Nordic Credit Rating

Nordic niche banks; building a foundation for growth

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What's happened so far this year?

Avida Finans AB (publ) slutför värdepapperisering om 2,8 miljarder kronor och skapar förutsättningar för fortsatt tillväxt

Instabank ASA: Agreement to Acquire NOK 375 Million Mortgage Portfolio

Successful credit card launch in Germany

Marks a major step in the bank's European growth strategy

Morrows plan för Sverige ligger klar - vd:n ger besked

TF Bank tänker inte lägga alla ägg i tyska korgen

Lea Bank ska sälja problemlån

Nordic Capital Pushes Noba Bank's IPO Into Second Half of Year

Balder to distribute Norion Bank holding among shareholders

Marginalen Bank har brutit mot kapitalkrav

Resurs Bank long-term issuer rating lowered to 'BBB-'; Outlook stable

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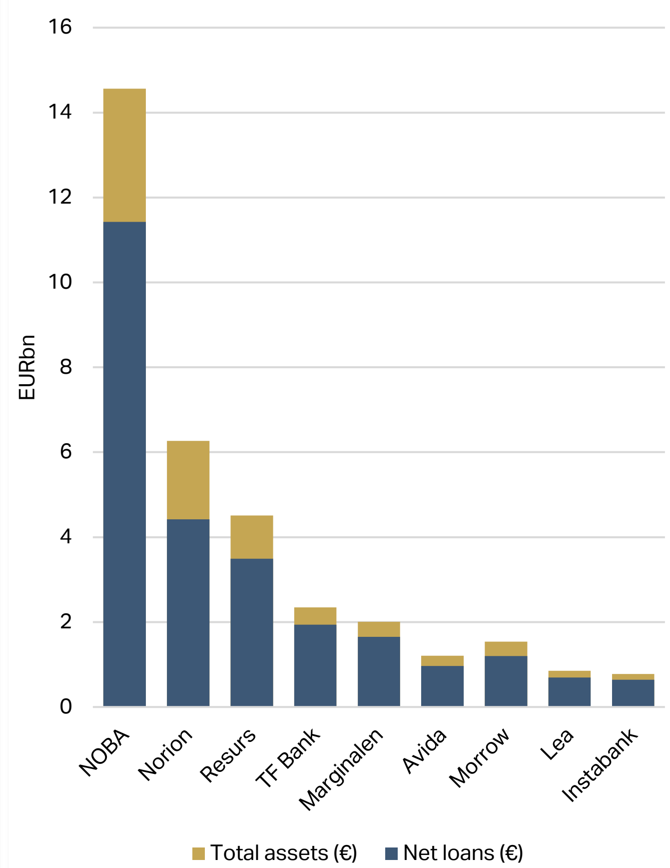
Significant events in the first half of 2025

- **NOBA Bank Group**'s IPO process has been prolonged but is reportedly imminent.
- **Norion Bank** commenced its SEK 500m share buyback programme, reporting repurchases of SEK 90m, per Q2. The bank also acquired Verkkokauppa's consumer finance business in Finland, a portfolio of around SEK 350m. We await further details on Balder's intention to distribute the bank to its shareholders and the Swedish FSA's ongoing AML investigation.
- **Resurs Holding** softened its dividend policy, following the near-complete acquisition by Ronneby UK Limited in late 2024. NCR lowered its long-term rating on Resurs to 'BBB-'.
- **TF Bank**'s UK subsidiary applied for a banking license, extending the bank's footprint.
- **Marginalen Bank** retroactively reported several quarterly breaches of its capital requirements in 2024. The bank transferred its AT1 and Tier 2 instruments to its holding company, ESCO Marginalen AB.
- **Avida Finans** completed its acquisition of Santander's consumer loan portfolio and has launched a cost-cutting programme and expects it to be fully implemented during Q3.
- **Morrow Bank ASA** received approval from Norwegian FSA to merge into its Swedish subsidiary, awaiting decision from Swedish FSA, with move still expected early 2026.
- **Lea Bank AB** issued a NOK 50m AT1 and a NOK 70m Tier 2 instrument, at 675bps and 550bps, respectively.
- **Instabank** acquired NOK 368m in new Norwegian mortgages and continues with its application process for moving to Finland.



Based on bank reports and various media sources. FSA–Financial Supervisory Authority. AT1 –Additional Tier 1.

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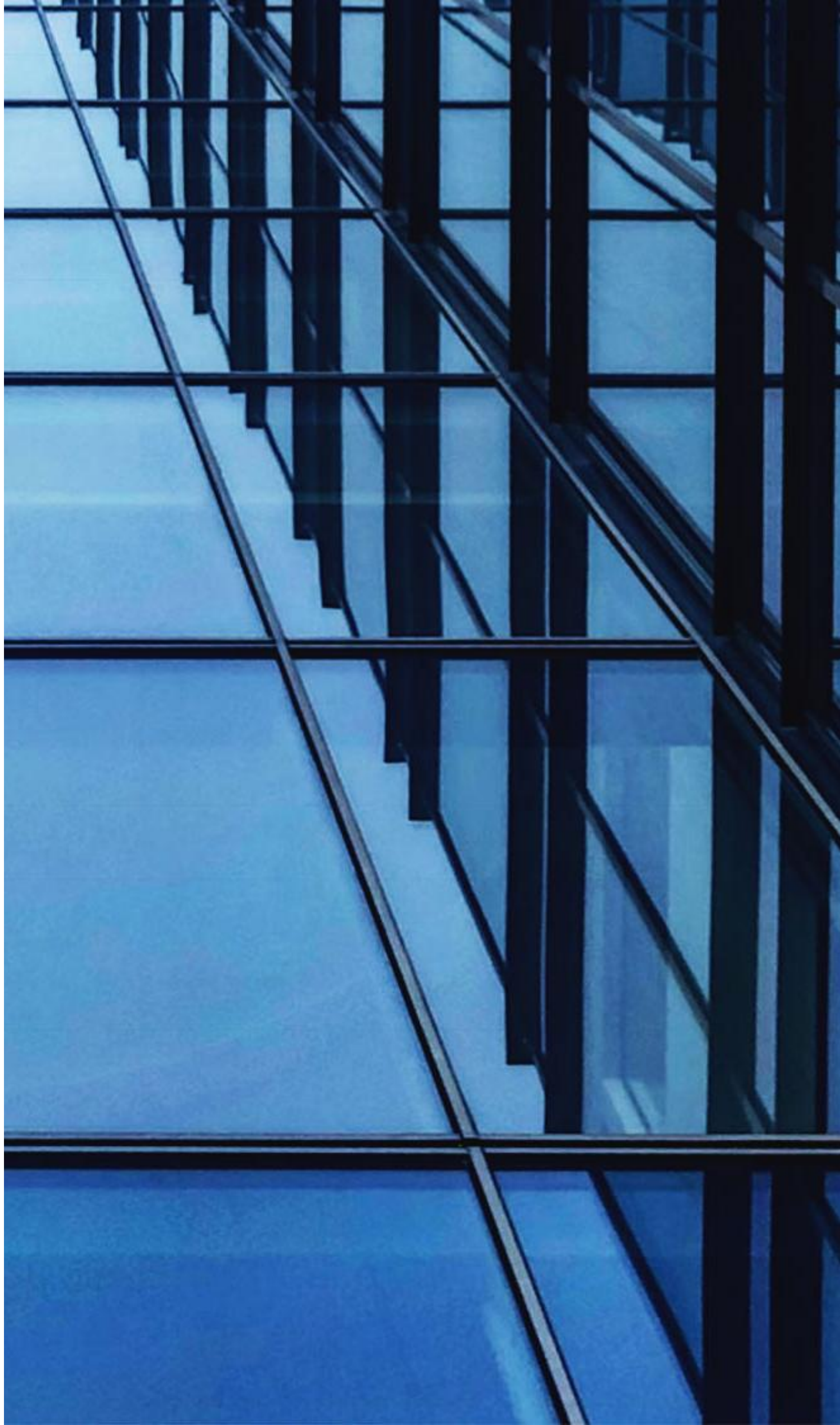
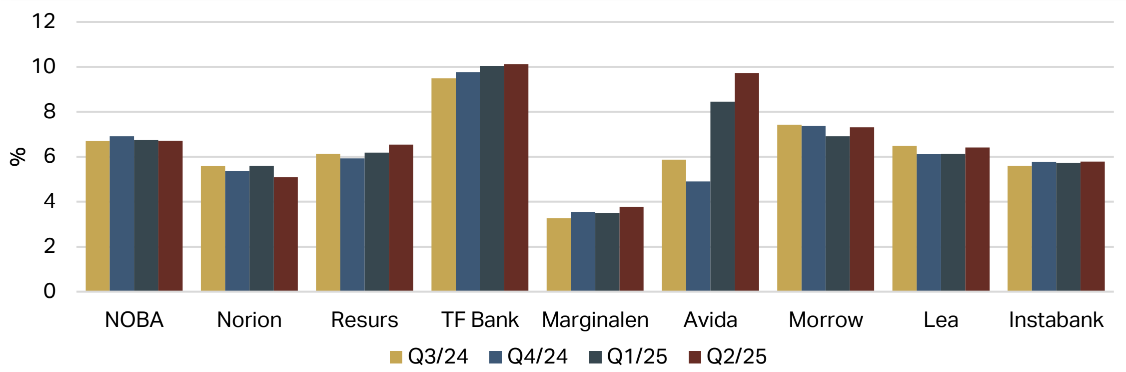


Lower funding costs offsetting falling policy rates

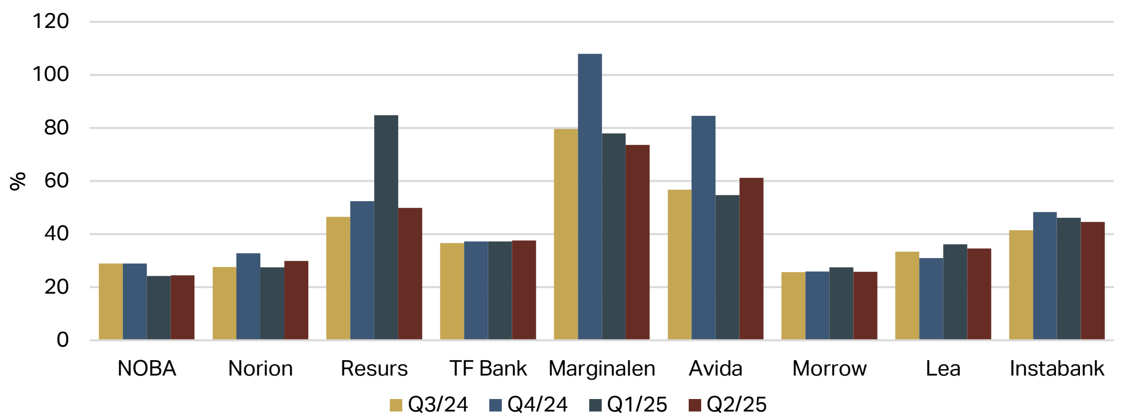
Product mix driving higher margins and supporting strong cost efficiency

- The combination of falling policy rates, lower funding costs and growth in high margin loans has supported interest margins across the sample.
- **Avida**'s acquisition of Santander's secured loan book has changed their product mix and improved their margin profile.
- **Resurs** margin improvement reflects an increasing share of profits and lending from its Payment Solutions division.
- Similarly, **TF Bank**'s credit card growth continues to drive higher margins.
- With a few exceptions, cost efficiency remains a material support for creditworthiness for Nordic niche banks and one-off operational costs have been low in 2025.

Annualised quarterly net interest margins



Cost/income ratios



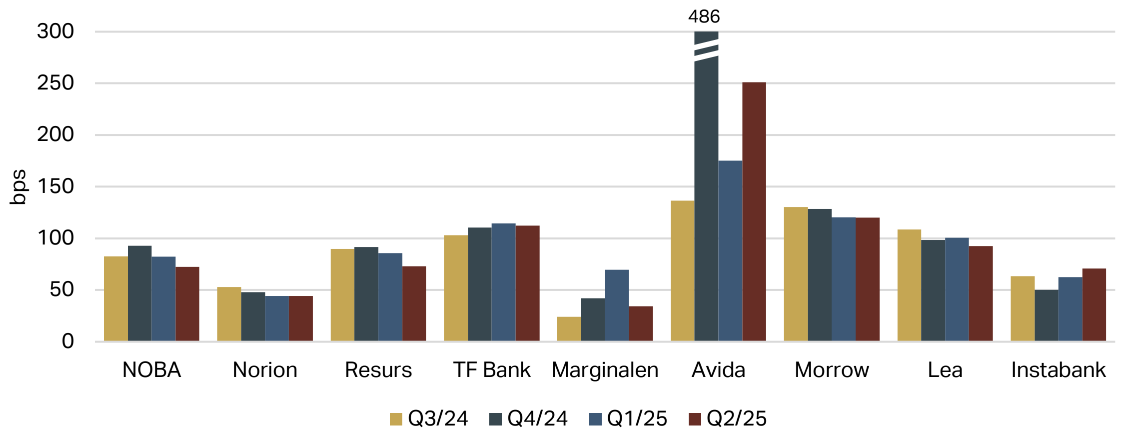
Based on NCR analysis of bank reports.

Will loss provisions continue to decline?

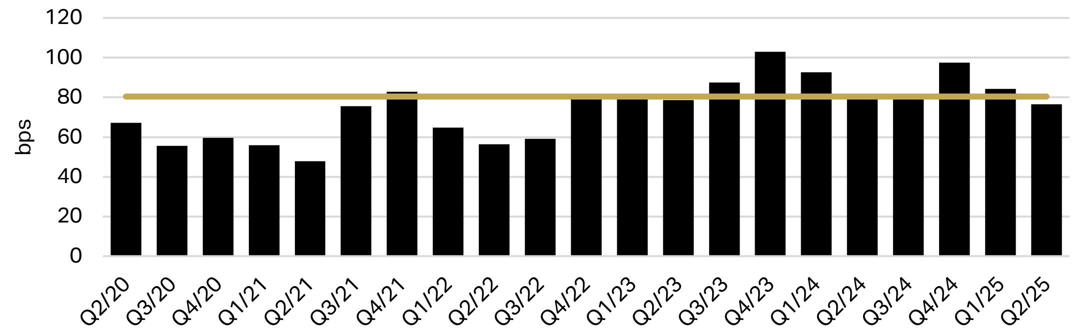
Excluding recent one-offs, loss provisions remain around 80bps per quarter

- **Avida** recorded a one-off SEK 100m provision for consumer loans across all IFRS 9 stages in Q2. Excluding this general provision, we note the bank's loss rate declined by 15bps from Q1.
- Most sample banks also demonstrated underlying improvement in credit provisions in Q2. Excluding **Avida**'s one-off, the trend remained largely positive with aggregate loss levels falling to their lowest point since rising interest rates began to impact borrowers in late 2022.
- **Instabank**'s increasing provisions were attributed to rising loss reserves on German credit cards and Finnish consumer loans.

Quarterly loan loss provisions as a share of net loans



Quarterly loan loss provisions for the sample, Q1/20 – Q2/25



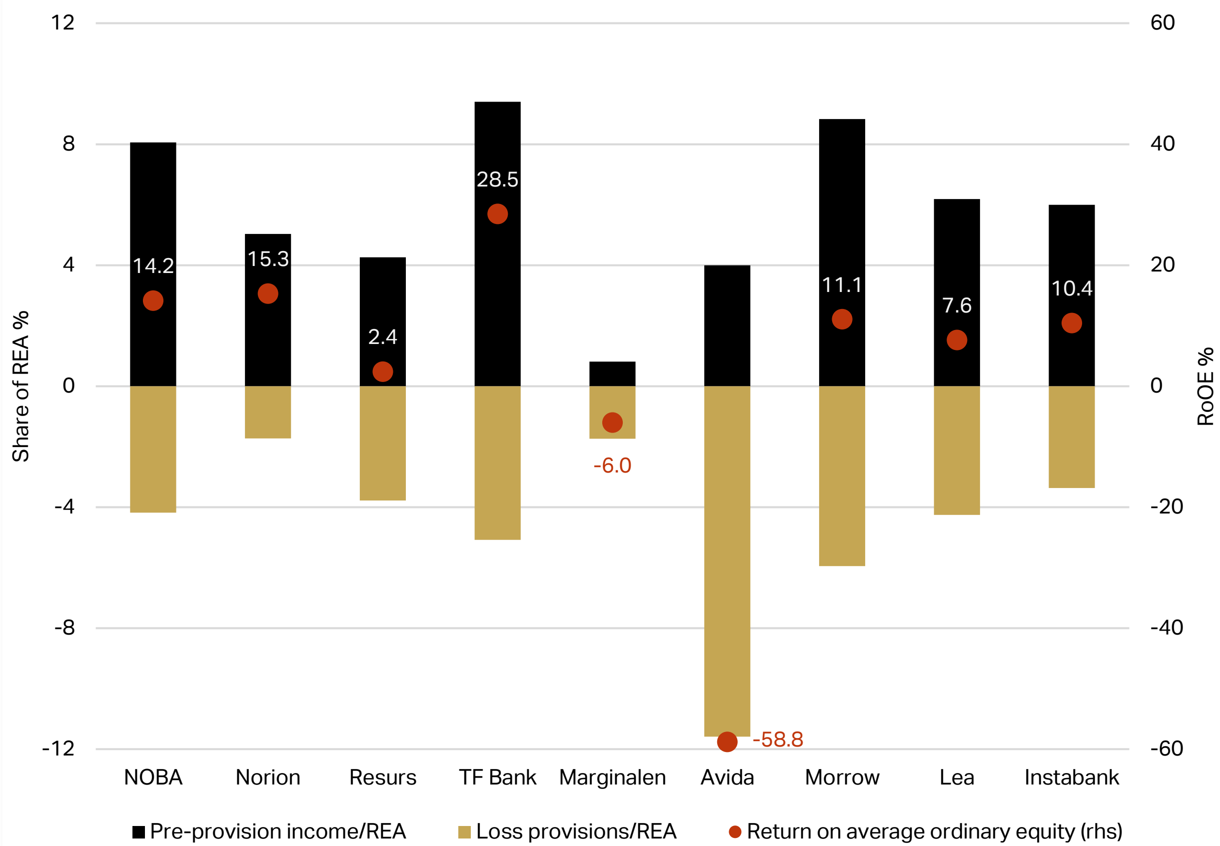
Based on NCR analysis of bank reports. The figures above are not adjusted for one-off loss reserves.

Return on equity improvements continue

Stable margins and falling credit losses are driving strong return on ordinary equity

- A majority of banks are now above 10% return on ordinary equity after strong gains over the 12 months.
- **TF Bank** remains a significant outperformer due to high margin and strong efficiency.
- Improved outlook has increased the likelihood of further acquisitions, while allowing for dividend and share buy backs.
- Positive credit loss momentum and fewer one-off "transition" impacts will support strong earnings for all sample banks.

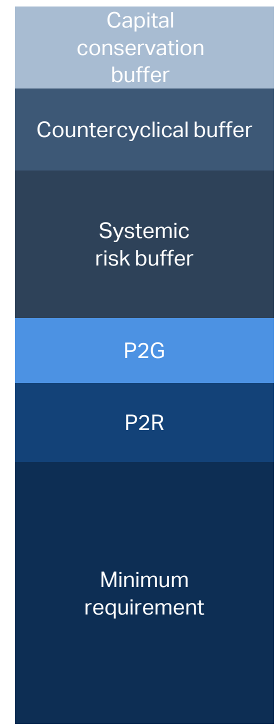
Risk-adjusted pre-tax profit and return on equity, LTM to 30 Jun. 2025



source: bank reports. LTM-last twelve months.

Pillar 2 requirements and regulatory guidance

- In the second quarter, the Swedish FSA concluded its reviews (SREP) of **NOBA** and **TF Bank**, resulting in a P2R of 1.4% and 1.2% respectively, and a P2G of 0% for both banks.
- In our sample, P2R's range from 1.1% to 5.4%, with the Norwegian banks generally subject to higher requirements.
- While the P2R is a regulatory requirement, the P2G reflects the regulator's guidance on the level of additional capital buffers that would be prudent for the bank to hold.
- In the sample, only **Morrow** and **Instabank** have defined P2G (from the Norwegian FSA), both at 2%, following **Lea Bank's** departure from Norway.
- **Marginalen**, however, received a P2G of 5% for the bank, and 2% for the group (ESCO) in March 2024, which it appealed. As a result, it has not yet taken effect. The Swedish FSA has several outstanding appeals on P2G, as well as a legal proceeding concerning banks' right to appeal the guidance.



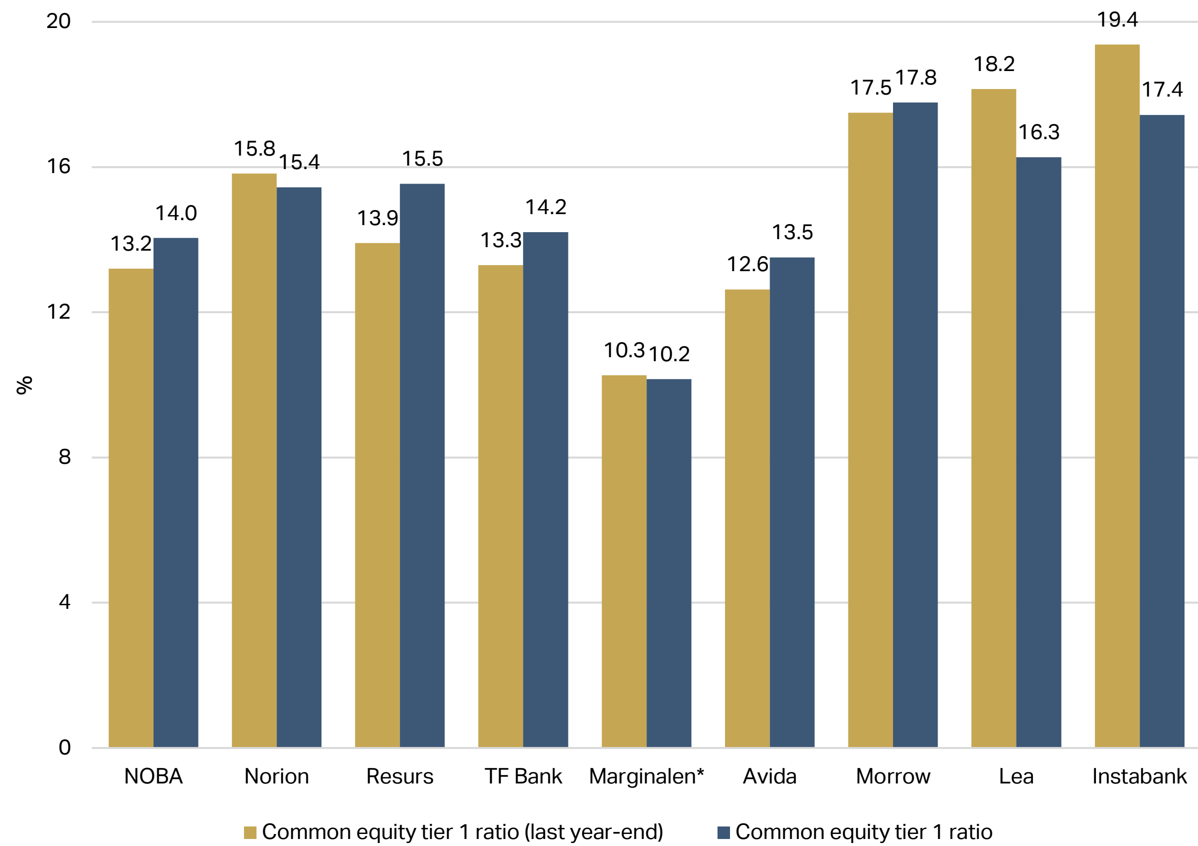
FSA – Financial Supervisory Authority. P2R – Pillar 2 Requirement. P2G – Pillar 2 Guidance. SREP – Supervisory Review and Evaluation Process.

Capital ratios strengthen for most of the banks

Average CET1 ratio up by 180bps from year-end to 14.6%.

- **NOBA**'s lower CRR3 capital requirements on equity-release mortgages and some credit cards raised its CET1 ratio 30bps.
- **Norion**'s share buy back program lowered CET1 ratios by ~90bps.
- **Resurs** capital has improved due to paused dividends and low loan growth.
- **Marginalen** continues to struggle with its capital ratios, but strengthened from Q1 to Q2.
- **Avida** raised capital in Q424 as part of the Santander acquisition.
- The reduction in capital levels was planned as part of **Lea Bank**'s relocation strategy.
- Similarly, **Instabank**'s move to Finland will materially reduce its capital needs.

Common Equity Tier 1 (CET1) ratios, 30 Jun. 2025 vs a year earlier



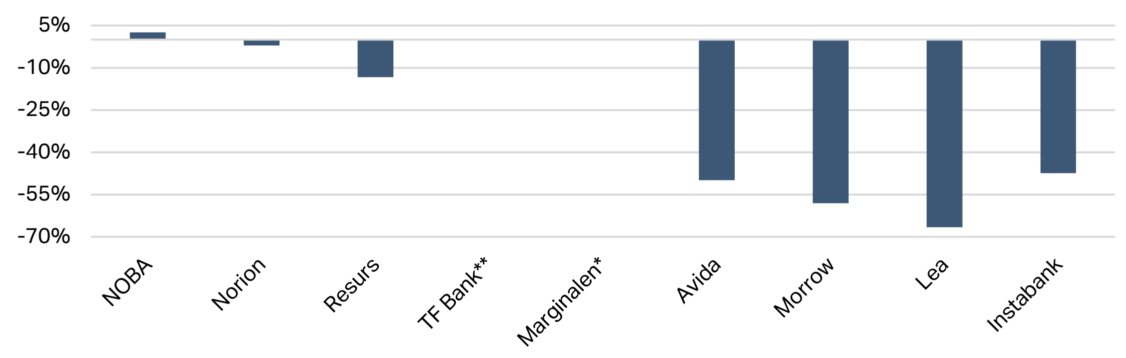
source: bank reports. *capital ratios for ESCO Marginalen AB. Capital for both ESCO and Marginalen Bank should improve substantially following the SRT transaction in August, see slide 16 for further information.

CRR3's main impact on operational risk for most

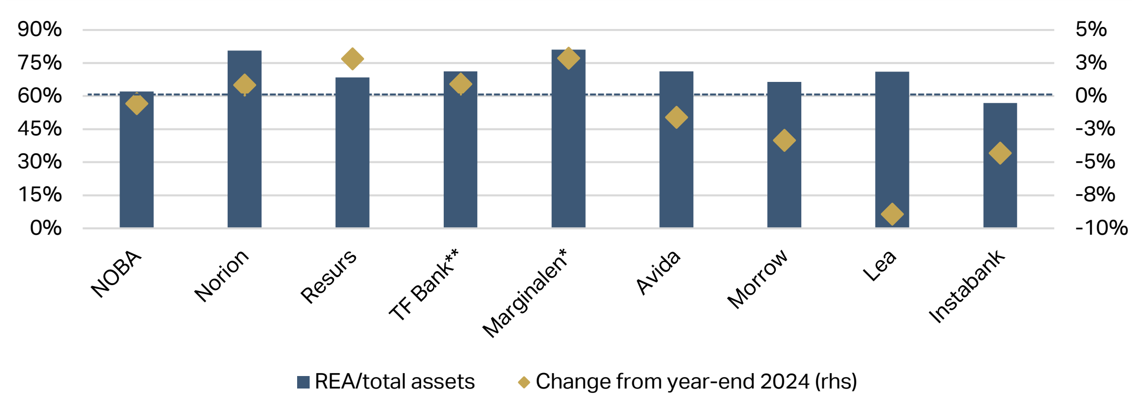
Mortgage portfolios provided additional support for NOBA and Instabank

- The EU's Capital Requirements Regulations III (CRR3) came into effect in time for Q1 reports in Sweden and Q2 reports in Norway. For most of the niche banks, the impact on the credit risk portion of risk exposure amount calculations was limited. However, the updated standardised operational risk calculation is beneficial for high-margin banks, and most saw a significant impact from year-end.
- **NOBA**, **TF Bank** and **Norion** had already switched to the "new" operational risk calculation, as it has been available for some time.
- While **Resurs** appears to have a minor effect compared with others, their operational risk exposure amount declined by 13% from year-end, a significant effect.
- Average risk weights declined from year-end for most of the banks in our sample. Larger reductions were impacted by NPL sales, as well as **Lea Bank's** move to Sweden and change of regulatory domicile.

Operational risk portion of REA, change from year-end 2024 to 30 Jun. 2025



REA/total assets in absolute value 30 Jun. 2025, incl. change from year-end



Based on NCR analysis of bank reports. *capital metrics for ESCO Marginalen AB/does not report on split REA in quarterly report. **does not recalculate operational risk from year-end.

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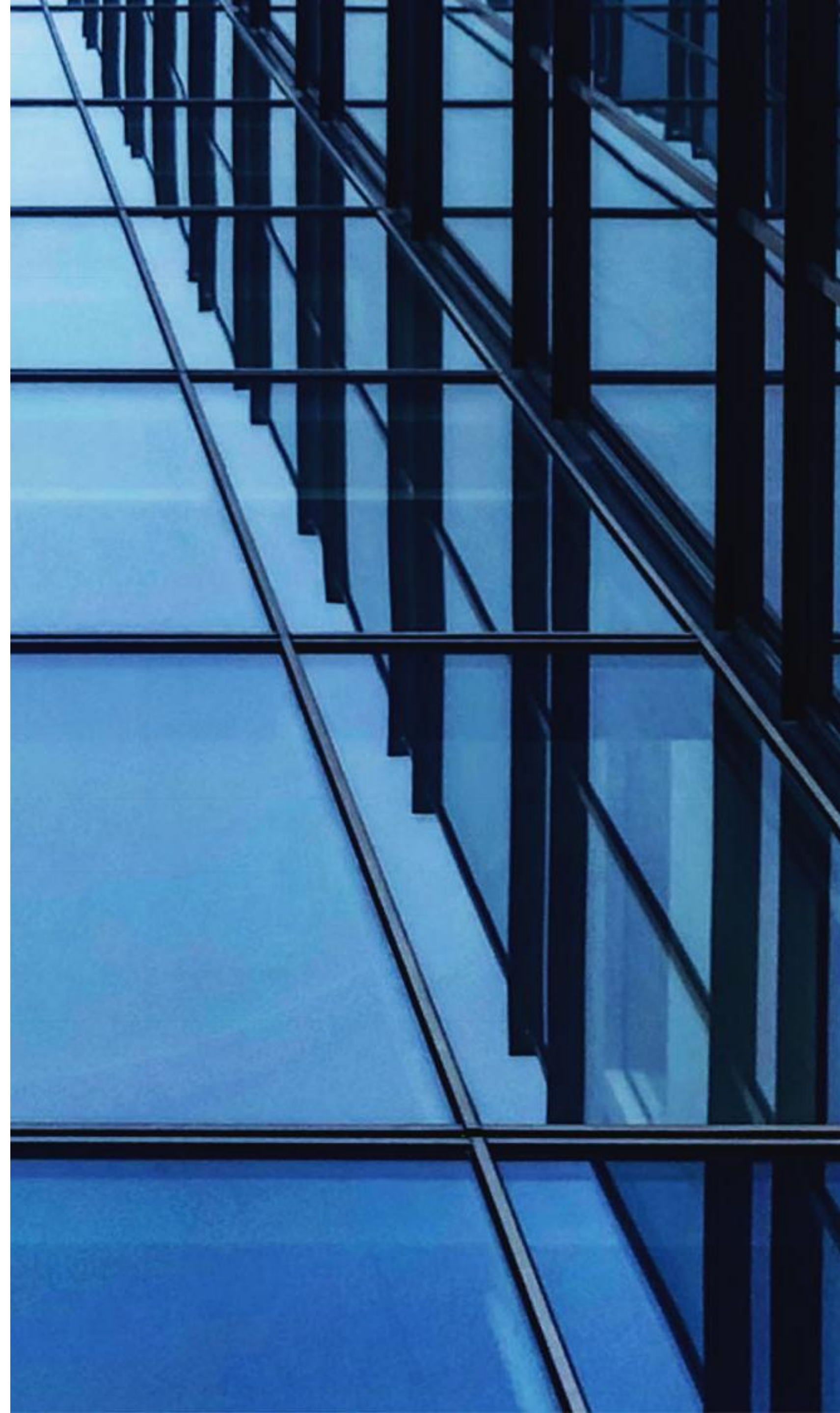
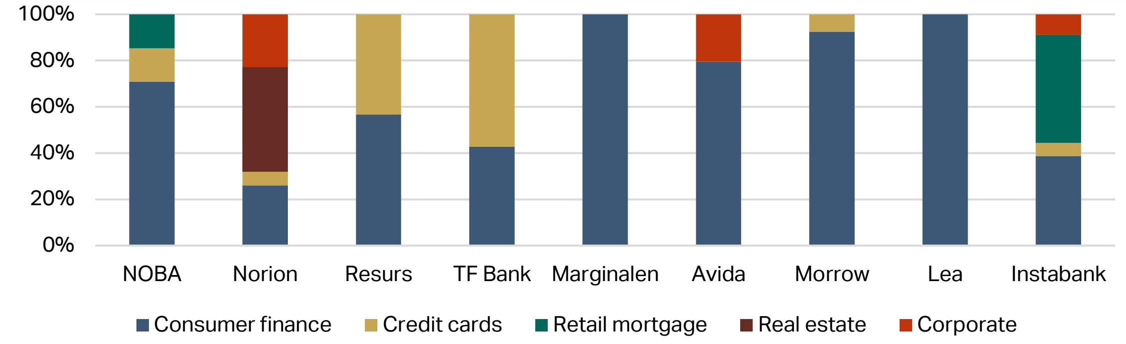


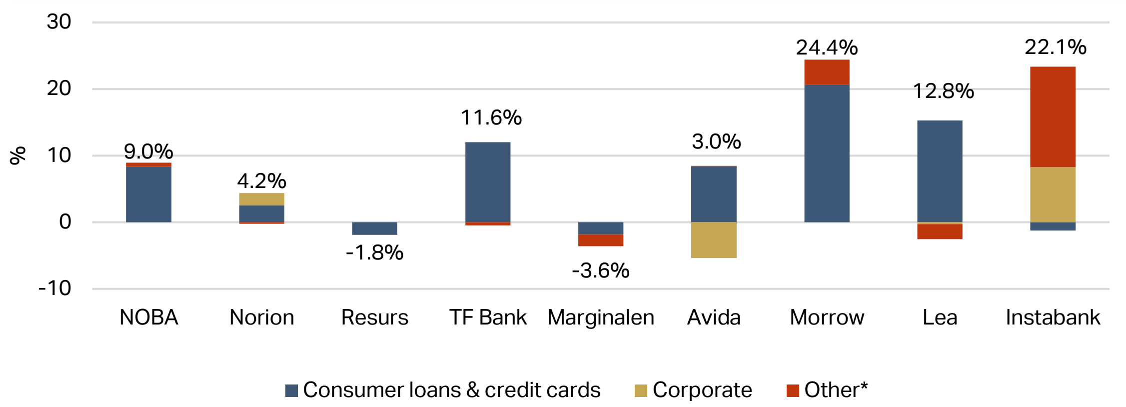
Large variations in growth between banks

- Loan growth for the sample as a whole over the past twelve months was 6.7%, primarily driven by consumer loans and credit cards.
- Growth, however, varied significantly among banks. It should be noted that there have been significant portfolio divestments for several of the banks over the year.
- We believe there is a distinction between banks in our sample that are moderating growth and stabilising risk profiles, and those that continue to pursue rapid expansion.
- Gross loan growth exceeded net loan growth for a slight majority of the banks in our sample, suggesting that increased loss reserves absorbed some of the new lending.
- On aggregate, the sample banks' lending increased across all main markets, with Norway recording the lowest growth at 2.4%, compared with 6.4% growth in unsecured household lending nationwide.

Loan book sector split, 30 Jun. 2025



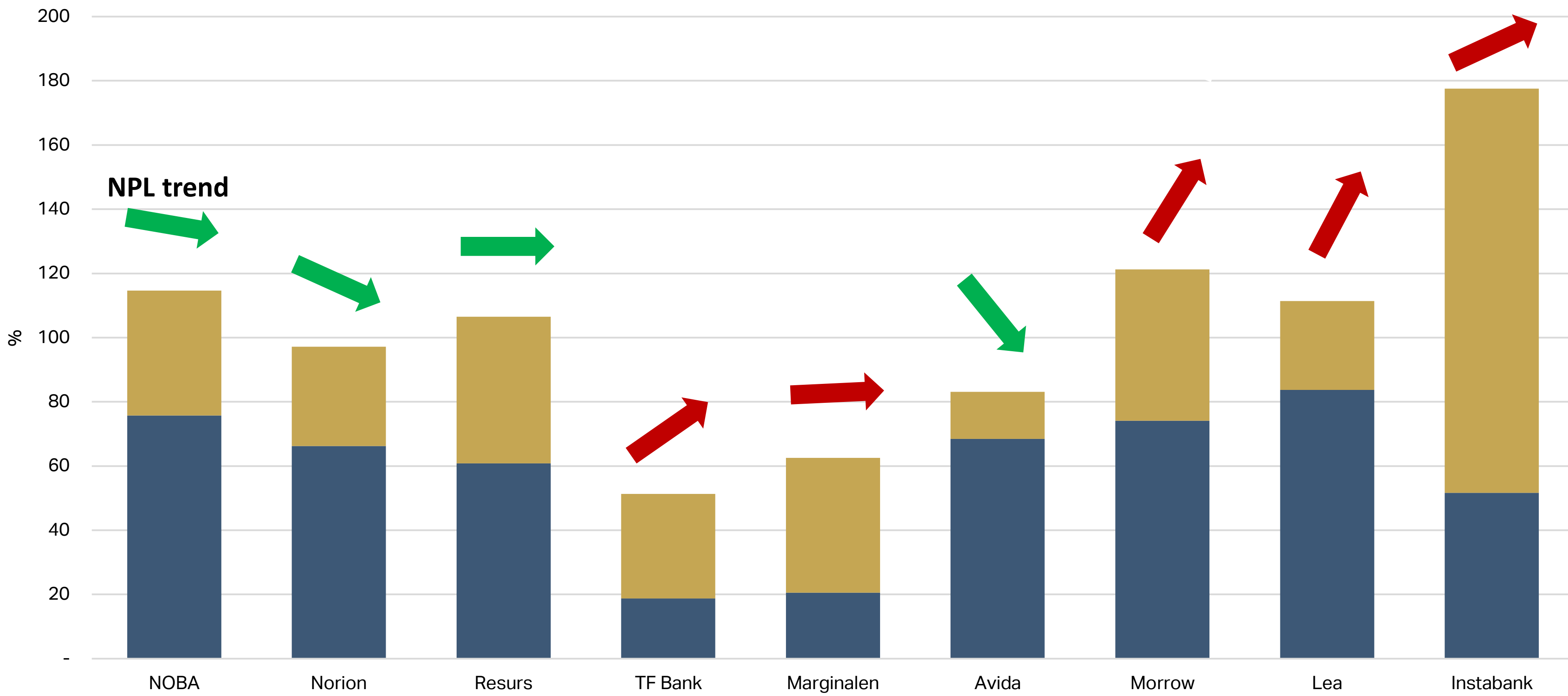
Total net loan growth split by segment, LTM to 30 Jun. 2024



Based on NCR analysis of bank reports. *includes retail mortgages. **according to the Norwegian debt information (*Norsk Gjeldsinformasjon*).

Problem loans are a meaningful share of CET1

Net stage 2/3 loans / CET 1 as of Q2 2025, trend in first half of 2025



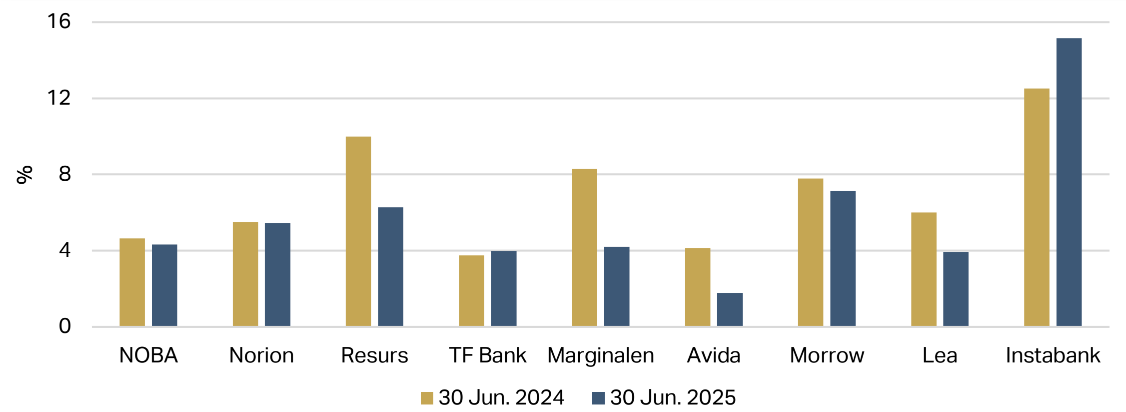
Source: bank reports.

Source: bank reports

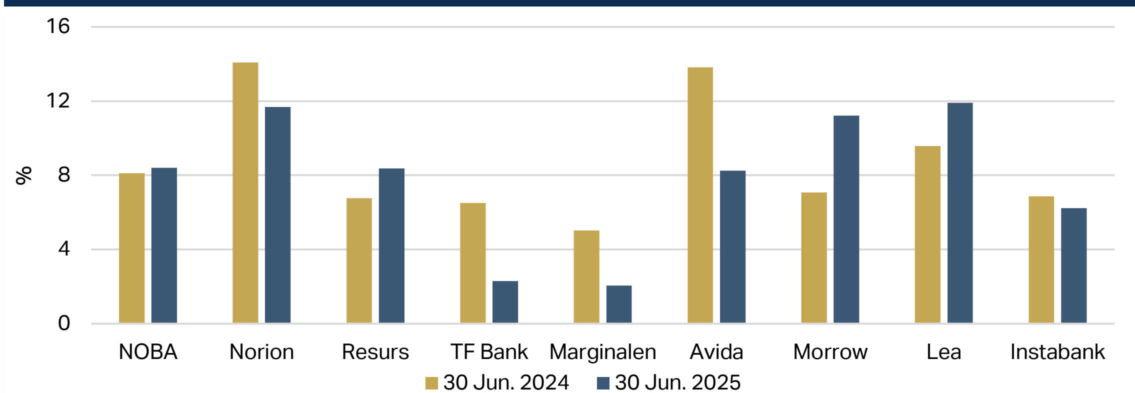
Modest swings in asset quality from a year ago

- The weighted average share of net Stage 3 lending declined by around 0.5pp from 30 Jun. 2024 to 8.3% as of 30 Jun. 2025.
- We believe that there is likely some effect of lower interest rates in most of these banks' markets, but that the decline is also largely driven by NPL sales throughout the year.
- Nonetheless, the nearly 1pp decline in average net Stage 2 loans compared with a year ago is likely an indicator of improved macroeconomic factors. However, an average 9% loan growth over the same period is likely also helping metrics.
- **Avida** sold SEK 181m in Norwegian NPLs in Q2 resulting in SEK 6m in provision reversals. They also signed an agreement to sell SEK 320m in Swedish NPLs in September.
- **NOBA** completed various transactions in June, totalling SEK 900m in Norway and Denmark.

Net Stage 2 loans as share of total net loans



Net Stage 3 loans as share of total net loans



Based on NCR analysis of bank reports.

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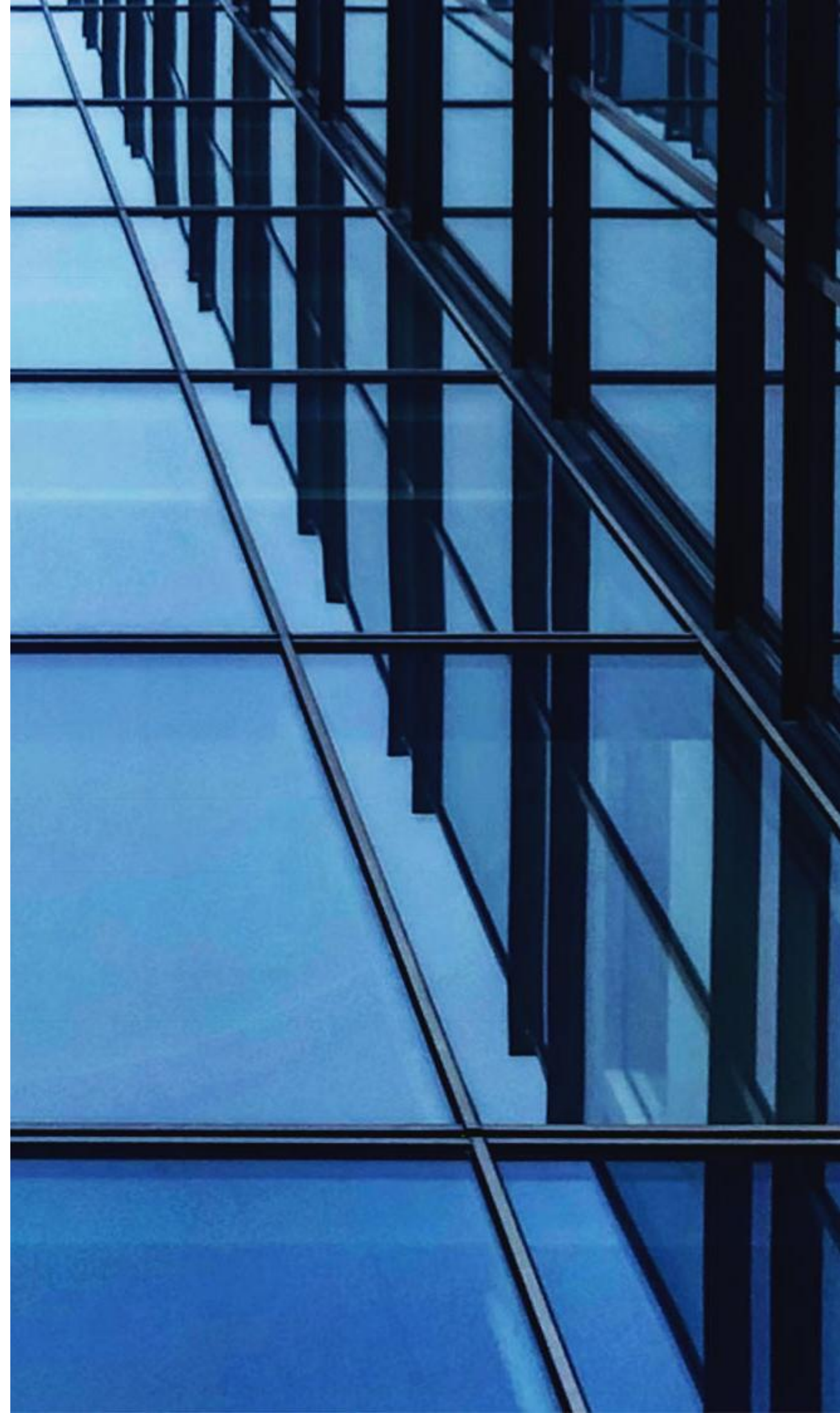


Synthetic risk transfers provide capital relief

Transferring credit losses to investors could drive further growth

- Early in the third quarter **Avida** and **Marginalen** announced synthetic risk transfer transactions, earmarking performing portfolios and providing material capital relief.
- **Avida**'s deal covers credit losses on a portfolio of SEK 2.8bn in consumer loans.
- **Marginalen**'s SRT covers SEK 3.15bn in consumer loans using a credit-linked note of SEK 315m, with a duration of up to 16 years, and a payment-in-kind coupon of Stibor 3M + 1050bps.
- **Marginalen** expects a reduction in its risk exposure amount of approximately SEK 2bn, providing necessary capital flexibility. **Avida** has yet to announce the capital implications of its transaction.
- In SRTs, the principal of the credit linked notes falls with losses in the reference portfolio, offsetting the P&L effect of credit losses for the bank.
- The arrival of SRTs for performing loans could provide material capital relief for Nordic niche banks and increase opportunities for further growth.

Benefits for banks

- Capital relief – risk exposure amounts reduced
- Increases predictability
- Growth opportunities and increased leverage
- Maintain loans and customer relationships on balance sheet
- Securing performing loans complements transferring NPLs

Benefits for investors

- High margin investment
- Coverage tends to ensure some retained principal
- Synthetic diversification and access to consumer credit with a cap on credit exposure

Sample synthetic risk transfer cash flows

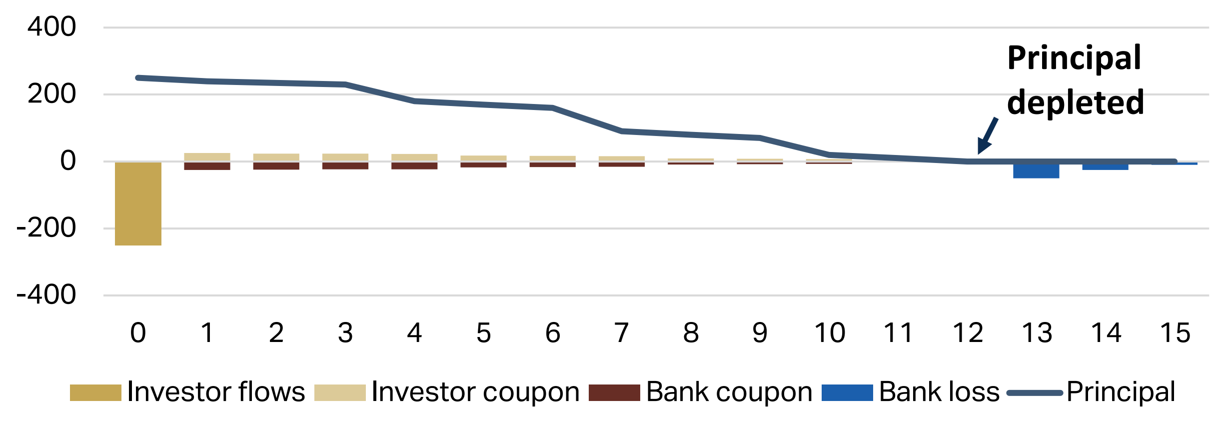
Each case assumes 250 principal, 10% interest and 15-year term

Losses exceed coverage

Investor : -250 + 174 = -77

Bank : -174

Add'l losses : -85 (year 13-15)

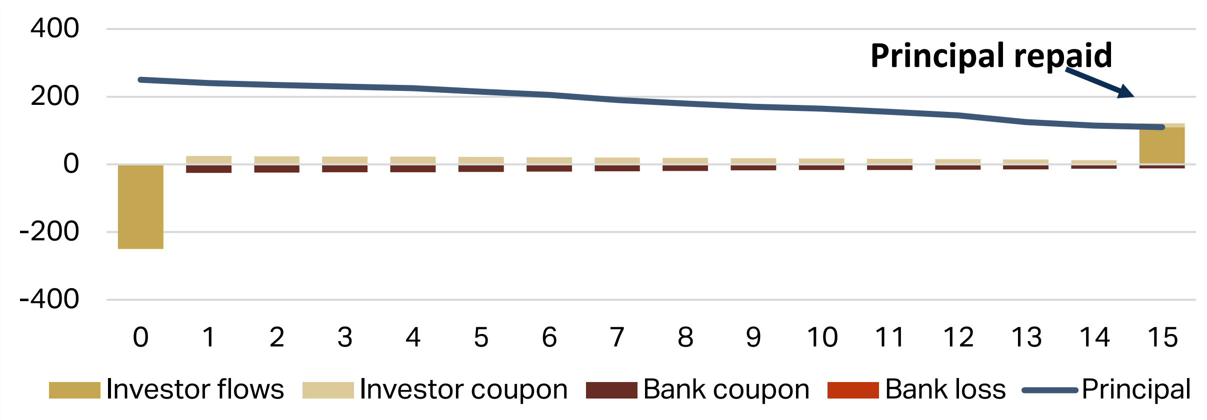


Modest loss scenario

Investor : -250 + 285 + 110 = 145

Bank : -285

Add'l losses : 0



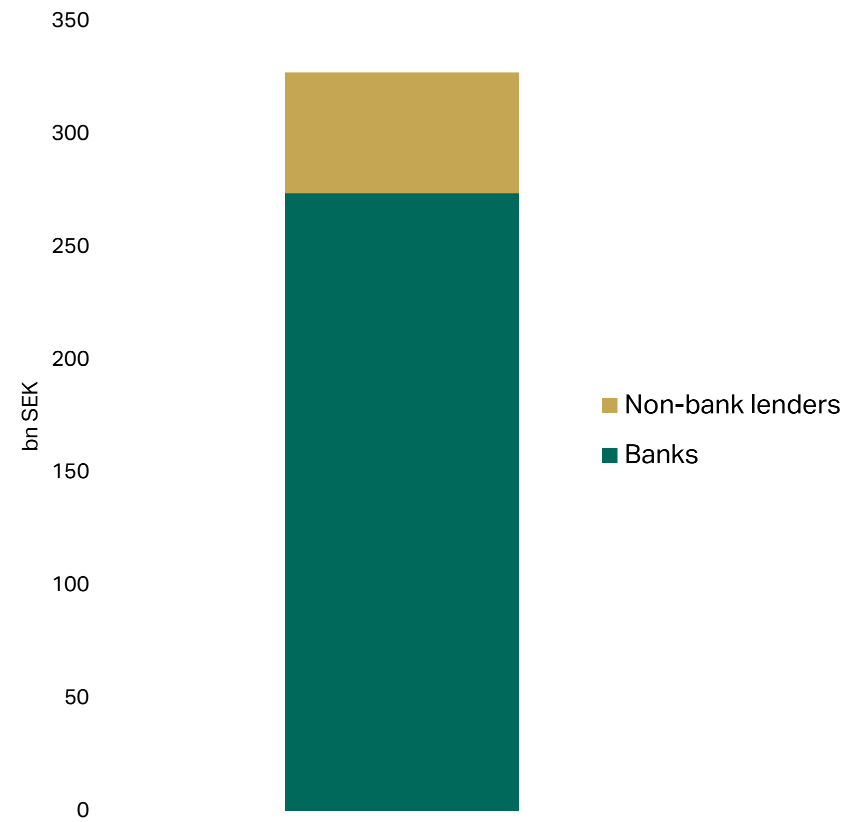
All loss coverage is assumed to occur at the end of each period. Investor coupons in this example are assumed to be paid and not accumulated as payment-in-kind.

Sector is growing

Changes in Swedish legislation pushes lenders to apply for banking license

- In March, the Swedish government proposed repealing the law permitting non-banks to extend consumer loans. The repeal took effect on 1 Jul., with existing companies given one year to apply for a banking licence.
- Currently, 53 Swedish companies are registered with the Swedish FSA as consumer credit institutes and will need to apply for a banking licence or change business model. To date, two lenders have been granted a banking license (Anyfin and Brixo). Loan distributors Lendo and Enklare have announced their intent to apply for licences. We believe additional companies are likely to follow.
- However, a banking licence entails significantly stricter requirements and expectations. In our view, most of these companies are likely to decline, as the increase in costs does not justify the benefits.
- These consumer credit institutions generally target higher-risk segments compared with the niche banks covered in this report. However, we believe stricter requirements imply a need for risk reduction in their lending.

Swedish unsecured household lending, 30 Jun. 2025



Source: Swedish Financial Supervisory Authority, Statistics Sweden, various media sources and company websites.
FSA – Financial Supervisory Authority.

Looking ahead…

- We expect the divergent growth trends observed in early 2025 to persist in the second half. Lower interest rates across most markets, except Norway, should support loan demand, although some banks are likely to remain cautious.
- Despite ongoing weakness, the economy remains broadly stable in these banks' markets. Combined with lower interest rates, this should help ease pressure on asset quality. However, we believe it may take time before we see significant asset quality improvements and there is a chance this could be a new normal.
- Many banks are diversifying into new products, geographies, and segments, a trend we expect to continue. SRTs could also change growth and capital dynamics for Nordic niche banks.
- Following a period of uncertainty and weak profitability in NPL markets, sentiment has improved. While some necessary offloading has already occurred, we expect transaction activity to continue in the coming quarters.

NCR-rated niche banks

Resurs downgraded to 'BBB-' on 13 Mar. 2025.

	Resurs Bank	Norion Bank	NOBA Bank Group
Long-term issuer rating	BBB-	BB+	BBB
Outlook	Stable	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

As of 4 Sep. 2025.

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