

Nordic niche banks navigate through winds of change

Editor's note: Removed reference to 'EIF loan' on page 2.

4 March 2025

Sean Cotten
Chief Rating Officer

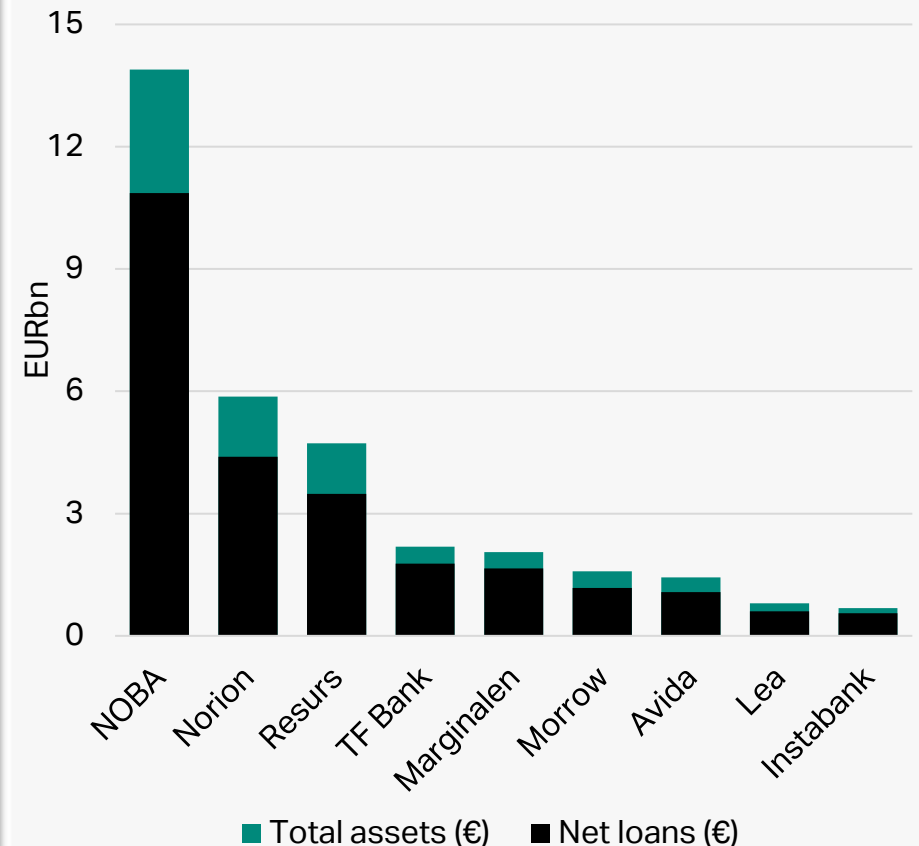
Ylva Forsberg
Analyst



Another quarter with significant events

Acquisitions, ownership changes, redomiciling and one-off charges across the sector

- NOBA Bank Group is considering an IPO.
- Norion Bank acquired Swedish credit card portfolio from DNB and announced a SEK 500m share buyback program. NCR lowered its long-term rating on Norion to 'BB+'.
- The offer on Resurs Holding by Ronneby UK Limited was finalised, with the ownership share currently at 88%.
- TF Bank offloaded over SEK 2bn in gross non-performing loans (NPLs).
- Marginalen received a warning from the Swedish regulator for its large exposure concentrations and repurchased SEK 40m of one of its past-call date Tier 2 bonds.
- Morrow Bank is preparing to redomicile in Sweden in Q1 2026.
- Avida acquired SEK 3.6bn in loans from Santander, supported by an SEK 866m capital injection. It also initiated a transformation plan and 30% reduction in staff, among other items.
- Lea Bank redomiciled to Sweden via merger on 2 Jan. 2025.
- Instabank announced that it is applying for a banking license in Finland as part of its European expansion.
- Funding was in focus after the Swedish FSA announced changed guidelines on NSFR/LCR calculations on the last day of Q3.

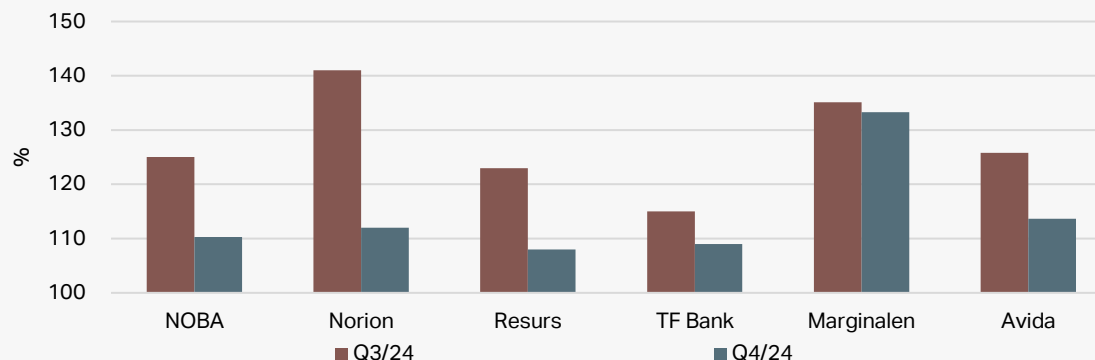


Banks took substantial steps to improve NSFR/LCR

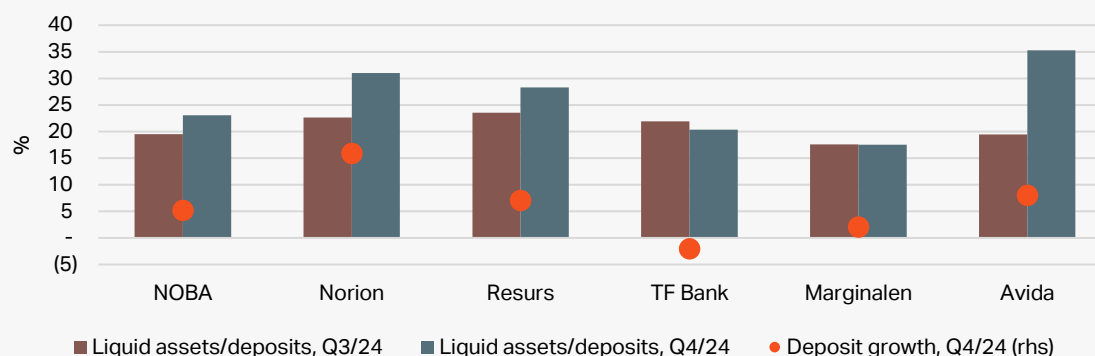
Sizeable increases in liquidity as banks adapt to Swedish legal opinion

- Banks took measures to improve regulatory ratios and adapt to the Swedish legal opinion for treatment of customer deposits from deposit platforms, published on 30 Sept. 2024.
- NOBA, Norion, Avida and Resurs significantly increased their liquidity positions and customer deposits.
- In total, NOBA, Norion and Resurs issued SEK 2.5bn in new senior unsecured bonds during the quarter**. NOBA and Resurs also extended and increased secured funding programs.
- TF Bank and Marginalen Bank indicated that they had minimal impact from the legal opinion and NSFR/LCR metrics fell marginally from Q3 2024 levels.
- Lea Bank reported an NSFR of 153% in Q4 2024 under Norwegian rules and will report under Swedish rules in Q1 2025. The bank reported a marginal increase in liquid assets. Morrow is not yet under Swedish regulation but also increased liquidity in the quarter.
- Related research : [Swedish niche lenders face regulatory changes in funding metrics](#), 21 Oct. 2024

Net stable funding ratio, Q3/24 and Q4/24



Liquid assets*/customer deposits (Q3/24–Q4/24) & deposit growth Q4/24



Section

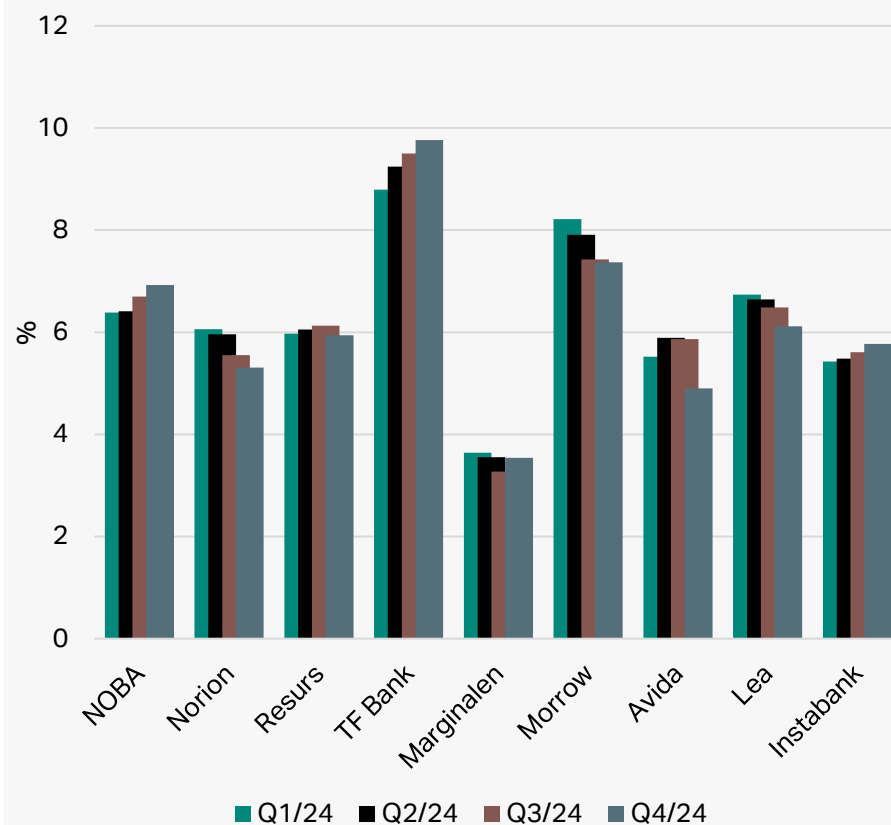
- 1. Capital and earnings**
2. Asset quality stabilising
3. Leaving Norway

Net margins showing resilience to falling rates

Margins reflect lower funding costs and higher margin lending for some banks

- Weighted average net interest margins were stable at 6.4%.
- Lower returns on liquidity positions and tighter lending margins are working against overall margins. However, banks have indicated that interest rates from European deposit platforms have fallen, providing optimism for future margin stability.
- NOBA, Norion, Resurs and Avida all increased their share of liquid assets to deposits significantly following the revised NSFR guidelines from the Swedish regulator.
- NOBA and TF Bank improved margins as the proportion of credit card lending increased.
- Norion's net margins continued to contract as the bank is not accruing interest income on non-performing real estate loans.
- Avida's large addition of secured loans from Santander dented its net margins.
- Morrow's net margins decreased in part due to the acquisition of Swedish consumer loans in Q3 2024.
- Lea's margin decline reflected falling yields on consumer loans, with stable net interest income despite higher volumes.
- Instabank margin improvements in part follow growth in high-margin business loans. A focus on credit cards will also improve interest margins.

Net interest margins

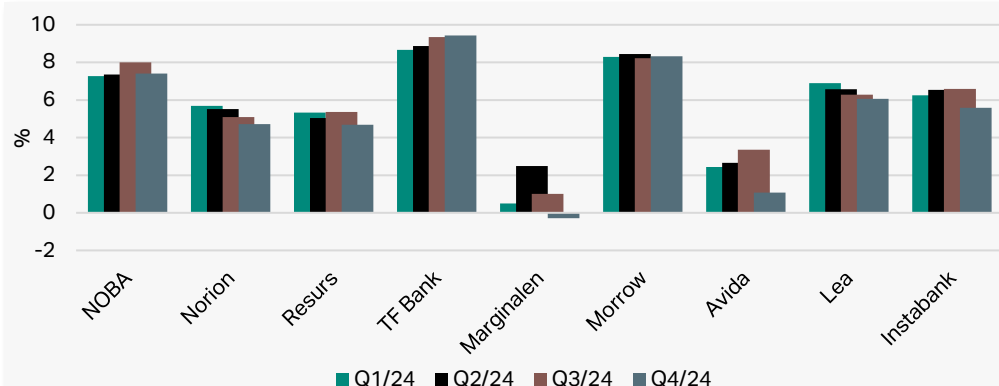


Earnings metrics are very strong for most banks

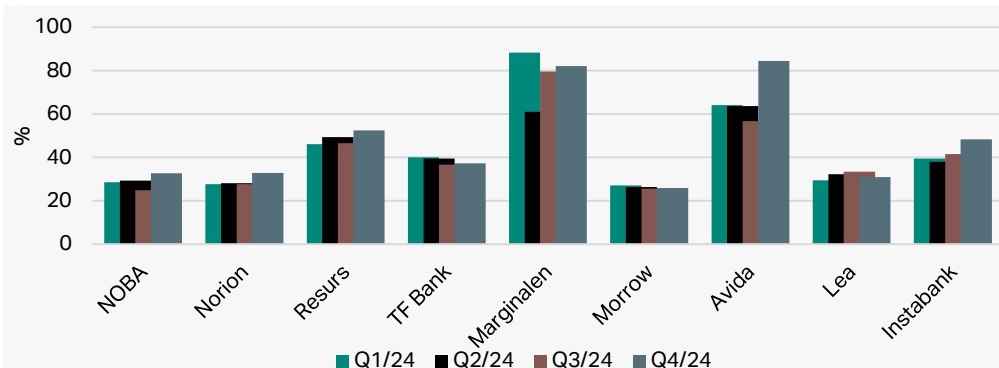
Exceptional cost efficiency and scalable lending platforms drive capital generation

- Weighted PPI/REA metrics fell to 5.8% (6.3%) due to a higher cost-to-income ratio of 50.3% (41.4%)
- NOBA's transformation costs are falling, and earnings are set to remain strong.
- Norion reported one-off costs in the quarter, but its cost-to-income ratio should remain below 30%.
- Resurs' costs rose as a function of continued operational investments.
- Marginalen continues to struggle with profitability, even before loss provisions. We expect to see the bank make more significant efforts to turn this around for greater stability.
- Avida had higher underlying costs and wrote down SEK 32m in capitalised development costs for an uncertain cooperation with Strawberry and Norwegian Air Shuttle.
- Morrow became the most efficient bank in our sample at 25.9% in the fourth quarter and aims to improve to 23% by 2026.
- Lea cited high costs of moving to Sweden, despite strong ratios.
- Instabank saw an increase in expenses due to its preparations to launch credit cards in Germany, as well as seasonal bonuses.

Pre-provision income/risk exposure amount



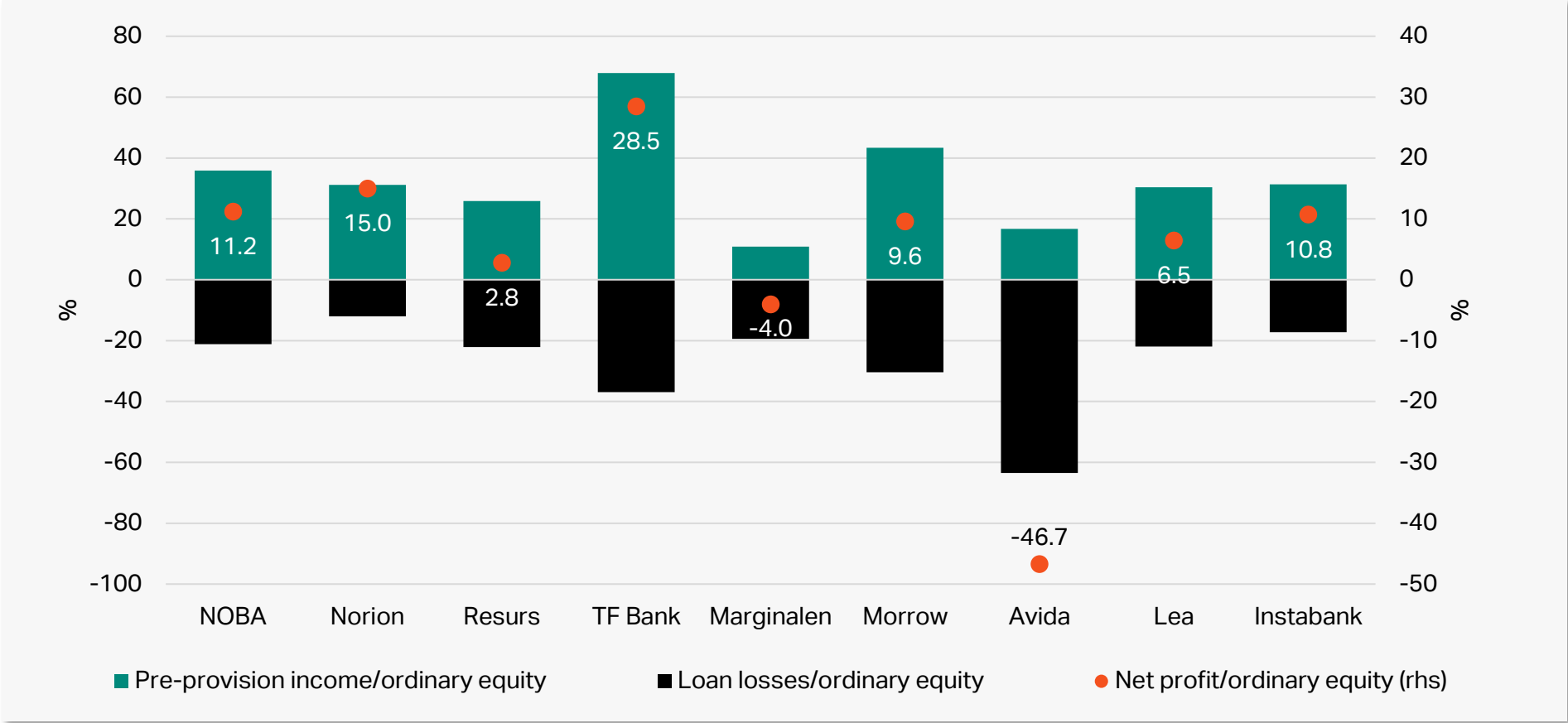
Cost-to-income ratio



We expect profitability to improve for most banks

Despite high loan losses, most banks had robust earnings in 2024

Unweighted average return on ordinary equity for the sample was 3.7%, but 11.0% excluding Marginalen and Avida

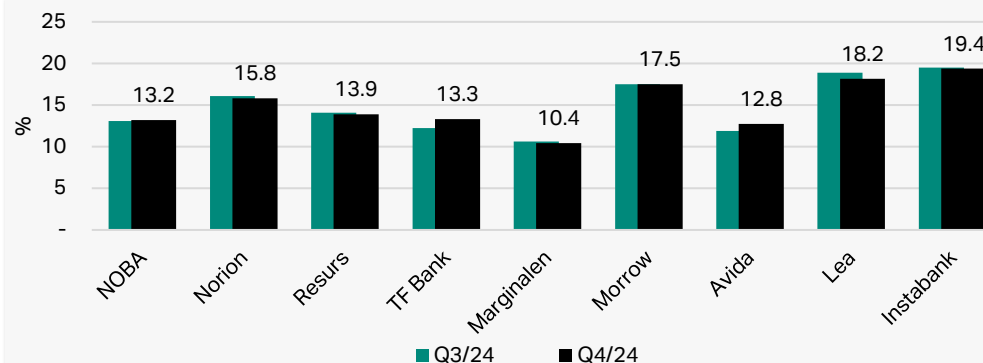


Capital ratios show significant variance

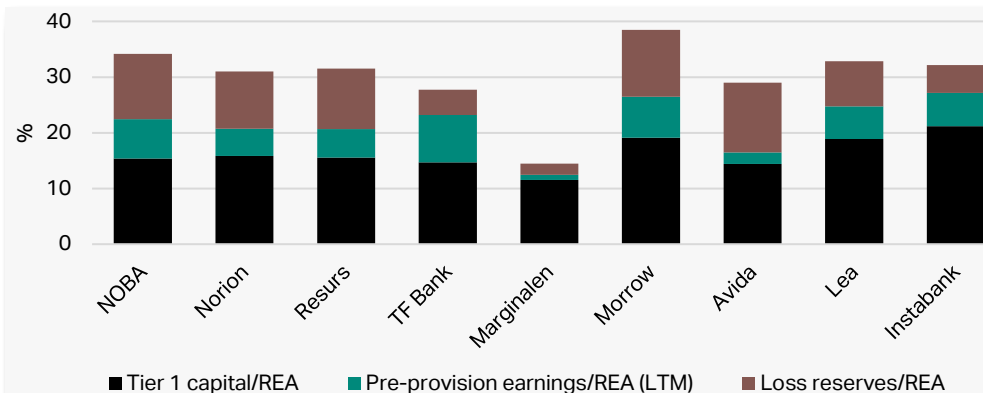
Banks reward shareholders with dividends and buybacks

- The CET1 ratio of our sample is 14.1%, 5bps higher than in Q3 2024 and 20bps lower than in Q4 2023.
- CRR3 will materially lower REA for NOBA's equity-release mortgages, and the new operational risk model could lower REA for those that have yet to switch.
- TF Bank's CET1 ratio had the largest increase with strong earnings and the net effect of a positive capital impact due its sale of Rediem. The board has proposed an extraordinary dividend of SEK 5 per share.
- Avida received an SEK 866m capital injection to support its acquisition of Santander's loan book.
- Lea Bank's CET1 ratio fell as it proposed a 193% dividend, including a payout reflecting reduced CRR3 requirements. We expect Lea to increase leverage and return on equity after redomiciling to Sweden.
- Other banks also rewarded shareholders. Norion proposed a SEK 500m share buyback program. Morrow recommended a dividend of up to 50% of 2024 profits. Contrarily, Resurs announced that it will not pay 2024 dividends, supporting its capital.
- Norway's change to Pillar 2 requirements reduced CET1 and Tier 1 requirements for Morrow and Instabank.

CET 1 ratios, Q3/24-Q4/24



Nordic niche banks' loss-absorbing buffers / REA, Q4/24



Section

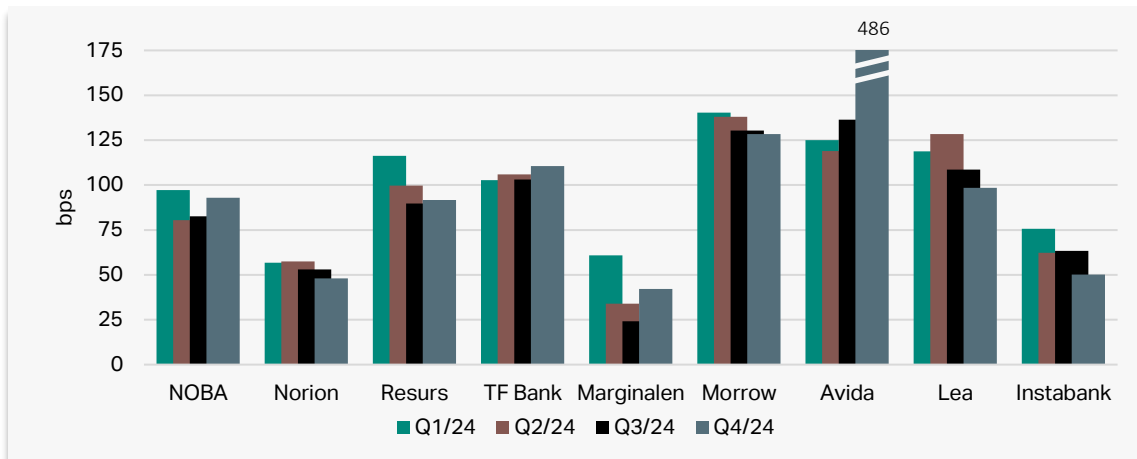
1. Capital and earnings
- 2. Asset quality stabilising**
3. Leaving Norway

Have loss provisions reached a new normal?

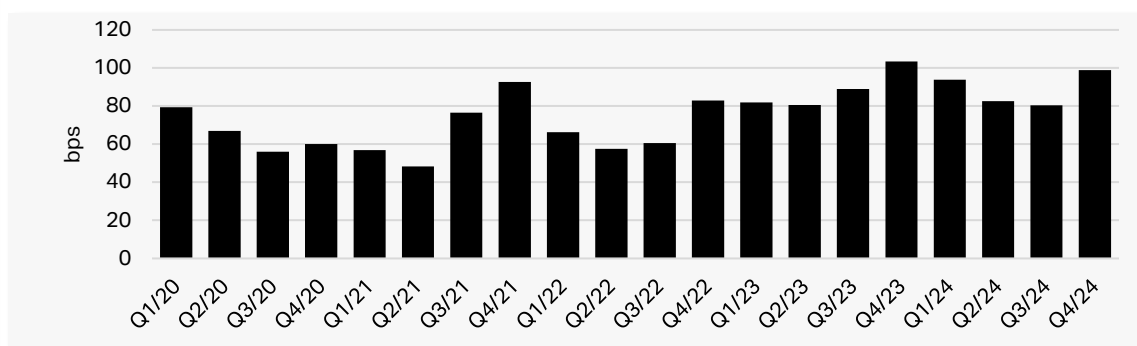
Excluding recent one-offs, loss provisions remain around 80bps per quarter

- Sample loss provisions in the quarter stood at 99bps vs 80bps in Q3 2024. Excluding Avida, provisions were 84bps.
- Credit losses for our sample banks may have plateaued as an increasing share of higher-margin lending offsets lower interest rates.
- Resurs' loss provision ratio improved through 2024, with a slight, likely seasonal, uptick in Q4.
- Avida made an SEK 298m one-off write down of Stage 1-3 loans, increasing the coverage ratio for consumer loans, as well as an SEK 44m provision for the acquired portfolio. In addition, modelled Stage 1-2 provisions rose sharply, with provisions totalling SEK 536m in the quarter.
- Morrow indicated expectations of falling loan losses due to improved macro conditions and stricter underwriting. However, the declining loss provision ratio in 2024 primarily reflects strong loan growth.
- Lea's nominal loss provisions fell, despite an increase in net loans.
- Instabank's growth in mortgage loans is reflected in lower loss provisions.

Quarterly loan loss provisions as a share of net loans



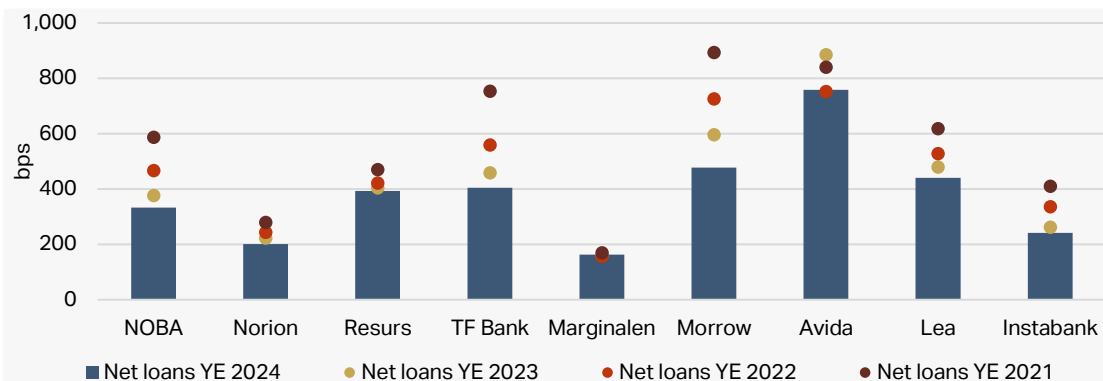
Quarterly loan loss provisions for the sample, Q1/20 – Q4/24Q4



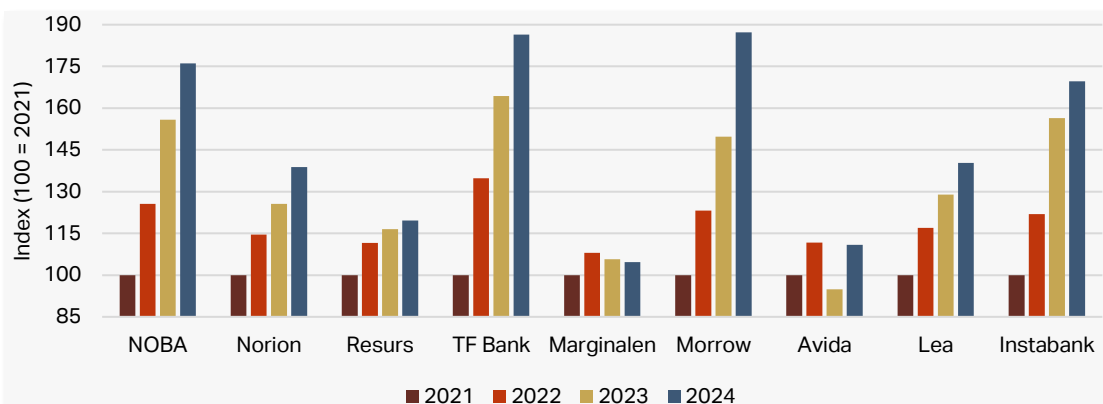
Strong loan growth masks underlying losses

- A consequence of measuring loss provisions in relation to net loans is that strong loan growth can mask underlying trends in asset quality metrics. As such, banks with significant growth may have higher underlying credit losses than reflected in our provision metrics.
- The upper figure compares 2024 loss provisions with the net loan balance for each bank as of 2021-2024. A similar effect can be seen for the share of Stage 3 loans.
- For NOBA, TF and Morrow, current loan loss ratios appear to underestimate the underlying churn of impaired loans due to strong growth.
- Generally, stronger underwriting should result in longer times from loan issuance to default.
- We note that several of these banks have made acquisitions and/or divestments during these years.

2024 loan loss provisions compared to net loans, as of 2021-2024



Loan book development

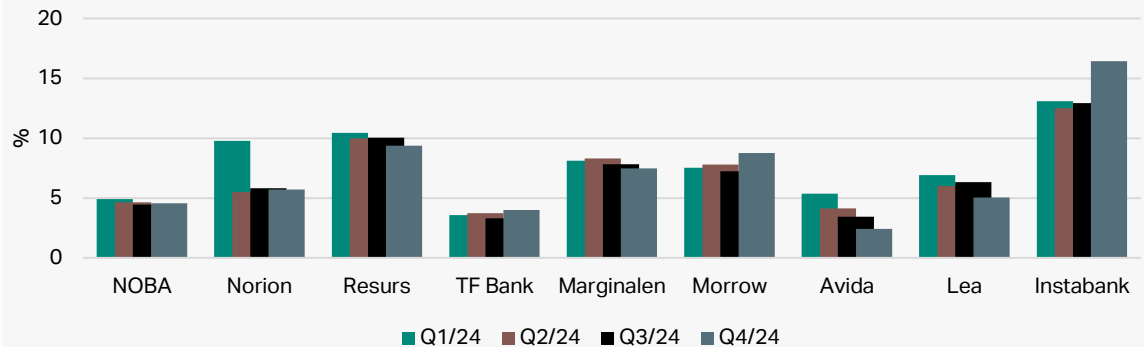


Asset quality metrics...

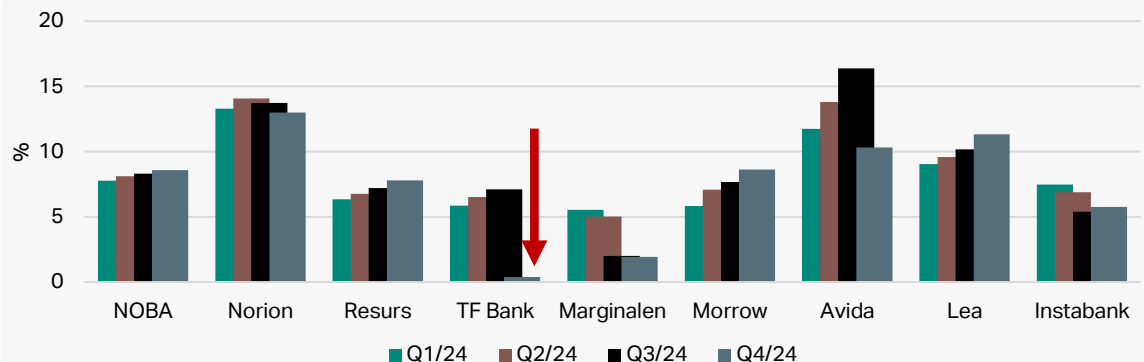
Weighted average net Stage 2 loans at 5.9% and net Stage 3 loans at 8.3% remain high

- Net stage 2 loans have steadied at 5.9%, which we view positively for future credit provisions in the sector.
- Net stage 3 loans decreased primarily due to TF Bank's Rediem transaction. A 70bp reduction in Norion's NPLs and smaller NPL sales in the sample offset underlying NPL growth.
- NOBA made two NPL sales in Sweden and Finland totalling SEK 400m but still saw a slight increase in NPLs.
- Resurs' NPLs have been growing steadily since its securitisation in Q4 2023, and its NPLs are now back around the same level as then.
- TF Bank sold its subsidiary, Rediem, including SEK 1.3bn in TF's NPLs. Net NPLs fell to 0.4% in Q4 2024 from 7.1% in Q3.
- Rediem is applying for specialised debt restructurer (SDR) status. The approval timeline for Swedish SDRs remains unclear. The Swedish FSA requested a legal interpretation from EBA, which was concluded in February 2025.

Net stage 2 loans/net loans



Net stage 3 loans/net loans



Section

1. Capital and earnings
2. Asset quality stabilising
- 3. Leaving Norway**

Morrow, Lea and Instabank are leaving Norway

Decisions improve capital flexibility and level the playing field vs Swedish peers

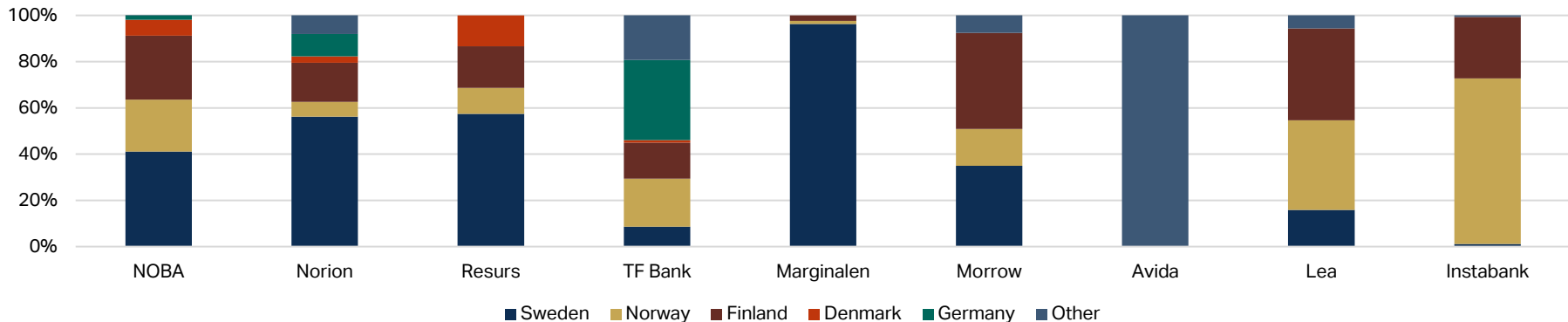
Lea and Morrow

- Lea and Morrow announced in 2024 their intent to move to Sweden, with Lea completing its move on 2 Jan. 2025.
- Both have cited Norway's strict capital requirements and the pursuit of shareholder value as key drivers for the decision. In addition, both view Sweden as a growth market.
- Morrow aims to grow in Finland and Sweden, which represent a combined 77% of gross loans.

Instabank

- Instabank announced its intent to move to Finland. The bank indicates that the business environment for niche banks in Norway is more restrictive and less stable than in Sweden and Finland.
- Instabank hopes that the Finnish regulator's alignment with EU banking standards will improve its competitive position as it begins its strategic expansion into new European markets.
- In Germany, the bank is launching credit cards and own-channel deposits in 2025, followed by consumer loans. In Finland, where it has 27% of current loans, it plans to add business lending and mortgages.
- The application process will likely take about one year.

Loans by country*, Q4 2024



Looking ahead...

- Net margins should be resilient in the near term due to lower funding costs and less pressure on policy rate reductions.
- Growth in higher margin segments should support margins in some instances.
- Credit provisions have likely plateaued at current levels as higher risk exposures offset economic growth.
- A focus on capital levels and NPL backstop impacts should drive more NPL divestment.
- Consolidation cannot be ruled out given ownership changes and Norwegian banks gaining capital relief from redomiciling.



Norion downgraded to BB+ in December 2024

Rating action followed negative outlook in March 2024

Rating rationale

- The rating action reflects our increasing concerns about management of conflicts of interest, and high volumes of non-performing corporate loans.
- We lowered the ratings by one notch until we see sustainable balance sheet improvement, greater transparency, and stronger internal limits to manage conflicts of interest.

Key factors

- Culmination of events in 2024 that increased our risk governance concerns.
- High share of Stage 3 non-performing loans.
- Increasing related party lending and risk.
- Earnings and capital still relatively strong and the bank's increased liquidity buffers in response to Swedish FSA revision to NSFR.

Positive rating drivers

- A material reduction in downside risk associated with Stage 3 lending; and
- The bank's maintenance of its capital ratios; and
- Its improvement of both transparency and management of conflicts of interest and related-party exposures.

Negative rating drivers

- A reduction in the Tier 1 ratio below 15%;
- A lasting increase in loan-loss provisions above 4% of net lending; or
- A material expansion of related-party exposures in relation to the common equity Tier 1 ratio.

NCR-rated niche banks

	<u>Resurs Bank</u>	<u>Norion Bank</u>	<u>NOBA Bank Group</u>
Long-term issuer rating	BBB	BB+	BBB
Outlook	Negative	Stable	Stable
Subfactors:			
Operating environment (20%)	bbb-	bbb-	bbb-
Risk appetite (50%)	bbb	bb+	bbb
Competitive position (15%)	bb+	bb	bbb-
Performance indicators (15%)	bbb+	bbb+	bbb+
Peer calibration	0	-1	0

Thank you

**Nordic
Credit
Rating**



Sean Cotten

Chief Rating Officer

sean.cotten@nordiccreditrating.com

+46 735 600 337



Ylva Forsberg

Credit Rating Analyst

ylva.forsberg@nordiccreditrating.com

+46 768 806 742

Disclaimer

If you have questions or comments about our policies, please contact us at: compliance@nordiccreditrating.com

Disclaimer © 2025 Nordic Credit Rating AS (NCR, the agency). All rights reserved. All information and data used by NCR in its analytical activities come from sources the agency considers accurate and reliable. All material relating to NCR's analytical activities is provided on an "as is" basis. The agency does not conduct audits or similar warranty validations of any information used in its analytical activities and related material. NCR advises all users of its services to carry out individual assessments for their own specific use or purpose when using any information or material provided by the agency. Analytical material provided by NCR constitutes only an opinion on relative credit risk and does not address other forms of risk such as volatility or market risk and should not be considered to contain facts of any kind for the purpose of assessing an issuer's or an issue's historical, current or future performance. Analytical material provided by NCR may include certain forward-looking statements relating to the business, financial performance and results of an entity and/or the industry in which it operates. Forward-looking statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words "believes", "expects", "predicts", "intends", "projects", "plans", "estimates", "aims", "foresees", "anticipates", "targets", and similar expressions. Forward-looking statements contained in any analytical material provided by NCR, including assumptions, opinions and views either of the agency or cited from third-party sources are solely opinions and forecasts which are subject to risk, uncertainty and other factors that could cause actual events to differ materially from anticipated events. NCR and its personnel and any related third parties provide no assurance that the assumptions underlying any statements in analytical material provided by the agency are free from error, nor are they liable to any party, either directly or indirectly, for any damages, losses or similar, arising from use of NCR's analytical material or the agency's analytical activities. No representation or warranty (express or implied) is made as to, and no reliance should be placed upon, any information, including projections, estimates, targets and opinions, contained in any analytical material provided by NCR, and no liability whatsoever is accepted as to any errors, omissions or misstatements contained in any analytical material provided by the agency. Users of analytical material provided by NCR are solely responsible for making their own assessment of the market and the market position of any relevant entity, conducting their own investigations and analysis, and forming their own view of the future performance of any relevant entity's business and current and future financial situation. NCR is independent of any third party, and any information and/or material resulting from the agency's analytical activities should not be considered as marketing or a recommendation to buy, sell, or hold any financial instruments or similar. Relating to NCR's analytical activities, historical development and past performance does not safeguard or guarantee any future results or outcome. All information herein is the sole property of NCR and is protected by copyright and applicable laws. The information herein, and any other information provided by NCR, may not be reproduced, copied, stored, sold, or distributed without NCR's written permission.