Nordic Credit Rating

SECTOR COMMENT

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SME lending gains momentum among Nordic niche banks

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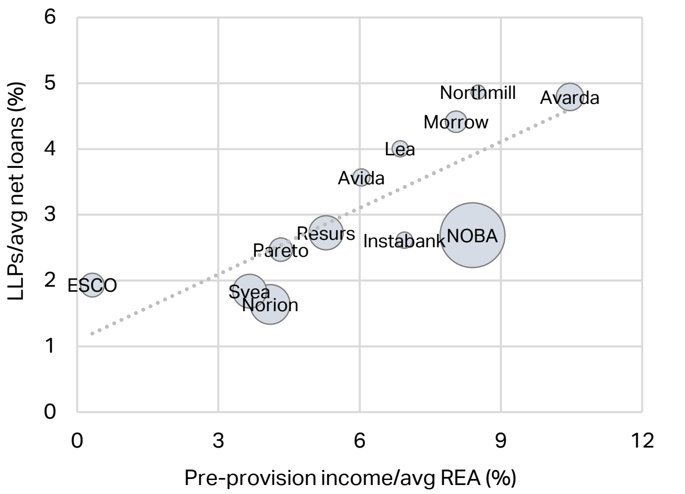
The first half of 2026 was largely an extension of a positive trend for Nordic niche banks. Most of the banks in Nordic Credit Ratings' (NCR) sample reported solid earnings growth, continued loan book expansion, stable funding access, and generally resilient asset quality despite an uncertain macroeconomic backdrop. The most notable development was a broadening of product mixes. While unsecured consumer lending remains significant, several institutions are prioritizing payment solutions and embedded finance, credit cards, SME lending, non-traditional mortgages, and wealth management to support growth. This diversification could enhance business resilience across economic and interest rate cycles. In this report, we take a deeper look on the growing SME segment, expanding our sample banks accordingly.

Profitability remained a key strength for nearly all the 12 banks in our main sample. Several banks have strengthened their earnings in the first half of 2026 by leveraging their digital platforms to add scale and improve cost efficiency while also benefitting from reduced loan loss provisions in most segments. Credit performance was generally supportive and asset quality metrics stabilised or improved at most lenders as recent years' risk management actions and lower interest rates outside of Norway continued to yield results. Pockets of higher credit risk are notable for a rising number of Norwegian real estate developers and highly levered private individuals, but the general sentiment is that credit risk for these banks is receding.

The deadline for Swedish consumer credit companies to apply for new bank and credit market company licenses passed at the end of July. Among our sample banks, Avida Bank's (formerly Avida Finans) banking license was approved at the end of June, a year after submitting its application. In total, around 20 consumer credit companies, in addition to the major loan distributor companies, have applied for credit market company licenses, most of which in July. Another notable development was Instabank reversing its decision to stay in Norway rather than redomiciling to Finland following an updated supervisory review outcome that reduced its Pillar 2 capital requirement by 2pp.

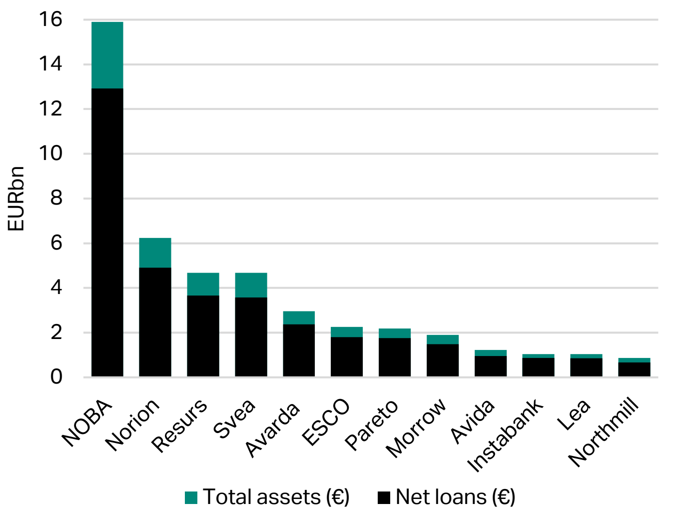
The credit outlook for Nordic niche banks remains broadly positive. Barring a significant deterioration in Nordic economic conditions, most banks are well positioned for another year of strong earnings, continued portfolio growth and improved credit performance during the second half of 2026 and into 2027. However, the rise in SME lending, rapid growth in higher-risk credit card portfolios and lower capital buffers could offset some of the positive macroeconomic momentum across the region.

Figure 1. Key performance indicators, last 12 months



Source: bank reports. REA–risk exposure amount. ESCO- ESCO Marginalen AB. Bubble size reflects net loans in €.

Figure 2. Net loans and total assets, H1 2026

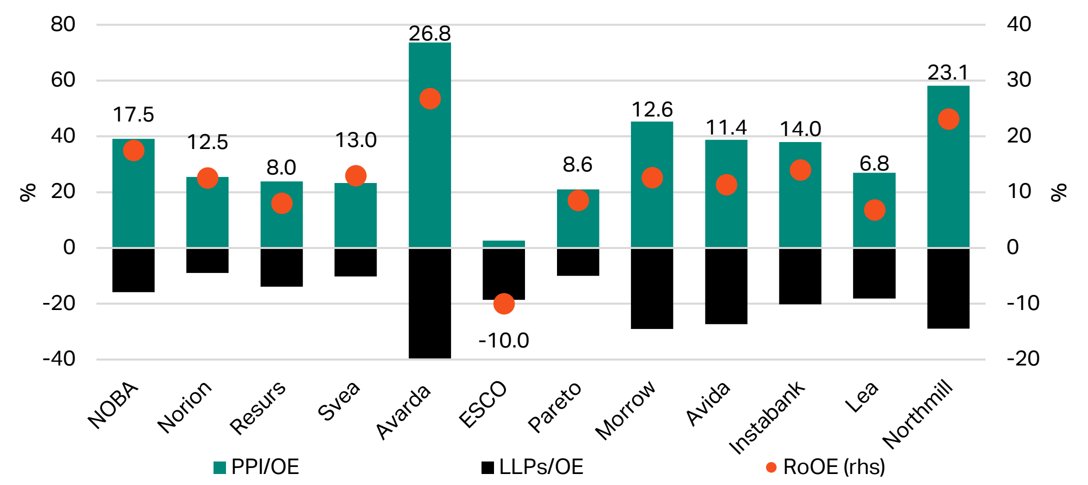


Source: bank reports.

EARNINGS PERFORMANCE REACHING NEW HEIGHTS

Profitability has steadily improved as the banks begin to realise the benefits of recent investments in technology and process upgrades to support scalability. Consumer lender Avarda led the group with a 26.8% return on ordinary equity (RoOE) over the past 12 months, while SME lender Northmill also reported an RoOE above 20%. Several other banks enhanced earnings by leveraging digital platforms to increase scale and improve cost efficiency, while also benefiting from steady reductions in loan loss provisions across most segments.

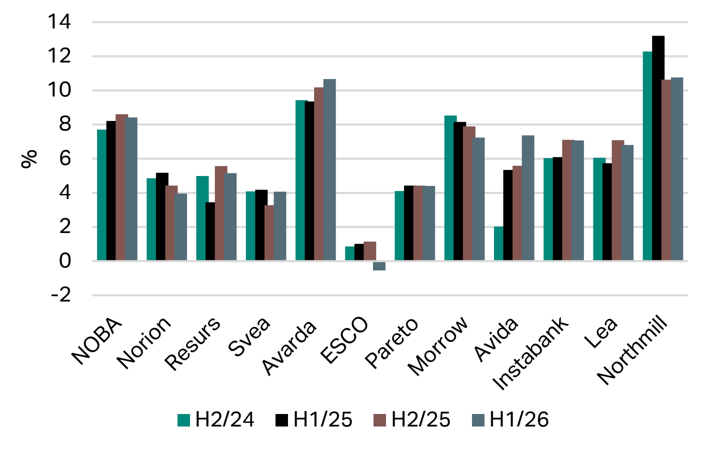
Figure 3. PPI/avg ordinary equity and LLPs/avg ordinary equity + RoOE per bank, last 12 months



Source: bank reports.

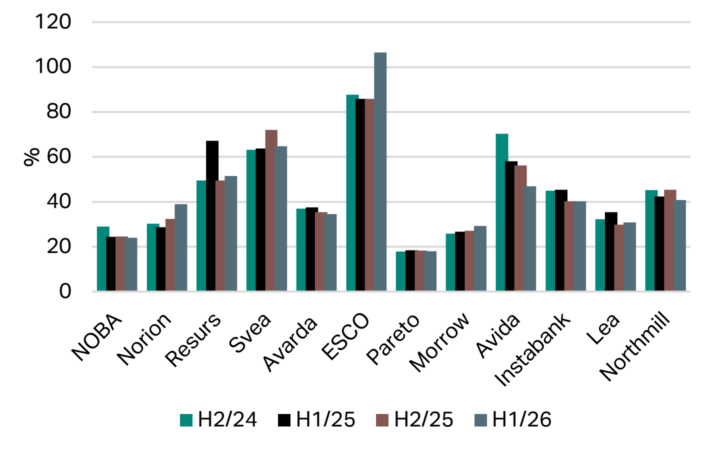
Cost efficiency remains a key differentiator among the banks in the sample. Pareto Bank demonstrates the strongest operating efficiency, maintaining a stable 18% cost-income ratio in the first half and over the past two years. This reflects its narrow focus and limited number of large-ticket corporate and real estate loans. NOBA's scale supports best-in-class efficiency among primarily consumer-focused banks, with a cost-income ratio of 25% over the past two years. Morrow, Avarda and Lea also report ratios well below 35%, highlighting the scalability of their lending platforms. Morrow' completed its acquisition of MedMera Bank on 1 July, increasing its loan book by 65% and materially enhancing scale and supporting further long-term cost efficiency improvements.

Figure 4. Annualised PPI/REA, last 4 periods



Source: bank reports.

Figure 5. Cost-to-income ratio, last 4 periods



Source: bank reports.

Avida, previously one of the least efficient sample banks, is demonstrating significant earnings improvement following headcount reductions, platform migration, and its 2024 acquisition of Santander' credit card and retail finance portfolio. ESCO Marginalen continues to face profitability challenges, with costs exceeding operating revenues in both the first two quarters of 2026.

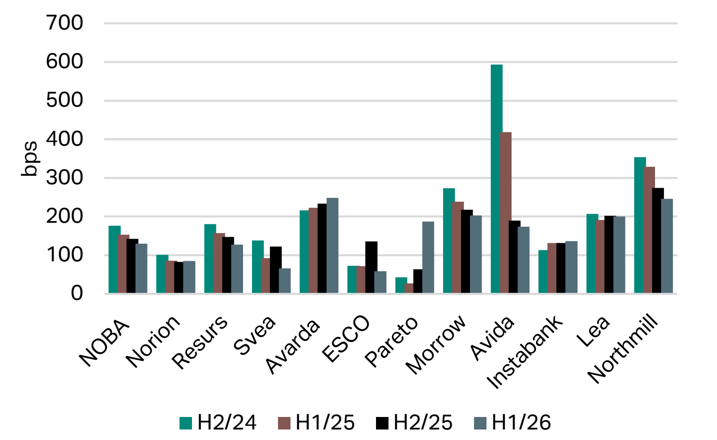
ASSET QUALITY METRICS SHOW POSITIVE MOMENTUM

Over the past two years, the sample banks have generally reported improved loan loss provisions and a decline in Stage 2 loans. This trend continued in the first half of 2026, indicating that positive momentum is likely to persist into the second half of 2026.

NCR-rated Pareto Bank has reported a steady increase in Stage 2 loans over the past two years, driven by elevated interest rates, higher building costs, and an oversupply of rental apartments, which has delayed pre-sales and dampened demand for newbuilds in Norway. The bank also reported a material increase in loan losses provisions in the first half, increasing its Stage 3 coverage ratio to 41% from 26% and reducing its net Stage 3 loans to 4.5% from 5.2% at year-end 2025. NCR recently revised the bank's rating outlook to negative, and we expect loss provisions to remain elevated through the remainder of 2026 and 2027 (see recent rating actions below).

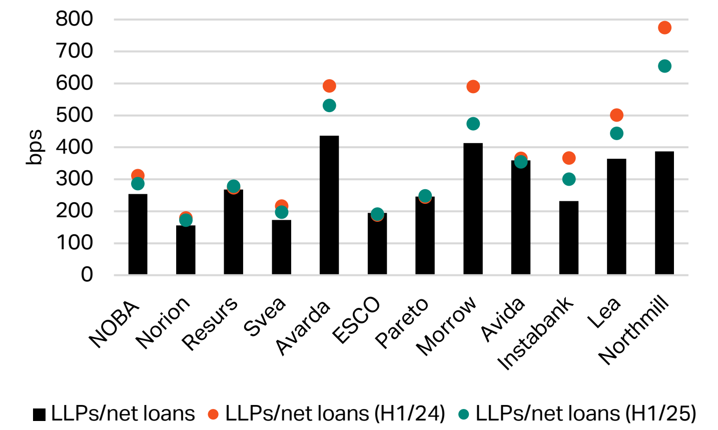
Loan loss provisions for the sample improved overall, averaging just over 155bps in H1/26 (equivalent to a 3.1% annualised loss rate), compared to a 3.3% average loss rate in 2025. NCR-rated NOBA and Resurs continued to report steady declines in loss provisions over the past four periods. Morrow and Northmill also reported declines; however, their apparent improvement in loss ratios is largely attributable to strong organic and acquired loan growth in recent years (see Figure 7). Along with Pareto, Avarda and Instabank continued to see increases in bi-annual credit losses, partly due to a shift in product mix toward higher-risk lending products.

Figure 6. Loan loss provisions as a percentage of net loans, last 4 periods



Source: bank reports.

Figure 7. Annualised LLPs/net loans as of H1 2024–2026

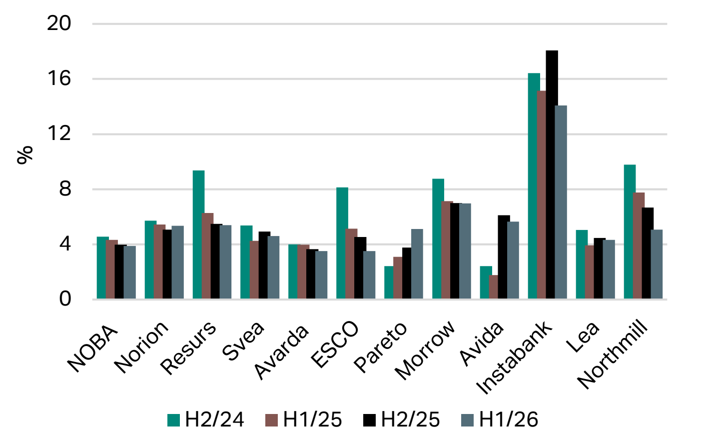


Source: bank reports.

While Stage 2 ratios generally improved, non-performing loan levels did not improve uniformly, and several banks reported higher shares of Stage 3 loans. This suggests that some banks continued to accumulate problem loans, and that improvement in the secondary non-performing loan market remains uneven and is still largely driven by a few large one-off transactions.

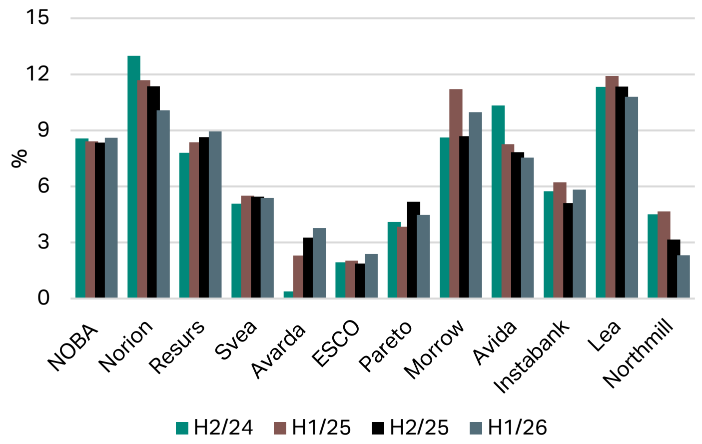
NPL transactions in the third quarter will impact year-end figures. In early August NCR-rated Norion reported the sale of a SEK 6.2bn gross (SEK 2.5bn net) consumer loan portfolio. The transaction includes nearly all of the SEK 6.4bn in reported Stage 3 consumer loans as of 30 Jun. 2026, reducing the bank's pro forma net Stage 3 loan ratio to approximately 5.8% from 10.1%. Resurs also announced a significant NPL transaction, agreeing to securitise SEK 3.5bn in consumer loans. We estimate that this transaction lowered its pro forma Stage 3 loan ratio to about 4.5% from 8.9%.

Figure 8. Net Stage 2/net loans, last 4 periods



Source: bank reports.

Figure 9. Net Stage 3/net loans, last 4 periods

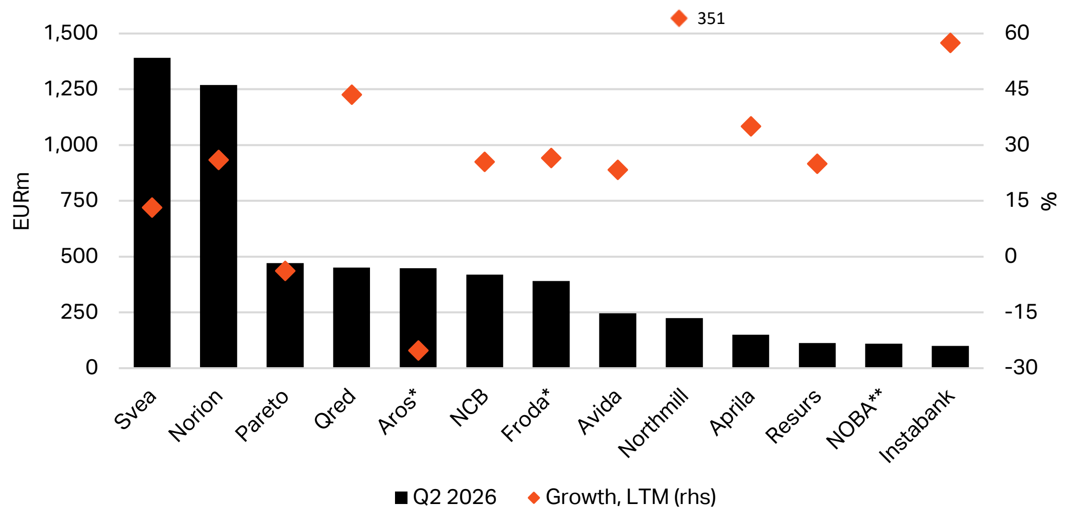


Source: bank reports.

INTEREST IN SME LENDING IS ON THE RISE

Interest in lending to SMEs among Nordic niche banks, particularly those from Sweden, has increased in recent years. In this section, we exclude the four banks that do not report material SME loans and add five specialised lenders. The total volume among the thirteen included banks was EUR 5.8bn as of 30 Jun. 2026, up from EUR 4.8bn a year earlier, representing 21% growth compared with 8% growth in total gross lending for the same banks.

Figure 10. SME lending as of Q2 2026, and growth from Q2 2025, in euro

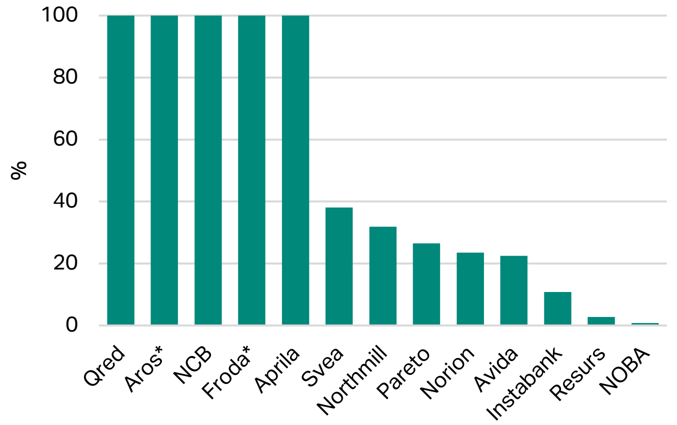


Source: bank reports. Adjusted for FX changes. *only annual reports, volume as of year-end 2025 vs. year-end 2024. Both are credit market companies rather than banks. **no SME lending prior to DBT Capital acquisition in 2026.

Among SME banks, we note both established SME lenders and other niche lenders that are increasingly targeting the SME segment, as well as newer institutions. Over the past year, Norion acquired two Swedish asset managers, citing expected synergies in SME lending due to these companies' large customer base of entrepreneurs. NOBA also acquired SME lender DBT Capital, with plans to expand gradually in this segment.

In terms of organic expansion, Northmill launched corporate deposits earlier this year, advancing its position as a full-service provider for SMEs. Froda also announced a partnership with SpareBank 1 Østlandet, a regional Norwegian savings bank, to add Froda Embedded to its SME offerings. And Resurs announced its launching of *Företagsbanken* ("the Corporate Bank"), broadening its SME offering.

Figure 11. SME loans as a share of total gross lending, Q2 2026



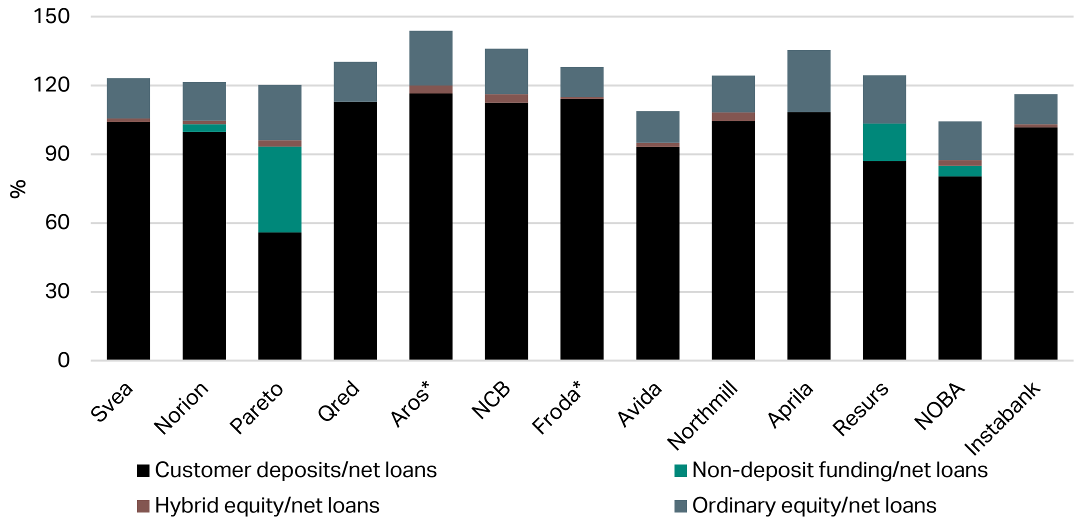
Source: bank reports. *As of end-2025.

In June, Qred's majority owner, Nordic Capital, announced its acquisition of UK embedded finance fintech Liberis, aiming to create a joint SME lending platform beyond the Nordic region. At the end of August, UK specialised SME lender Allica Bank announced its application for a Swedish banking licence, intending to establish a Sweden-based subsidiary. Established in 2019, the bank reported GBP 3.7bn in net loans as of end-2025. It has cited a similar rationale to many Nordic lenders, noting an opportunity in the market for niche SME lenders, both in its UK operations and in its decision to expand into Sweden and potentially other EU markets.

We believe several factors are driving increased attention to SMEs from lenders. Competition in consumer lending has intensified, particularly due to the high degree of product homogeneity. While most lenders appear to offer largely standardised SME lending products, there is potential for greater diversification, such as through broader or complementary products, or a wider range of loan sizes. In Sweden, heightened political and regulatory scrutiny of consumer lenders may also be contributing to the rising SME interest.

In addition, increased regulatory scrutiny and higher capital requirements for the large Nordic banks, combined with a gradual retreat from less urban areas, may be leaving some credit demand unsatisfied. While we lack specific data, we believe there is a gap in the market, which many lenders also cite as a reason for investing in SME lending. However, it remains unclear whether this gap is large enough to absorb the rapidly expanding supply, particularly for lenders unwilling to go too far out on the risk scale.

Figure 12. Funding profile, Q2 2026



Source: bank reports. *As of end-2025.

Each bank relies heavily on retail deposits for funding, with smaller banks typically incurring higher average funding costs. Given the price sensitivity of platform-based deposits, we consider it important for banks to diversify these deposits by currency, maturity and source, and to ideally complement with longer-term funding. Only a few of these lenders have issued senior instruments, with some additional ones having issued capital instruments to strengthen and optimise their regulatory capital positions and support RoOE metrics. Pareto Bank remains the most active sample bank in the senior capital markets. NOBA, Resurs, and Norion are also active issuers of senior unsecured bonds and commercial paper, and NOBA and Resurs are active users of warehouse funding with portfolios of pledged mortgage and consumer loans.

As most of these lenders do not focus solely on SME lending and reporting detail varies, asset quality metrics are difficult to compare. We also expect significant differences in risk profiles across lenders' SME portfolios. Factors such as collateralisation levels, underwriting standards and covenant restrictions (as well as monitoring) should impact asset quality, particularly during periods of economic stress. Some lenders may also be more willing to assume higher risk in a strong or stable economy, but could faces challenges when the economy worsens. Likewise, we expect that some of these lenders have a higher willingness to accept higher credit risk in order to charge higher interest rates, which may be linked to funding cost differences, apart from general risk appetite variations.

NCR-RATED NICHE BANKS

The following table summarises NCR's ratings on niche lenders, as of 8 Sep. 2026.

Figure 13. NCR ratings on Nordic niche banks

Issuer	Long-term issuer rating	Outlook
NOBA Bank Group AB (publ)	BBB	Positive
Norion Bank AB (publ)	BB+	Positive
Resurs Bank AB (publ)	BBB-	Positive
Pareto Bank ASA	BBB+	Negative

See NCR's company reports for details.

RELEVANT RESEARCH

(i) Nordic niche banks focus on optimisation and scalability in 2026, 13 Jan. 2026
(ii) NCR Comments: Swedish plan could increase funding costs for domestic niche banks, 17 Mar. 2026
(iii) Nordic niche banks; building a foundation for growth, 4 Sep. 2025

RECENT RATING ACTIONS AND ISSUER COMMENTS

(i) Pareto Bank ASA outlook revised to negative; 'BBB+' long-term issuer rating affirmed, 28 Aug. 2026
(ii) NCR Comments: Resurs Bank 'BBB-' rating and positive outlook unchanged following securitisation, 7 Jul. 2026
(iii) Resurs Bank AB (publ) outlook revised to positive; ‘BBB-’ long-term issuer rating affirmed, 18 Jun. 2026
(iv) NCR Comments: Norion Bank 'BB+' rating and outlook unchanged following finalised AML investigation, 28 May 2026
(v) NCR comments: Norion Bank ‘BB+’ rating and positive outlook unchanged following Balder share distribution, 11 May 2026
(vi) NCR comments: NOBA Bank Group 'BBB' rating unchanged following acquisition of DBT Capital, 19 Dec 2025
(vii) Norion Bank outlook revised to positive; 'BB+' long-term issuer rating affirmed, 16 Dec. 2025
(viii) NOBA Bank Group outlook revised to positive; 'BBB' long-term issuer rating affirmed, 16 Dec. 2025

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