Pareto Bank ASA Issuer Rating Report

STABLE
BBB

Scope's credit view (summary)

Pareto Bank's **BBB issuer rating** reflects a focused commercial banking business specialising primarily in real estate and corporate financing for medium-sized Norwegian companies, with a strong track record of operating performance.

The bank generates robust returns, underpinned by a strategic priority to achieve a level of profitability which provides strong capacity to absorb credit costs and to support growth. Asset quality is sound, reflecting the bank's prudent underwriting criteria. While the cost of risk is subject to higher variability than peers due to the less granular and more cyclical nature of its credit exposures, the bank has a history of low credit losses.

Through earnings retention and controlled lending growth, the bank maintains a strong solvency position in line with relatively high requirements. Management is committed to ensuring appropriate buffers to supervisory expectations. Given its business activities and funding profile, we consider the bank to be more sensitive to investor sentiment. At the same time, the bank maintains reassuring liquidity metrics.

Outlook

The **Stable Outlook** reflects our expectation that the bank's operating performance will remain resilient in a less benign business cycle.

What could move the rating up:

- Continued profitable growth, with increased business and geographic diversification.

What could move the rating down:

- A weakening in asset quality which materially impacts profitability.
- A deterioration in the stability of the funding profile.

Ratings & Outlook

Issuer rating	BBB
Senior unsecured debt rating	BBB
Senior unsecured (subordinated) debt rating	BBB-
Outlook	Stable

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Issuer profile

Established in 2007, Pareto Bank is a Norwegian commercial lender focused on real estate, corporate and ship financing. The bank targets medium-sized companies which are underserved by other market players. Activities are concentrated in the Oslo region and other larger cities in Norway.

The bank also offers ordinary banking services such as deposits and payments to retail and corporate customers. In addition, the bank holds a 33% stake in NyeBoliger AS (Sem & Johnsen Prosjektmegling), a real estate broker specialising in the sale of homes under construction.

Pareto Bank has been listed on the Oslo Stock Exchange since 2016. The bank had around 60 employees and NOK 25bn in assets as of 30 June 2023.

Recent events:

- **Q2 2023 results**. The bank reported a profit after tax of NOK 154m and a return on equity of 14.8%, up from 14.5% in Q2 2022. Performance was supported by the increased interest rate environment, loan growth and higher fee income. Impairments in the quarter totaled NOK 12.9m, up from NOK 9.6m in Q2 2022. The increase was partially attributable to revised macroeconomic assumptions. The CET1 ratio was stable over the quarter and stood at 17.2%.
- **Increased return target**. In Q2 2023, the bank increased its return on equity target to 15% from 14%.
- **Updated SREP**. In Q2 2023, the bank received an updated Pillar 2 requirement of 3.1%, down from 3.2%. The new requirement has been in place since 31 August 2023. The bank was also given a Pillar 2 guidance of at least 1%.
- **Capital raise**. In August 2023, the bank raised NOK 350m in capital through a private placement to facilitate further growth.

Step		Assessment	Summary rationale
STEP 1	Operating environment	Very supportive	• Wealthy economy with well-developed capital markets and a track record of economic resilience • Supportive banking environment • Relatively stringent and active financial regulator
		Supportive	
		Moderately supportive	
		Constraining	
		Very constraining	
	Business model	Very resilient	• Commercial bank focused on real estate, corporate and ship financing as well as deposit and banking services for retail and corporate customers • Active mainly in South-East Norway, including Oslo and surrounding areas • Solid track record of operating performance
		Resilient	
		Consistent	
		Focused	
		Narrow	
	Mapping refinement	High	• Business is subject to greater variability compared to an average retail and commercial bank
		Low	
	Initial mapping	**bbb-/bbb**	
	Long-term sustainability	Best in class	• Has made good progress on assessing ESG risks associated with lending activities • IT systems adapted to business, with digital customer solutions being less of a differentiating factor
		Advanced	
		Developing	
		Lagging	
	Adjusted anchor	**bbb-**	
STEP 2	Earnings capacity & risk exposures	Very supportive	• Robust earnings underpinned by high margins, strong cost efficiency and low credit losses • Exposed to higher risk and more cyclical industries, with concentration risks being actively managed
		Supportive	
		Neutral	
		Constraining	
		Very constraining	
	Financial viability management	Ample	• Strong solvency position in line with relatively high requirements. High asset risk intensity • Potentially less stable corporate deposits account for the largest proportion of funding base. Funding profile is more sensitive to market sentiment
		Comfortable	
		Adequate	
		Limited	
		Stretched	
		At risk	
	Additional factors	Significant support factor	• No further considerations
		Material support factor	
		Neutral	
		Material downside factor	
		Significant downside factor	
	Standalone	**bbb**	
STEP 3	External support	Not applicable	
Issuer rating		**BBB**	

Specialised commercial bank serving primarily medium-sized Norwegian companies

The 'focused' business model assessment reflects a commercial banking business specialising in real estate, corporate and ship financing, with exposures concentrated in South-East Norway. Pareto Bank successfully targets medium-sized Norwegian companies which are underserved by other market players, although its overall market position is limited. The bank's operating performance track record points to the soundness of the business model.

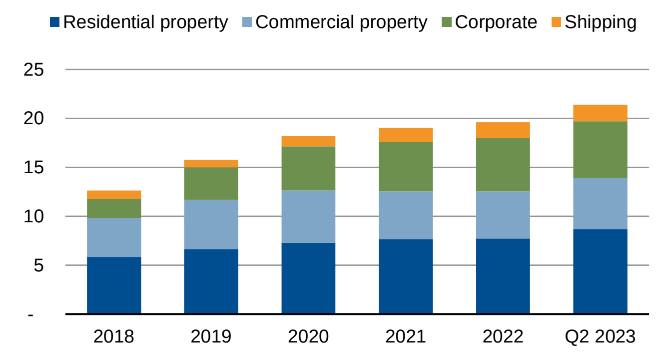
The 'very supportive' operating environment assessment reflects Norway's wealthy and resilient economy as well as the supportive operating environment for banking activities. Meanwhile, higher interest rates have led to a reduction in economic activity, with lower housing and business investment expected in the near term.

Project financing specialist

Pareto Bank is a commercial bank focused on real estate, corporate and ship financing. The bank targets medium-sized companies which are not well catered to by large commercial banks and savings banks. The bank competes on the quality of service rather than price, adding value through its expertise, responsiveness and efficiency.

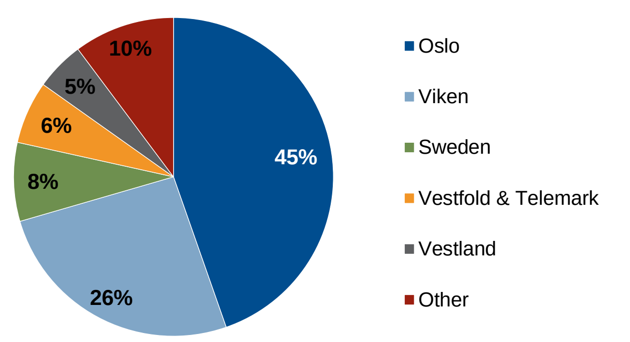
Most of the bank's activities are in the Oslo region and other large Norwegian cities. In 2021, the bank cautiously expanded into Sweden, following Norwegian clients with financing needs in the country. Sweden now accounts for 8% of credit exposure, with much of it being related to real estate financing. Management aims to establish a sustainable and profitable business in the country which adds to the bank's overall returns. There is no growth target for this business and the bank is selective in the projects it takes on.

Figure 1: Credit exposure by business segment (NOK bn)



Source: Bank, Scope Ratings

Figure 2: Credit exposure by geography (%)



Note: Data as of Q2 2023. Credit exposure of NOK 21bn.
Source: Bank, Scope Ratings

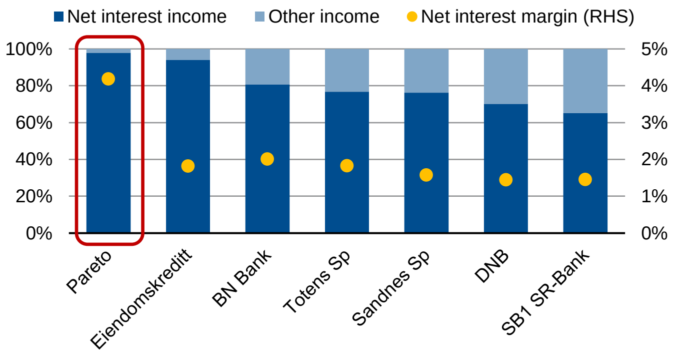
With a specialised business and profitability as a strategic cornerstone, Pareto Bank achieves higher margins compared to peers (Figure 3). Loans must be profitable from the first day, with management targeting a 15% return on equity over the long term. Profitability is supported by strong efficiency, with the bank's cost-income ratio being well below that of most other Norwegian banks (Figure 4).

Strong track record of operating performance

The bank's operating performance has proved to be resilient in more challenging periods, such as when oil prices materially declined in 2014-2015 and during the Covid-19 pandemic. Management has also demonstrated the ability to adapt the business to achieve targeted returns while remaining within its risk appetite. For example, following a difficult period for the shipping and offshore sector in 2014-2015, the bank revised its credit policy and reduced exposures.

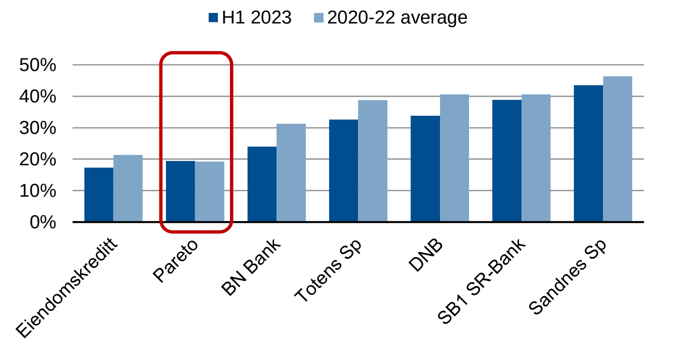
Pareto Bank has a strong track record of consistent organic volume and revenue growth. Nevertheless, with a focus on project financing and relatively short-dated credit exposures, the bank must regularly seek new business opportunities.

Figure 3: Revenue profile – peer comparison



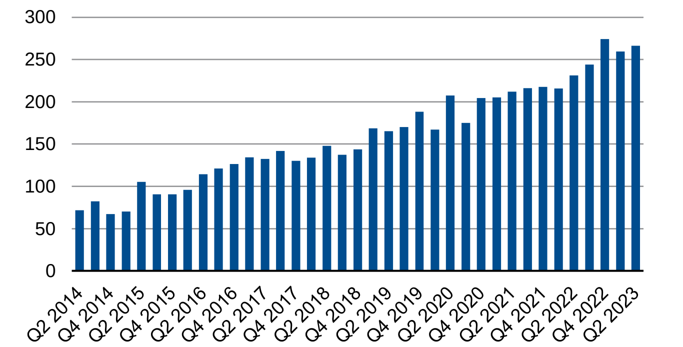
Note: Three-year average based on 2020-2022.
Source: SNL, Scope Ratings

Figure 4: Cost-income ratio – peer comparison



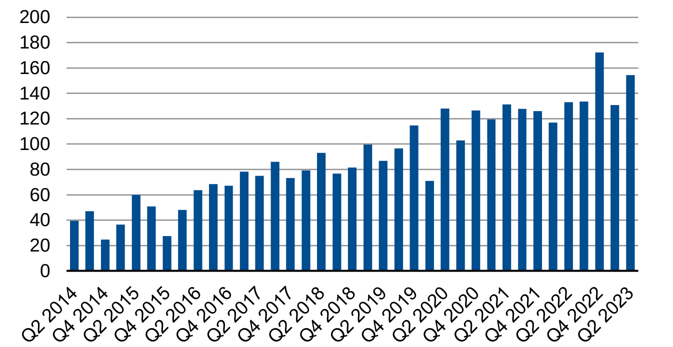
Source: SNL, Scope Ratings

Figure 5: Revenue development (NOK m)



Source: SNL, Scope Ratings

Figure 6: Net income development (NOK m)



Source: SNL, Scope Ratings

Box A: Overview of Pareto Bank's main business segments	
Real estate	Financing of residential property development and commercial property primarily in Eastern Norway and larger Norwegian cities. Since its inception in 2008, the bank has financed more than a thousand housing development projects. Financing is provided for land acquisition, construction, conversion and renovation. In addition, the bank provides long-term cash-flow based financing and development financing for commercial property. The bank also has a cooperation agreement with the specialist mortgage provider Eiendomskreditt AS.
Corporate	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.
Shipping	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.

Box A: Focus on Pareto Bank's country of domicile: Norway

Macroeconomic assessment

- With a population of 5.4m and a GDP of USD 576bn (2022), Norway is a relatively small open economy with one of the world's highest per capita incomes.
- The Norwegian economy demonstrated significant resilience during the Covid-19 pandemic and the energy crisis following the escalation of the Russia-Ukraine war. The economy is around 5% larger compared to pre-pandemic levels as of Q2 2023. Strong fiscal, monetary and financing governance supports the country's crisis resilience.
- High inflation is expected to result in slow growth in the second half of 2023, with annual growth reaching 1.2% and falling to 0.8% in 2024 before returning to a medium term average of 1.8%.
- A very strong government fiscal position provides ample capacity to support the economy as needed. Savings are accumulated through the world's largest sovereign wealth fund, the Government Pension Fund Global.
- The high home ownership rate of around 80% is a driver for high levels of household debt, both in historical terms and in comparison to other countries. Macroprudential measures concerning mortgages and consumer debt are in place to manage risks. Mortgage debt is primarily floating rate.
- Imbalances in the residential and commercial real estate sector remain challenges.
- The country's reliance on the oil and gas sector exposes it to long-term transition risks.

Soundness of banking sector

- The Norwegian banking system is dominated by DNB Bank, with a market share of around 30%. Nordea and other foreign banks account for about 20% of the retail market and 30% of the corporate market. There are also nearly 90 savings banks, with their size ranging from less than NOK 5bn to NOK 365bn in assets. Savings banks tend to operate locally or regionally and are part of alliances (SpareBank 1, Eika, DSS).
- Smaller savings banks are consolidating due to increasing competitive and regulatory pressures.
- Residential mortgages account for nearly 50% of total lending while the commercial real estate sector accounts for around 45% of corporate lending.
- Digitalisation is high and the use of cash is amongst the lowest in the world.
- A rigorous regulatory framework, with some of the highest solvency requirements amongst European banks.
- Norwegian banks are generally profitable, cost efficient and exhibit sound asset quality and solvency metrics.
- While customer deposits are the primary source of funding, the use of market funding is material, especially covered bonds.

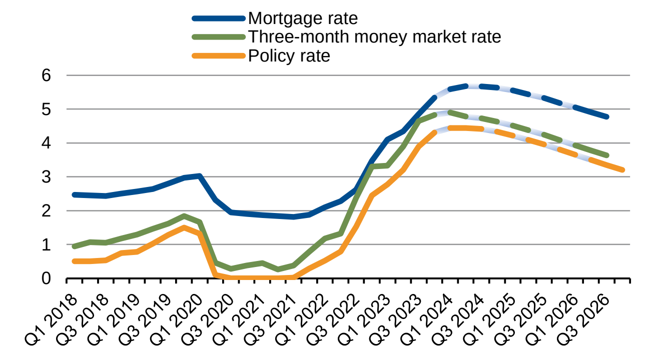
Key economic indicators	2020	2021	2022	2023F	2024F
GDP per capita (USD'000s)	68.4	90.8	106.3	NF	NF
Real GDP, % change	-1.3	3.9	3.3	1.2	1.3
Unemployment rate, %	4.4	4.4	3.2	3.5	3.6
Headline inflation, annual avg, %	1.3	3.5	5.8	5.5	2.7
Policy rate, %	0.00	0.50	2.75	4.25	4.25
Public debt, % of GDP	46	43	40	40	40

NF: not forecasted
Source: SNL, Scope Macroeconomic Council forecasts

Banking system indicators	2018	2019	2020	2021	2022
ROAA, %	1.0	1.1	0.8	1.0	1.0
ROAE, %	10.8	11.2	8.5	10.1	11.0
Net interest margin, %	1.7	1.8	1.7	1.6	1.8
CET1 ratio, %	16.6	17.8	18.2	18.4	18.3
Problem loans/gross customer loans, %	1.3	1.3	1.6	1.4	1.3
Loan-to-deposit ratio, %	160.2	163.2	151.7	143.1	143.6

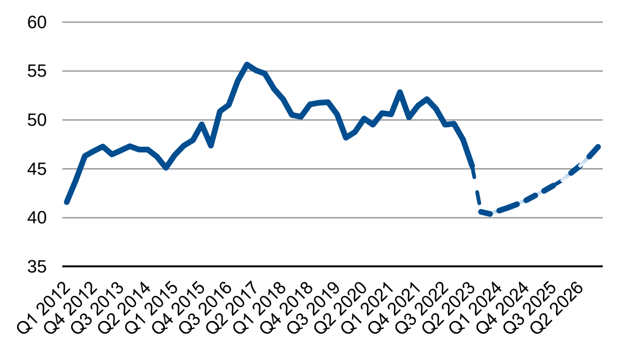
ROAA: return on average assets
ROAE: return on average equity
Source: SNL

Figure A: Interest rates (%)



Source: Norges Bank, Sept 2023 MPR

Figure B: Housing investment (NOK bn)

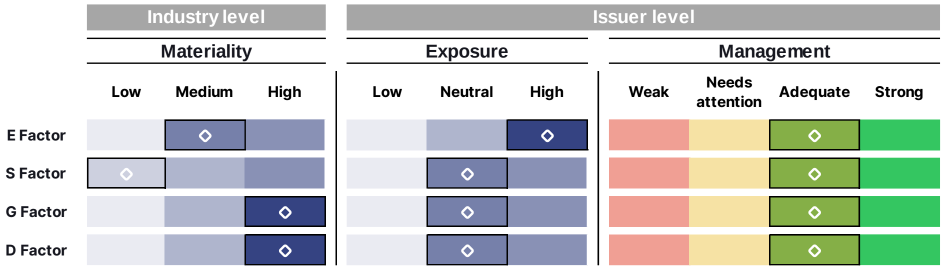


Note: Constant 2020 prices, seasonally adjusted.
Source: Norges Bank, Sept 2023 MPR

Actively addressing sustainability-related risks and opportunities

The 'developing' long-term sustainability assessment reflects our view that Pareto Bank is actively addressing associated risks and opportunities, with the progress made so far being in line with peers.

Figure 7: Exposure and management of key ESG-D factors[1]



Source: Scope Ratings

Governance

The composition of the bank's board is compliant with the Norwegian Code of Practice for Corporate Governance, with the majority of members being independent. Only one deputy member is considered not independent due to her position in Pareto AS, the bank's largest shareholder with a 20% stake.

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.

Social

Pareto Bank aims to foster a culture characterised by teamwork, inclusiveness and high performance with the belief that employees are its most important resource. 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. In 2022, 59% of employees participated in the programme.

The foundation for the bank's sustainability strategy was established several years ago when employees defined the bank's purpose beyond simply the generation of good returns. In 2020, an internal sustainability task force with representatives from the management team was established and a materiality analysis was performed. This involved identifying key stakeholders and their concerns. In the future, management intends to perform a full materiality analysis in line with GRI standards.

Comprehensive sustainability policy

The bank's board adopted a sustainability policy in November 2021. Key elements include: i) sustainability must be a part of the annual strategic process, with both opportunities and risks being identified and assessed; ii) sustainability should be an integral part of risk management; and iii) there should be reporting on sustainability, including at individual loan level and in the annual report.

[1] The overview table illustrates how each factor informs our overall long-term sustainability assessment. The materiality table shows how we view the credit relevance of each factor for the industry at large. The exposure table shows how we see the issuer's degree of exposure to each ESG-D factor. The management table shows how we view the issuer's management of these exposures.

ESG factors are part of credit process

The bank seeks to identify, assess, monitor and control ESG-related risks associated with its financing activities, with the consideration of ESG factors being a part of the underwriting process. For loans above NOK 50m, the bank aims to assign an ESG score. In 2022, the bank had assigned ESG scores to 88% of customers with loans above NOK 50m (nearly two-thirds of total loans), achieving its target to assign scores to over 80% of customers. The average score was 6.2, which the bank considers to be low risk.

Pareto Bank is exposed to environmental risks through its financing of real estate development projects and ships. In 2022, the bank did not identify significant physical or transition risks in its loan portfolio. Given its focus on SMEs, the bank is also aware of the need to assess customers against social and governance factors, such as operating in an industry with poor working conditions and weak corporate governance.

Less exposed to digital transition risks

As a corporate bank, Pareto Bank does not have a branch network, nor the same need for advanced digital customer solutions as for a typical retail bank. Nevertheless, technology is used to optimise processes and increase efficiency.

Like with 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 another five years, covering back-office solutions, online banking, AML, and payment processing. Continuity plans are included in the bank’s outsourcing policy.

The bank monitors IT security closely and in recent years has taken initiatives to strengthen capabilities to prevent fraud attempts and hacking attacks. This includes migrating to the Microsoft cloud environment and raising awareness with employees.

Strong profitability provides a buffer against potential losses from more cyclical credit exposures

The 'supportive' earnings capacity and risk exposures assessment reflects the bank's ability to achieve a level of profitability which provides a strong capacity to absorb credit costs and support growth. While credit exposures are less granular than for an average retail and commercial bank, management demonstrates sound risk management. The bank has a history of low credit losses.

Consistently high returns

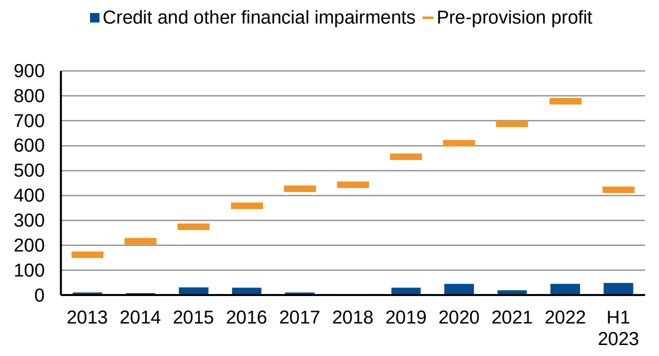
Over time, Pareto Bank has successfully grown business volumes, increased margins and improved efficiency. Management's long-term ambition is a return on equity of 15%. The bank recently returned to its 15% return ambition, having reduced it to 14% during the Covid-19 pandemic. Drivers for reaching the target include lending growth, higher margins and low credit losses. Since 2014, the bank has achieved returns of at least 14%, with the exception of 2020 when the reported return was 13%.

Through prudent underwriting and a collateralised loan book, the bank maintains a sound asset quality profile. Most credit exposures are normally secured by various forms of collateral, including real estate, ships, securities, guarantees and cash deposits.

Sound asset quality profile

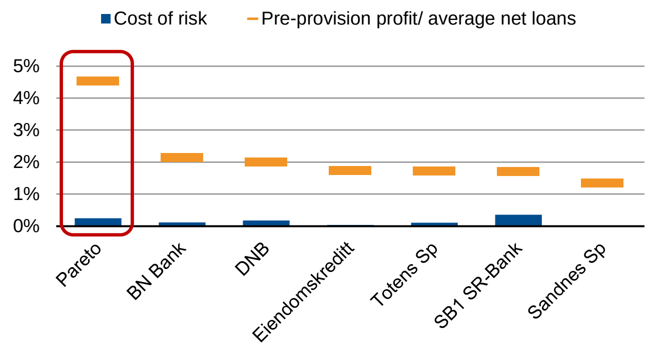
While not at the level of local savings banks, the bank's asset quality metrics are sound and comparable to other Norwegian banks with more corporate exposures. However, given the less granular and more cyclical nature of its exposure, the bank's cost of risk exhibits greater variability (Figure 12). Impairments will often fluctuate with the performance of individual projects.

Figure 8: Pre-provision profit vs impairments (NOK m)



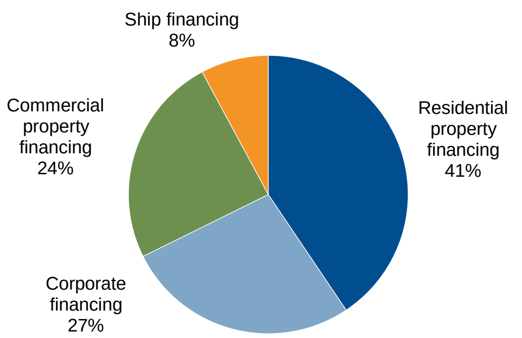
Source: Bank, Scope Ratings

Figure 9: Pre-provision profit vs impairments – peer comparison



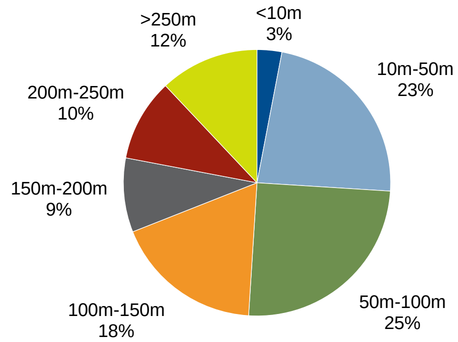
Note: Three-year average based on 2020-2023.
Source: SNL, Scope Ratings

Figure 10: Credit exposure by business segment



Note: Data as of Q2 2023. Credit exposure of NOK 21bn.
Source: Bank, Scope Ratings

Figure 11: Credit exposure by size (NOK)



Note: Data as of Q2 2023. Credit exposure of NOK 21bn.
Source: Bank, Scope Ratings

Guidelines ensure diversified and low risk exposures

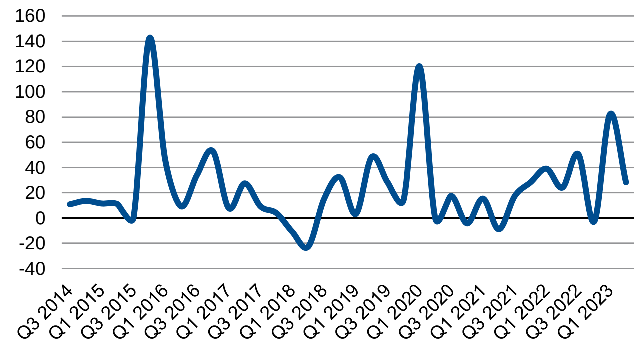
Pareto Bank's credit policies contain guidelines to ensure the diversification of exposure by sector, collateral and commitment size. Shipping is capped at 15% of total credit exposure, with individual segments normally not exceeding 25% of total shipping exposure. There is also a maximum exposure limit for single customers of NOK 300m and for groups on a consolidated basis of NOK 400m. In real estate financing, loans of NOK 50m-100m with one- to three-year terms are considered the bank's sweet spot. Similarly, with corporate financing, loans of NOK 20m-100m with two- to five-year terms are considered the sweet spot.

In addition, the bank aims to have the majority of its credit exposure in the very low and low risk categories in its internal risk classification model. The proportion of exposures in higher risk categories has been kept consistently at minimal levels (Figure 13).

For H1 2023, impairments amounted to NOK 49.3m (NOK 25.1m, H1 2022) of which NOK 39.5m were individual Stage 3 impairments related to a small number of residential housing development and corporate exposures. The impairments on residential housing were due to cost overruns as project completion has been delayed.

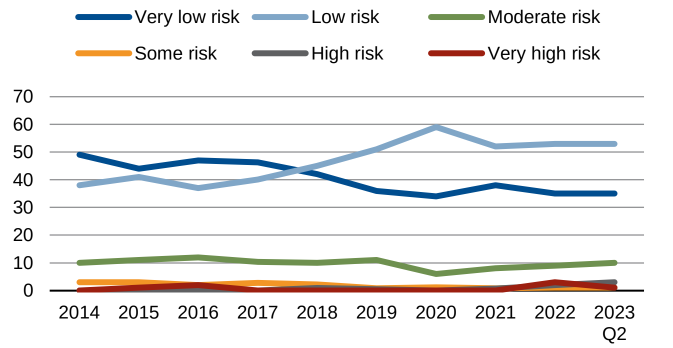
In Q2 2023, overall Stage 3 exposure was reduced by NOK 189.2m to NOK 345.9m, driven by repayments. The Stage 3 exposure ratio remains at a sound level of 1.6%.

Figure 12: Cost of risk (bp)



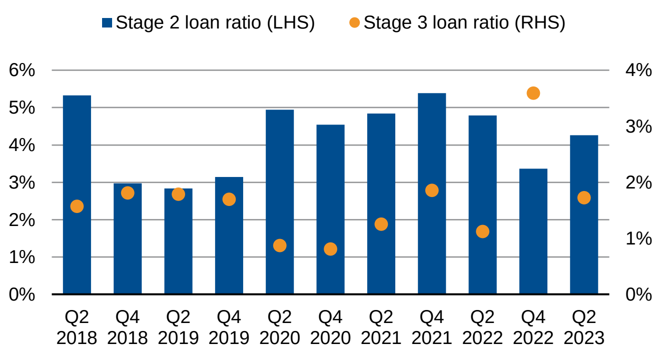
Cost of risk: provisions for loan losses/ average loans.
Source: SNL, Scope Ratings

Figure 13: Credit exposure by risk classification (%)



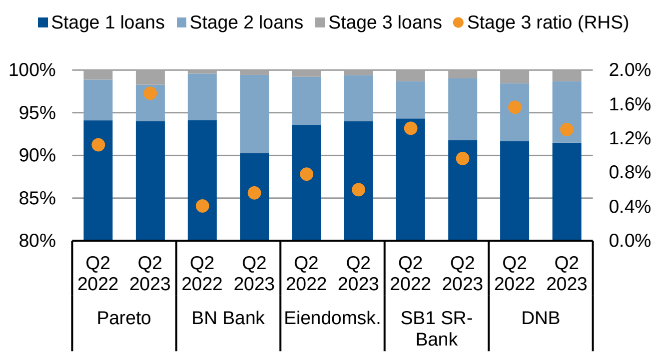
Note: Based on bank's internal risk classification model.
Source: Bank, Scope Ratings

Figure 14: Stage 2 and Stage 3 loan ratio development (%)



Source: SNL, Scope Ratings

Figure 15: Asset quality metrics – selected peer comparison

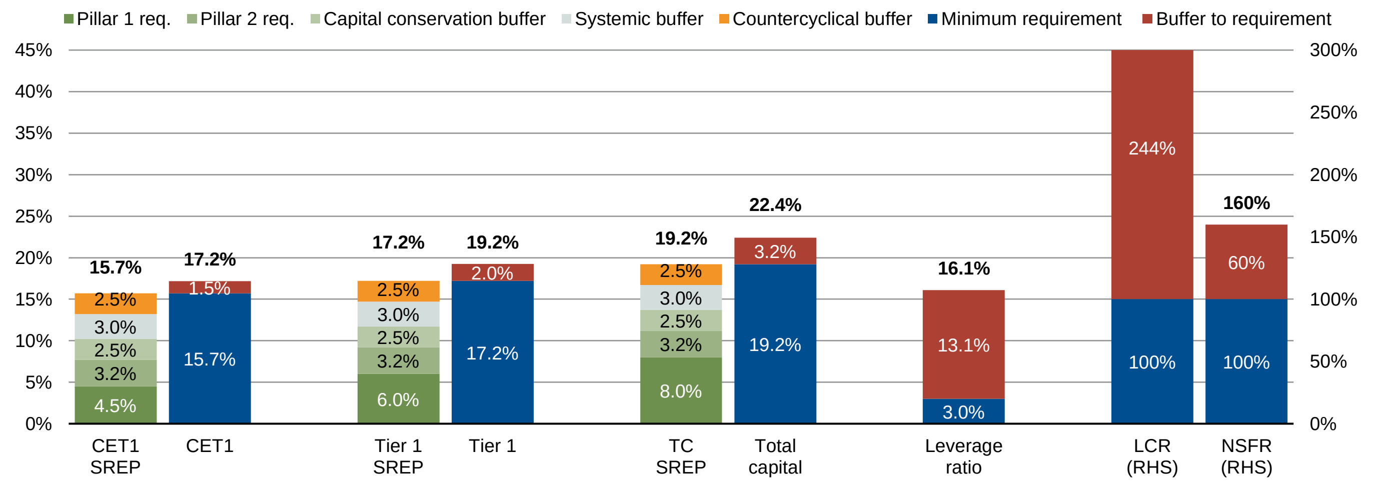


Source: SNL, Scope Ratings

Committed to meeting regulatory requirements. A less stable funding profile compared to peers

The 'adequate' financial viability management assessment reflects Pareto Bank's proactive approach to ensuring appropriate buffers to regulatory requirements and a less stable funding profile compared to peers.

Figure 16: Financial viability dashboard: overview of positioning vs key regulatory requirements (Q2 2023)



Note: Figures do not include the NOK 350m capital raise completed in August 2023.
Source: Bank, SNL, Scope Ratings

Strong organic capital generation

Through earnings retention and controlled lending growth, Pareto Bank has maintained capital ratios in line with increasing regulatory requirements. The bank's long-term ambition is a dividend payout ratio of at least 50%.

In August 2023, Pareto Bank raised NOK 350m in capital through a private placement to facilitate further growth and to maintain a solid capital position. The transaction increased the CET1 capital ratio by about 1.6%, based on RWA as of end-June 2023. The bank's largest shareholder, Pareto AS, participated and maintained its 20% stake.

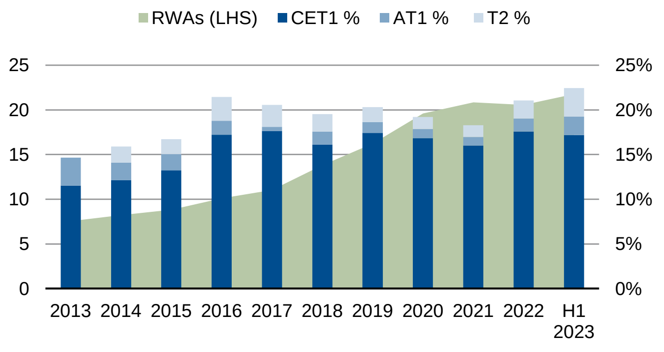
As of 30 June 2023, the bank was subject to a CET1 requirement of 15.7%, including a Pillar 2 requirement of 3.2%. In Q2 2023, the bank received an updated and reduced Pillar 2 requirement of 3.1% from the Norwegian FSA which has been applicable since the end of August 2023. With the updated requirement, the bank can now also meet the requirement with a mix of capital, in line with CRR/CRD. Anticipating this change, the bank issued AT1 securities in March this year.

Committed to maintaining a buffer above FSA expectation

The bank also received a Pillar 2 guidance of at least 1%. From year end, the systemic risk buffer will increase to 4.5% from 3% for banks like Pareto Bank using standardised models for calculating capital requirements. Consequently, the Norwegian FSA expects the bank to maintain a CET1 capital ratio of at least 16.7% from the end of 2023. Management is committed to maintaining a buffer above this level.

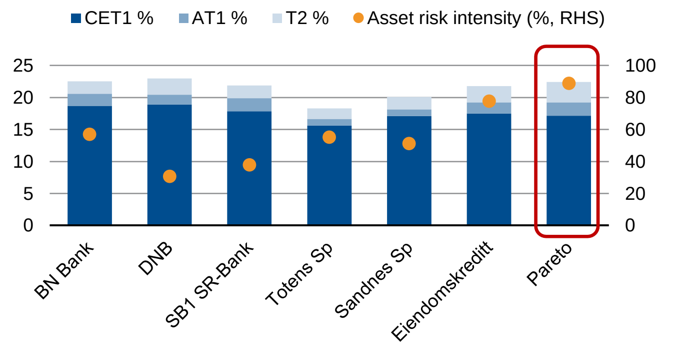
Given the use of standardised models and with exposures having an average risk weight between 100% and 105%, the quality of the bank's solvency metrics is high. As of Q2 2023, the leverage ratio stood above 16%.

Figure 17: Capital (%) and RWA (NOK bn) development



Source: Bank, Scope Ratings

Figure 18: Capital and RWA intensity (%) – peer comparison



Note: Data as of Q2 2023.
Source: SNL, Scope Ratings

Growing retail deposits is a positive development

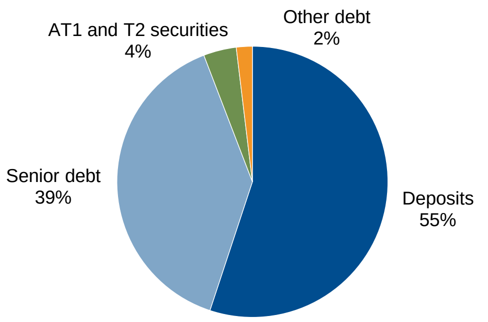
Customer deposits are the largest of source of funding, with the bank targeting a 60-70% deposit-to-loan ratio over time (Q2 2023: 61%). While increasing operational corporate deposits has been a focus, the bank is also keen to grow retail deposits, learning from the experience of Silicon Valley Bank. Marketing campaigns for attracting retail deposits have been successful, with the volume of retail deposits increasing by nearly 34% over the first six months of the year.

As with other Norwegian banks, the use of market funding is material. Pareto Bank issues senior unsecured debt as well as capital instruments. Over time, issuance has become more structured rather than being driven by reverse enquiries. The bank also maintains a debt profile with semi-annual maturities for flexibility. The cost of market funding has declined as the bank has an established Nordic Bond Pricing curve with several market makers.

More sensitivity to market sentiment

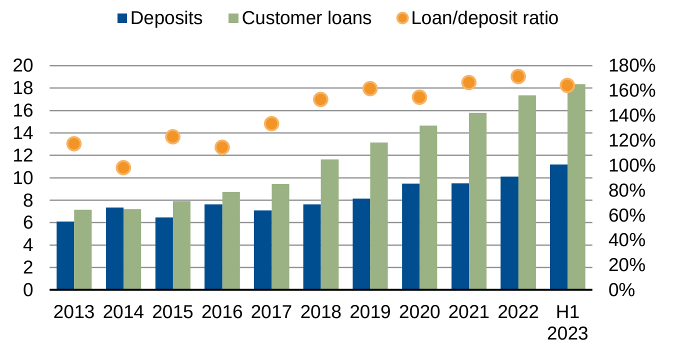
Given its business activities and funding profile, we consider Pareto Bank to be more sensitive to investor sentiment. Compared to peers who rely primarily on retail deposits and covered bonds, the bank's funding profile is potentially less stable. In particular, corporate deposits make up a material proportion of total deposits (Q2 2023: 65% by value). At the same time, more than half of deposits have withdrawal restrictions.

Figure 19: Funding profile



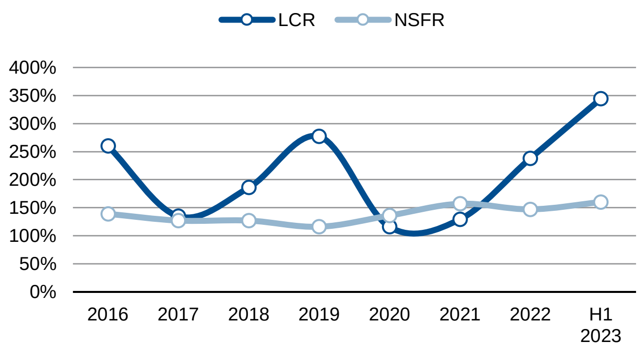
Note: Data as of Q2 2023.
Source: SNL, Scope Ratings

Figure 20: Deposit and loan development (NOK bn)



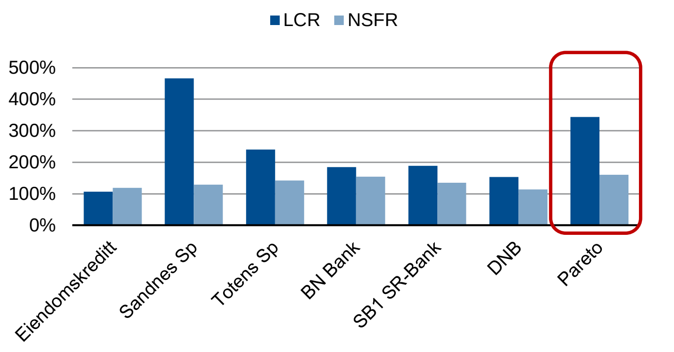
Source: SNL, Scope Ratings

Figure 21: LCR and NSFR development (%)



Source: SNL, Scope Ratings

Figure 22: LCR and NSFR (%) – peer comparison



Note: Data as of Q2 2023.
Source: SNL, Scope Ratings

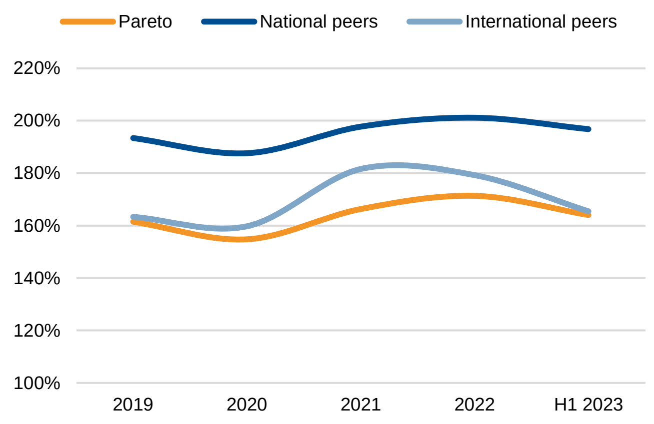
Reassuring liquidity metrics

Pareto Bank aims to maintain a high level of excess liquidity. Compared to a requirement of 100%, the bank targets a net stable funding ratio (NSFR) of at least 110% while the internal risk limit for the liquidity coverage ratio (LCR) is set at 120%. As of Q2 2023, the bank's NSFR and LCR stood at 164% and 344%, respectively.

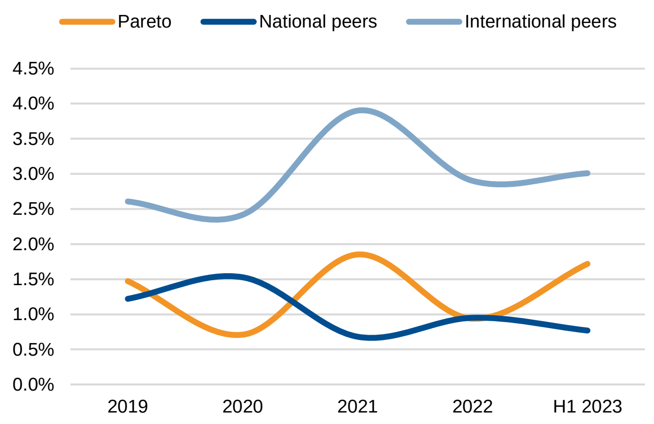
The bank's liquidity buffer is invested in short-term deposits and high-quality liquid bonds. As of Q2 2023, about 30% of the bond portfolio was invested in government and public sector entity debt, with the remainder primarily being in covered bonds with short-to-medium maturities. The assets qualify for the LCR portfolio and are marked to market.

I. Appendix: Peer comparison

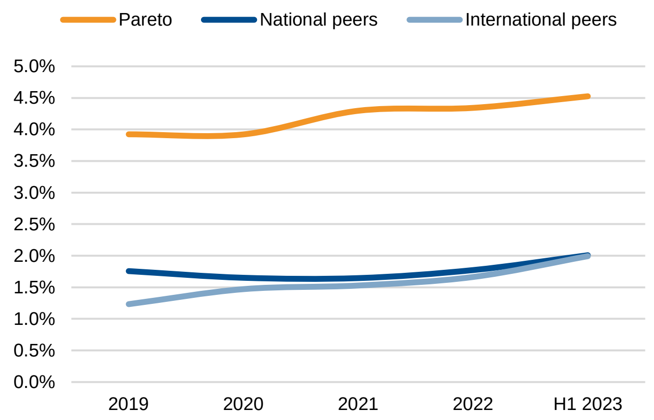
Net customer loans/ deposits (%)



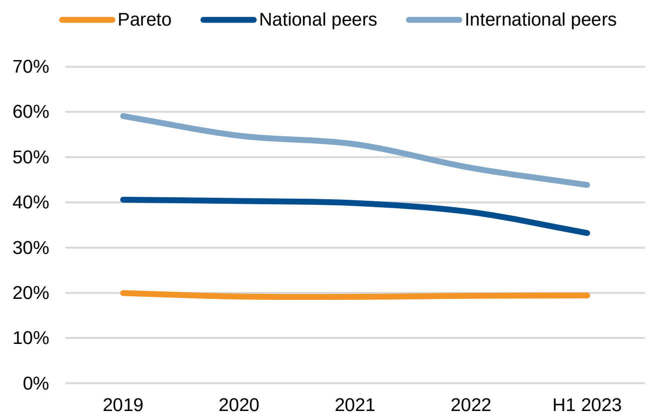
Problem loans/ gross customer loans (%)



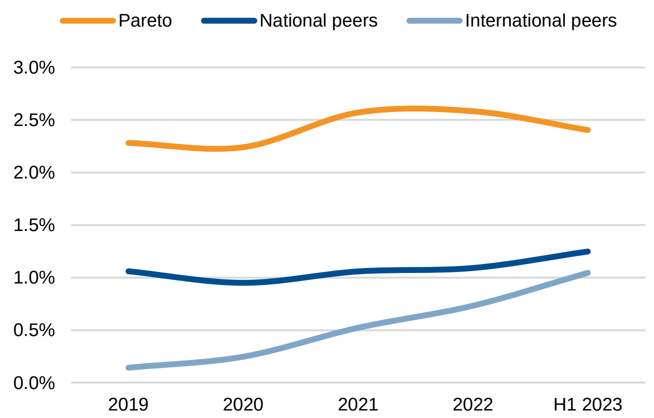
Net interest margin (%)



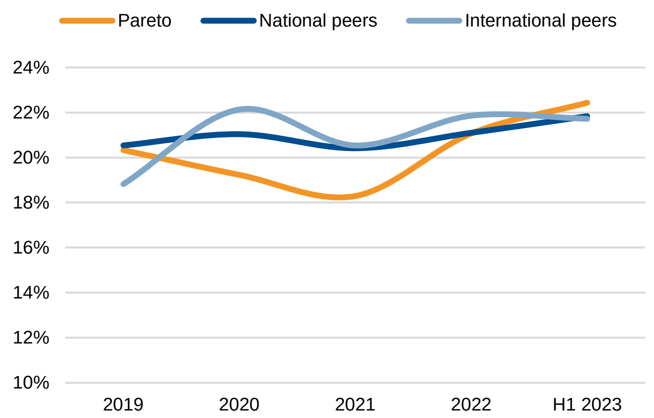
Cost-income ratio (%)



Return on average assets (%)



Total capital ratio (%)



National peers: BN Bank, DNB Bank, Eiendomskreditt, Sandnes Sparebank, Totens Sparebank, Sparebank 1 SR-Bank.
International peers: Aareal Bank AG, NIBC Holding NV, Hamburg Commercial Bank AG, Danmarks Skibskredit AS, Landesbank Saar, IKB Deutsche Industriebank AG, Norion Bank AB.
Notes: H1 2023 data unavailable for Landesbank Saar. Eiendomskreditt and Danmarks Skibskredit do not have customer deposits and therefore the loan to deposit ratio is not relevant.
Source: SNL

II. Appendix: Selected financial information – Pareto Bank ASA

	2019	2020	2021	2022	H1 2023
Balance sheet summary (NOK m)					
Assets					
Cash and interbank assets	924	1,081	907	747	2,001
Total securities	3,364	3,673	3,145	4,088	3,997
of which, derivatives	44	61	40	80	115
Net loans to customers	13,161	14,661	15,805	17,346	18,344
Other assets	62	63	127	115	126
Total assets	**17,511**	**19,478**	**19,985**	**22,296**	**24,468**
Liabilities					
Interbank liabilities	39	1,026	14	10	12
Senior debt	5,624	4,935	6,038	7,183	7,877
Derivatives	8	40	38	38	73
Deposits from customers	8,150	9,473	9,501	10,121	11,181
Subordinated debt	270	270	270	421	699
Other liabilities	163	197	302	303	258
Total liabilities	**14,253**	**15,942**	**16,163**	**18,075**	**20,100**
Ordinary equity	3,057	3,336	3,622	3,920	3,918
Equity hybrids	200	200	200	300	450
Minority interests	0	0	0	0	0
Total liabilities and equity	**17,511**	**19,478**	**19,985**	**22,296**	**24,468**
Core tier 1/ common equity tier 1 capital	*2,825*	*3,296*	*3,339*	*3,611*	*3,737*
Income statement summary (NOK m)					
Net interest income	680	747	838	929	534
Net fee & commission income	5	5	5	6	7
Net trading income	1	-7	2	26	-17
Other income	6	10	5	4	2
Operating income	**692**	**755**	**851**	**965**	**526**
Operating expenses	138	145	162	187	102
Pre-provision income	**554**	**610**	**688**	**779**	**424**
Credit and other financial impairments	30	45	20	45	49
Other impairments	0	0	0	0	0
Non-recurring income	NA	NA	NA	NA	NA
Non-recurring expense	NA	NA	NA	NA	NA
Pre-tax profit	**525**	**565**	**668**	**734**	**374**
Income from discontinued operations	0	0	0	0	0
Income tax expense	127	137	164	178	89
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	**398**	**428**	**505**	**555**	**285**

Source: SNL

III. Appendix: Selected financial information – Pareto Bank ASA

	2019	2020	2021	2022	H1 2023
Funding and liquidity					
Net loans/ deposits (%)	161%	155%	166%	171%	164%
Liquidity coverage ratio (%)	277%	116%	129%	238%	344%
Net stable funding ratio (%)	116%	136%	157%	147%	160%
Asset mix, quality and growth					
Net loans/ assets (%)	75.2%	75.3%	79.1%	77.8%	75.0%
Problem loans/ gross customer loans (%)	1.5%	0.7%	1.9%	0.9%	1.7%
Loan loss reserves/ problem loans (%)	27.4%	69.8%	31.5%	80.0%	55.0%
Net loan growth (%)	12.9%	11.4%	7.8%	9.7%	11.5%
Problem loans/ tangible equity & reserves (%)	5.9%	2.9%	7.6%	3.8%	7.1%
Asset growth (%)	12.2%	11.2%	2.6%	11.6%	19.5%
Earnings and profitability					
Net interest margin (%)	3.9%	3.9%	4.3%	4.3%	4.5%
Net interest income/ average RWAs (%)	4.5%	4.3%	4.1%	4.6%	5.0%
Net interest income/ operating income (%)	98.3%	99.0%	98.6%	96.2%	101.6%
Net fees & commissions/ operating income (%)	0.8%	0.6%	0.6%	0.6%	1.3%
Cost/ income ratio (%)	19.9%	19.2%	19.1%	19.3%	19.4%
Operating expenses/ average RWAs (%)	0.9%	0.8%	0.8%	0.9%	1.0%
Pre-impairment operating profit/ average RWAs (%)	3.6%	3.5%	3.4%	3.9%	4.0%
Impairment on financial assets / pre-impairment income (%)	5.4%	7.4%	2.9%	5.8%	11.6%
Loan loss provision/ average gross loans (%)	0.2%	0.3%	0.1%	0.3%	0.5%
Pre-tax profit/ average RWAs (%)	3.5%	3.2%	3.3%	3.7%	3.5%
Return on average assets (%)	2.3%	2.2%	2.6%	2.6%	2.4%
Return on average RWAs (%)	2.6%	2.5%	2.5%	2.8%	2.7%
Return on average equity (%)	13.6%	12.5%	13.4%	14.1%	13.2%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	17.4%	16.8%	16.0%	17.6%	17.2%
Common equity tier 1 ratio (%, transitional)	17.4%	16.8%	16.0%	17.6%	17.2%
Tier 1 capital ratio (%, transitional)	18.7%	17.8%	17.0%	19.0%	19.2%
Total capital ratio (%, transitional)	20.3%	19.2%	18.3%	21.1%	22.4%
Leverage ratio (%)	15.7%	16.3%	16.0%	16.5%	16.1%
Asset risk intensity (RWAs/ total assets, %)	92.6%	100.6%	104.3%	92.2%	89.0%
Market indicators					
Price/ book (x)	0.9x	0.8x	1.1x	0.9x	0.9x
Price/ tangible book (x)	0.9x	0.8x	1.2x	0.9x	0.9x
Dividend payout ratio (%)	35.9%	50.1%	49.4%	50.1%	NA

Source: SNL

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