

Bulletin:

# Finland-Based Oma Savings Bank Has Robust Capacity To Absorb Extraordinary Impairment Provisions

April 30, 2024

This report does not constitute a rating action.

STOCKHOLM (S&P Global Ratings) April 30, 2024--S&P Global Ratings said today it believes strong earnings will allow Oma Savings Bank PLC (OmaSp; BBB+/Stable/A-2) to absorb the €19.5 million of additional loan loss provisions reported in the first quarter of 2024, while maintaining robust profitability. However, the alleged case of fraud, leading the bank to initiate remedy measures, reveals potential gaps in the bank's risk management and governance framework.

According to OmaSp, it detected a potential incidence of fraud in March this year, discovering that certain interconnected corporate customers had deliberately been shown separately to allow them to pass internal credit policies and risk guidelines. This resulted in a weaker collateral position than previously reported. The case involves loans to real estate companies of about €200 million, representing approximately 3% of OmaSp's €6.1 billion loan book, one-quarter of which the bank has now moved to stage 2.

We understand the inconsistencies were discovered through the bank's internal risk and audit process, and that the initial investigation has narrowed the case to a handful of customers. Since the discovery, OmaSp has reportedly implemented extensive measures to address previous shortcomings. In our opinion, this will be crucial to ensure sufficient oversight and risk management capabilities. This move will also be particularly important given OmaSp's rapid growth over recent years, including several acquisitions and its upcoming takeover of Svenska Handelsbanken's Finnish small and midsize enterprise (SME) portfolio, to establish an adequate risk framework for a larger bank.

The implications for OmaSp's financial position should, however, be limited. For first-quarter 2024, the bank reported net earnings of €24.7 million--a 6% increase from first-quarter 2023, including the extraordinary impairment loss--with the reported return on equity a solid 15.5% after 18.6% for the same period in 2023, and an outstanding cost-to-income ratio of 34.1%.

Furthermore, OmaSp's credit profile remains supported by its robust capital position. We project our risk-adjusted capital ratio for the bank at 16.0%-17.0% over the next two years, compared with an estimated 16.3% in 2023. We expect accommodative, albeit gradually tightened, net interest margins coupled with an increasing loan book--including Svenska Handelsbanken's SME

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portfolio--will support revenue growth of 5%-10% to €250 million-€270 million in 2024-2025, sufficient to offset rising operating expenses including the cost of risk.

## **Related Research**

- Banking Industry Country Risk Assessment Update: April 2024, Apr. 26, 2024
- Oma Savings Bank, March 7, 2024
- Nordic Banks In 2024: Ploughing Through Tough Terrain, Feb. 7, 2024
- Banking Industry Country Risk Assessment: Finland, Nov. 28, 2023
- Nordic Banks: Resilient to Economic Weakening, Oct. 18, 2023

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