

Banks

Key data

Price (EUR)	17.4
Country	Finland
Bloomberg	OMASP.FH
Reuters	OMASP.HE
Free float	25.0%
Market cap (EURm)	575
No. of shares (m)	33.1
Next event	Q2: 29-Jul

* Price as at 10:51 CET on 30 April 2024

CEO	Pasi Sydänlammi
CFO	Sarianna Liiri

Company description

OmaSp is the largest savings bank in Finland with over 200,000 customers in the retail, corporate and agricultural segments. The bank has around 2.5% market share in the Finnish banking market and a nationwide presence in Finland. It has around 45 branches in addition to a wide range of digital service channels. OmaSp was listed on the Nasdaq OMC Main list in December, 2018.

Ownership structure

Etelä-Karjalan Säästöpankkisäätiö	26.2%
Parkanon Säästöpankkisäätiö	9.9%
Liedon Säästöpankkisäätiö	9.4%

Source: Company data ("d Mmmm YYYY")

Estimate changes

	24E	25E	26E
NII	0.0%	-0.1%	-0.1%
PPP	0.0%	-0.1%	-0.1%
EPS (adj.)	-15.4%	-2.6%	-2.6%

Source: Danske Bank Equity Research estimates

Analyst(s)

Hans Rettedal Christiansen

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Important disclosures and certifications are contained from page 7 of this report

Oma Savings Bank

A severe bump in the road

A major compliance breach in the bank's own ranks led management to take an additional EUR19.5m loan loss allowance for expected future losses in Q1. This highlights risks associated with a high-growth bank, but the problem appears to be contained to a single event and not widespread, which provides comfort. Risk mitigation plans have been established and underlying credit quality is progressing as expected.

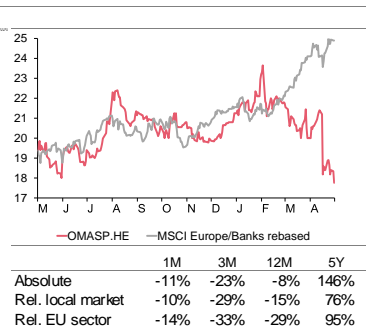
- Credit quality.** The results were pre-announced in a profit warning issued on 16 April and focus was on the events that led up to the profit warning. Management hosted a call in which most of the time was spent on this subject. We learned that the credit losses were the result of an employee deliberately misstating and falsifying credit reports, which led to an underrepresentation of the true credit risks involved. The non-compliance event covered around 3% of the total portfolio, of which 25% was related to the EUR19.5m charge taken in Q1. OmaSp's internal audit uncovered the misconduct, and the bank has since imposed measures to stop similar events from happening in the future.
- Operating performance.** Underlying results showed similar trends to the previous quarters, with still solid NII performance, although lending volumes have dried up owing to the economic backdrop. Despite higher-than-expected loan losses the bank still delivers a 12M trailing ROE of 21%. The Handelsbanken SME acquisition will take place at the end of Q3, which should boost the profit potential by EUR8-12m according to management.
- Capital.** CET1 capital came in stronger than we had expected given the losses recorded this quarter. At 15.4% the bank continues to have a strong capital base, also when comparing to the FSA requirement. There was no incremental news on the IRB application.
- Valuation.** We cut estimates 3-15% this quarter due to the higher-than-expected loan losses in Q1 24, but we also expect the implied cost of risk to increase due to the events in Q1, which we have factored into 2025/26E. It will take time to restore confidence after such a serious event on non-compliance and we think investors will need to see normalisation in the loan losses. At the same time, the shares continue to trade at a significant discount to Nordic peers. On our updated estimates the shares are trading at 5.5x EPS(24E) and 4.6x EPS(25E).

Key financials

Year-end Dec (EUR)	2022	2023	2024E	2025E	2026E
NII (m)	105	197	211	219	240
Lending growth	9.9%	26.1%	12.1%	10.1%	10.0%
Total revenues (m)	144	247	273	288	313
Pre-provision profits (PPP) (m)	71.3	157	172	177	195
PPP growth	-21.8%	119.4%	9.7%	3.1%	10.0%
Loan losses (m)	-1.7	-17.1	-40.3	-18.5	-20.3
PTP (m)	69.2	138	131	159	174
EPS (adj.)	1.85	3.33	3.17	3.83	4.21
DPS	0.40	1.00	0.95	1.15	1.26
Dividend yield	2.1%	4.7%	5.5%	6.6%	7.3%
C/I	50.6%	37.0%	38.6%	39.8%	39.1%
PPP/avg. lending	1.57%	2.91%	2.70%	2.51%	2.51%
Loan loss ratio	0.04%	0.32%	0.63%	0.26%	0.26%
Equity tier-1 ratio	13.3	14.9	15.8	16.9	18.0
RoNTA	14.5%	24.3%	18.2%	19.2%	18.4%
P/E (adj.) (x)	10.1	6.4	5.5	4.5	4.1
P/NTA	1.53	1.30	0.94	0.81	0.71

Source: Company data, Danske Bank Equity Research estimates

Price performance



Source: FactSet

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Q1 tables

Table 1. Q1 deviation table

EURm	Q1 24	DBER	Dev.	q/q	y/y
Interest income	91	96	-5%	-8%	63%
Interest expenses	-33	-43	-22%	-20%	72%
Net interest income	57	53	9%	1%	58%
Net commissions	13	13	-2%	5%	22%
Other income	4	1	n.m.	n.m.	-2%
Total income	74	67	11%	10%	46%
OPEX	-26	-22	16%	11%	2%
Pre-provisioning profit	48	44	8%	10%	91%
Loan losses	-23	-6	285%	218%	1349%
Other income/expenses	0	0	n.m.	-62%	44%
Pre-tax profit	25	38	-36%	-31%	6%
Net profit to shareholders	20	31	-35%	-29%	7%
EPS	0.6	0.93	-36%	-30%	7%
Adj. EPS	0.51	0.93	-45%	-40%	-10%
DPS	0.00	0.00	n.a.	n.a.	n.a.
Net lending	6,005	5,997	0%	0%	1%
CET1 ratio	15.40%	15.3%	0%	1%	2%
ROE (DBER def.)	14.7%	22.8%	-8%	-6%	-2%
Loan loss ratio	-1.54%	-0.40%	-1%	-1%	-1%
NII+fees-opex	44	43	2%	-3%	109%

Source: Company data, Danske Bank Equity Research (DBER) estimates

Table 2. Estimate revisions post the Q1 report

EURm	2024E			2025E			2026E		
	Old	New	Dev.	Old	New	Dev.	Old	New	Dev.
Net interest income	211	211	0%	219	219	0%	241	240	0%
Net fee and commission income	53	53	0%	58	58	0%	63	63	0%
Other income	10	10	0%	10	10	0%	10	10	0%
Total income	273	273	0%	288	288	0%	314	313	0%
Opex	-102	-102	0%	-111	-111	0%	-119	-119	0%
Pre provisioning profit	172	172	0%	177	177	0%	195	195	0%
Loan losses	-17	-40	140%	-15	-18	25%	-16	-20	25%
Other	0	0	n.m.	0	0	n.m.	0	0	n.m.
Profit before tax	155	131	-15%	162	159	-2%	179	174	-2%
Taxes	-31	-26	-15%	-32	-32	-2%	-36	-35	-2%
Net income	124	105	-15%	130	127	-2%	143	139	-2%
EPS	3.75	3.17	-15%	3.93	3.83	-3%	4.32	4.21	-3%
Adj. EPS	3.75	3.17	-15%	3.93	3.83	-3%	4.32	4.21	-3%
DPS	1.12	0.95	-15%	1.18	1.15	-3%	1.30	1.26	-3%
Shares outstanding	33.07	33.14	0%	33.07	33.14	0%	33.07	33.14	0%
Net lending	6,721	6,721	0.0%	7,397	7,397	0.0%	8,140	8,140	0.0%
Cost to income	37%	37%	0.0%	38%	38%	0.0%	38%	38%	0.0%
Loan loss ratio	0.25%	0.60%	0.4%	0.20%	0.25%	0.1%	0.20%	0.25%	0.1%
ROE	19.6%	17.1%	-2.5%	17.9%	17.9%	0.0%	17.3%	17.2%	0.0%
BVPS	19.1	18.5	-3.2%	21.9	21.4	-2.4%	25.1	24.4	-2.5%

Source: Danske Bank Equity Research estimates

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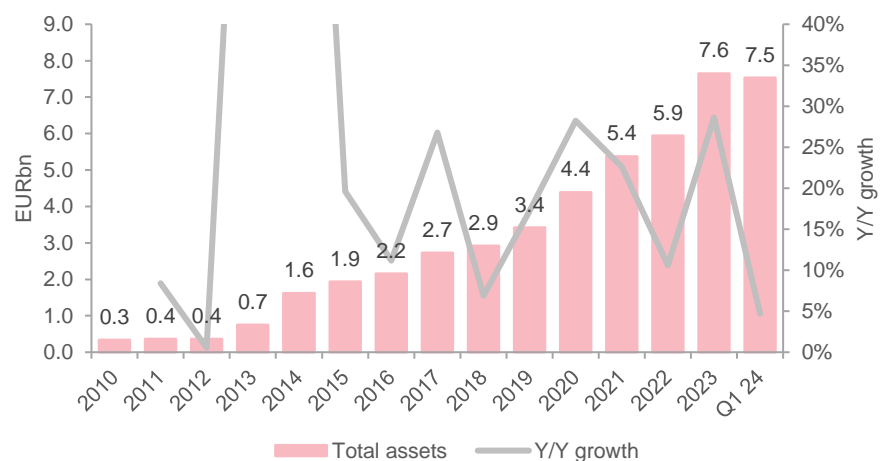
Executive summary

OmaSp is a Finnish bank with operations across Finland, spanning from Uusimaa (Helsinki and Espoo) in the south to North Ostrobothnia (Oulu) in the north. It was listed on the main Helsinki stock exchange (Nasdaq) in late 2018. Its roots go back over 145 years, but its most recent history started in 2009 when two local savings banks joined forces to create Oma Savings Bank (OmaSp). Since then, it has been one of the fastest growing banks in our Nordic bank coverage through a series of combinations, acquisitions, and organic growth. Today, it provides 200,000 private and corporate customers with a wide range of banking services.

The bank has a strong acquisition track record through combining local savings banks and individual portfolios from competing banks. A key pillar in its strategy is being close to where its customers are and offering a full spectrum of products through its own internal network and partner networks. This includes mostly lending activities through its own balance sheet, and other fee generating ancillary services. It is a challenger in the Finnish banking market with a regional focus through operations mainly outside the highly competitive large cities in Finland. Based on its loan portfolio, OmaSp has a total market share around 2% in Finland in both private and corporate segments.

The most recent acquisition of Liedon Savings Bank was the largest in the bank's history and added around EUR1.4bn to the balance sheet. When looking at OmaSp it is important to keep this in mind, as the acquisition has been transformative to both the headline figures and the organisation at large. It also recently announced plans to acquire Handelsbanken's SME portfolio in Finland, resembling the transaction in 2017 when it purchased S-Pankki's SME operations. The proposed Handelsbanken transaction would add EUR460m in lending to the balance sheet, and notably, EUR1.2bn in deposits (figures as of 31 March 2023). The Q1 24 report said that due to the market development and customer segmentation the volumes transferred have changed since signing, and the price paid will be the net values transferred plus a maximum of EUR15m. In Q1 24, total assets had grown to EUR7,531m, up from EUR1,618m in 2014.

Chart 1. OmaSp's total assets on balance sheet, 2010- H1 23



Source: Company data, Danske Bank Equity Research

Key differentiators from other banks in Finland have been its net interest margins, operating efficiency and ROE delivered over time. We believe that its regional and customer-centric focus also results in a higher net interest margin than its peers. However, the bank also has best-in-class operating efficiency, which is key to success in the Finnish banking market and to its success over time. This has also driven a growth story, which sets the bank apart from the other

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Nordic banks in our coverage. OmaSp's growth has been profitable and driven by a strong focus on operational efficiency by keeping its set-up lean. Employees are important to drive lending growth and operating efficiency. We find it unique that many of the employees are also shareholders, which adds another level of drive among the bank's employees, we believe.

OmaSp has announced the following financial goals (unchanged from before).

- **Growth.** 10-15% annual growth in total operating income under the current market conditions.
- **Profitability.** Cost/income ratio less than 45%.
- **Comparable return on equity.** Long-term comparable return on equity over 16% (valid from 1 July 2023).
- **Core capital ratio (CET1).** At least 2% points above the requirement (valid from 1 July 2023).
- **Dividend.** Steady and growing dividend of at least 20% of net profit.

In addition to this, the bank has updated its expected comparable profit before taxes to EUR120-140m (previous 'remain at 2023 levels for 2024'). Given that the pending SHB SME transaction should enter the books in H2 24 and based on the current NII trajectory, we believe that this outlook continues to remain conservative, but with the losses recorded during Q1 it looks more challenging to surpass 2023 levels during 2024. Profitability has improved significantly over the past few years.

The bank currently has a CET1 ratio of 15.4%, well above its capital requirement. The bank currently uses the Standard Approach in its credit risk calculations but is in the process of applying for an IRB approach for its retail mortgage exposures (in the first application). We estimate this could lower overall risk weights by around 18% and increase the CET1 ratio around 3%, which could be a key part of the investment case into 2024E.

In connection with the Q1 results the company gave a presentation tied to the non-compliance event. The presentation lasted for around 35 minutes of which 20 minutes were mainly focused on the severe credit event that occurred during Q1.

The investigation into the non-compliance event that occurred during Q1 has continued and no new significant findings have been identified over the past couple of weeks since OmaSp issued a profit warning. The actions relate to around 3% of OmaSp's EUR6bn lending book. Of this 3%, about 25% is related to the increased credit losses, i.e. the EUR19.5m in additional management buffers is related to this group. Management expects that this will only have an effect in Q1 including future write downs.

The internal guidelines were violated by one person who held a leading position and is no longer employed with the company. OmaSp was not aware of this violation when the person left the company. It involved a person manipulating and falsifying documentation to deliberately misrepresent customer credit risk positions, and it happened after interest rates started rising. In terms of sectors, it was mainly real estate operators who operate in Finland with no specific focus on any one region.

Internal audit detected the problem in the normal course of work. After this was uncovered the bank has found a few development areas that it will work on. It has increased the number and scope of quality controls in place. The role of independent risk management has been strengthened and personnel training has been increased. There has also been additional focus on whistleblowing.

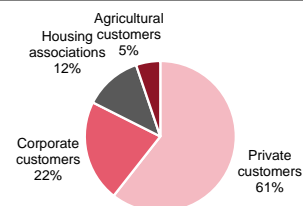
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Company summary

Income breakdown by geographical area



Income breakdown by segment



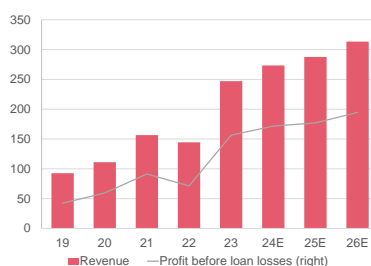
Company information

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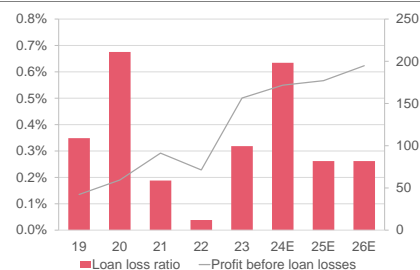
Main shareholders

Name	Votes (%)	Capital (%)
Etelä-Karjalan Säästöpankkisäätiö	26.2%	26.2%
Parkanon Säästöpankkisäätiö	9.9%	9.9%
Liedon Säästöpankkisäätiö	9.4%	9.4%

Revenue and profit before loan losses (EURm)



Loan loss ratio and profit before loan losses (EURm)



Source: FactSet, Company data, Danske Bank Equity Research estimates

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Summary tables

INCOME STATEMENT										
Year end Dec, EURm	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Net interest income	36.5	39.3	49.4	57.5	67.8	80.1	105	197	211	219
Commissions	17.7	21.2	24.2	25.4	29.3	33.7	39.4	47.4	52.8	58.3
Total revenues	60.3	74.1	76.0	92.6	111	157	144	247	273	288
Costs	-35.5	-41.1	-47.2	-50.3	-51.7	-65.3	-73.1	-90.6	-102	-111
Pre-provision profits (PPP)	24.8	33.0	28.7	42.3	59.4	91.3	71.3	157	172	177
Loan losses	-4.2	-2.6	-3.7	-9.6	-21.6	-7.3	-1.7	-17.1	-40.3	-18.5
Pre-tax profit	20.6	30.4	25.0	32.7	37.7	83.3	69.2	138	131	159
Net profit	16.0	24.0	20.3	27.5	30.7	66.2	55.4	110	105	127
Net profit (adj.)	16.0	24.0	20.3	27.5	30.7	66.2	55.4	110	105	127
BALANCE SHEET										
EURm	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Lending	1,785	2,138	2,527	2,960	3,434	4,326	4,754	5,997	6,721	7,397
Other interest bearing assets	328	534	350	397	866	930	1,069	1,436	1,436	1,436
Goodwill	4.3	6.5	5.0	9.3	11.2	10.0	8.6	13.6	13.6	13.6
Total assets	2,151	2,727	2,915	3,417	4,382	5,373	5,942	7,643	8,367	9,042
Deposits from public	1,483	1,639	1,758	2,006	2,377	2,898	3,112	3,778	4,234	4,660
Wholesale funding	353	737	715	938	1,347	1,762	2,087	2,930	2,930	2,930
Subordinated debt	17.6	28.0	25.2	15.5	15.5	15.5	40.0	60.0	60.0	60.0
Equity	220	241	290	319	353	401	365	541	613	708
NTA	221	241	290	320	353	401	365	541	613	708
PER SHARE DATA										
	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
No. of shares, fully diluted YE (m)	25.1	25.1	29.6	29.6	29.6	29.8	30.0	33.1	33.1	33.1
No. of shares, fully diluted av. (r)	25.1	25.1	27.3	29.6	29.6	29.7	29.9	31.5	33.1	33.1
EPS (reported) (EUR)	0.64	0.98	0.78	0.93	1.04	2.20	1.85	3.33	3.17	3.83
EPS (adj.) (EUR)	0.64	0.96	0.69	0.93	1.04	2.22	1.85	3.33	3.17	3.83
DPS (EUR)	0.06	0.08	0.14	0.19	0.24	0.50	0.40	1.00	0.95	1.15
Book value per share (EUR)	8.81	9.63	9.81	10.8	11.9	13.5	12.2	16.4	18.5	21.4
MARGINS AND GROWTH										
	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
C/I, adjusted	67.9%	64.3%	60.7%	53.2%	57.4%	50.6%	37.0%	38.6%	39.8%	39.1%
NII/av g. lending	2.0%	2.1%	2.1%	2.1%	2.1%	2.3%	3.7%	3.3%	3.1%	3.1%
Loan loss ratio	0.13%	0.16%	0.35%	0.68%	0.19%	0.04%	0.32%	0.63%	0.26%	0.26%
NII growth	7.6%	25.5%	16.6%	17.9%	18.2%	30.9%	87.8%	6.8%	4.2%	9.6%
Revenue growth	22.8%	2.5%	21.9%	20.0%	41.0%	-7.8%	71.1%	10.6%	5.2%	8.9%
Cost growth	-15.7%	-14.9%	-6.5%	-2.7%	-26.4%	-11.9%	-23.9%	-12.3%	-8.7%	-7.3%
PPP growth	32.9%	-12.9%	47.2%	40.5%	53.7%	-21.8%	119.4%	9.7%	3.1%	10.0%
RWA growth	13.6%	14.4%	19.0%	14.2%	17.7%	6.2%	29.6%	8.0%	8.0%	8.0%
PROFITABILITY										
	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
RoE, reported profits	7.6%	10.4%	7.6%	9.0%	9.1%	17.5%	14.5%	24.3%	18.2%	19.2%
RoNTA, adj. profits	7.6%	10.4%	7.6%	9.0%	9.1%	17.5%	14.5%	24.3%	18.2%	19.2%
Tier-1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity tier-1	18.6%	17.6%	18.4%	16.8%	15.9%	15.5%	13.3%	14.9%	15.8%	16.9%
RWA	1,153	1,310	1,499	1,784	2,037	2,398	2,547	3,300	3,564	3,849
VALUATION										
	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Share price (EUR)			7.00	8.88	10.6	17.1	18.6	21.3	17.4	17.4
Market cap (EURm)			207	263	314	509	558	703	576	576
P/E (reported) (x)			9.0	9.5	10.2	7.8	10.1	6.4	5.5	4.5
P/E (adj.) (x)			10.2	9.6	10.2	7.7	10.1	6.4	5.5	4.5
P/BV (x)			0.71	0.82	0.89	1.27	1.53	1.30	0.94	0.81
P/NTA (x)			0.71	0.82	0.89	1.27	1.53	1.30	0.94	0.81
Dividend yield			2.0%	2.1%	2.3%	2.9%	2.1%	4.7%	5.5%	6.6%
Total yield (incl. buybacks)			2.0%	2.1%	2.3%	2.9%	2.1%	4.7%	5.5%	6.6%

Source: Company data, Danske Bank Equity Research estimates

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Danske Bank is a market maker and a liquidity provider and may hold positions in the financial instruments of the issuer(s) mentioned in this research report.

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