2

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Pareto Bank ASA outlook revised to negative; 'BBB+' long-term issuer rating affirmed

Nordic Credit Rating (NCR) has affirmed its 'BBB+' long-term issuer rating on Norway-based Pareto Bank ASA. The outlook is negative. The 'N2' short-term issuer rating, 'BBB+' senior unsecured issue ratings, 'BBB' Tier 2 issue rating, and 'BB+' Additional Tier 1 issue rating have also been affirmed.

Rating rationale

The outlook revision is driven by the deterioration in asset quality and higher loan losses in Pareto Bank ASA's core residential development portfolio. The bank maintains strong pre-provision earnings and robust capital and liquidity, which we believe continue to support the current rating level. Elevated interest rates, higher newbuild costs, and an overhang of rental apartments for sale have delayed pre-sale milestones and dampened demand for newbuilds. This has created liquidity stress for contractors and increased Pareto Bank's Stage 3 nonperforming loans. We expect loan losses to remain high in the near term, at about 3.7% of net loans at end-2026, before moderating as rates ease and the market gradually rebalances.

This deterioration is balanced by structural strengths in profitability and capital. Pareto Bank's niche strategy supports higher lending margins, underpinning risk-adjusted earnings (pre-provision income to risk exposure amount) above 4% and a strong cost-to-income ratio of around 20% through our forecast horizon. As of 30 Jun. 2026, the bank reported a CET1 ratio of 19.7%, comfortably above its 15.8% target, including a 1pp management buffer. We have improved our view of the bank's capital, but expect capital ratios to decline modestly as growth resumes.

Liquidity and funding metrics remain a credit strength. Funding is diversified between customer deposits and wholesale debt. Deposits have been actively reduced to 56% of net lending, reflecting an intentional reduction in excess liquidity amid muted loan demand, and senior unsecured bonds now represent 36% of net loans.

We view the bank's risk profile and operating environment as increasingly constrained by its concentration on project financing, particularly in real estate development, where Pareto Bank's credit risk is structurally higher than for universal banks. We have also revised our view of the bank's credit risk and expected loss performance to reflect that Stage 3 loans have increased significantly, mirroring sector-wide pressures. We expect loan losses to gradually normalise, decreasing to about 0.8% in 2028 as interest rates decline and demand recovers.

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.

We could revise the rating to stable if credit quality improves and lower loans are reduced at least in line with our forecast, if we observe significant improvement in size and diversification, or if the bank commits to maintaining a Tier 1 capital ratio above 22%.

We could lower the rating if credit quality remains weak and loan losses stay elevated for an extended period, if the Tier 1 ratio remains below 18% for a sustained period or if liquidity buffers weaken and refinancing risk increases.

Rating list	**To**	**From**
Long-term issuer credit rating:	BBB+	BBB+
Outlook:	Negative	Stable
Short-term issuer credit rating:	N2	N2
Senior unsecured issue rating:	BBB+	BBB+
Tier 2 issue rating:	BBB	BBB
Additional Tier 1 issue rating:	BB+	BB+

Figure 1. Pareto Bank rating scorecard

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

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	BBB+	BBB+
Tier 2	BBB	BBB
Additional Tier 1	BB+	BB+

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 23 Sep. 2025.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
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Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	NCR's Financial Institutions Rating Methodology published on 12 May 2025 NCR's Rating Principles published on 14 Feb. 2024 NCR's Group and Government Support Rating Methodology published on 14 Feb. 2024 The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website nordiccreditrating.com/governance/policies. The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA).
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Bond prospectuses, Company presentations, Data provided by external data providers, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity.
Potential conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity. NCR does not have any direct or indirect shareholder with a holding of more than 5% of NCR's shares and votes. For further information, please refer to NCR's conflict of interest policy which is available on: https://nordiccreditrating.com/governance/policies
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Ancillary services provided:	No ancillary services have been provided in the last 12 months.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
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