# Pareto Bank ASA

## Rating report

Issuer rating

BBB

Outlook

Positive

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**Related publications**

Scope affirms Pareto Bank's issuer rating at BBB and changes the Outlook to Positive

**Table of content**



### Summary and Outlook

Pareto Bank's issuer rating of BBB with a Positive Outlook reflects the following assessments:

**Business model assessment: Focused (Low).** Pareto Bank is a small to medium size commercial bank specialised primarily in real estate, corporate and ship financing for medium-sized Norwegian companies. The bank has a strong track record of operating performance and a strategic focus on profitability. Its business model is focused on asset based lending such as commercial real estate and other more cyclical sectors.

**Operating environment assessment: Very supportive low.** Given the Norwegian economy's resilience to shocks, high wealth levels, low unemployment and strong public finances, the operating environment is very conducive for the development of banking activities. Banks are closely regulated and supervised.

**Long-term sustainability assessment (ESG factor): Developing.** Pareto Bank is committed to managing ESG risks, with progress made in line with peers. The bank invests in technology to improve efficiency and processes, contributing to a low cost base that supports overall financial performance. ESG risks associated with the bank's financing activities are actively assessed and monitored.

**Earnings and risk exposures assessment: Supportive.** The bank generates robust returns, which provide a strong capacity to absorb credit costs and build capital for growth. Management's long-term ambition is a return on equity of at least 15%. Given the more challenging operating conditions for its customers, particularly within property development, the bank's credit costs are currently above historical levels.

**Financial viability assessment: Adequate.** Pareto Bank's capital position has improved significantly as of Q2 2025, largely owing to the implementation of CRR3 in Norway. Funding and liquidity are well managed. The bank is a regular issuer in the bond markets and has increased its deposit funding. Further, the bank has built a large liquidity portfolio of low-risk assets over the past three years.

The positive outlook reflects Scope's view that the risks to the current rating are tilted to the upside.

**The upside scenarios for the rating:**

- Evidence that the bank will maintain comfortable buffers to capital requirements, a sound funding maturity profile as well as solid liquidity metrics could lead to a higher Financial Viability Management assessment.
- Significantly greater business diversification combined with greater scale, resulting in an upgrade of the Business Model Assessment qualifier.

**The downside scenarios for the rating and Outlook:**

- Increasing pressure on asset quality also resulting in deteriorating performance leading to a downgrade of the Earnings Capacity and Risk Exposures assessment.
- More aggressive management of the bank's capital and liquidity buffers or deterioration of the funding profile, resulting in a lower assessment of Financial Viability Management.

**Table 1: Rating drivers**

<table>
<tr><th colspan="2">Rating drivers</th><th colspan="30">Assessment</th></tr>
<tr><td rowspan="7">STEP 1</td><td>Operating environment</td><td colspan="6">Very constraining</td><td colspan="6">Constraining</td><td colspan="6">Moderately supportive</td><td colspan="6">Supportive</td><td colspan="6">Very supportive</td></tr>
<tr><td>Low/High</td><td colspan="15">Low</td><td colspan="15">High</td></tr>
<tr><td>Business model</td><td colspan="6">Narrow</td><td colspan="6">Focused</td><td colspan="6">Consistent</td><td colspan="6">Resilient</td><td colspan="6">Very resilient</td></tr>
<tr><td>Low/High</td><td colspan="15">Low</td><td colspan="15">High</td></tr>
<tr><td>Initial mapping</td><td colspan="30">bbb-</td></tr>
<tr><td>Long-term sustainability</td><td colspan="6">Lagging</td><td colspan="6">Constrained</td><td colspan="6">Developing</td><td colspan="6">Advanced</td><td colspan="6">Best in class</td></tr>
<tr><td>Adjusted anchor</td><td colspan="30">bbb-</td></tr>
<tr><td rowspan="4">STEP 2</td><td>Earnings capacity & risk exposures</td><td colspan="6">Very constraining</td><td colspan="6">Constraining</td><td colspan="6">Neutral</td><td colspan="6">Supportive</td><td colspan="6">Very supportive</td></tr>
<tr><td>Financial viability management</td><td colspan="5">At risk</td><td colspan="5">Stretched</td><td colspan="5">Limited</td><td colspan="5">Adequate</td><td colspan="5">Comfortable</td><td colspan="5">Ample</td></tr>
<tr><td>Additional factors</td><td colspan="6">Significant downside factor</td><td colspan="6">Material downside factor</td><td colspan="6">Neutral</td><td colspan="6">Material upside factor</td><td colspan="6">Significant upside factor</td></tr>
<tr><td>Standalone rating</td><td colspan="30">bbb</td></tr>
<tr><td>STEP 3</td><td>External support</td><td colspan="30">Not applicable</td></tr>
<tr><td colspan="2">Issuer rating</td><td colspan="30">BBB</td></tr>
</table>

**Table 2: Credit ratings**

| | | Credit rating | Outlook |
|---|---|---|---|
| **Issuer** | **Pareto Bank ASA** | | |
| | Issuer rating | BBB | Positive |
| | Preferred senior unsecured debt rating | BBB | Positive |
| | Non-preferred senior unsecured debt rating | BBB- | Positive |

## 1. Business model

Pareto Bank is a Norwegian commercial bank focused on real estate, corporate and ship financing. Although its overall market position is limited, the bank has a solid market position with medium-sized companies. The bank competes on the quality of service and tailored financing solutions rather than price, adding value through its expertise, responsiveness and efficiency.

'Focused - low' business model assessment

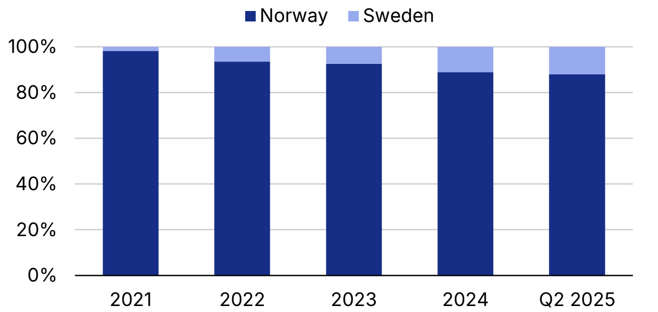
Since 2008, the bank has consistently grown volumes and revenues organically. However, given the focus on project financing and the relatively short-term nature of credit exposures (typically 1-3 years), business volumes are more sensitive to the economic and investment cycle.

Measured expansion in Sweden

Activities are concentrated in the Oslo region and other large Norwegian cities, but the bank is also cautiously developing its presence in Sweden, where it opened a branch in 2024. Pareto Bank has been active in Sweden since 2014, first by serving Norwegian clients with financing needs in the country but also by servicing Swedish clients since 2019.

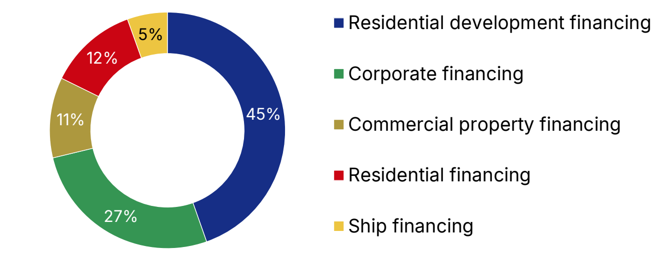
Swedish exposures consist of real estate financing and now account for 12% of the overall credit portfolio. Mirroring the strategy in the home market, the objective is to develop a sustainable business which adds to returns. In Sweden, the bank does not have volume based growth targets and typically applies stricter underwriting criteria than for Norwegian exposures.

**Figure 1: Credit exposure by geography**




Source: Pareto Bank, Scope Ratings

**Figure 2: Credit exposure by business segment, Q2 2025**



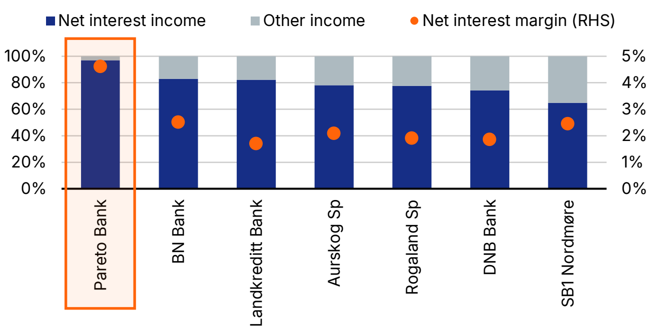

Source: Pareto Bank, Scope Ratings

Pareto Bank targets a return on equity of 15% over the long term. Due to its specialised, tailor made financing solutions and strategic focus on profitability, the bank is able to achieve high margins. At the same time, its revenues derive almost entirely from net interest income, while most of its peers have a higher proportion of fee and commission income (Figure 3). The bank's profitability is supported by high efficiency, with a cost-to-income ratio well below that of most Norwegian banks. The cost-to-income ratio has consistently remained below 20%.

Strong performance tack record

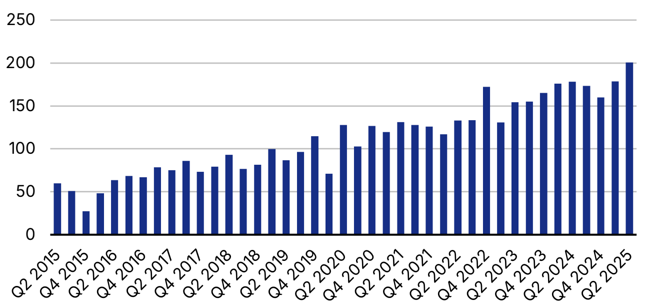
Management has demonstrated its ability to adapt to changing business cycles while maintaining high returns and not significantly changing its risk appetite. In challenging periods for the real estate and shipping sectors, the bank has tightened underwriting criteria and reduced exposures.

**Figure 3: Revenue profile – peer comparison**




Note: Three-year averages based on 2022-2024 Source: SNL, Scope Rating

**Figure 4: Quarterly net income development (NOK m)**




Source: SNL, Scope Ratings

| Overview of Pareto Bank's main business lines | |
|---|---|
| **Residential development financing** | Residential property development primarily in eastern Norway and larger Norwegian cities. The bank has financed more than a thousand housing development projects. Financing is also provided for land acquisition, construction, conversion and renovation. |
| **Residential financing** | Rental housing properties. |
| **Commercial property financing** | Long-term cash-flow based financing and development financing for commercial real estate. |
| **Corporate financing** | The bank provides a wide range of tailored financing solutions to medium-sized Norwegian companies. These include investment loans, M&A financing, bridge loans, working capital facilities, accounts receivables loans and securities financing. |
| **Ship financing** | First lien financing is offered primarily to Norwegian ship owners, family offices and the investment project market. The focus is on larger and more liquid segments such as dry bulk carriers, oil and product tankers and container ships, although exposure will vary depending on the business cycle for the various segments. The bank also participates in syndicates with other banks. |

## 2. Long-term sustainability (ESG-D)

'Developing' long-term sustainability assessment

Pareto Bank is actively addressing sustainability related risks and opportunities, meeting stakeholder expectations. ESG management, however, is currently not a differentiating factor for the bank's credit profile.

Key elements of the bank's sustainability policy are included in the bank's strategy, integrated with risk management, and regularly reported.

The bank aims to identify, assess, monitor and manage ESG-related risks associated with its financing activities, and ESG considerations are part of the underwriting process. The vast majority of customers are assigned ESG scores.

Pareto Bank is exposed to environmental risks through its financing of real estate development projects and shipping vessels. Given its sectoral focus, the bank is also aware of the need to assess customers against social and governance factors, e.g. if operating in an industry with poor working conditions and weak corporate governance.

The composition of the bank's board is compliant with the Norwegian Code of Practice for Corporate Governance, with all regular board members being independent.

The bank remains financially and operationally independent of the Pareto AS group and under its banking license is restricted from granting credit to or issuing guarantees in favour of companies in the group. There is, however, the sharing of expertise and a common business-oriented corporate culture.

Pareto Bank fosters a culture characterised by teamwork, inclusiveness and high performance. To incentivise long-term performance, the bank has had a profit-sharing plan for all employees since 2014. A share purchase programme has also been in place since 2016.

Like most Norwegian banks, Pareto Bank outsources the operation and maintenance of IT systems/banking applications to external contractors. In January 2022, the bank renewed its contract with Tietoevry, its main provider, for five years, covering back-office solutions, online banking, AML, and payment processing. The bank's outsourcing policy includes continuity plans.

**Figure 5: Long-term sustainability overview table[1] -**


Source: Scope Ratings

## 3. Earnings capacity and risk exposures

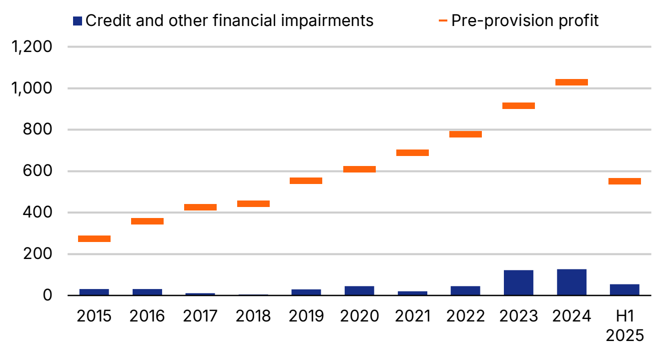
'Supportive' earnings capacity and risks exposures' assessment

Pareto Bank's strong and consistent profitability underpins a high capacity to absorb credit costs and support growth. Over time, the bank has successfully grown business volumes, increased margins and improved efficiency. Return on equity has fluctuated between a low of 12.6% and a high 15.2% over the past decade. For H1 2025, the return on equity was 13.9%. Management's long-term ambition is a return on equity of at least 15%, which it considers achievable under normal market conditions.

While credit exposures are less granular than for an average retail and commercial bank, Pareto Bank demonstrates sound risk management and has a history of low credit losses. All credit exposures are secured by various forms of collateral, including real estate, ships, securities, guarantees and cash deposits.

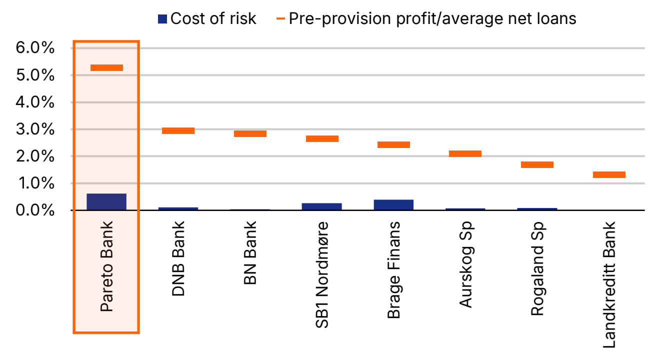
The bank's cost of risk exhibits greater variability than most peers, with levels often fluctuating with the performance of individual financing projects (Figure 8). With weak demand for newbuilds since 2023, the bank has incurred higher loan loss provisions on residential property financing exposures.

**Figure 6: Pre-provision income and provisions (NOK m)**




Source: SNL, Scope Ratings

**Figure 7: Peer comparison**



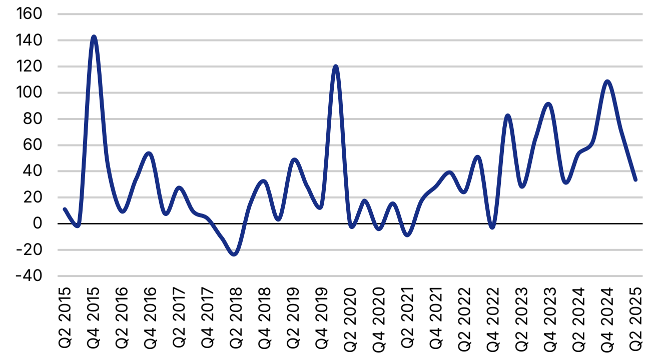

Note: Three-year averages based on 2022-2024.
Source: SNL, Scope Ratings

Pareto Bank's credit policy includes guidelines to ensure that exposures are diversified by industry, property type and commitment size. Shipping and offshore is limited to 15% of total credit exposure, with individual segments not exceeding 25% of total shipping and offshore exposure. There are also self-imposed maximum exposure limits for individual customers and for groups on a consolidated basis.

[1] The overview table illustrates how each factor informs our overall assessment. Materiality refers to our assessment of the credit relevance of each factor for the banking industry. Exposure refers to what extent the bank is exposed to risks or benefits from opportunities compared to peers, given its business model and countries of operation. Management refers to how we view the bank's navigation through transitions.

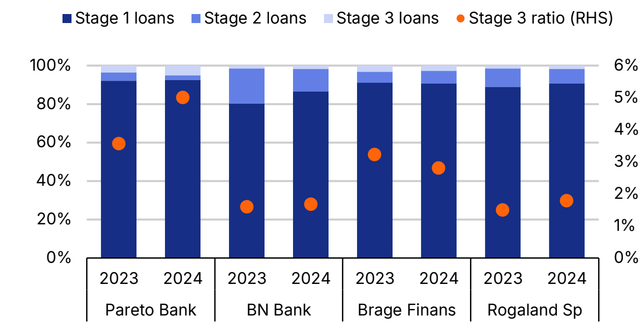
In addition, the bank aims to have most of its credit exposures in the 'low risk' and 'moderate risk' categories according to its internal risk classification model, which includes both a probability of default and a loss given default dimension. As of Q2 2025, 'low' and 'moderate' risk exposures accounted for 88% of the total, with 8% being classified as 'high risk' and 4% as impaired.

**Figure 8: Cost of risk (bps)**



Source: Company data, Scope Ratings

**Figure 9: Asset quality - peer comparison**




Source: Company data, Scope Ratings

## 4. Financial viability management

'Adequate' financial viability management assessment

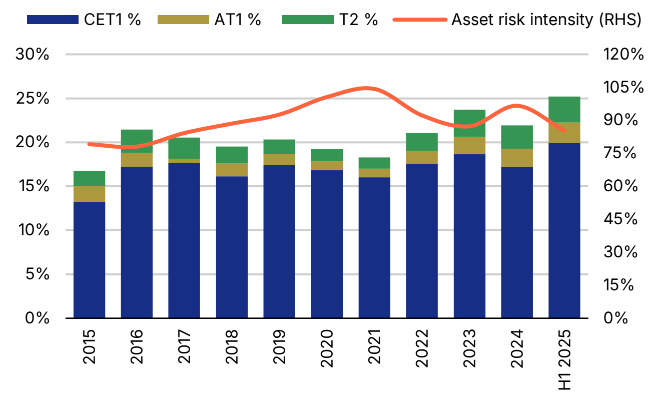
Pareto Bank takes a proactive approach to ensure that sufficient buffers to regulatory solvency requirements are maintained. This includes controlled business growth, retained earnings (50% dividend payout ratio target), and equity issues as needed.

Since August 2023, the bank has been subject to a Pillar 2 requirement of 3.1% and a Pillar 2 guidance of 1%. With the addition of Pillar 1 requirements and other buffers, the Norwegian FSA expects the bank to have a CET1 capital ratio of at least 16.3%. The bank maintains a buffer above this level.

The quality of the bank's solvency metrics is high, given the use of standardised models and an asset risk intensity of about 85%. As of Q2 2025, the leverage ratio stood at 17%.

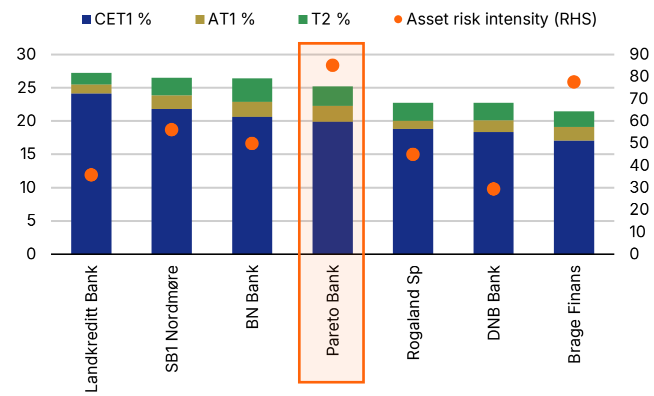
The implementation of CRR3 in Norway in April 2025, resulted in a net increase in the CET1 ratio of about 140 bp, with lower risk weights for operational risk and residential exposures and higher risk weights for loan commitments and commercial property development exposures. Moreover, in June 2025, EBA published its final "Guidelines on ADC exposures to residential property under CRR". This has removed uncertainty surrounding risk weights on residential property development exposures.

**Figure 10: Capital profile**




Source: SNL, Scope Ratings

**Figure 11: Capital profile – peer comparison (Q2 2025)**




Source: SNL, Scope Ratings

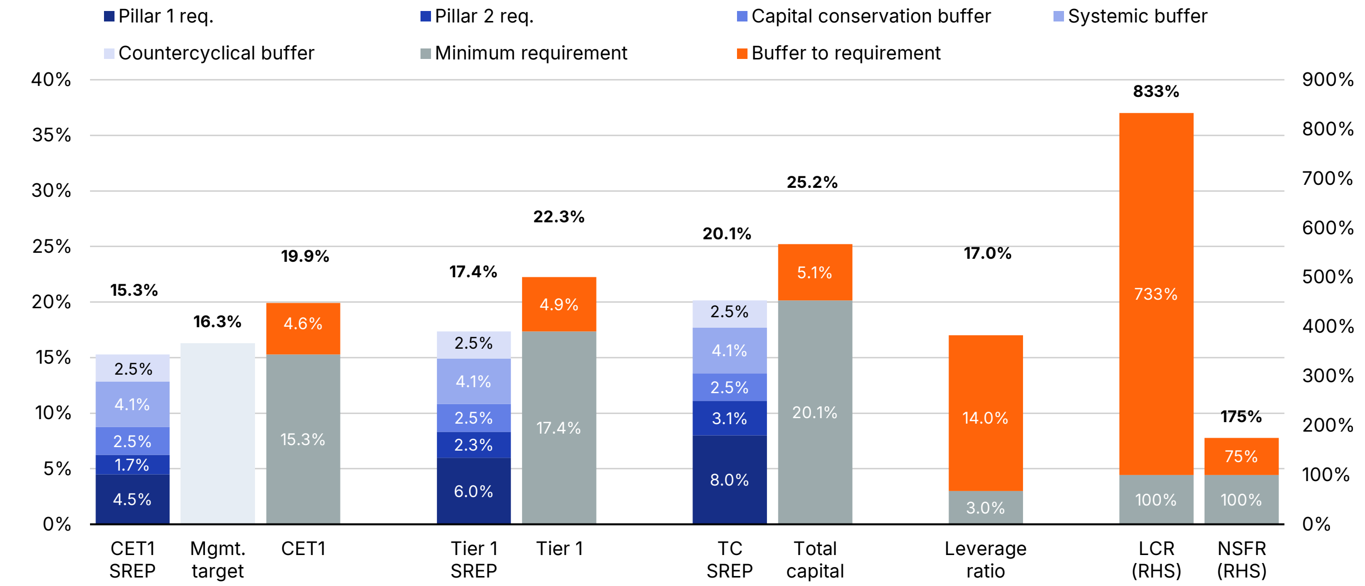
Customer deposits represent the largest source of funding, with the bank targeting a 60-70% deposit-to-loan ratio over time. This ratio has been steadily increasing and reached 71% as of Q2 2025. Although only 29% of deposits are protected by the national deposit guarantee scheme, 75% of deposits have withdrawal restrictions.

Compared to peers who rely primarily on retail deposits and covered bonds, the bank's focus on commercial banking and more cyclical sectors could potentially make the bank's funding profile more sensitive to investor sentiment and market developments.

We view positively that Pareto Bank aims for a high level of excess liquidity and maintains liquidity metrics at reassuring levels. As of Q2 2025, the bank's NSFR and LCR stood at 175% and 833%, respectively. These figures reflect improvements over the past three years. By comparison, at year-end 2022, the NSFR and LCR were respectively 147% and 238%.

The bank's liquidity buffer consists of cash deposits at Norges Bank and DNB Bank (more than one-third) and high-quality liquid bonds. As of Q2 2025, approximately 43% of the bond portfolio was invested in government and public sector bonds, with the remainder mainly in covered bonds. The assets qualify for the LCR portfolio, and the vast majority of the securities can be repo'd with the central bank.

**Figure 12: Overview of distance to requirements as of Q2 2025**




Source: Company data, Scope Ratings

## Appendix 1. Selected financial information – Pareto Bank

| | 2021 | 2022 | 2023 | 2024 | H1 2025 |
|---|---|---|---|---|---|
| **Balance sheet summary (NOK m)** | | | | | |
| **Assets** | | | | | |
| Cash and interbank assets | 907 | 747 | 1,651 | 2,640 | 3,214 |
| Total securities | 3,145 | 4,088 | 5,557 | 3,746 | 5,007 |
| of which, derivatives | 40 | 80 | 134 | 87 | 111 |
| Net loans to customers | 15,805 | 17,346 | 18,518 | 20,713 | 19,249 |
| Other assets | 127 | 115 | 121 | 138 | 136 |
| **Total assets** | **19,985** | **22,296** | **25,847** | **27,237** | **27,606** |
| **Liabilities** | | | | | |
| Interbank liabilities | 14 | 10 | 77 | 54 | 61 |
| Senior debt | 6,038 | 7,183 | 7,756 | 7,347 | 7,348 |
| Derivatives | 38 | 38 | 29 | 62 | 21 |
| Deposits from customers | 9,501 | 10,121 | 11,946 | 13,249 | 13,711 |
| Subordinated debt | 270 | 421 | 699 | 700 | 700 |
| Other liabilities | 302 | 303 | 334 | 388 | 295 |
| **Total liabilities** | **16,163** | **18,075** | **20,842** | **21,801** | **22,137** |
| Ordinary equity | 3,622 | 3,920 | 4,555 | 4,887 | 4,919 |
| Equity hybrids | 200 | 300 | 450 | 550 | 550 |
| Minority interests | 0 | 0 | 0 | 0 | 0 |
| **Total liabilities and equity** | **19,985** | **22,296** | **25,847** | **27,237** | **27,606** |
| *Core tier 1/ common equity tier 1 capital* | *3,339* | *3,611* | *4,203* | *4,520* | *4,687* |
| **Income statement summary (NOK m)** | | | | | |
| Net interest income | 838 | 929 | 1,113 | 1,227 | 634 |
| Net fee & commission income | 5 | 6 | 13 | 15 | 6 |
| Net trading income | 2 | 26 | -9 | 9 | 33 |
| Other income | 5 | 4 | 2 | 2 | 2 |
| **Operating income** | **851** | **965** | **1,119** | **1,253** | **676** |
| Operating expenses | 162 | 187 | 203 | 225 | 124 |
| **Pre-provision income** | **688** | **779** | **916** | **1,028** | **551** |
| Credit and other financial impairments | 20 | 45 | 122 | 127 | 54 |
| Other impairments | 0 | 0 | 0 | 0 | 0 |
| Non-recurring income | 0 | 0 | 0 | 0 | 0 |
| Non-recurring expense | 0 | 0 | 0 | 0 | 0 |
| **Pre-tax profit** | **668** | **734** | **794** | **900** | **497** |
| Income from discontinued operations | 0 | 0 | 0 | 0 | 0 |
| Income tax expense | 164 | 178 | 189 | 213 | 118 |
| Other after-tax Items | 0 | 0 | 0 | 0 | 0 |
| Net profit attributable to minority interests | 0 | 0 | 0 | 0 | 0 |
| **Net profit attributable to parent** | **505** | **555** | **605** | **687** | **379** |

Source: SNL, Scope Ratings
Note: Figures above may differ from reported figures.

## Appendix 2. Selected financial information – Pareto Bank

| | 2021 | 2022 | 2023 | 2024 | H1 2025 |
|---|---|---|---|---|---|
| **Funding and liquidity** | | | | | |
| Net loans/ deposits (%) | 166% | 171% | 155% | 156% | 140% |
| Liquidity coverage ratio (%) | 129% | 238% | 688% | 511% | 833% |
| Net stable funding ratio (%) | 157% | 147% | 688% | 165% | 175% |
| **Asset mix, quality and growth** | | | | | |
| Net loans/ assets (%) | 79.1% | 77.8% | 71.6% | 76.0% | 69.7% |
| Problem loans/ gross customer loans (%) | 1.9% | 0.9% | 3.5% | 5.3% | 5.5% |
| Loan loss reserves/ problem loans (%) | 31.5% | 80.0% | 29.4% | 27.3% | 33.2% |
| Net loan growth (%) | 7.8% | 9.7% | 6.8% | 11.9% | -14.1% |
| Problem loans/ tangible equity & reserves (%) | 7.6% | 3.8% | 12.8% | 19.5% | 18.5% |
| Asset growth (%) | 2.6% | 11.6% | 15.9% | 5.4% | 2.7% |
| **Earnings and profitability** | | | | | |
| Net interest margin (%) | 4.3% | 4.3% | 4.6% | 4.7% | 4.6% |
| Net interest income/ average RWAs (%) | 4.1% | 4.6% | 5.1% | 5.1% | 4.9% |
| Net interest income/ operating income (%) | 98.6% | 96.2% | 99.4% | 97.9% | 93.9% |
| Net fees & commissions/ operating income (%) | 0.6% | 0.6% | 1.2% | 1.2% | 0.9% |
| Cost/ income ratio (%) | 19.1% | 19.3% | 18.2% | 18.0% | 18.4% |
| Operating expenses/ average RWAs (%) | 0.8% | 0.9% | 0.9% | 0.9% | 1.0% |
| Pre-impairment operating profit/ average RWAs (%) | 3.4% | 3.9% | 4.2% | 4.2% | 4.3% |
| Impairment on financial assets / pre-impairment income (%) | 2.9% | 5.8% | 13.3% | 12.4% | 9.8% |
| Loan loss provision/ average gross loans (%) | 0.1% | 0.3% | 0.7% | 0.6% | 0.5% |
| Pre-tax profit/ average RWAs (%) | 3.3% | 3.7% | 3.7% | 3.7% | 3.8% |
| Return on average assets (%) | 2.6% | 2.6% | 2.5% | 2.6% | 2.7% |
| Return on average RWAs (%) | 2.5% | 2.8% | 2.8% | 2.8% | 2.9% |
| Return on average equity (%) | 13.4% | 14.1% | 13.3% | 13.2% | 13.7% |
| **Capital and risk protection** | | | | | |
| Common equity tier 1 ratio (%) | 16.0% | 17.6% | 18.6% | 17.2% | 19.9% |
| Tier 1 capital ratio (%) | 17.0% | 19.0% | 20.6% | 19.3% | 22.3% |
| Total capital ratio (%) | 18.3% | 21.1% | 23.7% | 21.9% | 25.2% |
| Leverage ratio (%) | 16.0% | 16.5% | 17.1% | 17.1% | 17.0% |
| Asset risk intensity (RWAs/ total assets, %) | 104.3% | 92.2% | 87.3% | 96.6% | 85.2% |
| **Market indicators** | | | | | |
| Price/ book (x) | 1.1x | 0.9x | 0.9x | 1.1x | 1.3x |
| Price/ tangible book (x) | 1.2x | 0.9x | 0.9x | 1.1x | 1.3x |
| Dividend payout ratio (%) | 49.4% | 50.1% | 52.8% | 50.1% | NA |

Source: SNL, Scope Ratings
Note: Figures above may differ from reported figures.

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