Banks

Key data

Price (EUR)	20.6
Country	Finland
Bloomberg	OMASP FH
Reuters	OMASP.HE
Free float	25.0%
Market cap (EURm)	683
No. of shares (m)	33.2
Next event	Q3: 30-Oct

** Price as at 14:30 CET on 24 October 2023*

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 segements. The bank has around 2.5% marekt share in the Finnish banking market and a nationwide presence in Finland. It has around 45 branches in additional 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 (30 September 2023)

Analyst(s)

Hans Rettedal Christiansen

Find our research here:
https://research.danskebank.com

Important disclosures and certifications are contained from page 58 of this report

Oma Savings Bank

A Finnish banking growth machine

Oma Savings Bank (OmaSp) is Finland's largest savings bank. The bank has grown rapidly since its inception in 2009 and currently holds a 2% market share in Finland. Its regional focus has resulted in higher interest margins than peers and a lean set-up has improved profitability to best in class. We see long-term potential as its track record, strong management and capital position enable accretive growth opportunities.

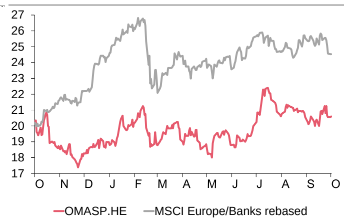
- **Regional focus.** OmaSp has a regional focus with distribution power through its 45 branch locations in southern and central Finland coupled with digital distribution. It offers banking services to private and corporate customers. Branches have generous opening hours and personal customer contacts, which has resulted in a customer satisfaction score of 4.7/5. A key success in its customer offering is cross selling with most customers having multiple products through the bank. This, coupled with low exposure to the highly competitive main cities in Finland, has driven a NIM that has been higher than peers, which enables the bank to run with a higher ROE. OmaSp currently targets a long-term ROE of above 16%.
- **Acquisitions and operational leverage.** OmaSp is a product of numerous acquisitions and combinations over the past 10 years, which together with organic growth has driven NII. The bank expects to continue to grow 10-15% annually in the current environment. OmaSp's growth has historically come from volumes, which is different from most mature banks, which have only recently seen rapid NII growth through higher rates. The growth has also been profitable and its current C/I is 35%, well below its 45% target. Based on our analysis the bank has the highest operating efficiency in Finland, measuring assets per employee of EUR16m in 2022, which is very impressive.
- **Strong capital position.** Currently the CET1 ratio is 14.1%, above its 8.9% regulatory minimum (from April 2024). This, coupled with a 20% pay-out ratio, will enable the bank to continue to grow. OmaSp will apply for an IRB model shortly, which we estimate could lower the risk exposure amount (REA) by 18% and boost the CET1 by 3%, which would further enable growth and lower the future capital consumption materially.
- **Valuation.** We value OmaSp using a Nordic peer group coupled with an intrinsic Gordon growth model and triangulate using scenarios for growth rates and profitability. We find a fair value range between EUR30-35/share implying 8.0 EPS(25E) and 1.4 BVPS(25E).

andKey financials

Year-end Dec (EUR)	2021	2022	2023E	2024E	2025E
NII (m)	80.1	105	192	215	219
Lending growth	26.0%	9.9%	26.1%	12.0%	10.0%
Total revenues (m)	157	144	250	278	288
Pre-provision profits (PPP) (m	91.3	71.3	161	180	181
PPP growth	53.7%	-21.8%	126.2%	11.5%	0.4%
Loan losses (m)	-7.3	-1.7	-10.5	-13.4	-14.8
PTP (m)	83.3	69.2	151	167	166
EPS (adj.)	2.22	1.85	3.64	4.02	4.00
DPS	0.50	0.40	0.73	1.00	1.00
Dividend yield	2.9%	2.1%	3.5%	4.9%	4.9%
C/I	57.4%	50.6%	36.8%	36.6%	38.5%
PPP/avg. lending	2.35%	1.57%	3.00%	2.83%	2.56%
Loan loss ratio	0.19%	0.04%	0.20%	0.21%	0.21%
Equity tier-1 ratio	15.5	13.3	15.4	17.1	18.5
RoNTA	17.5%	14.5%	26.6%	22.3%	19.0%
P/E (adj.) (x)	7.7	10.1	5.7	5.1	5.1
P/NTA	1.27	1.53	1.26	1.05	0.91

Source: Company data, Danske Bank Equity Research estimates

Price performance



	1M	3M	12M	5Y
Absolute	0%	2%	2%	n.m.
Rel. local market	6%	13%	5%	n.m.
Rel. EU sector	4%	6%	-16%	n.m.

Source: FactSet

Not for US distribution

Danske Bank

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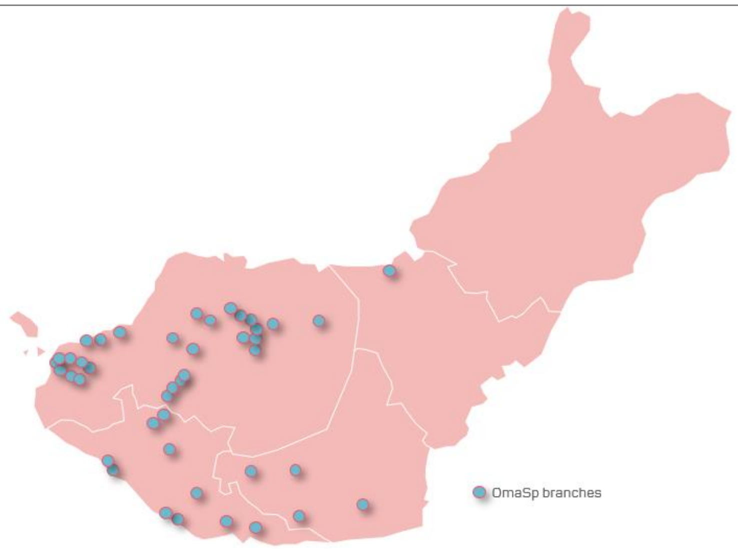
Executive summary

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 universe 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.

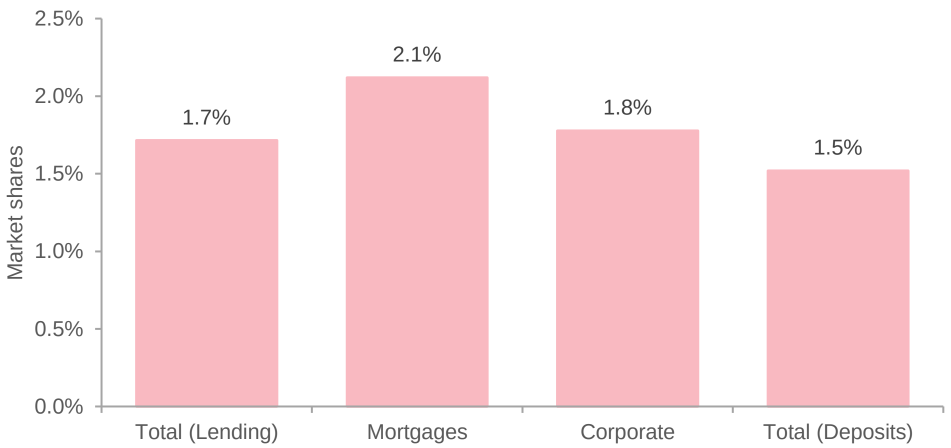
Figure 1. OmaSp branch network across Finland (illustrative)



Source: Danske Bank Equity Research

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.

Chart 1. OmaSp market shares in Finland, August 2023



Source: Bank of Finland, Danske Bank Equity Research

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The bank launched operations in 2009, when Töysän Säästöpankki and Kuortaneen Säästöpankki combined their operations. Since then, the bank has expanded rapidly through a series of combinations and organic growth. It merged with Parkanon Säästöpankki in 2013 and Etelä-Karjalan Säästöpankki, Kantasäästöpankki and Suodenniemen Säästöpankki in 2014. In 2014 the bank became Finland's largest savings bank. It also became independent after it split off from Säästöpankkiliitto to avoid a consortium-structure based on unlimited joint liability. From 2015 to 2017 the bank further expanded its balance sheet with several additional combinations. The next part of OmaSp's journey was established when it was listed on the Nasdaq Helsinki stock exchange in late 2018. Since then, it has shown impressive organic growth, and the size of the acquisitions has become larger, which has seen the balance sheet more than double in size. The top-10 shareholders are largely a reflection of the range of acquisitions and combinations that have formed OmaSp into what it is today.

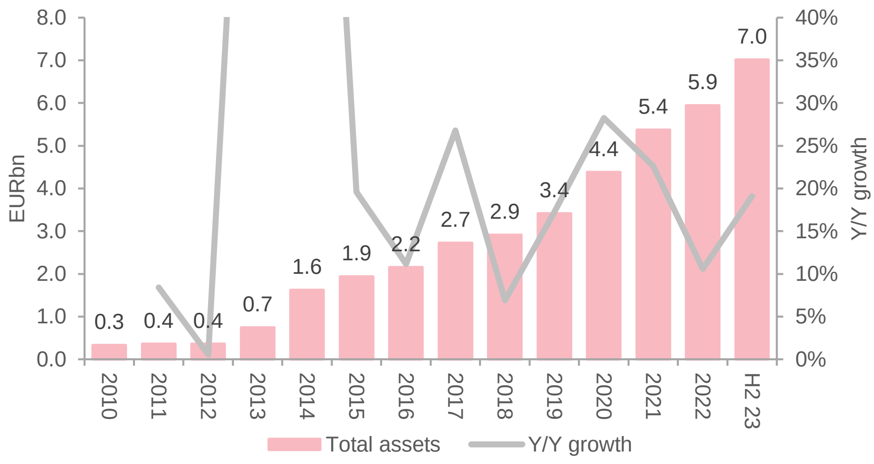
Table 1. Top-10 shareholders in OmaSp (30 September 2023)

Shareholder	Number of shares	Ownership
Etelä-Karjalan Säästöpankkisäätiö	8,728,081	26%
Parkanon Säästöpankkisäätiö	3,300,000	10%
Liedon Säästöpankkisäätiö	3,125,049	9%
Töysän Säästöpankkisäätiö	2,935,000	9%
Kuortaneen Säästöpankkisäätiö	1,925,000	6%
Hauhon Säästöpankkisäätiö	1,649,980	5%
Rengon Säästöpankkisäätiö	1,065,661	3%
Suodenniemen Säästöpankkisäätiö	800,000	2%
Savolainen Heikki Antero	791,754	2%
Joroisten Oma Osuuskunta	689,150	2%
Top 10	**25,009,675**	**75%**
Top 100	**29,598,250**	**89%**
Nominee shares	933,346	3%
Total number of shares	**33,275,237**	**100%**

Source: Euroclear Finland Ltd via OmaSp, Danske Bank Equity Research

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 has also recently announced that it will acquire Handelsbanken's SME portfolio in Finland, resembling the transaction in 2017 when it purchased S-Pankki's SME operations. The Handelsbanken transaction, if approved, will add EUR460m in lending to the balance sheet, and notably, EUR1.2bn in deposits. In H1 23 total assets had grown to EUR7,015m, up from EUR1,618m in 2014.

Chart 2. OmaSp's total assets on balance sheet, 2010- H1 23



Source: Company data, Danske Bank Equity Research

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We believe that part of OmaSp's success has been its customer focus. Its aim is to be as close as possible to customers through a local branch network of 45 branches and via digital channels. Branches have long opening hours, including during evenings (08:00 to 20:00) and on Saturdays (10:00 to 14:00) enabling customers to have in-person meetings at their convenience. The branch networks handle everything from customer advisory to cash services. A key differentiator in the service offering is that loan decisions are made locally, and customers have their own local banking advisors with direct phone numbers. The customer satisfaction score amongst customers with their own contact person was 4.7/5, a very high number in our view. The overall customer satisfaction score is 4.3/5.

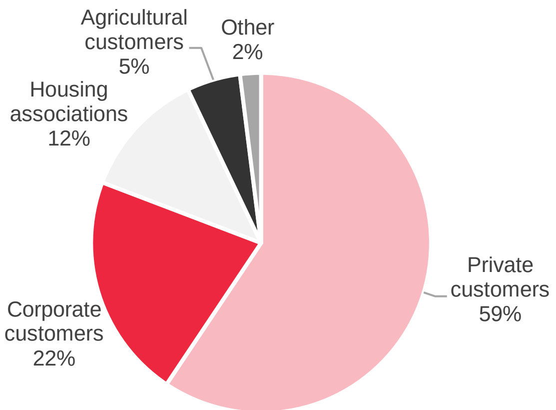
The diverse geographical exposure lowers risk and enables growth across economic regions. Its geographical exposure mirrors the savings banks that it has been formed out of and acquired over the years. These were locally based banks with strong ties to their customer portfolios, which is a legacy that we believe OmaSp has been successful in bringing into the present. OmaSp is still mostly focused on the regional parts of Finland and has a strong branch presence where other banks have either exited or scaled down their operations. Couple this with a lean organisation that is used to high growth figures, and we see how the bank has succeeded in growing and maintaining its customer portfolios.

In addition, OmaSp has a wide range of digital service channels. This includes online banking solutions and its own mobile bank called OmaMobiili. This, together with its code generator OmaVahvistus, enables customers to do everything in daily banking straight from their phone as well as contract signing digitally. Customers can host online conferences with advisors, utilise the chat functions, or call customer service via the bank's call centre.

Full service offering with room to grow

Of the roughly 200,000 customers, 80% of them are private customers, while the remaining 20% are corporate customers. The loan book was EUR6bn at the end of Q2 23. In lending, 60% is to private customers and primarily made up of home mortgages with low risk. The remainder of the lending book is made up of corporate and agricultural customers, and housing associations. It is mainly SME customers that are served on the corporate side. The portfolio split has stayed fairly constant throughout the past 10 years.

Chart 3. Lending split, by type, Q2 23



Source: Company data, Danske Bank Equity Research

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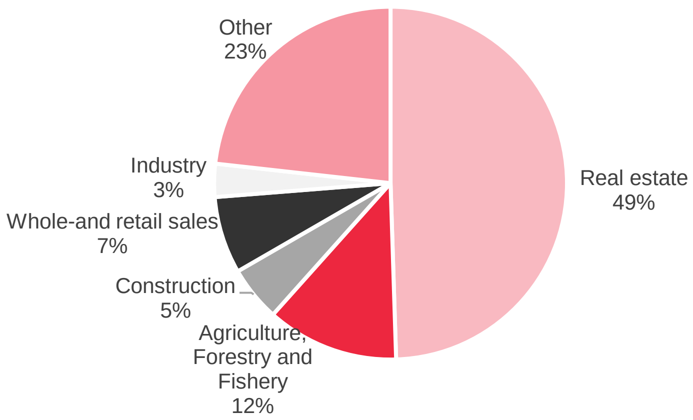
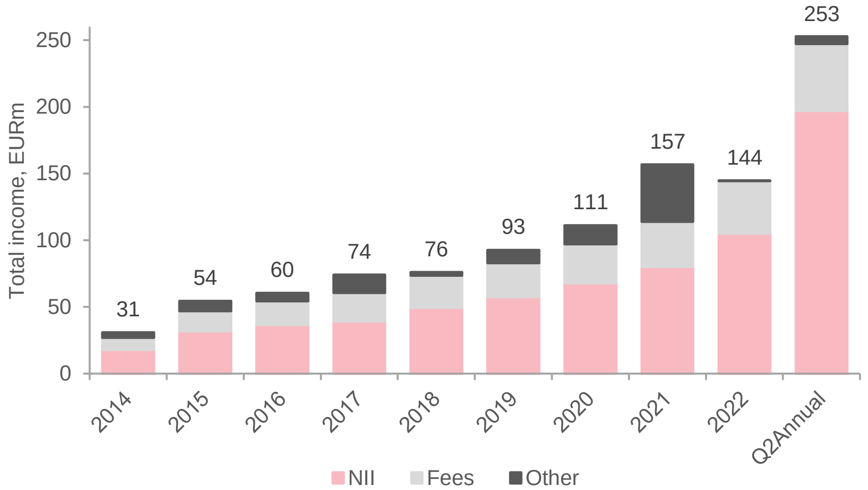
Chart 4. Corporate lending split, by type, Q2 23



Source: Company data, Danske Bank Equity Research

The bank offers its customers a broad base of lending-oriented products, as well as ancillary fee and commission-based products. OmaSp targets full-service retail banking customers. This includes daily banking and lending services, but it also offers financing, savings, and investment services, as well as legal advisory services.

Chart 5. Share of total income, 2013-Q2 23 (annualized), % of total



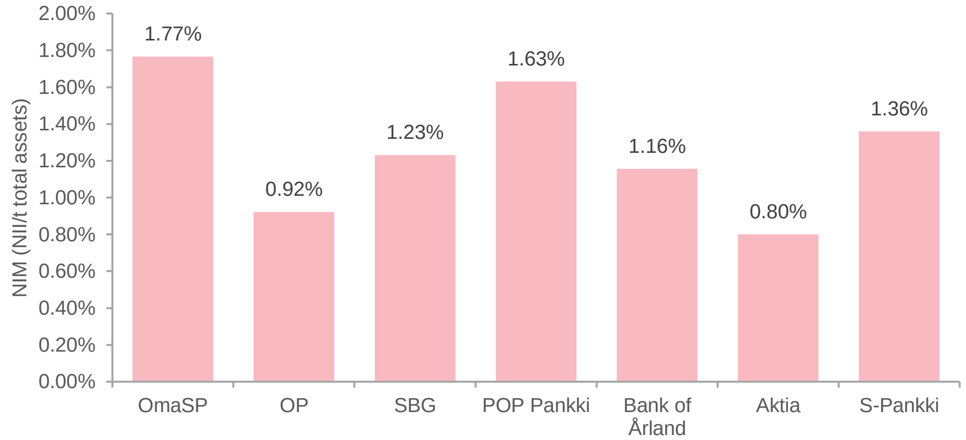
Source: Company data, Danske Bank Equity Research

The average size of loans issued in 2022 was EUR133,000. Most of its lending is secured lending and a large share of the lending book is mortgages secured in housing collateral. A key characteristic of the lending book is that it is highly collateralised, which lowers the risk greatly for outright loan losses. Of the total loan book, over 97% is loans with collateral, meaning that the market value of the collateral almost covers the total loan portfolio. Furthermore, according to OmaSp, loans are supplemented with additional collateral and guarantees, if needed. Since 2013, the average loan loss ratio has been 23bp, which also includes 2020 when loan losses spiked due to the pandemic. This is a bit higher than other banks in our coverage, but as we will show later, this is no cause for concern, as we believe the higher interest margins and pre-provisioning profits to asset than peers more than make up for the slightly higher lending losses.

Profitable with high cost efficiency

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, as the chart below demonstrates.

Chart 6. Net interest margin versus peers, 2022

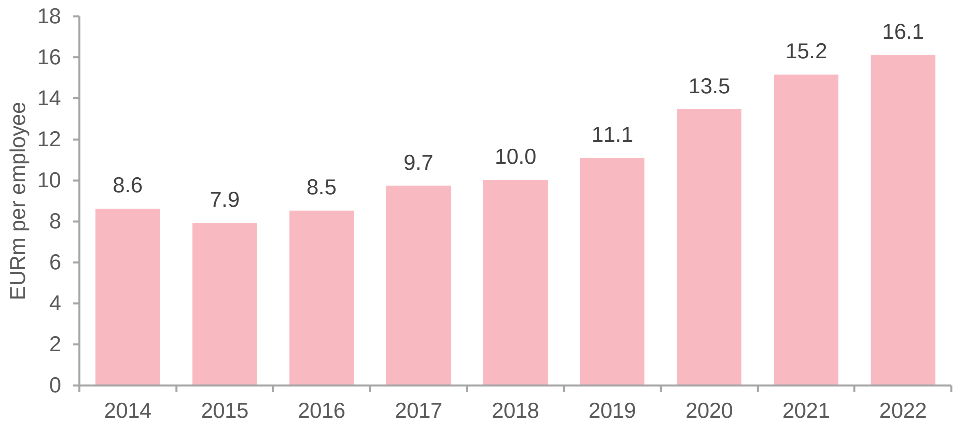


**SBG = Savings Bank Group*

Source: Company data, Danske Bank Equity Research

However, the bank also has best-in-class operating efficiency, which is the 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 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. The bank employees over 450 people across its organisation. Employees are important to drive lending growth and operating efficiency and the overall employee satisfaction score is 4.5/5. We find it unique that 56% of the employees are also shareholders, which adds another level of drive in the bank's employees, we believe. As the bank has grown, its operating efficiency has also improved, and as of Q2 23 the average assets per employee were just above EUR16m, which is very impressive.

Chart 7. Assets per employee, 2013-2022



Source: Company data, Danske Bank Equity Research

Also compared to its Finnish peers (that we have data for) this is an impressive feat. As the chart below demonstrates, its average assets per employee is above all its closest peers, and even above well operated OP, Finland's largest bank consortium. This has driven the overall profitability in the bank and is a key driver of the ROE, especially prior to the rise in interest rates.

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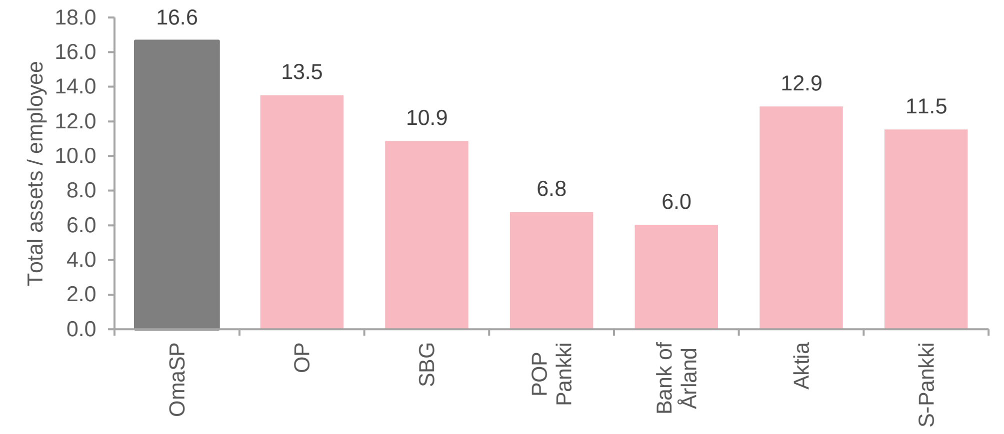
The ROE differentiation is especially impressive, given that the overall banking environment in Finland has resulted in a banking system with a structurally lower ROE prior to the interest rate hikes than e.g., Norway and Sweden. Even in this type of environment, OmaSp has managed to deliver a ROE above peers, which has enabled it to put capital to work and grow its lending book at a very high rate.

Chart 8. Asset per employee, OmaSp versus Finnish peers, 2022



**SBG = Savings Bank Group*

Source: Company data, Danske Bank Equity Research

Financial goals

OmaSp has announced the following financial goals for 2023.

- **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 expects comparable profit before taxes to exceed EUR100m in 2023. Given where interest rates are currently, and with the positive impact from the Liedon acquisition, we believe that the current targets are well within reach.

Profitability has improved significantly over the past few years. Annualising the Q2 23 results imply an ROE of around 30%, which is very high in a historical and absolute sense. In the table below, we summarise the main earnings drivers (as a share of assets) to find the underlying trends. NII is the main driver of the ROE, but also higher operating efficiency and leverage have had a positive effect, as the table demonstrates.

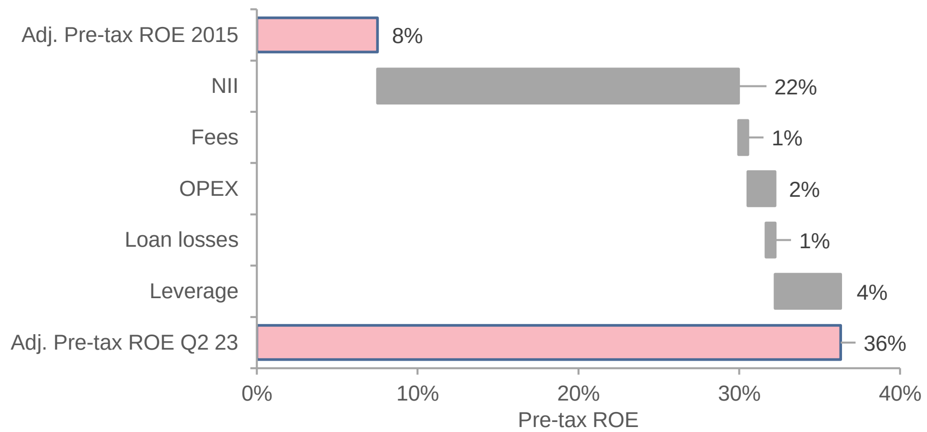
Table 2. Profitability analysis, 2014-Q2 23 (annualised)

	2017	2018	2019	2020	2021	2022	Q2 annual
Interest income	1.9%	2.0%	2.0%	1.9%	1.7%	2.2%	4.8%
Interest expenses	-0.3%	-0.2%	-0.2%	-0.1%	-0.1%	-0.3%	-1.8%
NII	**1.6%**	**1.7%**	**1.8%**	**1.7%**	**1.6%**	**1.9%**	**3.0%**
Fees	0.9%	0.9%	0.8%	0.8%	0.7%	0.7%	0.8%
Other	0.6%	0.1%	0.3%	0.4%	0.9%	0.0%	0.1%
Total revenues	**3.0%**	**2.7%**	**2.9%**	**2.8%**	**3.2%**	**2.6%**	**3.9%**
Costs	-1.7%	-1.7%	-1.6%	-1.3%	-1.3%	-1.3%	-1.3%
PPP	**1.4%**	**1.0%**	**1.3%**	**1.5%**	**1.9%**	**1.3%**	**2.6%**
Normalised provisions	-0.1%	-0.1%	-0.3%	-0.6%	-0.2%	0.0%	-0.2%
PBT	**1.2%**	**0.9%**	**1.0%**	**1.0%**	**1.7%**	**1.2%**	**2.4%**
Tax	-0.3%	-0.2%	-0.2%	-0.2%	-0.3%	-0.2%	-0.5%
Net profit	**1.0%**	**0.7%**	**0.9%**	**0.8%**	**1.4%**	**1.0%**	**1.9%**
Current leverage	10.5x	10.6x	10.4x	11.6x	12.9x	14.8x	15.5x
Reported ROE	**10.4%**	**7.6%**	**9.0%**	**9.1%**	**17.5%**	**14.5%**	**29.6%**

Source: Company data, Danske Bank Equity Research

The main growth driver has been NII. In the most recent period NII has been driven by a mix of volumes and margins. However, in a historical context the margin effect on NII has been minimal, while increased lending volumes have stood for most of the growth in NII. Since 2015, the pre-tax ROE (adjusted for one-offs) has increased from 8% to 36%, which is driven in the most recent period by the rise in rates. However, we also see that a number of other structural effects have had a positive effect on ROE. Notably, both opex and leverage have increased the adjusted pre-tax ROE 6% since 2015.

Chart 9. Contribution analysis to growth in pre-tax ROE



Source: Company data, Danske Bank Equity Research

Below is an overview of our estimates up until 2025E. We assume that interest rates will remain above where they were pre-pandemic but come down from the current highs in 2024/25E, which has a negative effect on the net interest margin. Still, we believe that the main growth driver in OmaSp will be lending volumes, which will continue to drive earnings through NII, fees and operating leverage.

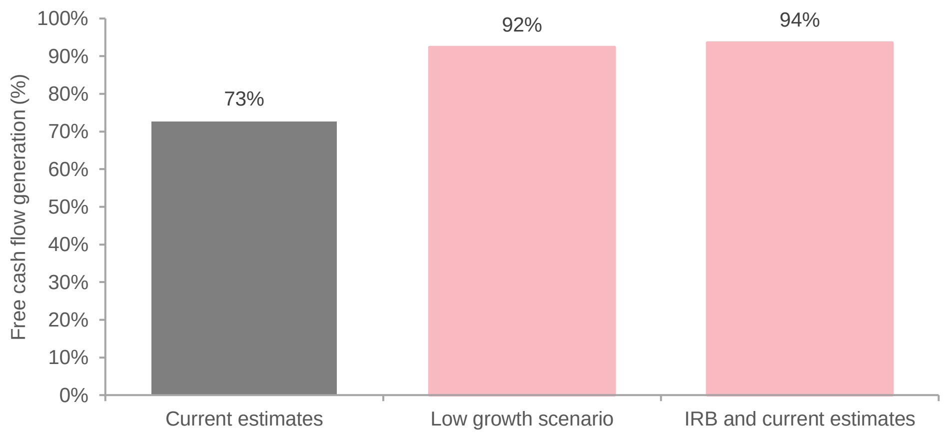
Table 3. DBER estimates for OmaSp

EURm	2019	2020	2021	2022	2023E	2024E	2025E
Net interest income	58	68	80	105	192	215	219
Net fee income	25	29	34	39	47	53	59
Other income	10	14	43	0	10	10	10
Total income	**93**	**111**	**157**	**144**	**250**	**278**	**288**
Opex	-50	-52	-65	-73	-88	-98	-107
PPP	42	59	91	71	161	180	181
Loan losses	-10	-22	-7	-2	-10	-13	-15
Other	0	0	-1	0	0	0	0
Profit before tax	33	38	83	69	151	167	166
Taxes	-5	-7	-17	-14	-30	-33	-33
Net income	**27**	**31**	**66**	**55**	**121**	**133**	**133**
EPS	0.93	1.04	2.20	1.85	3.64	4.02	4.00
Adj. EPS	0.93	1.04	2.22	1.85	3.64	4.02	4.00
DPS	0.19	0.24	0.50	0.40	0.73	1.00	1.00
Payout ratio	20%	23%	23%	22%	20%	25%	25%
Shares outstanding	29.59	29.59	29.77	29.99	33.17	33.17	33.17
Net lending	2,960	3,434	4,326	4,754	5,997	6,719	7,394
y/y growth	17%	16%	26%	10%	26%	12%	10%
NIM (NII / assets)	1.82%	1.74%	1.64%	1.85%	2.93%	2.85%	2.66%
Cost to income	54%	47%	42%	51%	35%	35%	37%
Opex / assets	1.59%	1.33%	1.34%	1.29%	1.35%	1.30%	1.30%
Loan loss ratio	0.32%	0.63%	0.17%	0.04%	0.18%	0.20%	0.20%
ROE	8.6%	8.7%	16.5%	15.2%	22.3%	20.5%	17.7%
BVPS	10.8	11.9	13.5	12.2	16.3	19.6	22.6

Source: Company data, Danske Bank Equity Research estimates

A key valuation driver in our banks is the free cash flow that they generate. We estimate this based on the cash profits generated and capital consumed. This follows that we want to own banks with as much cash profit generation and little capital consumption as possible. Growth banks with high lending intensity will typically screen badly on a relative basis in this type of exercise, as their capital consumption from lending growth is very high and the cash profits of the additional growth is spread over many years. For OmaSp, our estimated free cash generation is around 73% from Q2 23 until 2025E. However, if we assume that the bank was to grow at a slower pace, but still reap the profits of its current lending book, this number would jump to 92%, which is very decent.

Chart 10. Free cash flow generation under different scenarios

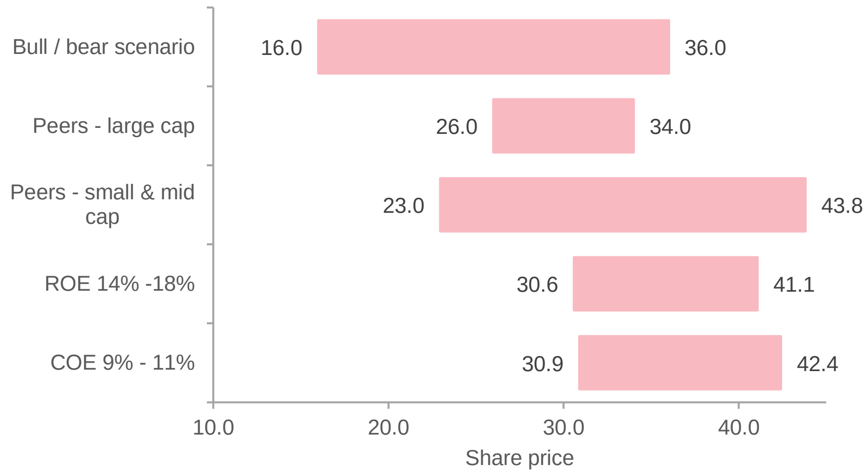


Source: Danske Bank Equity Research estimates

The bank currently has a CET1 ratio of 14.1%, up from 13.3%, and 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 that this could lower overall risk weights by around 18% and increase the CET1 ratio around 3%. Hence, even with the current grow rate, if we assume that the IRB model application is accepted, the free cash generation would increase to 94% up until 2025E, which is a very good figure.

We value OmaSp using a peer group analysis supplemented with a Gordon growth model and look at scenarios for both methods. We tend to use a Gordon growth model for the rest of our Nordic banks' coverage but given the high growth rate in OmaSp this adds difficulties in the intrinsic valuation; hence the Gordon growth scenarios should be seen as a low growth scenario. In our 'football field' overview, we find a fair value range for OmaSp of EUR30-35 per share.

Chart 11. Valuation scenarios



Source: FactSet, Danske Bank Equity Research

The Finnish banking market

Finland is a highly developed and competitive banking market. There are 196 banks operating in Finland as of YE(22), according to the Bank of Finland. This is down from 357 banks in 2008, following a steady trend of a declining number of banks. Most of these banks are co-operative banks (part of the OP Group) or savings banks that are part of another banking group.

OP is the largest bank with a 35% market share. As of 2022, OP consisted of 108 member cooperative banks. There are several significant independent players in the Finnish banking market. The most significant of these is Nordea (25% market share), followed by Danske Bank (10.5% market share). Other large co-operative banks are the POP Bank Group and the Savings Bank Group, which together hold around 5.3% market share on lending. OmaSp is the largest savings bank in the Finnish market, with a market share of around 1.7% based on total lending. Its deposit market share is 1.5%.

Table 4. Market shares: Total lending (non-MFIs), August 2023

Bank	Market share %
OP Financial Group	34.6%
Nordea	24.5%
Municipal Finance	10.5%
Danske Bank	9.4%
Handelsbanken	5.0%
Savings Bank Group	3.7%
Aktia Bank	2.8%
S-Bank	2.4%
Oma Savings Bank	1.7%
Other	1.7%
POP Bank Group	1.6%
Bank of Åland	1.0%
Hypo Group	1.0%

Source: Bank of Finland, Danske Bank Equity Research

Table 5. Market shares: Deposits (non-MFIs), August 2023

Bank	Market share %
OP Financial Group	38.4%
Nordea	28.1%
Danske Bank	10.7%
Other	4.3%
S-Bank	3.9%
Savings Bank Group	3.6%
Handelsbanken	2.6%
Aktia Bank	2.6%
POP Bank Group	2.1%
Oma Savings Bank	1.5%
Bank of Åland	1.3%
Hypo Group	0.7%
Municipal Finance	0.0%

Source: Bank of Finland, Danske Bank Equity Research

Competition in the retail (mortgage) and corporate market is very similar, and the respective bank's market shares are very alike for the largest players. Looking further down the list there are more discrepancies, and some of the banks are more focused on retail or corporate lending. For instance, the Savings Bank group has a 5.4% market share in retail lending, but a 2.5% market share in corporate lending. This is a similar trend to other more retail-oriented Finnish banks and banking groups.

Table 6. Market shares: Mortgage lending (households), August 2023

Bank	Market share %
OP Financial Group	38.6%
Nordea	29.7%
Danske Bank	9.4%
Savings Bank Group	5.4%
Aktia Bank	3.9%
S-Bank	3.7%
Handelsbanken	2.7%
POP Bank Group	2.2%
Oma Savings Bank	2.1%
Bank of Åland	1.3%
Hypo Group	0.7%
Municipal Finance	0.3%
Other	0.0%

Source: Bank of Finland, Danske Bank Equity Research

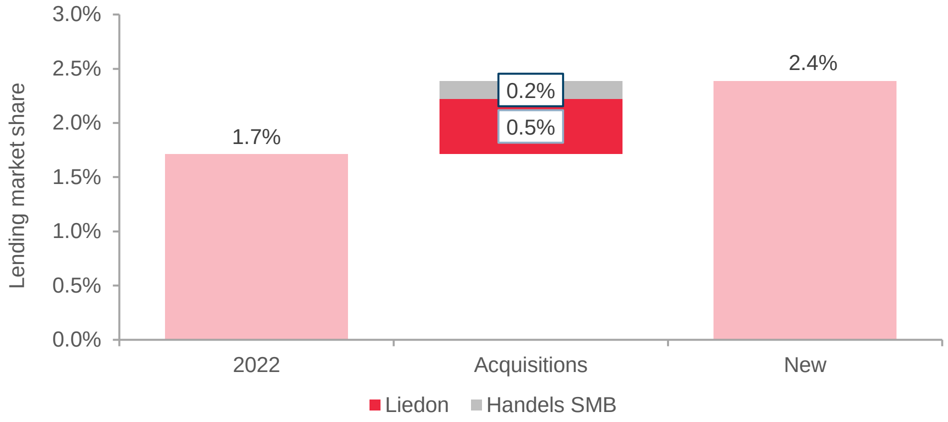
Table 7. Market shares: Corporate lending (non-financial), August 2023

Bank	Market share %
OP Financial Group	38.0%
Nordea	30.6%
Danske Bank	11.0%
Municipal Finance	5.4%
Handelsbanken	4.1%
Other	3.2%
Savings Bank Group	2.5%
Oma Savings Bank	1.8%
Aktia Bank	1.5%
POP Bank Group	1.0%
Bank of Åland	0.9%
S-Bank	0.0%
Hypo Group	0.0%

Source: Bank of Finland, Danske Bank Equity Research

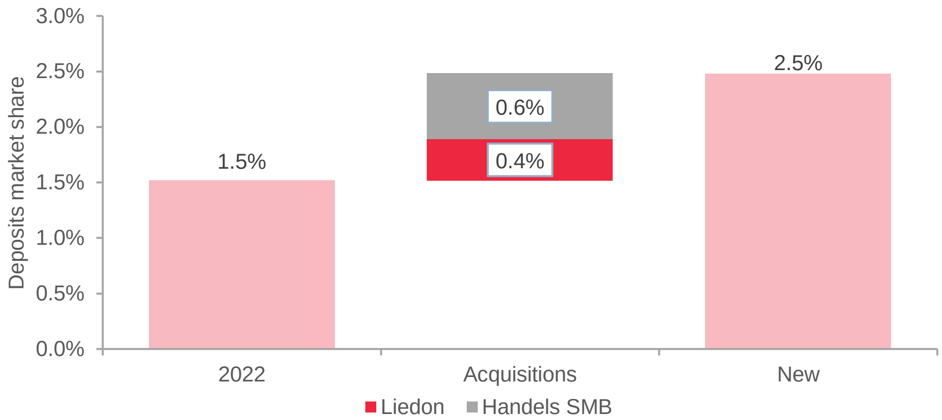
Handelsbanken decided in late 2021 that it would exit the Finnish banking market. In May 2023, OmaSp announced that it would purchase its SME assets. The transaction could add around EUR460m in lending and EUR1,200m in deposits. This follows the major acquisition of Liedon Savings Bank that OmaSp completed in H1 23, which added around EUR1.4bn to the balance sheet of OmaSp. In the charts below we show the potential market share impacts of these two acquisitions.

Chart 12. Total lending market share adjusted for acquisitions



Source: Bank of Finland, Danske Bank Equity Research estimates

Chart 13. Deposit market share adjusted for acquisitions



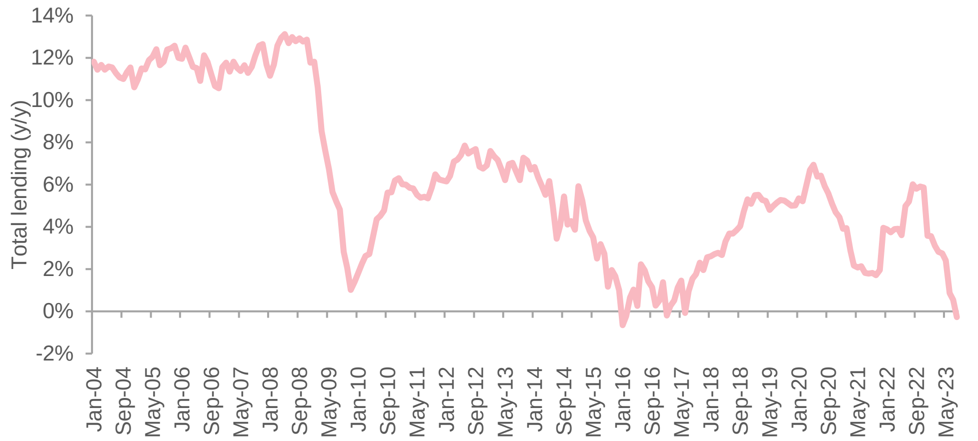
Source: Bank of Finland, Danske Bank Equity Research estimates

While the transactions are company makers for OmaSp, they do little to change the competitive dynamics of the Finnish banking market. A key distinction, however, to make here is between the competition in the regional parts of Finland and the main cities. We do not have very good statistics on the market shares in the individual regions, but we find that the banking margins look to be higher in the regional parts. Furthermore, OmaSp has noted that the competition in the regional cities is lower than in the big cities, where the larger international banks have focused their retail efforts, and which has pressed margins historically. We believe that OmaSp will continue to focus on this part of the market, but also look for further M&A if interesting opportunities arise, as it has done since it was formed.

Lending and deposit volumes

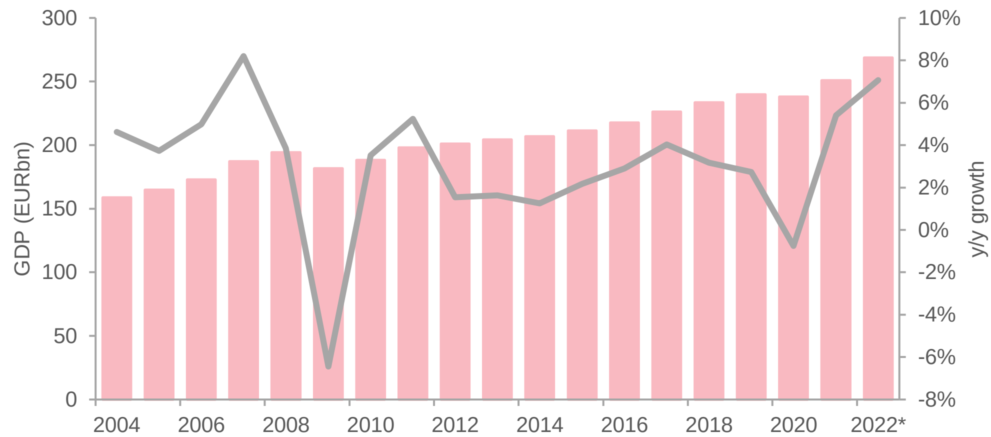
Lending growth in Finland has contracted significantly in 2013, following a period of strong growth on the back of a good economic development. In August 2022 it was up 6% y/y but has now fallen to 0% owing to the continued economic uncertainty following the war in Ukraine, significant inflation, and other geopolitical tensions.

Chart 14. Total lending, y/y growth, 2004 - current



Source: Bank of Finland, Danske Bank Equity Research

Chart 15. Finland: GDP (EURbn), 2004 – 2022 (Annual)*

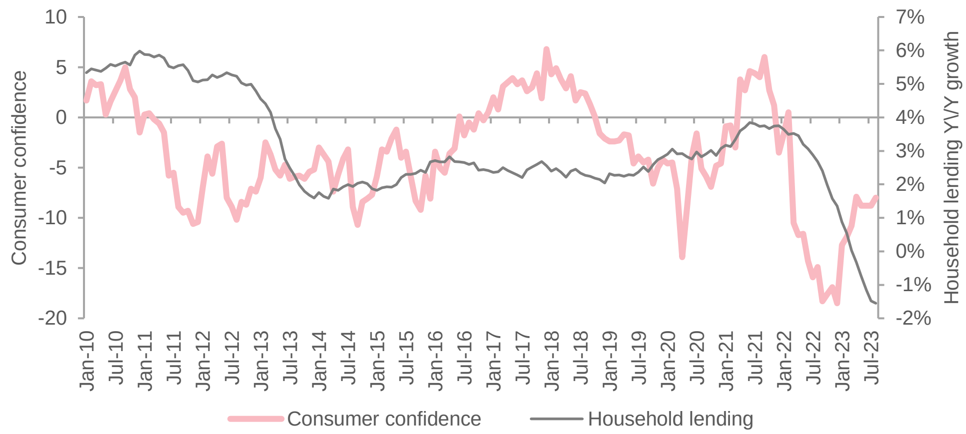


** *Preliminary data*

Source: Statistics Finland, Danske Bank Equity Research

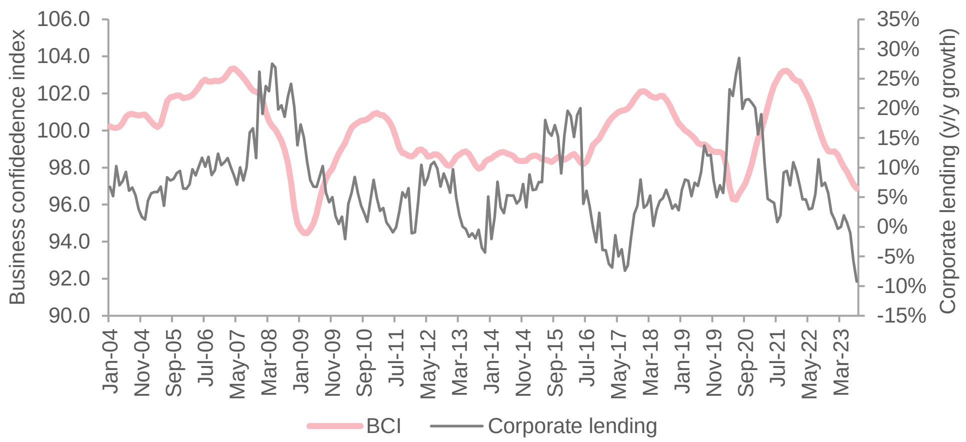
Whilst the mortgage market has been struggling the most, it is also coming from relatively low levels. It is the corporate volumes that have declined the most, being up over 10% in August 2022, to flat y/y in August 2023. We believe that this period will continue through 2024, but that there will be a rebound in volumes following that when both consumer and business confidence improve.

Chart 16. Consumer confidence versus household lending



Source: Bank of Finland, Statistics Finland, Danske Bank Equity Research

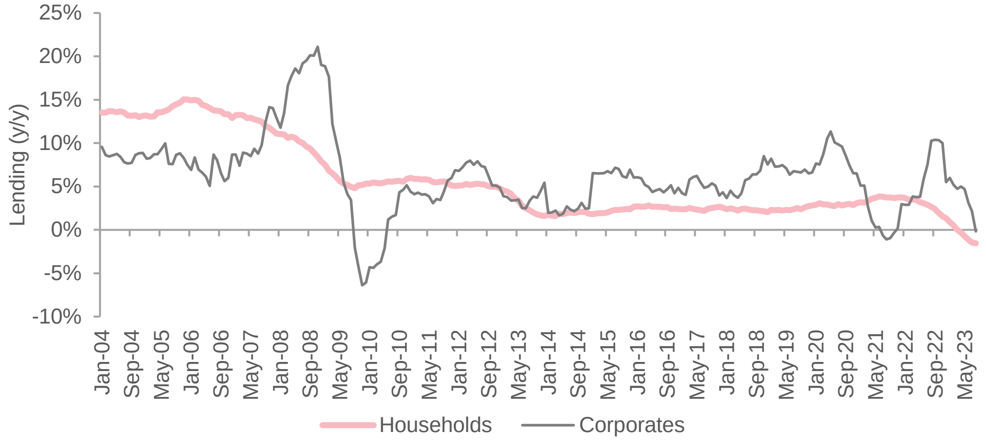
Chart 17. Business confidence index versus corporate lending



Source: Bank of Finland, Statistics Finland, Danske Bank Equity Research

Lending to households (mortgages and consumer credit) has been sluggish for over 10 years at around 2% y/y growth in Finland. Following the COVID-19 pandemic there was a temporary pick-up in volumes, but that has come down again and is now contracting by around 2% annually. We believe that there will not be an improvement in this before inflation comes down (and so rates come down as well) and the general consumer sentiment improves.

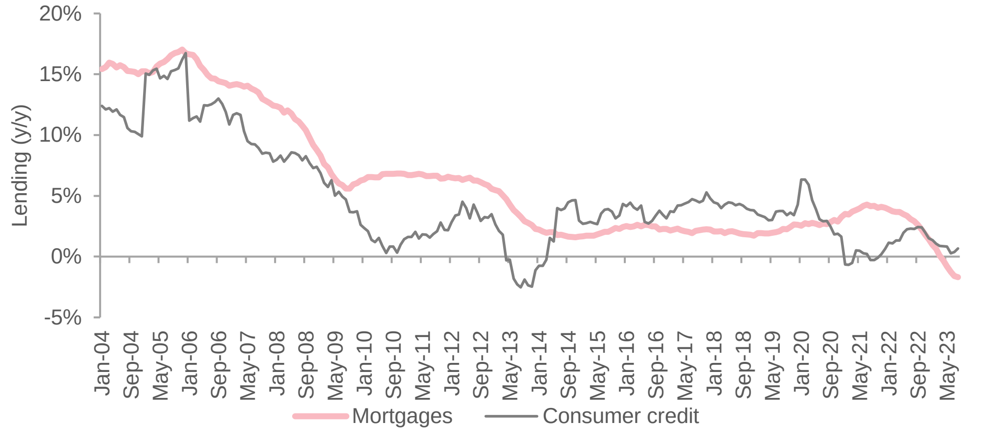
Chart 18. Lending growth, y/y, by type, 2004 - current



Source: Bank of Finland, Danske Bank Equity Research

In the chart below we see the household lending split by type, i.e., mortgages and consumer credit. This shows that the period before COVID-19 (with declining interest rates) was characterised by somewhat higher growth in consumer credits than mortgages. Following the COVID-19 pandemic the trend was exactly opposite, with mortgage volumes picking up markedly, which is very similar to what we have seen in other Nordic countries. The contraction in household lending has thereafter been largely driven by mortgage volumes.

Chart 19. Household lending, by type, y/y growth, 2004 - current

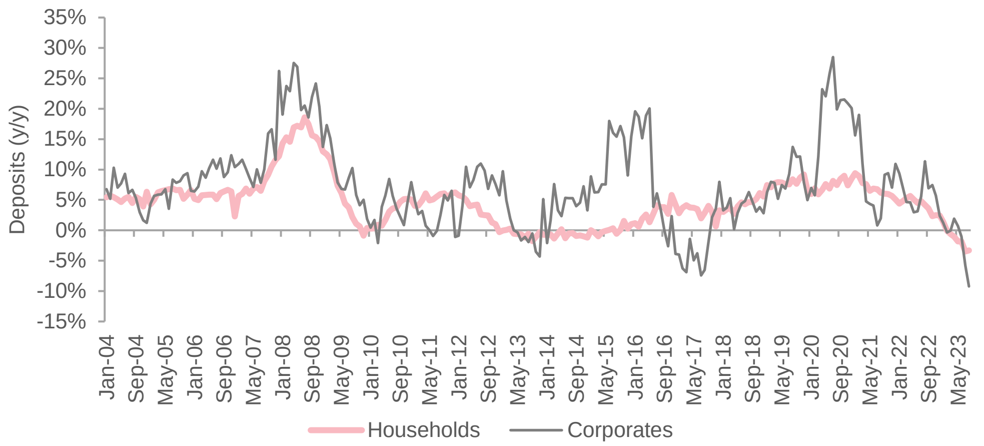


Source: Bank of Finland, Danske Bank Equity Research

In the mortgage market, one can lend maximum 85% of the property value (95% for first time purchase) and there is a stamp duty of 2% on apartments and 4% on houses (first time buyers (18-39 years) are exempt). New mortgages are tested against a 6% threshold interest rate. There has been a gradual deduction in the tax deductibility of mortgages over the past decade, and as of 2023, there is no longer any tax deductibility on interest paid on mortgages.

Corporate volumes have been more volatile, as is to be expected. In the chart above left we see that over the past 10 years, corporate volumes have been growing at a higher rate than the household volumes. Furthermore, the pick-up in volumes preceding the pandemic was especially strong, driven by the record low interest rates and improving economic conditions. Volumes fell strongly during the pandemic, but picked up again equally strongly, which characterised last year in terms of lending growth for the banks. Following this, volumes have again fallen, and we expect that towards the end of H2(23E) or H1(24E) these volumes will contract slightly into negative territory, before improving again towards H2(24E). The case for corporate volumes largely depends on how strong the economic contraction becomes, and how quickly interest rates will come down post the peak and this picture mirrors what we see in other Nordic countries, although the volume contraction has been stronger in Finland so far.

Chart 20. Deposits, y/y growth, 2004 – current



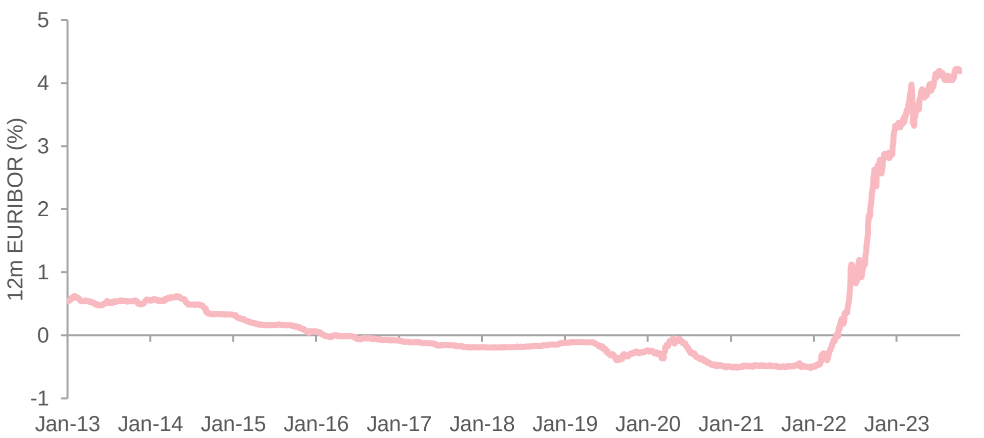
Source: Bank of Finland, Danske Bank Equity Research

Deposits have been and still are very important in the current banking environment. With rates moving up, these have provided a very cheap and profitable source of funding, which has expanded interest margins. We will cover this in more detail later in this report. We see in the chart above that the growth in deposits was very strong following the COVID-19 pandemic, as the interest burden dropped and households spent less on goods and services than they previously had, which led to higher savings rates. There is a similar trend in corporate deposits, although the swings are more pronounced given the nature of the deposits.

Interest rates and banking margins

Most bank lending to households and corporates in Finland is tied to the EURIBOR rate (typically 12m) or a bank's refence rate, which again follows the 12m EUIRBOR rate closely, with a short lag. For mortgages, over 90% are variable rate loans, according to the Bank of Finland. This means that the interest rate transmission in Finland tends to be very quick and higher rates have been embedded in loans quicker than other countries with a larger share of fixed rate lending. The interest rates charged to customers typically consist of a reference rate (or 12m EURIBOR) plus a margin.

Chart 21. 12m EURIBOR, 2014 - current



Source: Bloomberg, Danske Bank Equity Research

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Loan durations can vary, depending on the loan and customer type. Corporate lending is typically lower duration, while mortgages are on the other end of the spectrum, which in Finland can have a max duration of 25 years and are amortised in fixed instalments. In the table below we show the share of new mortgage lending and its average terms in 2022. Home buyers can hedge interest rate risk. This primarily encompasses interest rate collars, where the lender pays a fee for the added security.

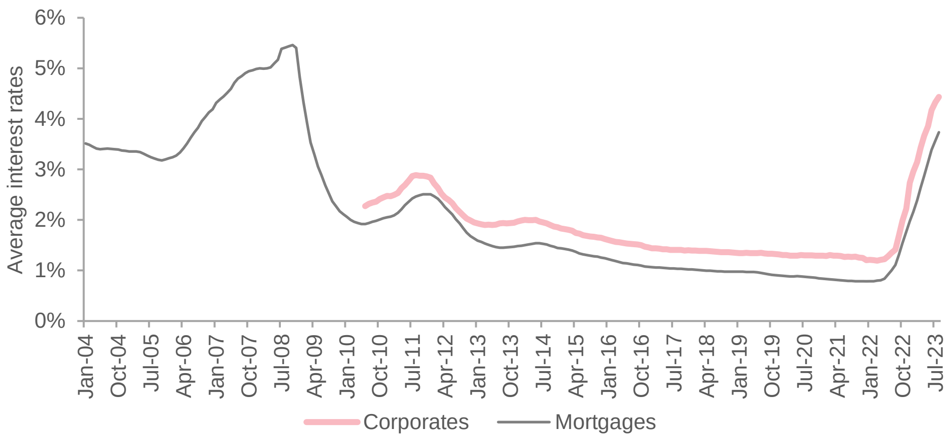
Figure 2. Share of repayment methods for new mortgages and proportion hedged

	Share of loans	Hedged
Annuity loans	76%	27%
Bullet loans	11%	0%
Fixed instalment loans	9%	12%
Fixed-period loans	4%	9%
All new housing loans	**100%**	**22%**

Source: FIN-FSA, Bank of Finland, Danske Bank Equity Research

For the total loan stock, we see in the charts below that average interest rates on mortgages and corporate lending have increased significantly with the rise in interest rates. For the total loan stock these are currently 4.18% (August 2023), up from a low of 1.2% in 2021. Mortgages now have an average interest rate of 3.73% (up from 0.79%), whilst corporate lending is at 4.43% (up from 1.19%).

Chart 22. Average interest rates, mortgages vs. corporate lending, 2004 – current

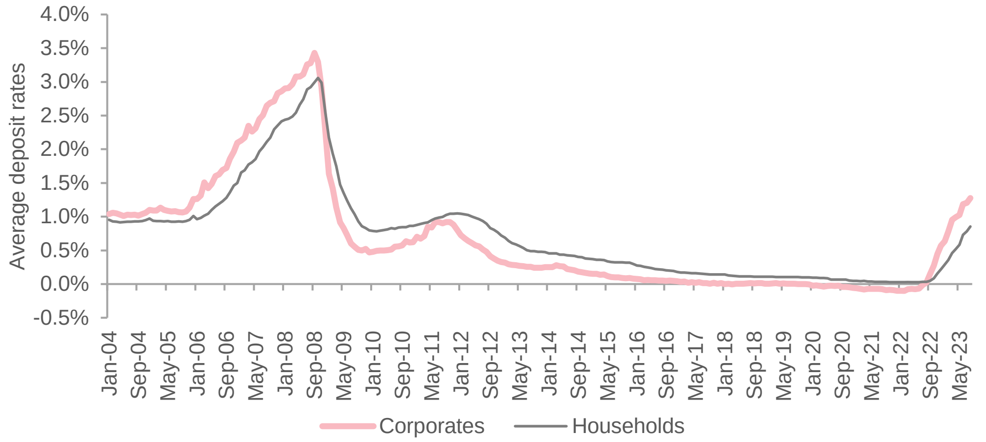


Source: Bank of Finland, Danske Bank Equity Research

As there is a lag effect between the development in the 12m EURIBOR and pricing we expect that the average interest rates will continue to move up. However, we also think that rate expectations will start to roll over, and we do not factor in these higher rates over a longer period in our estimates, although the rate trajectory remains highly uncertain.

Deposits can be both fixed and variable rate, depending on the type of deposit. Some deposits, such as transaction accounts, are not fixed, but show a much lower rate of transmission than what the general interest rate level would suggest. In the chart above right, we show the average deposit rate on deposits in the Finnish banking system. The development reflects the lending rates, but the rise has been less. We think this is explained by there being more deposits in the banking system that are fixed rate – and take time to roll over – but also that banks have been slow to increase deposit rates on certain types of deposits. To our knowledge, the highest deposit rate charged on transaction accounts by any of the larger banks is 0.25%.

Chart 23. Average deposit rates, households vs. corporates, 2004 - current



Source: Bank of Finland, Danske Bank Equity Research

Interest margins

Interest margins in Finland have been low for a long period of time. We believe that this is a result of the competitive situation, in which OP dominates the market, and has been operating with a lower profitability target, which means the margins have been lower than we have seen in e.g., Norway and Sweden, but more like Denmark where there is a similar incumbent. As we will show later, OP is also well managed with decent cost efficiency, meaning that it can be even more aggressive on margins with the same profitability target.

In the chart below we show the average banking margins for housing loans, corporate loans, and housing corporation loans. Especially the housing loan margins that have been under pressure for a long period of time, and even though corporate margins recovered from 2018, mortgage margins continued to decline. There was a temporary pick-up post the pandemic, but this has since reversed. The main explanatory factor that ties in with the competitive situation is the low growth in mortgage volumes, compared to a better period for corporate margins. On average for new loans, mortgage margins are now 0.65%, and corporate margins are 1.83%.

Chart 24. Implied interest rate margins, based on new lending rates and average of reference rates, 2010 - current

Source: Bank of Finland, Danske Bank Equity Research

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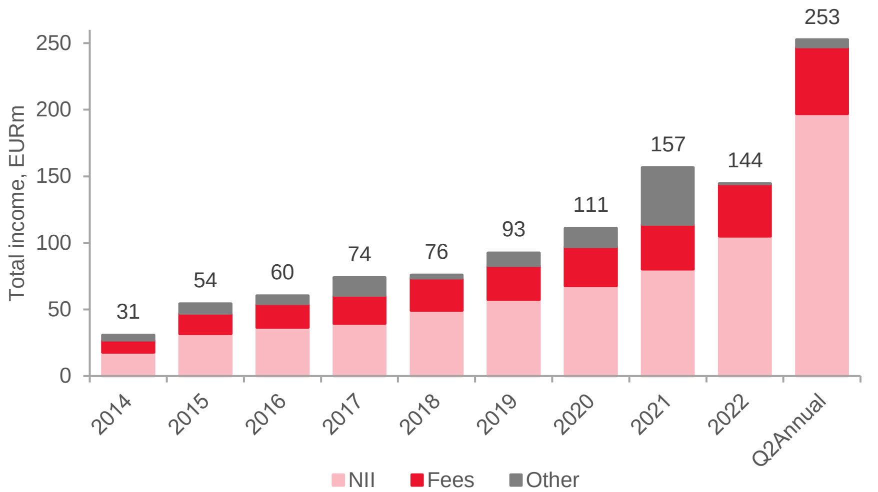
OmaSp's profit dynamics

OmaSp's P&L is mainly driven by its banking book, and it therefore draws most of its income from net interest income. This has stood for an average of 68% of its core income (excluding volatile income lines) and rose to 80% of core income on an annualised basis in Q2 23 following the rise in interest rates. Note that we try to use Q2 23 annualised figures or 12-month trailing figures as much as possible in the next section, as the acquisition of Liedon Savings Bank and the rapid rise in interest rates have been transformational for OmaSp so far in 2023.

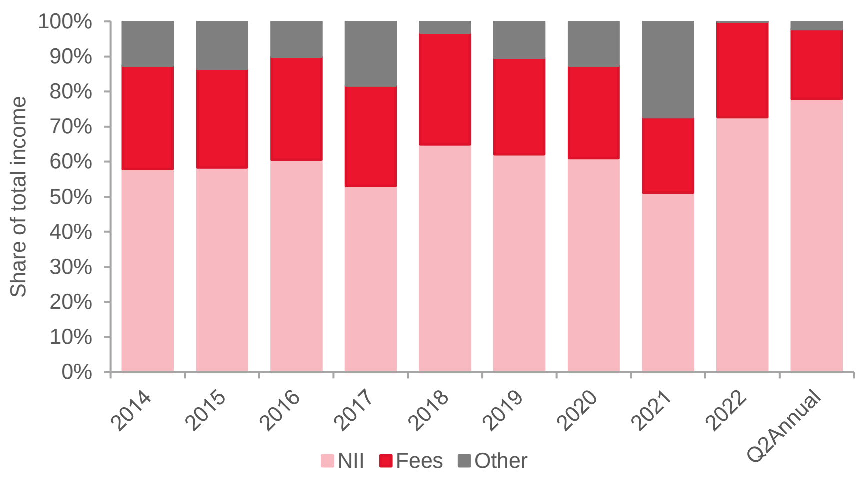
Chart 25. Total income, 2013-Q2 23(annualized), EURm



Source: Company data, Danske Bank Equity Research

Fee and commission income is the other main income line and makes up the rest of what we call core income. This includes mainly fee income on lending and card/payment transactions, and fund distribution. The bank also has more volatile income lines such as income from financial investments. We will cover each of these in the section below.

Chart 26. Share of total income, 2013-Q2 23 (annualized), % of total

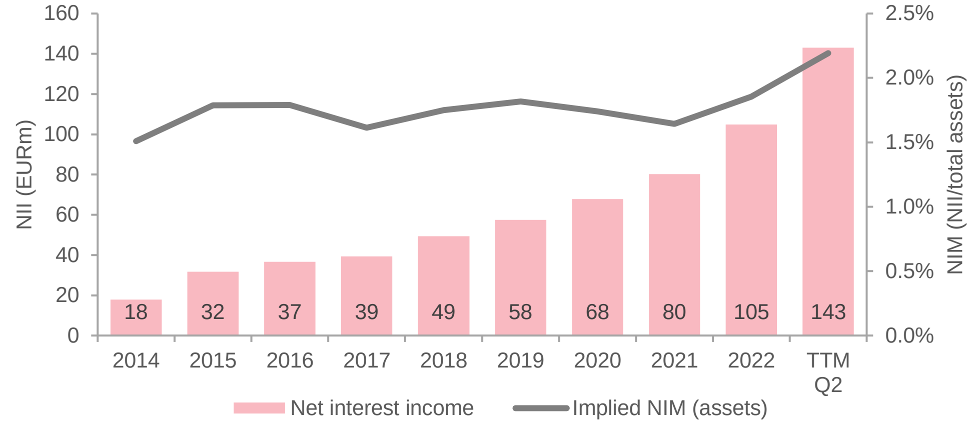


Source: Company data, Danske Bank Equity Research

Net interest income

Net interest income has expanded rapidly since 2013. The primary drivers can be split into volumes driven by new lending and acquisitions, and margins driven by lower interest expenses at the start of the period and higher interest income at the end of the period. On the next few pages, we will review these drivers individually. We believe that the banks' net interest margins are currently above what we can discount in the long term, but for the next one to two years this will continue to be a significant profit driver. There are also several structural drivers that we believe will enable OmaSp to continue to grow.

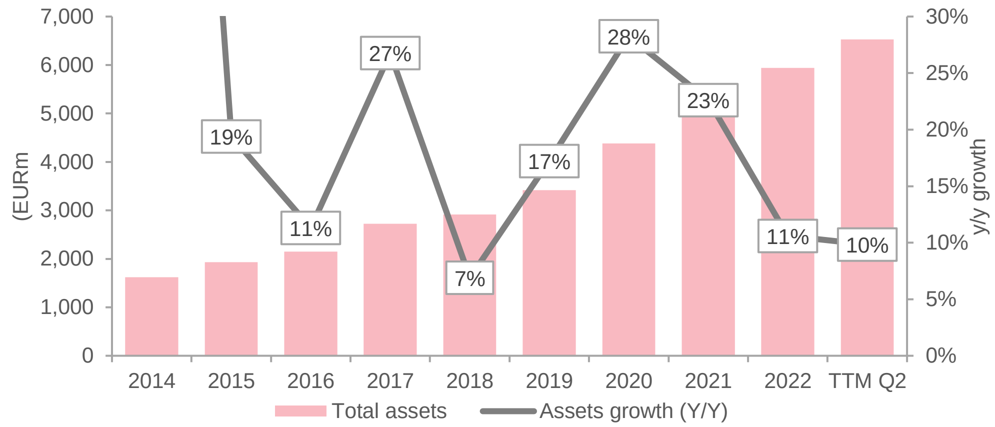
Chart 27. NII and NIM, 2014-Q2 23 (TTM)



Source: Company data, Danske Bank Equity Research

In the chart above we see the development in net interest income and the NIM (implied by total assets). This has risen from EUR18m in 2013 to EUR143m for the 12m trailing Q2 23 figures. In the historical review, we prefer to look at OmaSp since 2014, as the major combination of Kantasäästöpankki, Etelä-Karjalan Säästöpankki and Suodenniemen Sästöpankki in 2014 make the comparisons with 2013 almost meaningless. Volumes have grown equally strong over the period, meaning that the NIM development has undoubtedly impacted NII in 2022 and so far in 2023, but that volumes play a very large role in this and are also a structural driver that we believe will continue to play an important role.

Chart 28. Volumes (total assets) and y/y growth, 2014- Q2 23 (TTM)



Source: Company data, Danske Bank Equity Research

In the table below we split the relative growth in NII between margin and volume effects. As we can see, the margin effect has contributed with EUR32m over 2014 until now, but that nearly all of this comes from 2022 until now. In the period between 2016 and 2022 the margin effect was negative. On the other hand, volumes have stood for EUR94m of the rise in NII and have been a steady earnings driver. As we look at later in the report, the big change in these two drivers over the past year is not so much the nominal amount, but the profitability drivers. This is because lending volumes consume capital, whilst the margin expansion has practically no capital charge, meaning that the profitability improves even more.

Table 8. NII growth drivers, volume vs margin

	2016	2017	2018	2019	2020	2021	2022	Q2 23 (TTM)	2014 - Q2 23
NIM (NII % lending)	2.20%	2.00%	2.12%	2.10%	2.12%	2.07%	2.31%	2.67%	79bps
Average net loans	1,658	1,962	2,332	2,744	3,197	3,880	4,540	5,368	4,416
NII	37	39	49	58	68	80	105	143	125
y/y NII change by component									
Margin	-0.5	-3.9	2.6	-0.5	0.8	-2.2	11.2	19.0	31.6
Volume	5.3	6.7	7.4	8.7	9.5	14.5	13.6	19.1	93.7

Source: Company data, Danske Bank Equity Research

Looking closer at the volume development we can split lending into the following table. Basically, the entire lending book stems from loans to households and corporates. The remaining lending is deposits at credit institutions, overdraft facilities and credit cards.

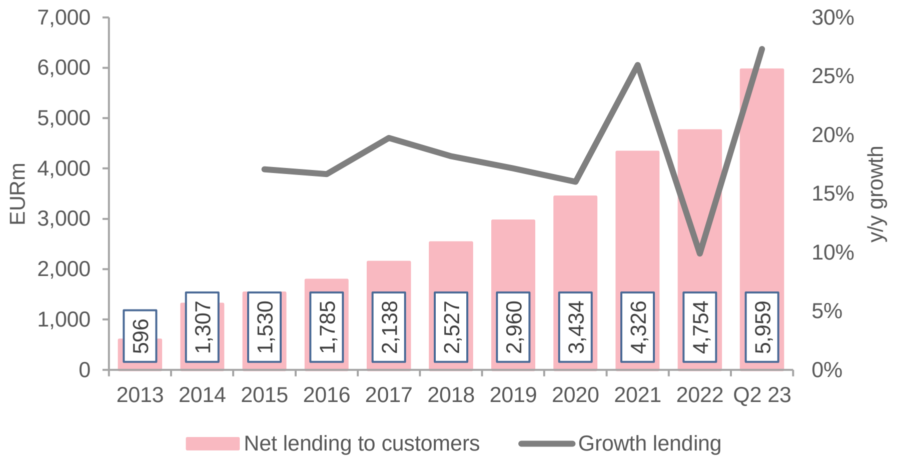
Table 9. Total loans, split by type of lending

Total loans and advances	H1 22	H1 23	y/y	Lending Share (H1 23)
Deposits in credit institutions	57	98	41	2%
Other loans and advances in credit institutions	33	6	-27	0%
Loans to the public	4,575	5,835	1,260	96%
Overdraft facilities	65	69	5	1%
Credit cards	41	55	14	1%
Other loans and advances to the public	0	1	0	0%
Total lending	**4,771**	**6,063**	**1,293**	**100%**

Source: Company data, Danske Bank Equity Research

Net lending to customers has increased from EUR596m to EUR4,754m in 2022. So far in 2023, that figure has increased further to EUR5,959m, owing to the acquisition of Liedon Savings Bank that was closed in H1 23. Lending growth has been very high over the period, and we struggle to find peers (with traditional lending products) in the Nordics that can match this.

Chart 29. Net lending to customers, 2010-Q2 23



Source: Company data, Danske Bank Equity Research

The lending book is split between private customers, corporate and agricultural customers, housing associations, and other customers. All these customer groups have been growing, and the share of private customers of the total book has remained steady at around 60%.

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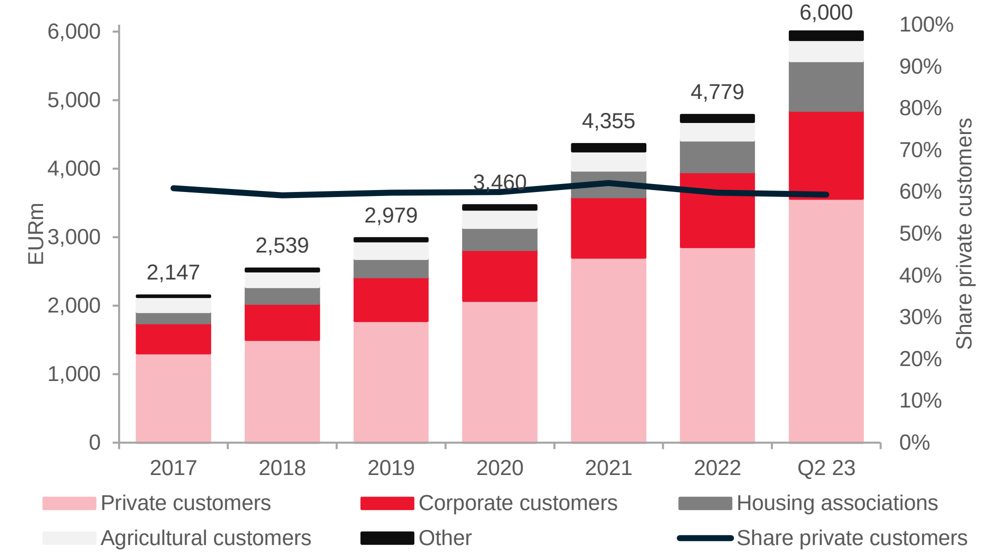
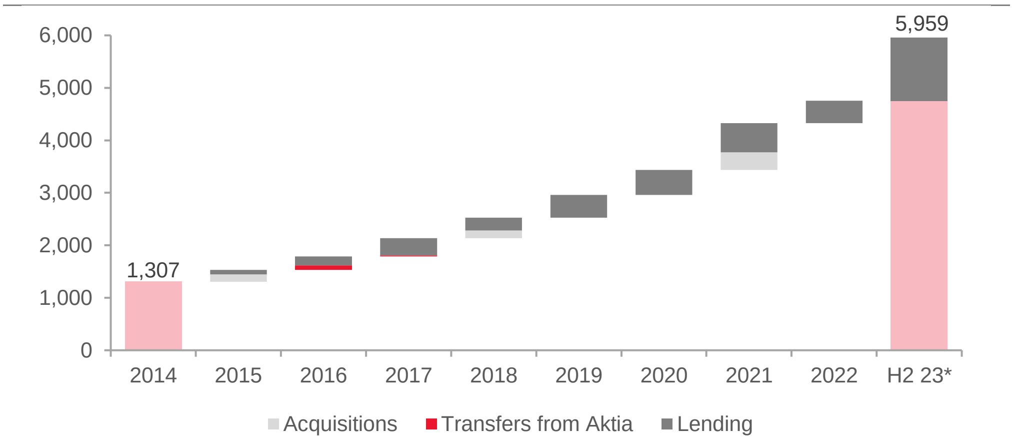
Chart 30. Lending book, by customer type, 2017-Q2 23



Source: Company data, Danske Bank Equity Research

OmaSp is a product of numerous acquisitions over the past 10 years. In the following section we try to get a feel for how the underlying growth has been. From 2013 to 2014 the bank's balance sheet more than doubled, primarily driven by the acquisitions of Kantasäästöpankki, Etelä-Karjalan Säästöpankki and Suodenniemen Säästöpankki. On a comparable basis, the bank grew its lending by around 3% in 2014, according to comparable accounts in the 2014 annual report. Since 2014 the lending book has grown to EUR7,015m, from EUR1,618m (i.e., 4.3x). Of this figure, we calculate that around EUR2bn is driven by acquisitions (see table below).

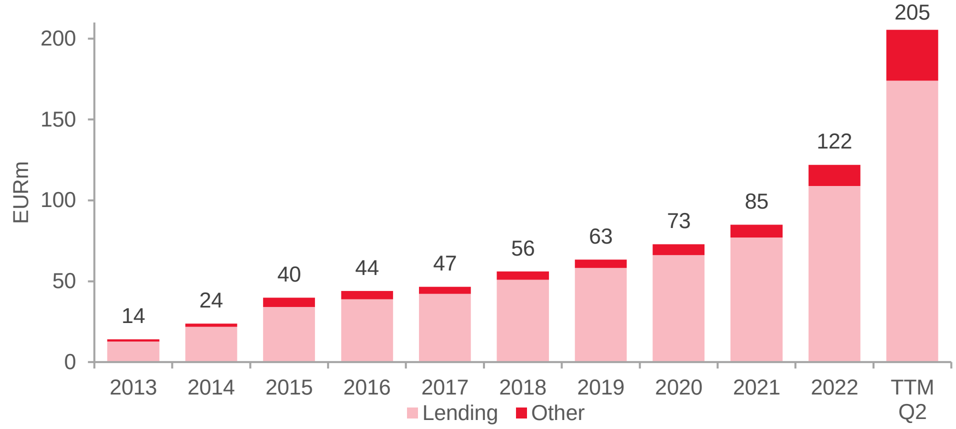
Chart 31. Lending growth, by contribution, 2014 - H2 23



Source: Company data, Danske Bank Equity Research

Increasing volumes have had a positive effect on the interest income. The bank draws interest income from several assets on its balance sheet, but as the chart below left shows, the main thing to focus on is the lending book. The rise in other interest income so far in 2023 has been high and related to hedging, but we need to see that number in relation to the cost of hedging, which means the net sum is not as meaningful as the chart suggests. In the chart below right, we show the same picture, but with the relative importance of the main interest income items. Here we see that most of the increase stems from the rise in interest income from the lending to private, corporate, and agricultural, and housing associations.

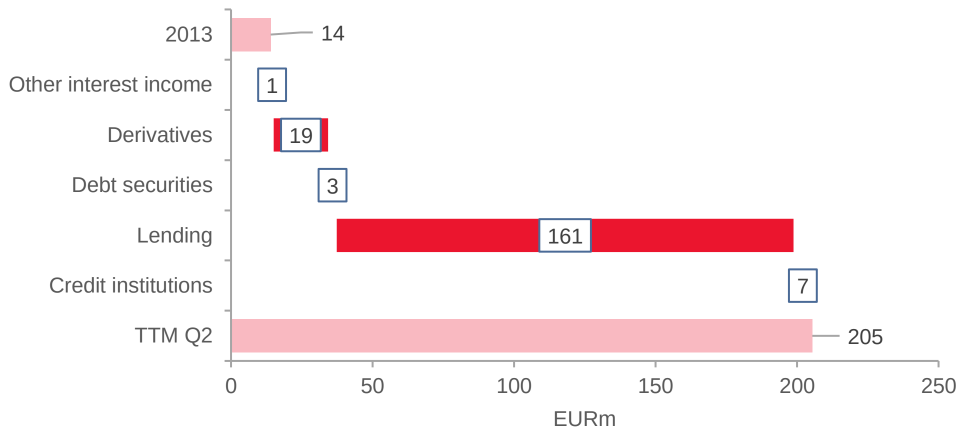
Chart 32. Interest income, by component, 2013-Q2 23 (TTM)



Source: Company data, Danske Bank Equity Research

Margins came up significantly in 2022 and Q2 23 (TTM). These are driven by different interest rates and maturities on assets and liabilities. OmaSp's balance sheet is structured such that NII rises as interest rates rise and fall if rates come down. The key determinant to NII is the price of lending and the cost of funding. Based on total assets, the NIM is now at 2.19%, the highest it has been in our review period. This is up from a low point of 1.64% in 2021, when interest rates bottomed out.

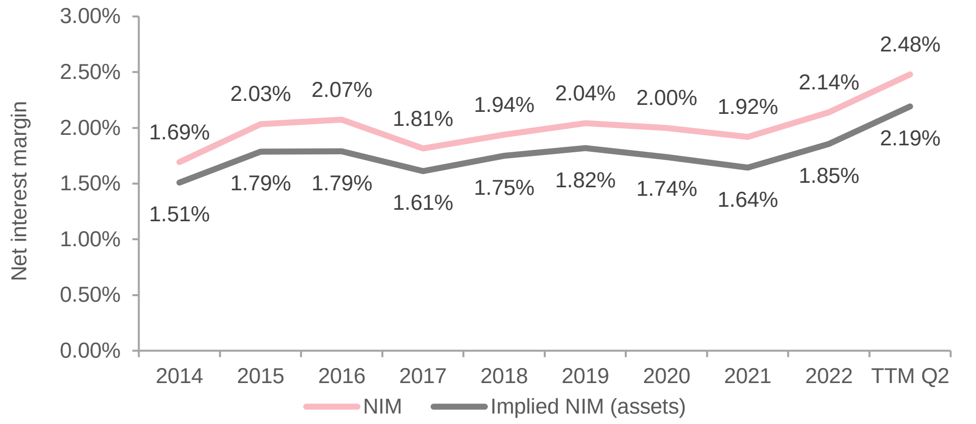
Chart 33. Development in interest income, 2013 to Q2 23 (TTM)



Source: Company data, Danske Bank Equity Research

The main reason for the rise in NIM is the rise in interest on lending coupled with a lower rise in funding costs, as we show further down. In the period before the rise in NIM its important to note that the NIM was improving for a period between 2017-2019, despite lower lending rates. This was due to an improved funding structure, where the bank increased its share of market-based funding, at lower rates than it had previously.

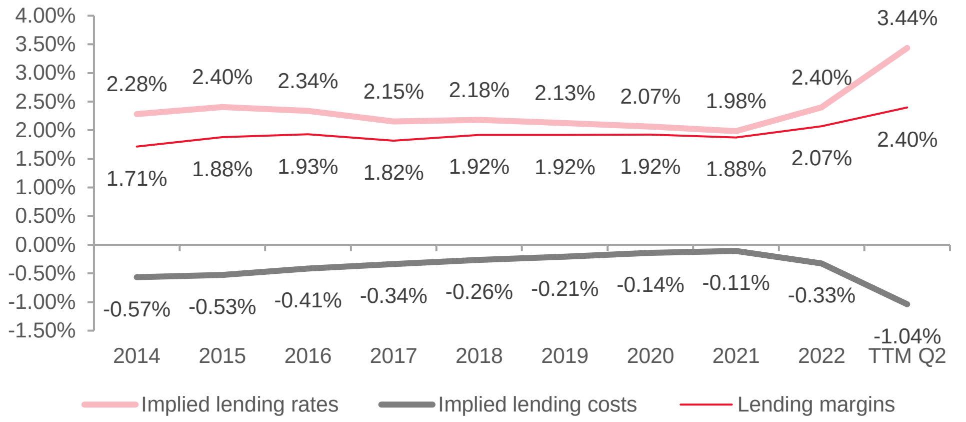
Chart 34. Net interest margin, 2014 - Q2 23 (TTM)



Source: Company data, Danske Bank Equity Research

Implied lending margins are currently at 2.4%, up from 1.88% in 2021. As the chart below shows, lending margins in 2015 – 2021 were flat, despite the contraction in lending rates, and offset by improved lending costs due to a larger share of wholesale funding as we showed earlier. We expect that the lending margins will remain elevated for at least 2024, before returning to a more normalised period like we have seen historically. Still, we do not believe that we will return to the negative interest rates we saw during 2021, and therefore the margin levels should be structurally higher than they have been for a long time in the Finnish banking market, which will have a positive effect on OmaSp.

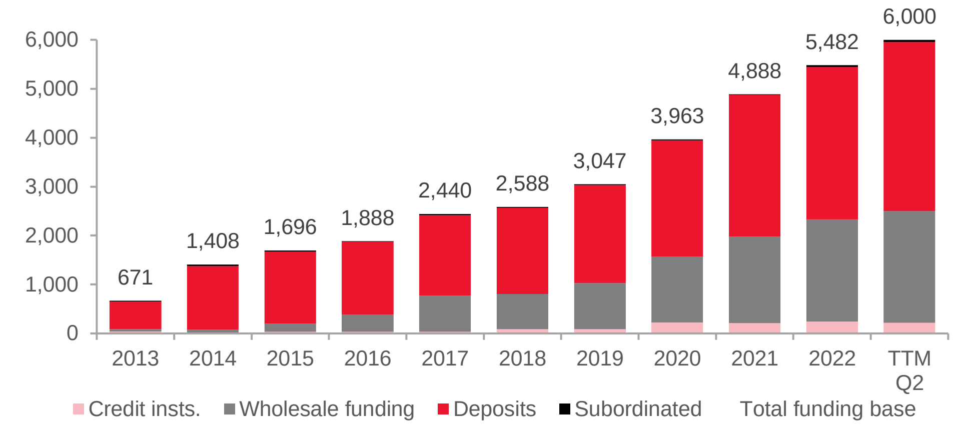
Chart 35. Implied lending margins



Source: Company data, Danske Bank Equity Research estimates

OmaSp's funding base consists of mainly deposits held across its customer group, senior preferred and covered bonds. On top of this OmaSp has some funding in credit institutions and subordinated debt. The chart below shows the development in the funding profile from 2013 to Q2 23. The chart does not include equity, which is an additional funding source.

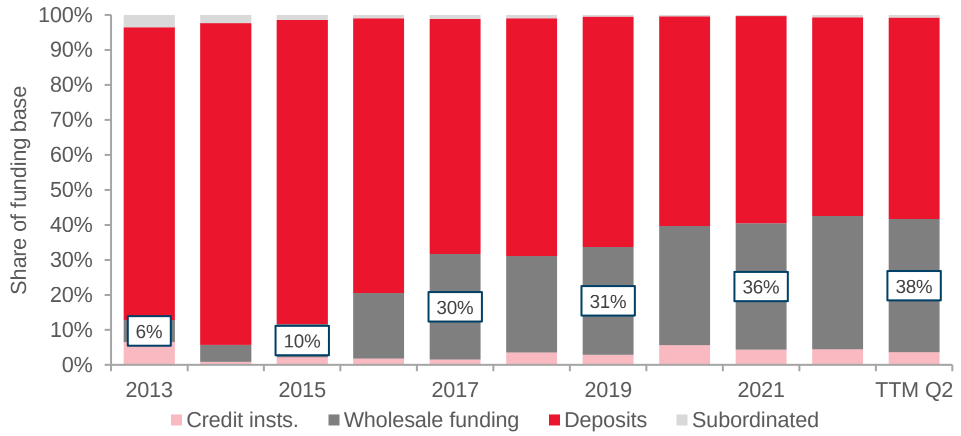
Chart 36. Implied lending margins



Source: Company data, Danske Bank Equity Research

Deposits make up most of the funding base, and especially looking back to pre-2016, it made up nearly all the funding. Since then, and with the establishment of the mortgage bank in 2017, the share of wholesale funding has increased markedly, and currently stands at 38% of the total funding base.

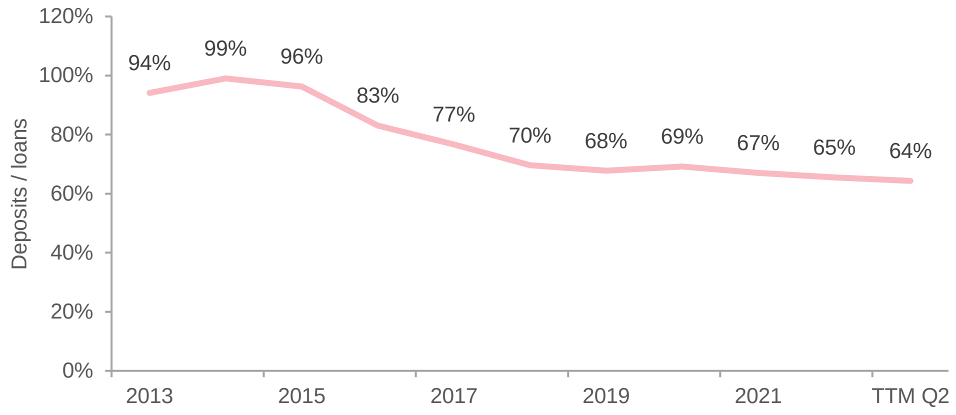
Chart 37. Deposits to lending, 2013 - Q2 23



Source: Company data, Danske Bank Equity Research

The deposit to loan ratio is at 64%, down from 69% in 2020, and this has been stable since the increase in market-based funding. A deposit to loan ratio of 60-70% is in our mind a normal and healthy level compared to Nordic peers and we expect that OmaSp will continue to run at around this level.

Chart 38. Deposits to lending, 2013 - Q2 23



Source: Company data, Danske Bank Equity Research

OmaSp entered the bond market in 2013 to diversify the funding base and duration of its funding. The bank has a BBB+ rating from Standard & Poor's on its long-term funding and A-2 on its short-term funding (as of June 2023). Its covered bond programme has a AAA rating. The covered bond programme has been in place since 2017 when OmaSp established its mortgage bank operations. The bank has EUR2,390m in outstanding debt. Of this 94% is bonds (covered bonds and senior preferred) and the remainder is certificates of deposit.

Below is an overview of the covered bonds and senior preferred bonds issued by OmaSP. The bank utilises fixed interest for the most part, and covered bonds make up the largest chunk of the funding. It is evident that the maturity of some of the older bonds has meant that the bank has had to refinance at higher rates, given the increase in market rates. For example, the covered bond with maturity in December 2022, which was issued in 2017, had a fixed interest of 0.125%. At maturity this was replaced with a new covered bond with 3.125% fixed interest, with maturity in 2028. In its Q2 presentation the bank said it had around EUR400m in remaining planned funding during 2023.

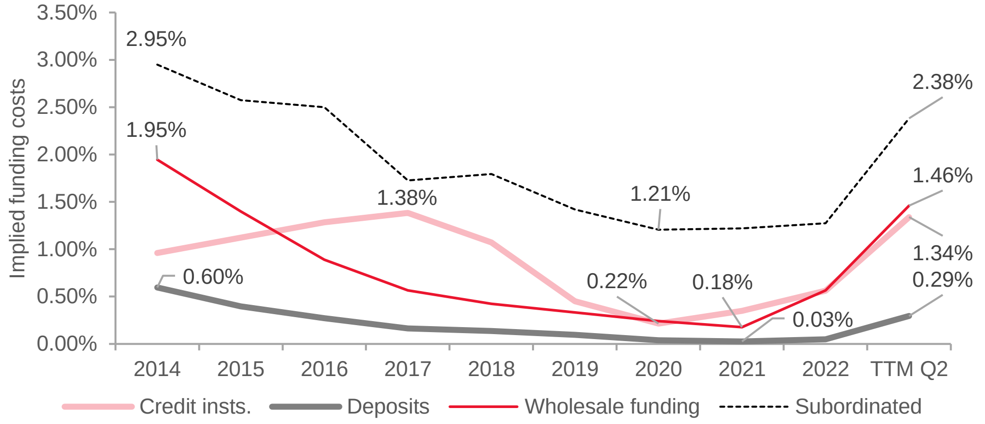
Table 10. Bond overview as of Q2 23

Maturity	Covered bond?	Interest	Fixed / Variable	Year of Issue	Outstanding H2 23	H2 22
12/12/2022	x	0.125%	Fixed	2017-2018	0	350
03/04/2024	x	0.125%	Fixed	2019	300	299
06/04/2023	x	0.125%	Fixed	2020	0	250
17/01/2024		1.000% (margin)	Variable	2020	55	55
25/11/2027	x	0.010%	Fixed	2020-2023	619	404
19/05/2025		0.200% (margin)	Variable	2021	200	200
18/12/2026	x	1.500%	Fixed	2022	586	349
26/09/2024		5.000%	Fixed	2022	149	0
15/06/2028	x	3.125%	Fixed	2023	347	0

Source: Company data, Danske Bank Equity Research estimates

Funding rates have moved up in line with interest rates, albeit at different paces. In the chart below we show the implied funding cost on the various funding sources from 2014 to Q2 23. The numbers are based on the reported P&L costs and average outstanding amounts in the balance sheet. Market-based rates on wholesale, central bank and subordinated funding have moved up in line with general interest rates. As OmaSp uses to a large extent fixed based funding on the wholesale side, these have been slower to move up than general interest rate levels would imply and are largely driven by refinancing of existing debt. Notably, and which is well established amongst bank investors now, the implied cost of deposits has not followed this trend, as banks have held back the deposit rates on current accounts. To our understanding, a large share of the deposit base in OmaSp is sat in deposit accounts. This has been a very meaningful driver of the net interest margin and will continue to be so in the time to come.

Chart 39. Implied funding cost based on funding type, 2014 - Q2 23 (TTM)



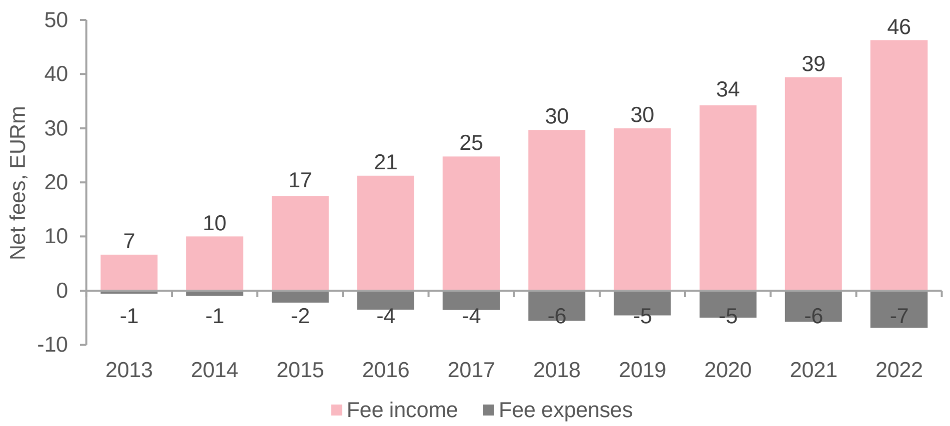
Source: Company data, Danske Bank Equity Research

Whilst we think that the current NIM should come down as rates move lower, we do not believe that we will move back to the period preceding the rise in rates. During this period, interest rates in Finland moved into negative territory, making it very difficult for banks with large deposit bases (such as OmaSp) to maintain their margins. OmaSp successfully offset some of this downward pressure by expanding its wholesale funding base, and had a higher implied interest on its loans outstanding. The negative rate period is in our view very unlikely to return, and this means that the higher share of deposits in the funding structure will continue to be a positive contributor to the NIM, even when rates come down from the current high levels.

Fee and commission income

Net fee and commissions made up EUR39m in 2022, up from EUR6m in 2013. In 2022, net fee and commissions were composed of EUR46m in fee income and EUR7m in fee expenses. Fee income is made on traditional fee products like we find in most Nordic banks. This includes lending and deposit fees, card and payment transactions, intermediated securities, fees from fund distribution, legal services, brokered products, and guarantees. Card and payment as well as lending fees make up most of the fee income.

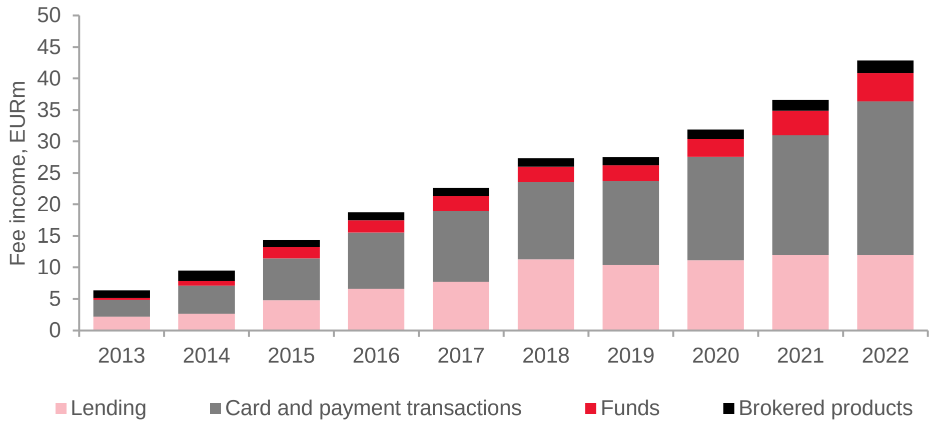
Chart 40. Net fee income, 2013-2022, EURm



Source: Company data, Danske Bank Equity Research

The main fee expense is card and payment transactions. In the chart below we show the historical development in fees, as well as its composition. Cards and payment transactions have been the main growth driver and stood for EUR24m of the total EUR46m in 2022. After this, lending fees stood for EUR12m of the total.

Chart 41. Main fee income lines, 2013 - 2022, EURm



Source: Company data, Danske Bank Equity Research

The primary driver of fee income is the lending book. Lending fees are by nature driven by lending to customers. Card and payment transactions are mainly driven by the size of the customer base and usage. Hence both lines should grow together with new and existing volumes. It is key to note that OmaSp has historically been very successful at building up a customer base with multiple products, which is positive for retention we believe, but also for the growth in fee and commission incomes, where these types of products typically generate income.

We think there is untapped potential in the fee and commission income line from other sources than lending and card payments. Especially brokered products and fund management look to be underutilised in the banking book. OmaSp sells and distributes funds managed by Sp-Fund Management Company and Sb Life Insurance. At the end of 2022, OmaSp's customers had EUR514m in fund and insurance savings brokered by OmaSp. An AUM of EUR159bn in the Finnish fund market would imply a market share of 0.3%, versus its e.g., deposit market share of 1.5%. While current accounts provide a cheap source of financing today, we believe a more focused drive to increase fund distribution should benefit the company in the long run. These incomes do not consume capital in the same way that lending does, and so it would be beneficial to the ROE and cash generation in the long term. Assuming a 1.5% market share and the same fee distribution margin as in 2022, would imply fee and commissions of 4-5x from today's level.

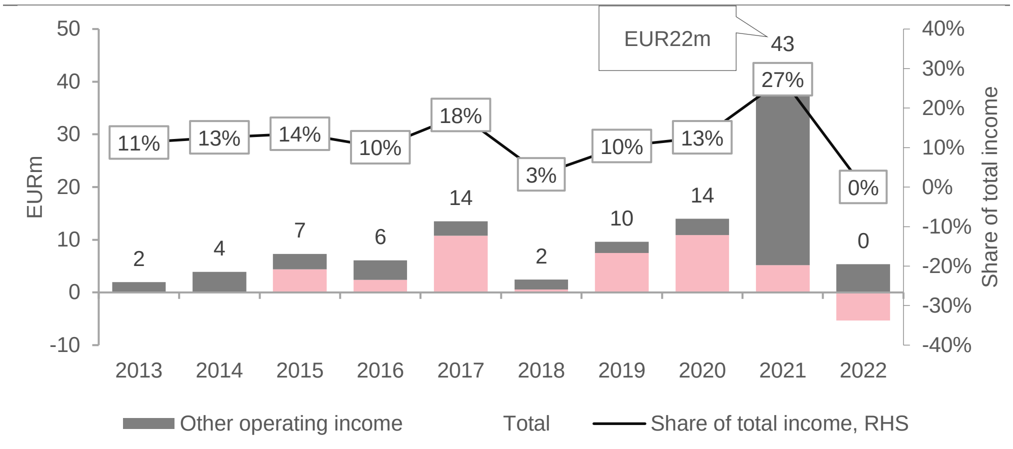
Furthermore, ancillary services like legal and guarantees could play a larger role as OmaSp expands its SME portfolio by acquiring Handelsbanken Finland's SME business. These customers have a greater need for fee- and commission-generating services than a typical retail banking customer, we believe.

Other income

Other income in OmaSp is made up of various income and expense lines that do not fit under the net interest income and fee and commission lines. This includes net income on financial assets and liabilities, negative goodwill, rental income, and other income from banking operations, such as a EUR22m termination fee that was received when OmaSp terminated its core banking platform contract with Cognizant in 2021.

Net income on financial assets and liabilities includes capital gains/losses and fair value changes of these debts and investments. It also includes net income from investment properties, net gains on FX, hedging, and net income from trading.

Chart 42. Other income, EURm, 2013-2022



Source: Company data, Danske Bank Equity Research

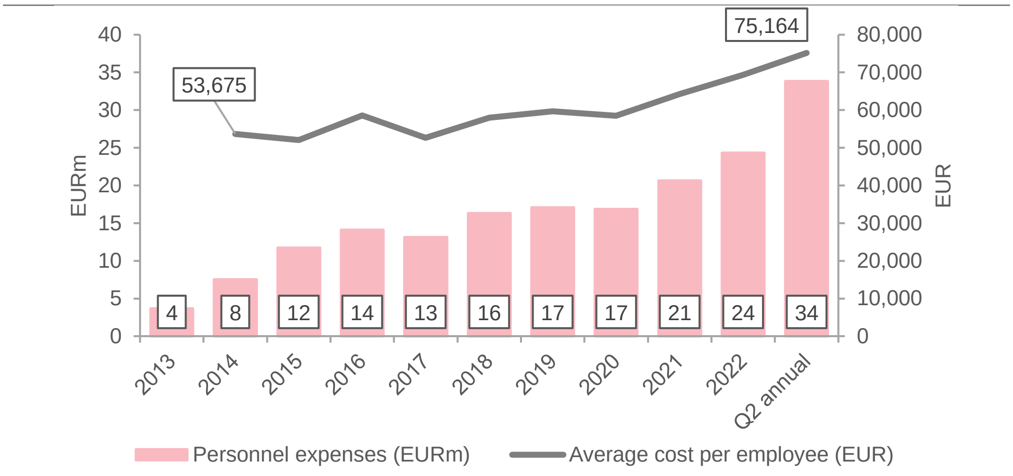
As the chart above demonstrates, these lines typically swing a lot, and we have low visibility in them. From an earnings perspective their quality is also low, and we like to define core earnings excluding these lines. This is like OmaSp's measure of comparable profit before taxes, which excludes the net income on financial assets and liabilities.

Investment assets totalled EUR559m in Q2 23, or 9% of total assets on the balance sheet. Most of this is debt securities held by OmaSp, whilst a small part (EUR15.9m) is comprised of shares and other equity, and investment properties.

Opex

Total opex was EUR73m in 2022, up from EUR65m in 2021. Over the past 12 months, opex increased to EUR83m, or 14% up from 2022. The main driver of opex is personnel and operating expenses. The high growth in opex has been driven by recent acquisitions made, but also inflationary pressures generally. Of the total EUR73m total opex in 2022, EUR24m was personnel expenses.

Chart 43. Personnel expenses and average cost per employee, 2013-Q2 23 (annualized)

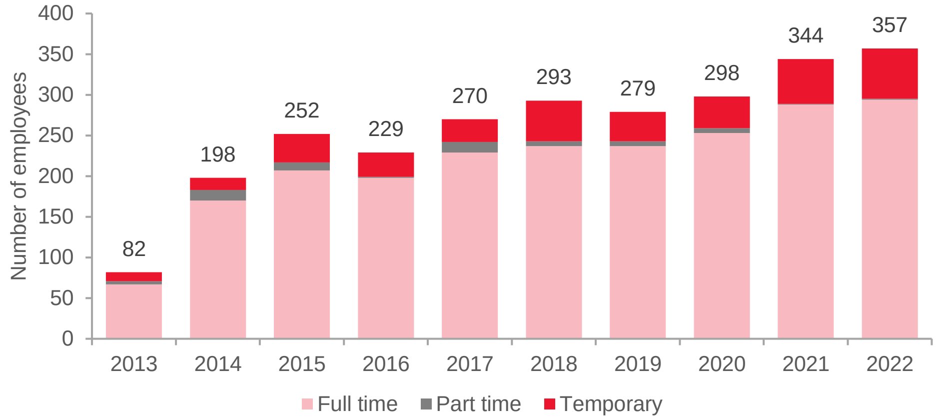


Source: Company data, Danske Bank Equity Research

Not for US distribution

The main driver of personnel expenses are salaries and other rewards, and this stands for around 90% of total personnel expenses. A large part of the increase in personnel expenses is tied to the increase in the workforce over the period.

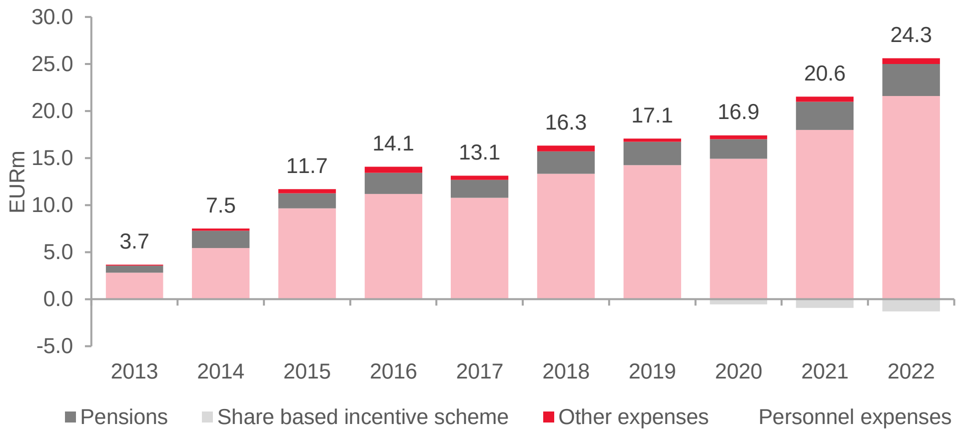
Chart 44. Number of employees, by type, 2013-2022



Source: Company data, Danske Bank Equity Research

In 2014, salaries were EUR5.4m and implied an average cost per employee of EUR42,800. In 2022, this had increased to EUR22m and EUR61,500. If we assume the same average cost per employee as in 2014, this will imply that EUR8m of the salaries increase is related to headcount, whilst the remaining EUR6.5m is higher average salaries.

Chart 45. Personnel expenses, by type, 2013-2022

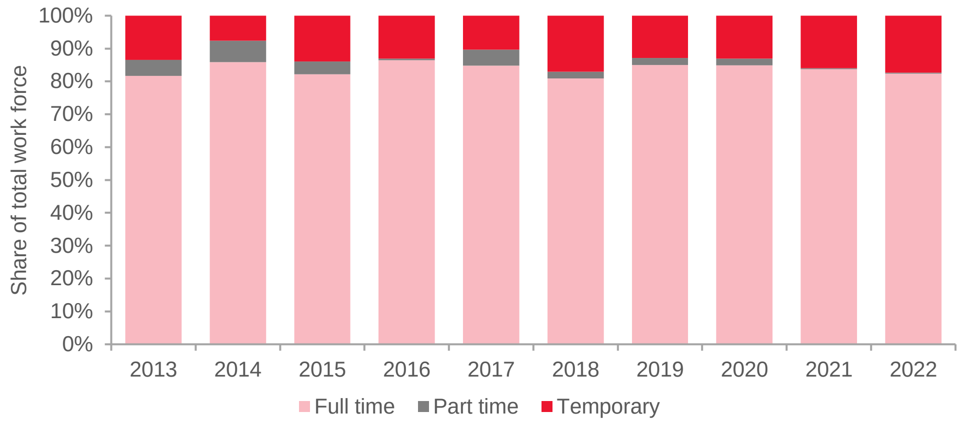


Source: Company data, Danske Bank Equity Research

This is probably driven by a mix of wage inflation, but also the composition of the work force. The average output per employee has also increased by a lot, which suggests a more effective and competent workforce, but also less use of part-time employees.

Not for US distribution

Chart 46. Composition of the workforce

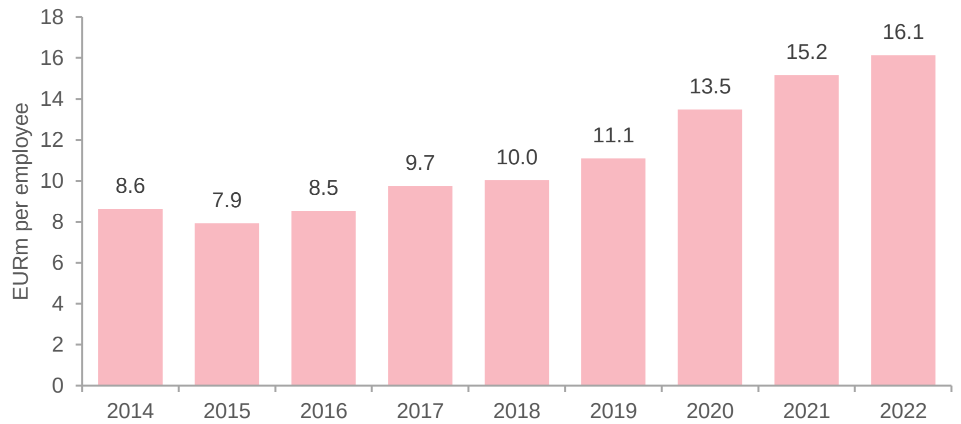


Source: Company data, Danske Bank Equity Research

Most banks prefer to steer after the cost to income ratio when assessing their operating efficiency and profitability. We have never been a fan of this measure when assessing the fundamental drivers in a bank's profitability. This is because the measure uses the two most important P&L lines that can drive profitability (i.e., income and costs) but does not distinguish between their relative importance. Instead, we like to focus on these relative to the asset base of the risk-weighted assets in a bank. We believe that this gives a much better understanding of where the banks draw their profitability from, and how well they utilise the assets that they have. Furthermore, capital light and high ROE income lines like fees and commission income, can have much higher C/I ratios than e.g., traditional lending, but where the latter consumes much more capital and therefore from an investor's point of view, who should be interested in the ROE at the end of a period, a high or low C/I does not necessarily tell us anything of importance.

Although the cost per employee has increased over the period, the output per employee has also increased meaningfully. The chart below is based on average total assets and total employees.

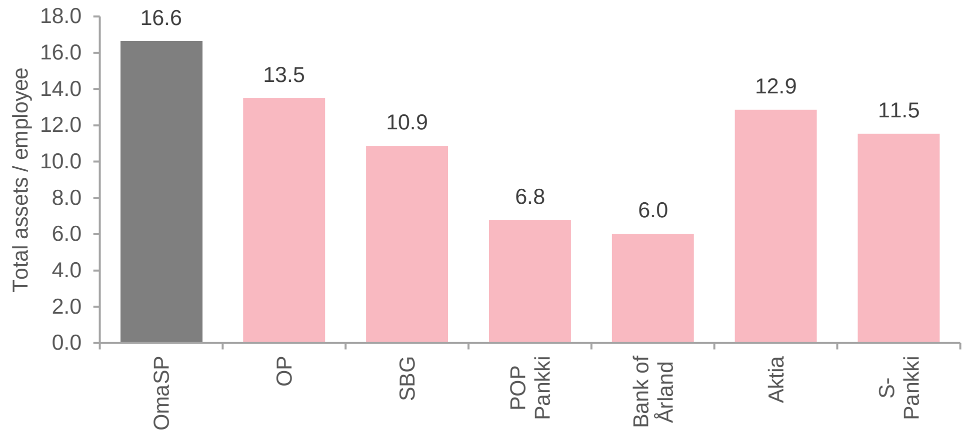
Chart 47. Assets per employee, 2013-2022



Source: Company data, Danske Bank Equity Research

In the chart below we have compared OmaSp's assets per employee with their main Finnish peers. The number differs slightly from that above as we have used 2022 figures, and not average assets over 2021-22. We do not have comparative data for Nordea and Danske Bank, although these would also be key peers to compare with. The chart highlights the very impressive operating efficiency in OmaSp.

Chart 48. Asset per employee, OmaSp versus Finnish peers, 2022

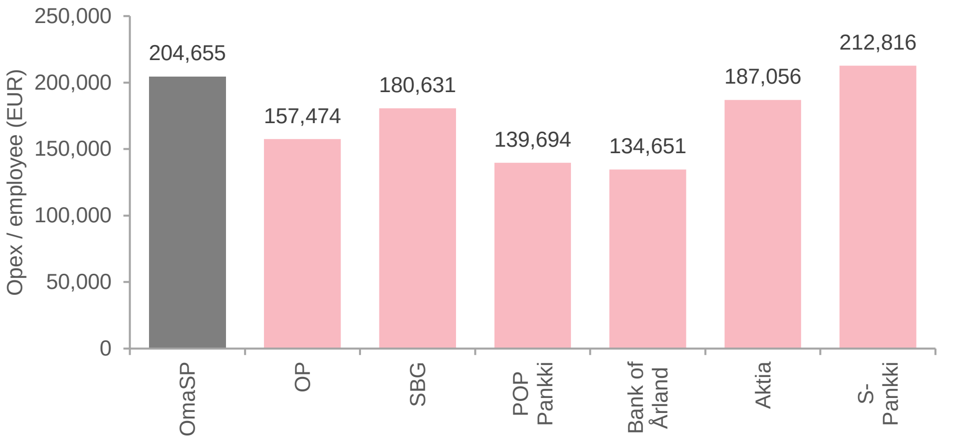


SBG = Savings Bank Group

Source: Company data, Danske Bank Equity Research

If we compare opex per employee and opex to assets for OmaSp's Finnish peers, the picture is very similar. Although OmaSp has the second highest opex per employee (implied), the opex to asset efficiency is better than most. Only OP has a lower opex to assets ratio implied through its P&L and balance sheet.

Chart 49. Opex per employee (EUR), OmaSp versus peers, 2022

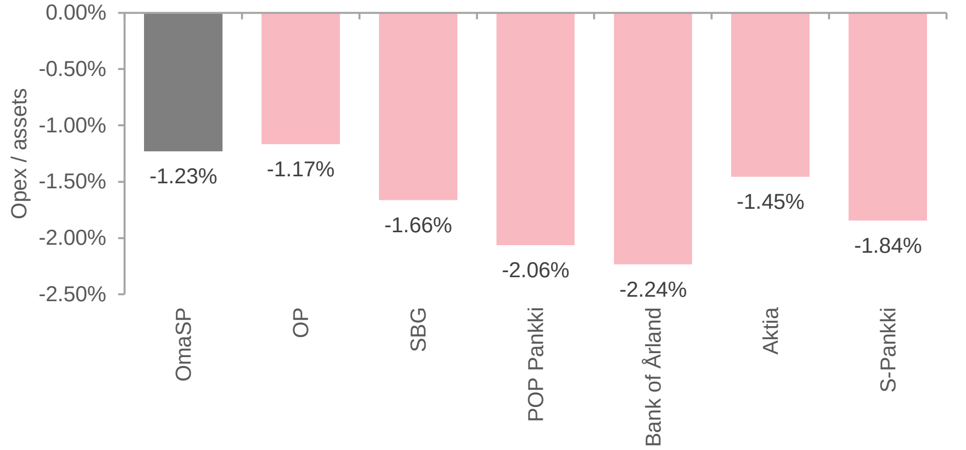


**SBG = Savings Bank Group*

Source: Company data, Danske Bank Equity Research

Furthermore, it is notable that OmaSp has a strategy of having branches where its customers are and what we would consider welcoming opening hours that should otherwise drive costs. We believe that part of this reflects more outsourcing in OmaSp of certain functions, but also its regional focus, where local knowhow and expertise mean that branch offices can be run more efficiently. Furthermore, OmaSp has a wide range of digital channels that support its operating efficiency. There are also different business models in the banks being compared, such as a stronger focus on asset management or insurance, which further distorts the picture.

Chart 50. Opex / assets, OmaSp versus peers, 2022

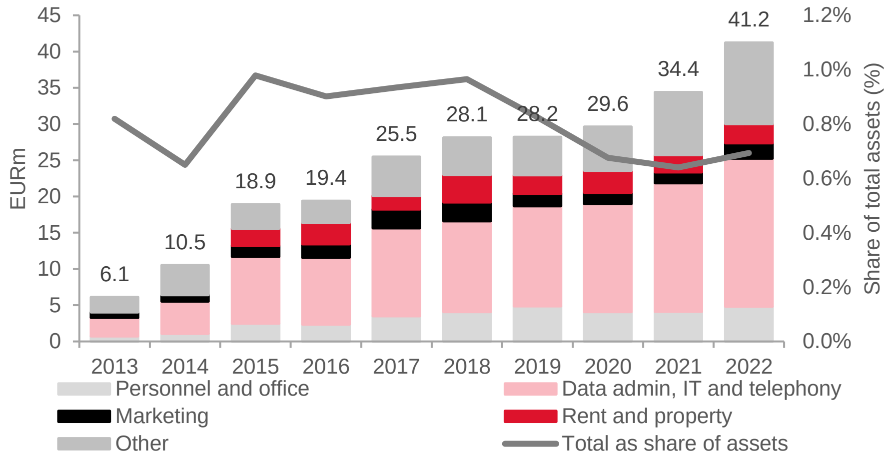


**SBG = Savings Bank Group*

Source: Company data, Danske Bank Equity Research

Other operating expenses amounted to EUR41m in 2022, up from EUR34m y/y. Other operating expenses include other 'non-specified' personnel expenses, office, data admin and IT, telephony, marketing, rent, property, insurance, and monitoring expenses. Data administration and IT expenses make up the largest share of this. In the chart below we group the expenses into certain buckets and find that the greatest cost inflation has been in the data admin and IT bucket.

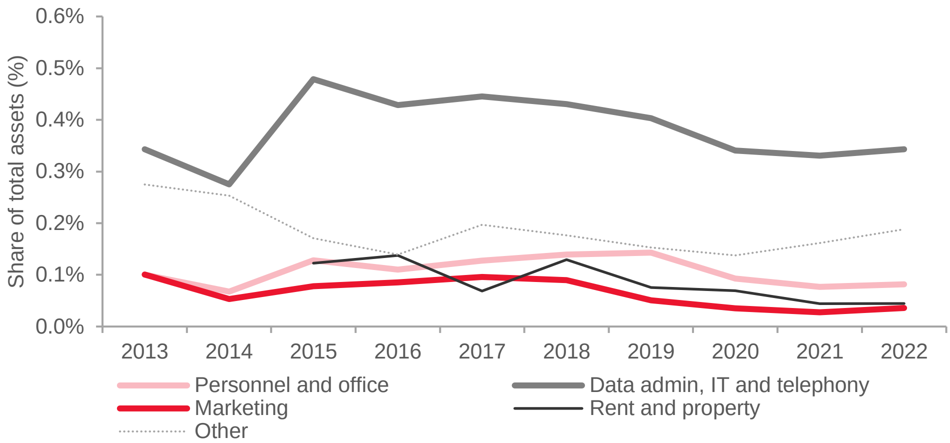
Chart 51. Other expenses, by type, 2013-2022



Source: Company data, Danske Bank Equity Research

Costs have scaled up together with the overall growth of OmaSp. However, as a share of the total assets, we see below that the data admin and IT costs have been relatively stable. Other costs have been rising since 2020, reaching the same peak as in 2017. This compares to personnel and office, as well as rent and property, where OmaSp has been able to take out operational efficiencies as the balance sheet has grown. There has previously been some concern over the core IT platform utilised by OmaSp and the need to update this. Speaking with the management now, we think that this is less of a concern after the termination of the contract in 2021, and that they are very happy with the scalability of the current system to handle future growth. Annually, OmaSp spends around EUR19m in data admin and IT costs.

Chart 52. Other expenses as share of total assets, by type, 2013-2022

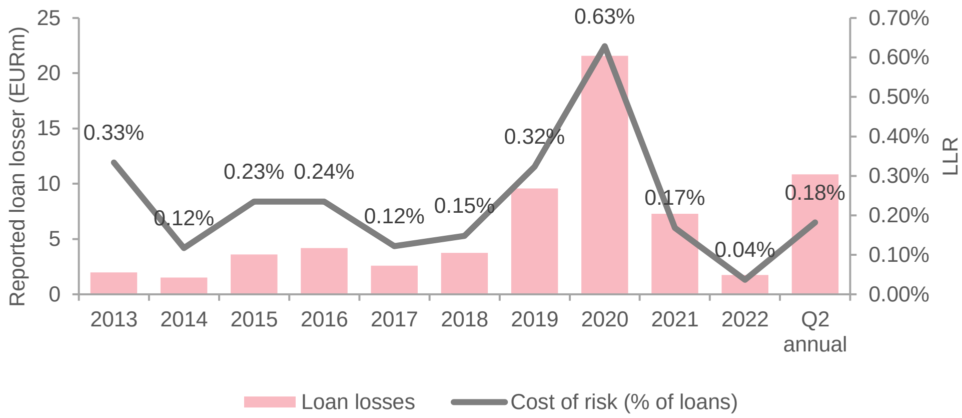


Source: Company data, Danske Bank Equity Research

Asset quality

OmaSp's loan book has expanded rapidly through both acquisitions and organically. The risk appetite implied by its historical loan loss ratio has been good. In the chart below we plot the implied cost of risk, which has been on average been 23bp. Loan losses spiked during the COVID-19 pandemic, increasing to 63bp. Adjusting for 2022, the average loan loss ratio has been 19bp, which is a bit more than its larger peers, but still at a reasonable level we believe.

Chart 53. Reported loan losses and loan loss ratio (LLR), 2013-2022



Source: Company data, Danske Bank Equity Research

Investors and analysts tend to focus on the profit and loss impact from loan loss provisions. However, in our view, the main factor is not the actual quarterly provisions. We see the key swing and determining factors as credit migration and exposure to risk pockets. Rising energy prices, rising interest rates, lower economic activity and lower house prices have raised concerns in the market about potential credit losses for banks from their residential exposures. Meanwhile, the SME sector has largely rebuilt inventories and could face issues as demand likely comes down, while banks' retail exposures could be vulnerable if consumer spending trends south.

In the table below we show the migration between stages between 2018 and 2022. This figure is a gross figure, and so it also includes new engagements, which could distort the actual credit migration figures. 2020 was an extra ordinary year when it came to provisioning. Furthermore, post this there has been positive migration in the stage 1 and stage 2 exposures. For 2022, the stage 1 exposures declined somewhat, moving into stage 2, which we believe reflects the ongoing economic uncertainty.

Table 11. Credit migration, 2018 to 2022

	2018	2019	2020	2021	2022
Percent of total exposures					
Stage 1	90.2%	87.8%	88.4%	90.9%	89.6%
Stage 2	8.7%	10.9%	10.4%	8.0%	9.3%
Stage 3	1.1%	1.2%	1.2%	1.2%	1.1%
y/y change					
Stage 1	n.a.	-2.3%	0.5%	2.5%	-1.2%
Stage 2	n.a.	2.2%	-0.6%	-2.4%	1.3%
Stage 3	n.a.	0.2%	0.0%	-0.1%	-0.1%

Source: Company data, Danske Bank Equity Research

We do not have a segmental split on what is driving the reported credit losses, as OmaSp only reports the aggregated expected credit losses and recognised credit losses on loan commitments, debt instruments and off-balance sheet commitments. However, in the Pillar III reports we have figures for the Stage 1 and Stage 2 exposures in the corporate and household segment, which gives us an idea of the underlying migration. In the table below we show the Stage 1 and Stage 2 migration in these two sectors. Over the past year, there has been positive migration in the household segment and negative migration in the corporate segment. To us this is logical as migration within stage 2 on the IFRS 9 model is subject to the individual banks' assessments and judgements. We note that there are still overlays to the models with higher provisioning that will offset this trend and especially the overlays in the household exposures during the COVID-19 pandemic have been reversed. This is not the case for stage 3, which measures exposures with a real credit event. Given the economic slowdown, higher interest rates and the war in Ukraine, corporate exposures have had a more negative development.

Table 12. Credit migration, Q2 23 versus Q2 22

	Q2 22		Q2 23		y/y change	
	Stage 1	Stage2	Stage 1	Stage2	Stage 1	Stage2
Total	**92.1%**	**7.9%**	**92.2%**	**7.8%**	**0.05%**	**-0.05%**
- Corporates	92.8%	7.2%	92.1%	7.9%	-0.65%	0.65%
- Households	91.6%	8.4%	92.1%	7.9%	0.47%	-0.47%

Source: Company data, Danske Bank Equity Research

We do not have stage 1, 2, 3 splits for the corporate segments. However, OmaSp reports its individual segmental exposures based on a risk classification from 'Risk rating 1' to 'Risk rating 4'. A risk rating 1 is an AA-A+ rated corporate and housing company (A-AA for agricultural customer) and a risk rating 4 is the highest risk rating corresponding to a B-D level corporate and housing association, D level agricultural customer and insolvent customer. In the tables below we see that the largest share of high-risk engagements is in the construction, hotels and restaurants segments. Furthermore, these are also the segments that show the largest negative migration in risk classifications. On the other hand, we see a similar picture here as above with positive risk migration in the household classification.

Table 13. Distribution of risk ratings, Q2 23

	Risk rating				
	1	2	3	4	No rating
Real estate	54%	36%	6%	4%	0%
Agriculture	4%	81%	3%	2%	10%
Construction	41%	41%	8%	10%	0%
Hotels and restaurants	25%	55%	9%	10%	0%
Wholesale and retail	49%	34%	8%	9%	0%
Finance and insurance	57%	34%	4%	5%	0%
Others	46%	35%	8%	11%	0%
Total Corporates	**49%**	**38%**	**6%**	**6%**	**0%**
Households	**51%**	**40%**	**5%**	**4%**	**0%**
Other	**57%**	**43%**	**0%**	**0%**	**0%**
Total	**51%**	**40%**	**5%**	**4%**	**0%**

Source: Company data, Danske Bank Equity Research

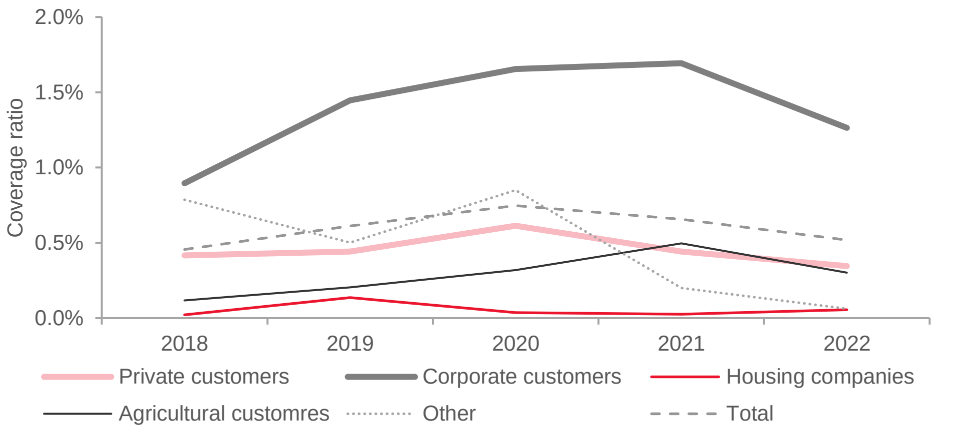
Table 14. Change y/y in risk ratings, Q2 23 vs Q2 22

	Risk rating				
	1	2	3	4	No rating
Real estate	4%	3%	-3%	-4%	0%
Agriculture	-4%	0%	0%	-3%	8%
Construction	-3%	-2%	4%	2%	0%
Hotels and restaurants	-9%	7%	-2%	4%	0%
Wholesale and retail	-1%	0%	2%	0%	0%
Finance and insurance	-8%	3%	1%	3%	0%
Others	-1%	-3%	-1%	4%	0%
Total Corporates	**1%**	**2%**	**-1%**	**-2%**	**0%**
Households	**2%**	**9%**	**-9%**	**-3%**	**0%**
Other	**2%**	**-2%**	**-1%**	**0%**	**0%**
Total	**2%**	**6%**	**-6%**	**-2%**	**0%**

Source: Company data, Danske Bank Equity Research

Whilst the risk ratings tell us something about where OmaSp sees risk in its engagements, we think coverage ratios tell an equally good story. Normally speaking we think that the higher coverage ratios could convey higher risk portfolios or management's belief in a dimmer outlook. However, the COVID-19 pandemic and war in Ukraine have changed this, as OmaSp has implemented extra buffers. In the table below we look at coverage ratios based on the expected credit losses reported by OmaSp.

Chart 54. Coverage ratio, per segment, 2018-2022



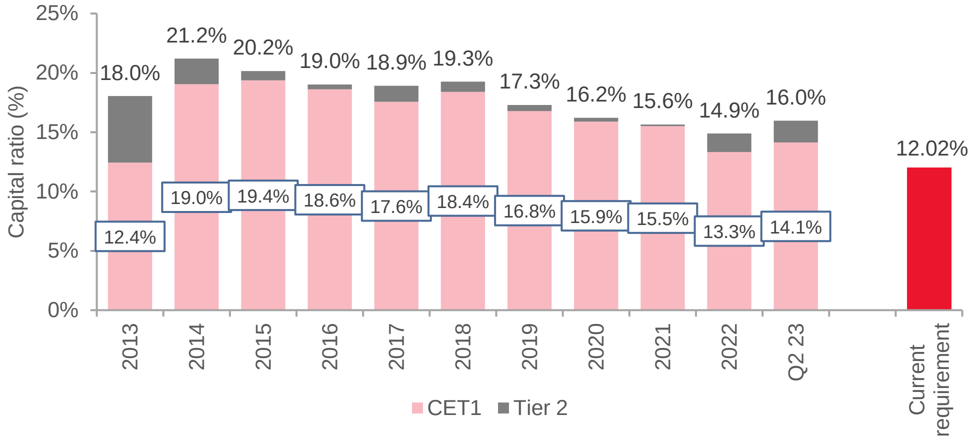
Source: Company data, Danske Bank Equity Research

Not for US distribution

Capital

OmaSp's capital position is shown below. The CET1 ratio is currently 14.1%, down from a high of 19% in 2014, but up from a low of 13.3% in 2022. The total capital ratio is 16%, above its 12% capital requirement.

Chart 55. Capital ratios, 2013 - Q2 23



Source: Company data, Danske Bank Equity Research

The capital requirement will increase from 1 April 2024 due to an additional systemic risk buffer requirement of 1.0%. This will increase the total capital requirement to 13%. The CET1 capital requirement will be 8.9%, composed of a 4.5% Pillar I minimum, and additional buffers including a Pillar II requirement of 0.8%, capital conservation buffer of 2.5%, countercyclical buffer of 0.01% and the upcoming systemic risk buffer of 1%. The AT1 and Tier 2 capital requirements can be filled with CET1 capital. We see no problem for OmaSp to meet its capital requirements, and there is still ample headroom to grow based on the current requirements.

Table 15. Capital requirements

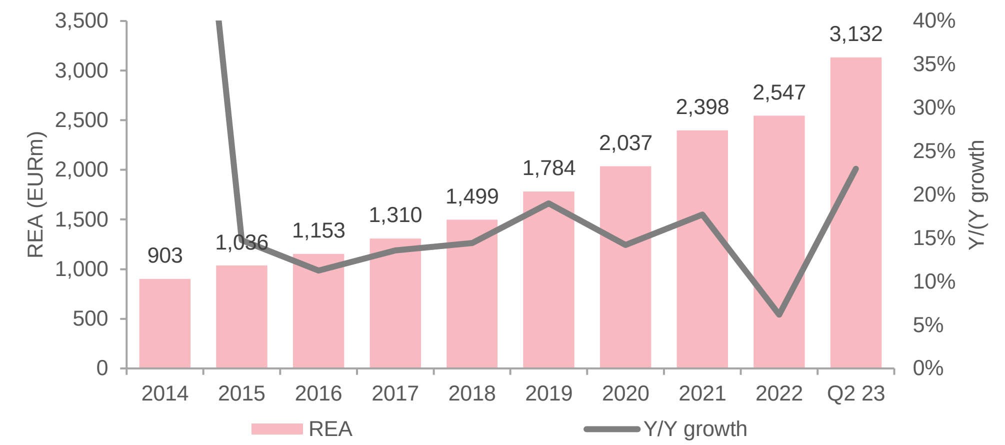
			Additional buffers			
	Pillar 1 minimum	Pillar II (SREP)	Capital conservation	Counter cyclical	Systemic risk*	Total
CET1	**4.5%**	**0.8%**	**2.5%**	**0.0%**	**1.0%**	**8.9%**
AT1	1.5%	0.3%				1.8%
T2	2.0%	0.4%				2.4%
Total	**8.0%**	**1.5%**	**2.5%**	**0.0%**	**1.0%**	**13.0%**

**From 1 April 2024*

Source: Danske Bank Equity Research estimates

OmaSp's risk exposure amount (REA) increases with assets. In the chart below left we see that the REA has increased from EUR903m to EUR3,132m in Q2 23.

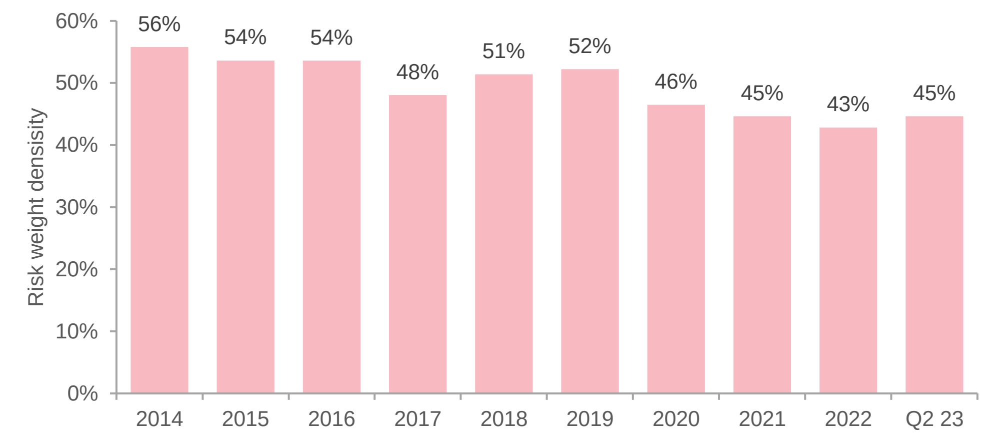
Chart 56. Risk exposure amount, 2014 - Q2 23



Source: Company data, Danske Bank Equity Research

There has also been a significant decline in the REA density over the period (c.10%), which has a positive effect on the capital consumption in new lending. A reason for this could be product mix, but we note that the customer segment's relative importance has been stable over the period. Furthermore, the share of lending as a percent of total assets has also hovered around 80%.

Chart 57. Risk-weighted assets density



Source: Company data, Danske Bank Equity Research

OmaSp uses the Standardised approach in calculating credit risks. In the table below we show the development in the REA density. The figure differs slightly from our chart above as the chart above shows the total REA whilst this in the table below is implied by the standard model and presented in the credit and counterparty risk. No single line item can explain the overall fall in implied risk floors. The most important explanatory factors are lower risk floors on the corporate exposures as well as collective investment undertakings and equity, under 'Other' in the table below.

Table 16. Development in REA density (Credit Risk Exposure and CRM in Standardised approach), 2019 – 2022

REA density	2019	2020	2021	2022
Corporates	96%	95%	83%	82%
Retail	70%	70%	70%	70%
Mortgages	35%	34%	34%	34%
Other	30%	17%	18%	14%
Total	47%	42%	41%	38%

**Capital and Risk Management reports*

Source: Company data, Danske Bank Equity Research

OmaSp is in the process of preparing an application to convert its models to the IRB approach to measure credit risk. According to the company, it will first apply this to its retail credit risk liabilities, thereafter corporate and renewable retail liabilities. We believe that the application will be successful, but that it will take time to approve. The most significant effect should be relatively quick, as the mass exposures lie in the mortgage portfolio, where the potential to lower the risk weights is the highest, we believe. Currently, the risk weight for housing loans under the Standardised approach is set at 35%. Under the IRB approach, there would be no set risk floor, and OmaSP would be able to use own credit loss parameters for calculating risk weights. Previously, there was a minimum risk floor of 15% for mortgages, but this was not extended last time it was up for review. In our calculations, we assume that OmaSp could reduce the average implied risk weights on its mortgages to 25%. We note that it is unlikely that all retail exposures will be moved to the IRB approach.

Table 17. Impact from transitioning to the IRB approach

	Exposure amount	RWA	RWA density
YE(22)			
Mortgages	3,259	1,111	34%
Total	6,024	2,274	38%
Estimated YE(22) w/ IRB approach			
Mortgages	3,259	652	20%
Total	6,024	1,815	30%
CET1 effect and REA impact			
REA (YE22)	2,547		
Potential decline in REA	-460		
REA (IRB proforma)	2,087		
CET1 equity (YE22)	339		
CET1 ratio (YE22)	13.3%		
CET1 ratio (IRB proforma)	16.3%		
- change	2.9%		

Source: Company data, Danske Bank Equity Research

Profitability analysis

In the table below we show the most important P&L items in OmaSp as a percentage of total assets. Coupling this with the leverage, it tells us something about where the bank draws its profitability from and how this has developed over time.

Table 18. Profitability analysis, 2014-Q2 23 (annualised)

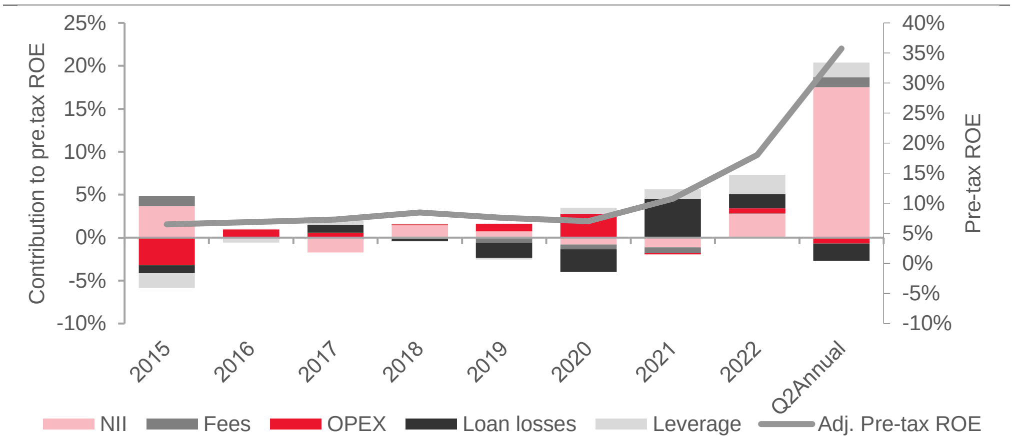
	2017	2018	2019	2020	2021	2022	Q2 Annual
Interest income	1.9%	2.0%	2.0%	1.9%	1.7%	2.2%	4.8%
Interest expenses	-0.3%	-0.2%	-0.2%	-0.1%	-0.1%	-0.3%	-1.8%
NII	**1.6%**	**1.7%**	**1.8%**	**1.7%**	**1.6%**	**1.9%**	**3.0%**
Fees	0.9%	0.9%	0.8%	0.8%	0.7%	0.7%	0.8%
Other	0.6%	0.1%	0.3%	0.4%	0.9%	0.0%	0.1%
Total revenues	**3.0%**	**2.7%**	**2.9%**	**2.8%**	**3.2%**	**2.6%**	**3.9%**
Costs	-1.7%	-1.7%	-1.6%	-1.3%	-1.3%	-1.3%	-1.3%
PPP	**1.4%**	**1.0%**	**1.3%**	**1.5%**	**1.9%**	**1.3%**	**2.6%**
Normalised provisions	-0.1%	-0.1%	-0.3%	-0.6%	-0.2%	0.0%	-0.2%
PBT	**1.2%**	**0.9%**	**1.0%**	**1.0%**	**1.7%**	**1.2%**	**2.4%**
Tax	-0.3%	-0.2%	-0.2%	-0.2%	-0.3%	-0.2%	-0.5%
Net profit	**1.0%**	**0.7%**	**0.9%**	**0.8%**	**1.4%**	**1.0%**	**1.9%**
Current leverage	10.5x	10.6x	10.4x	11.6x	12.9x	14.8x	15.5x
Reported ROE	**10.4%**	**7.6%**	**9.0%**	**9.1%**	**17.5%**	**14.5%**	**29.6%**

Source: Company data, Danske Bank Equity Research estimates

As the table shows, the most important development from 2022 until Q2 23 has been the rise in net interest income. This increase explains most of the improvement in the reported ROE. On a longer-time horizon, we see that between 2014 to 2020 the main profitability driver was lower interest expenses and opex. This is very similar to almost all other banks, given the rise in interest rates that we have seen since 2021.

In the chart below we show the same picture as above but split into the relative importance and contribution to pre-tax ROE. We have adjusted for the other income lines, which are more volatile.

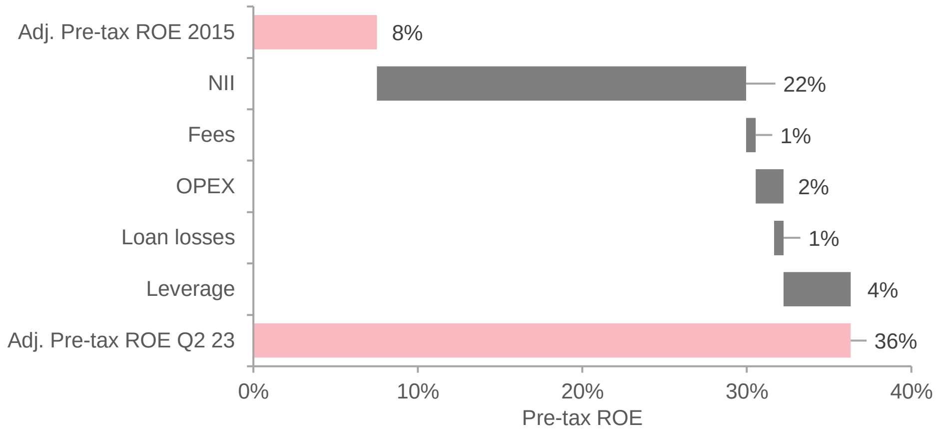
Chart 58. Profitability analysis, contribution to pre-tax ROE, by component



Source: Company data, Danske Bank Equity Research

Furthermore, if we look at the development from 2015 until now, we see that adjusted pre-tax ROE has increased from 8% to 36%. Of this, 22% comes from higher NII, whilst fees and opex have further contributed 3%. Loan losses work in the opposite direction with 1%, whilst higher leverage has contributed a full 4% on the pre-tax ROE. The NII improvement is obviously very important, but we also think the rise in fee income, coupled with higher operating efficiency to be positive. On the leverage side it reflects that the bank was heavily overcapitalised in 2015, however, as we will discuss, we also think there is more to go here.

Chart 59. Contribution analysis to growth in pre-tax ROE



Source: Company data, Danske Bank Equity Research

OmaSp's NIM stands out compared to peers. It is especially higher implied interest rates that drive this. Funding costs are in the upper end compared to the peer group below. We believe that this reflects the successful push that OmaSp has had towards regional cities with less competition than the large cities and municipalities in Finland. Fee and commission income is also at the lower end of the peer group, and we believe that there is an opportunity to improve this as we mentioned earlier in this report. Overall, the bank has a PPP/assets of 1.2%, above the 0.7% average (2022 figures) for the peer group. This has driven a higher ROE than peers. Furthermore, if we normalise the leverage amongst peers, we see that the higher interest income coupled with a good operating efficiency means that OmaSp can run with a structurally higher ROE than its peers.

Table 19. Peer profitability comparison

	OmaSp	OP	Savings Bank	POP Bank	Bank of Årland	Aktia	S-Bank
Interest income	2.05%	1.05%	1.49%	1.82%	1.43%	0.96%	1.56%
Interest expenses	-0.29%	-0.13%	-0.26%	-0.19%	-0.28%	-0.16%	-0.20%
NII	**1.77%**	**0.92%**	**1.23%**	**1.63%**	**1.16%**	**0.80%**	**1.36%**
Fees	0.66%	0.57%	0.75%	0.72%	1.33%	0.98%	0.97%
Other	0.00%	0.46%	0.41%	0.30%	0.64%	0.27%	0.14%
Total revenues	**2.43%**	**1.95%**	**2.39%**	**2.65%**	**3.12%**	**2.05%**	**2.48%**
Costs	-1.23%	-1.17%	-1.66%	-2.06%	-2.24%	-1.45%	-1.84%
PPP	**1.20%**	**0.79%**	**0.73%**	**0.59%**	**0.89%**	**0.60%**	**0.63%**
-of which core earnings	1.20%	0.83%	0.45%	0.51%	0.65%	0.58%	0.49%
Reported provisions	-0.04%	-0.07%	-0.12%	-0.13%	-0.11%	-0.08%	-0.13%
annual as % of loans	0.04%	0.12%	0.18%	0.17%	0.14%	0.13%	0.18%
PBT	**1.17%**	**0.72%**	**0.61%**	**0.46%**	**0.78%**	**0.52%**	**0.50%**
Tax	-0.23%	-0.14%	-0.13%	-0.09%	-0.16%	-0.10%	-0.10%
Tax rate	15%	7%	6%	4%	13%	7%	7%
Net profit	**0.93%**	**0.58%**	**0.48%**	**0.37%**	**0.62%**	**0.42%**	**0.40%**
Current leverage	16.3x	12.2x	11.7x	10.3x	20.5x	17.8x	17.1x
Reported ROE	**15%**	**7%**	**6%**	**4%**	**13%**	**7%**	**7%**
Equalised leverage	15.0x	15.0x	15.0x	15.0x	15.0x	15.0x	15.0x
Adjusted ROE*	**13%**	**8%**	**8%**	**6%**	**9%**	**6%**	**6%**

**Adjusted ROE based on equalised leverage, loan losses and taxes*

Source: Danske Bank Equity Research estimates

Estimates

Table 20. DBER estimates for OmaSp

EURm	2019	2020	2021	2022	2023E	2024E	2025E
Net interest income	58	68	80	105	192	215	219
Net fee income	25	29	34	39	47	53	59
Other income	10	14	43	0	10	10	10
Total income	**93**	**111**	**157**	**144**	**250**	**278**	**288**
OPEX	-50	-52	-65	-73	-88	-98	-107
PPP	42	59	91	71	161	180	181
Loan losses	-10	-22	-7	-2	-10	-13	-15
Other	0	0	-1	0	0	0	0
Profit before tax	33	38	83	69	151	167	166
Taxes	-5	-7	-17	-14	-30	-33	-33
Net income	**27**	**31**	**66**	**55**	**121**	**133**	**133**
EPS	0.93	1.04	2.20	1.85	3.64	4.02	4.00
Adj. EPS	0.93	1.04	2.22	1.85	3.64	4.02	4.00
DPS	0.19	0.24	0.50	0.40	0.73	1.00	1.00
Payout ratio	20%	23%	23%	22%	20%	25%	25%
Shares outstanding	29.59	29.59	29.77	29.99	33.17	33.17	33.17
Net lending	2,960	3,434	4,326	4,754	5,997	6,719	7,394
y/y growth	17%	16%	26%	10%	26%	12%	10%
NIM (NII / assets)	1.82%	1.74%	1.64%	1.85%	2.93%	2.85%	2.66%
Cost to income	54%	47%	42%	51%	35%	35%	37%
Opex / assets	1.59%	1.33%	1.34%	1.29%	1.35%	1.30%	1.30%
Loan loss ratio	0.32%	0.63%	0.17%	0.04%	0.18%	0.20%	0.20%
ROE	8.6%	8.7%	16.5%	15.2%	22.3%	20.5%	17.7%
BVPS	10.8	11.9	13.5	12.2	16.3	19.6	22.6

Source: Company data, Danske Bank Equity Research estimates

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Valuation

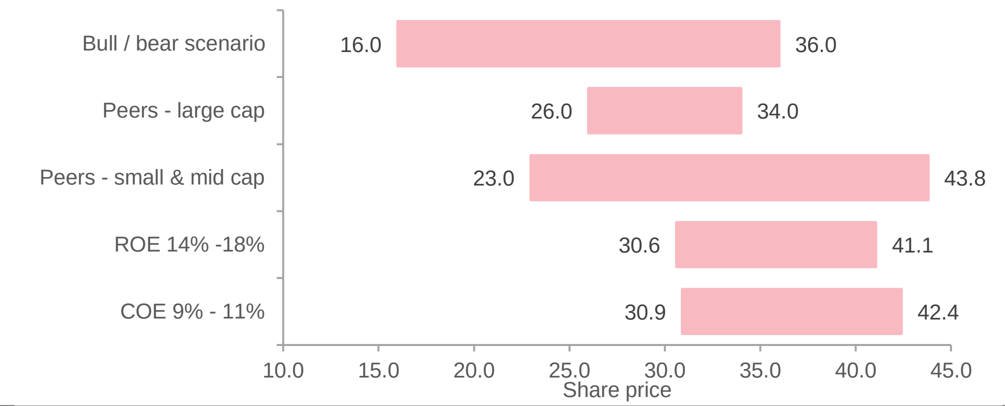
We typically value banks in our coverage using a Gordon growth model. However, that will not work very well with OmaSp since it is growing so much and critically, the growth rate exceeds our estimated cost of equity. To supplement this, we therefore also use a peer group analysis coupled with scenarios, to get a better idea of where the true value for OmaSp lies.

For our peer group we use a range of Nordic large and small & mid cap banks. Multiples for the sector are currently depressed we believe, and therefore we rely on historical averages and a theoretically justified multiple approach to gauge where OmaSp's fair multiple range should lie. We base our valuation on the various peer groups and P/E multiples ranging from 6-11x.

In our Gordon growth model, we use a cost of equity of 9% to 11%, normalised long-term ROE of 14% to 18%, and a 3% long-term growth rate. As OmaSp is growing at a rate above its peers, we do not believe that this model is very well equipped to capture the difference between the business fundamentals. We therefore also use a peer group analysis to triangulate our fair value ranges.

Triangulating all these approaches, together with an scenario analysis, we find a fair value range for OmaSp between EUR30-35/share, implying 8.0x EPS(25E) and 1.4 BVPS(25E) at the midpoint.

Chart 60. Valuation scenarios



Source: FactSet, Danske Bank Equity Research

Based on our fair value range of EUR30-35 per share we have the following implied valuation metrics in the table below.

Table 21. DBER valuation range implied valuation

	DBER valuation range					
	30	**31**	**32**	33	**34**	**35**
2023E						
P/E	8.2x	8.5x	8.8x	9.1x	9.3x	9.6x
P/B	1.8x	1.9x	2.0x	2.0x	2.1x	2.1x
COE	12.1%	11.7%	11.4%	11.0%	10.7%	10.4%
Dividend yield	2.4%	2.3%	2.3%	2.2%	2.1%	2.1%
2024E						
P/E	7.5x	7.7x	8.0x	8.2x	8.5x	8.7x
P/B	1.5x	1.6x	1.6x	1.7x	1.7x	1.8x
ROE	11.1%	10.8%	10.4%	10.1%	9.8%	9.5%
Dividend yield	3.3%	3.2%	3.1%	3.0%	3.0%	2.9%
2025E						
P/E	7.5x	7.7x	8.0x	8.2x	8.5x	8.7x
P/B	1.3x	1.4x	1.4x	1.5x	1.5x	1.5x
ROE	9.6%	9.3%	9.0%	8.8%	8.5%	8.3%
Dividend yield	3.3%	3.2%	3.1%	3.0%	2.9%	2.9%

Source: Danske Bank Equity Research estimates

In choosing the peer group for OmaSp we have to consider its size, growth rate and type of lending. In Finland, the two main listed Finnish peers to OmaSp are Aktia (AKTIA-FI) and Bank of Årland (ALBBV-FI). The closest comparable bank is probably Aktia, but its company fundamentals are different, as Aktia has a large asset management arm and notably derives much more revenues from its fee income, which corresponding different profit fundamentals. Årlandsbanken has a lending book similar to OmaSp in terms of what drives profits, but it is much more concentrated geographically, and also draws more income from other types of customer groups, in addition to its IT services company. In addition to this, there are no reliable estimates when comparing Årlandsbanken to OmaSp on forward valuation metrics.

We also use a peer group consisting of Nordic peers. Our first group are the large universal banks. These are much larger in size, geographically diverse across countries, and the shares are more liquid. To control for this, we look at small & mid cap banks, which include the Danish small & mid cap banks and the Norwegian savings banks. The closest peers to OmaSp in terms of fundamental earnings drivers and geographical reach are most likely the Norwegian savings banks. This is a group consisting of a broad number of peers. However, the drawback of using this peer group is that they have mainly issued equity capital certificates, which have different capital distribution rules and governance structures from ordinary equity issued by banks. The only exception is Sparebank1 SR-Bank, which is the only savings bank in Norway with a traditional equity structure. We compare the banks on several metrics, including earnings, book values, ROE, and dividends.

Table 22. Peer group valuation table

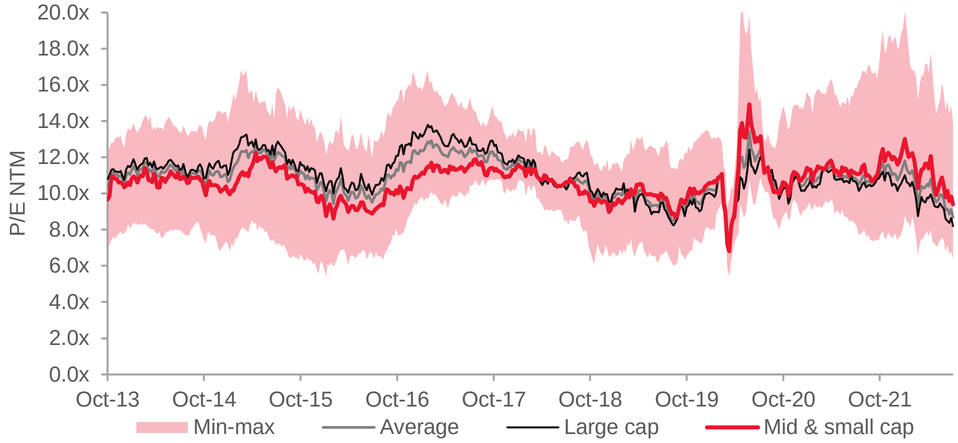
Bank	Price	Mcap	P/E (x)			P/B (x)			ROE (%)		COE (%)	Dividend yield (%)		
	(lcy)	EURm	2023	2024	2025	2023	2024	2025	2023	2024	2024	2023	2024	2025
Danske Bank	159	18,333	6.9	6.8	6.5	0.8	0.7	0.7	11.3	10.8	14.7	8.6	9.0	9.5
DNB	206	26,914	8.3	8.4	8.6	1.2	1.2	1.1	15.0	14.1	11.9	7.0	7.1	7.3
Nordea	119	36,113	7.2	7.1	7.1	1.2	1.1	1.1	16.3	15.7	14.0	9.5	9.6	9.7
SEB	130	23,813	7.5	8.3	8.1	1.2	1.2	1.1	16.3	14.1	12.1	7.0	6.8	7.1
SHB	98	16,585	7.0	7.8	8.2	0.9	0.9	0.9	13.3	11.7	12.9	9.0	9.0	9.0
Swedbank	198	19,150	6.6	7.1	7.2	1.1	1.1	1.0	17.2	15.0	14.0	8.0	9.3	9.5
Jyske Bank	499	4,299	6.4	6.3	6.1	0.8	0.7	0.6	11.8	10.5	15.8	0.0	0.0	0.0
Sydbank	310	2,345	5.5	5.9	5.7	1.1	1.1	1.0	20.9	18.3	17.1	9.1	8.6	8.6
RILBA	982	3,615	12.5	11.8	11.0	2.6	2.3	2.1	20.4	19.6	8.5	1.0	1.1	1.2
Aktia	9	665	7.8	7.3	7.5	1.0	1.0	0.9	13.4	13.6	13.8	7.7	8.9	8.9
SR-Bank	123	2,673	8.3	8.2	8.2	1.1	1.0	0.9	12.7	12.1	12.2	6.1	6.7	7.0
SpareBank 1 SMN	137	1,671	8.8	8.5	8.5	1.1	1.1	1.0	13.0	12.7	11.7	6.9	7.2	7.5
SpareBank 1 Nord-Norge	97	826	8.6	8.5	8.3	1.3	1.3	1.2	15.4	14.9	11.8	7.7	8.3	8.4
Sparebanken Vest	106	983	8.8	8.5	8.4	1.3	1.2	1.2	14.6	14.4	11.8	7.6	6.8	7.0
Sparebank 1 Ostlandet	130	1,279	9.1	8.3	8.1	1.1	1.0	0.9	11.7	12.0	12.0	6.3	6.8	7.0
OmaSp (OBER)	21	684	**5.6**	**5.1**	**5.1**	**1.3**	**1.0**	**0.9**	**22.3**	**20.5**	**19.5**	**3.5**	**4.9**	**4.9**
Nordic average			**7.9**	**7.9**	**7.8**	**1.2**	**1.1**	**1.1**	**14.9**	**14.0**	**13.0**	**6.8**	**7.0**	**7.2**
Nordic small/mid cap			**8.4**	**8.1**	**8.0**	**1.3**	**1.2**	**1.1**	**14.9**	**14.2**	**12.7**	**5.8**	**6.0**	**6.2**
Nordic large cap			**7.2**	**7.6**	**7.6**	**1.1**	**1.0**	**1.0**	**14.9**	**13.6**	**13.3**	**8.2**	**8.5**	**8.7**
- OmaSp vs. Average			*-29%*	*-35%*	*-34%*	*6%*	*-6%*	*-14%*	*50%*	*47%*	*51%*	*-48%*	*-30%*	*-32%*
- OmaSp vs. Small/mid cap			*-33%*	*-37%*	*-36%*	*0%*	*-11%*	*-17%*	*50%*	*44%*	*53%*	*-39%*	*-19%*	*-21%*
- OmaSp vs. Large cap			*-22%*	*-33%*	*-32%*	*16%*	*2%*	*-8%*	*49%*	*51%*	*47%*	*-57%*	*-42%*	*-44%*

Prices as at close on 23 October 2023. Source: FactSet, Danske Bank Equity Research

Peers are currently trading at P/Es of 8.0-8.3x based on 2024E EPS and P/B of 1.1x to 1.2x. This is above the implied multiples based on our estimates for OmaSp and below where they have historically traded. We note that estimates underlying the multiples in the peer group are high in a historical context as rates have increased the NIIs meaningfully, and investors expect that these will come down as rates fall. We therefore believe, and which we will show further down, that fair multiples on the banks in the peer group are higher than where the currently are.

In the chart below we show the 12-month forward P/E for our coverage universe. Banks can trade at very different multiples, as demonstrated by the high and low range of the multiples. Since 2022 there has been a gradual multiple contraction as record-high NIMs, and lower-than-expected loan losses have not been reflected in the share prices. On average the banks typically trade somewhere between 8-12x 12-month forward EPS. The range reflects the underlying bank fundamentals and the countries to which they are exposed. The current average is 8x, which is at the low end of this range.

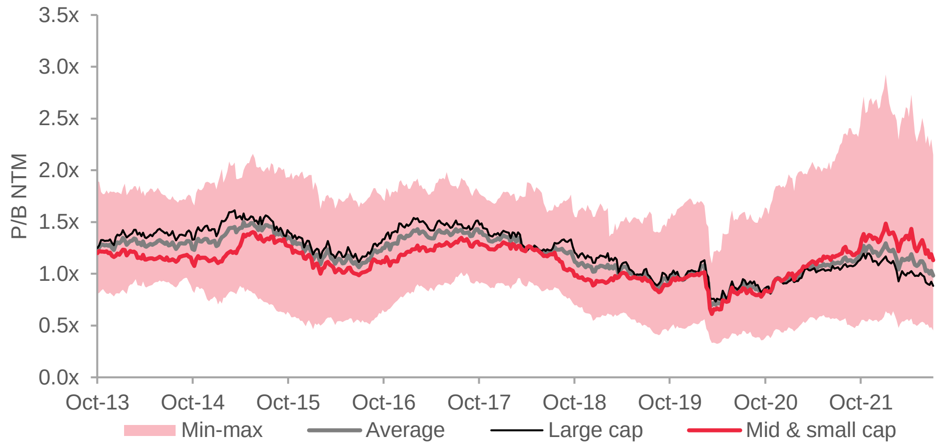
Chart 61. Price / earnings Nordic peer aggregate



Source: FactSet, Danske Bank Equity Research

Price to book multiples have also contracted over the period. This follows a period of gradual multiple expansion post the COVID-19 pandemic. Large caps currently trade at an average 1.1x their 12m forward book values, while small and mid caps are trading at 1.3x. The 10-year historical average for both groups has been 1.2x.

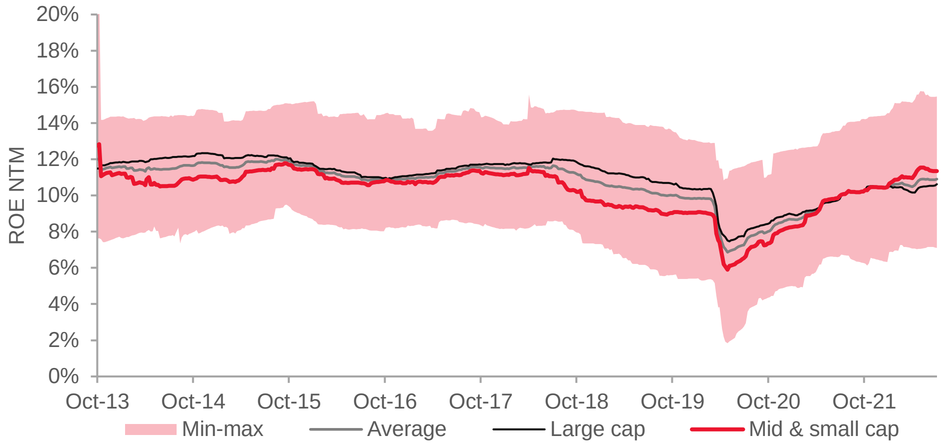
Chart 62. Price to book (NTM), Nordic peer aggregate



Source: FactSet, Danske Bank Equity Research

ROEs over the past 10 years have varied a lot, although the average has been stable at 11%. This is largely driven by which country the banks have exposure to, as that drives the underlying profit potential, but also between the banks in the different countries. For example, the difference between RILBA and Sydbank's 10-year historical ROE has been almost 5%. The most recent period with rising rates has driven a steady improvement in ROEs across countries and banks. Currently the average ROE based on 12-month forward estimates is 14%, well above the historical average. However, we note that the past 10 years have been characterised by falling rates and tougher capital regulations, which have dragged on banks' profitability. This is very different from the period we are in now, as rates are meaningfully higher and unlikely to return to negative territory and banks have built up high capital buffers that are above their regulatory minimum levels.

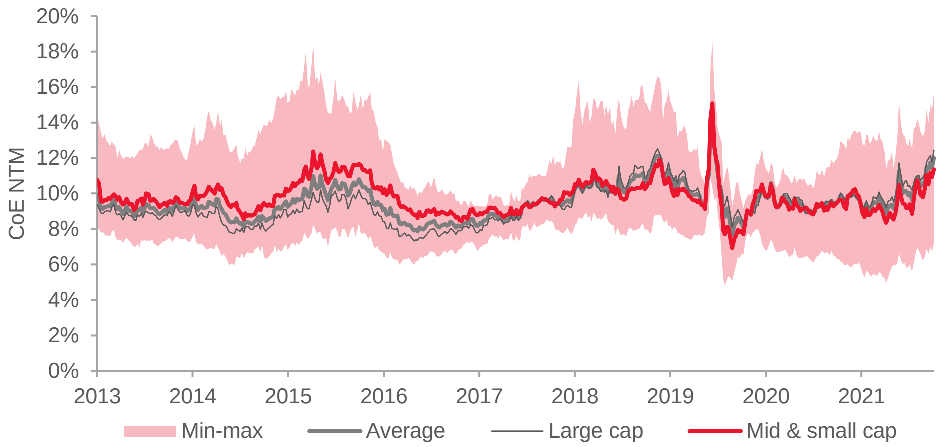
Chart 63. ROE (NTM), Nordic peer aggregate



Source: FactSet, Danske Bank Equity Research

We like to look at the ROE together with the P/B, as it tells us something about the implied cost of equity that investors are pricing into the banks at the moment. In the chart below we have plotted this for our coverage universe. We find that the implied COE has been steadily increasing over the most recent period, as ROEs have remained high, but P/B multiples have been contracting. This follows our belief that investors have been reluctant to price in the full ROE expansion into banks' valuations and that there has been a growing concern about potential loan losses from a weaker economic development and follow-on effects from the rapid rise in interest rates. On average, the implied COE has been 11% over the past years. The 'best' banks in our peer group have on average had an implied COE that was almost 8% lower than the 'worst' banks in our peer group.

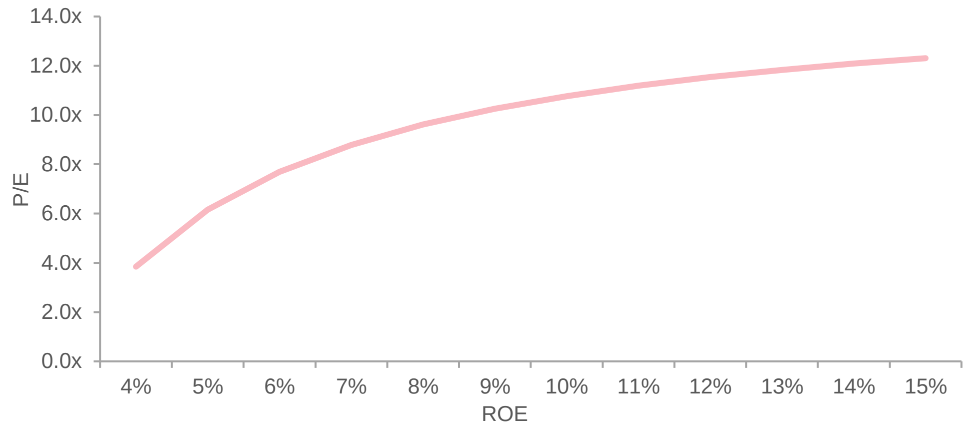
Chart 64. Implied COE for Nordic peer aggregate



Source: FactSet, Danske Bank Equity Research

When considering bank valuation we focus on profitability, as a high ROE makes a bank more defensive and cash flow generative, which justifies a higher P/E. As our model illustrated in the chart below show s, a 10% ROE on 2% growth justifies a P/E of 10.7x, while a 15% ROE justifies 12.3x.

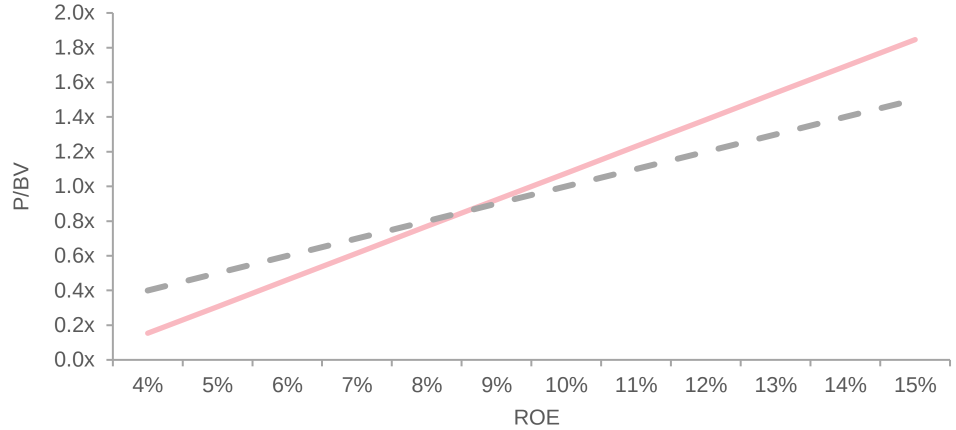
Chart 65. Justified P/E on different ROE levels



Source: Danske Bank Equity Research

If we instead look at a P/BV valuation, a 10% ROE again on 2% growth justifies a 1.1x BV while a 15% ROE justifies 1.8x.

Chart 66. Justified P/BV on different ROE levels



Source: Danske Bank Equity Research

Based on the figures above and plotting in our scenarios for OmaSp implies the following theoretically justified valuation metrics.

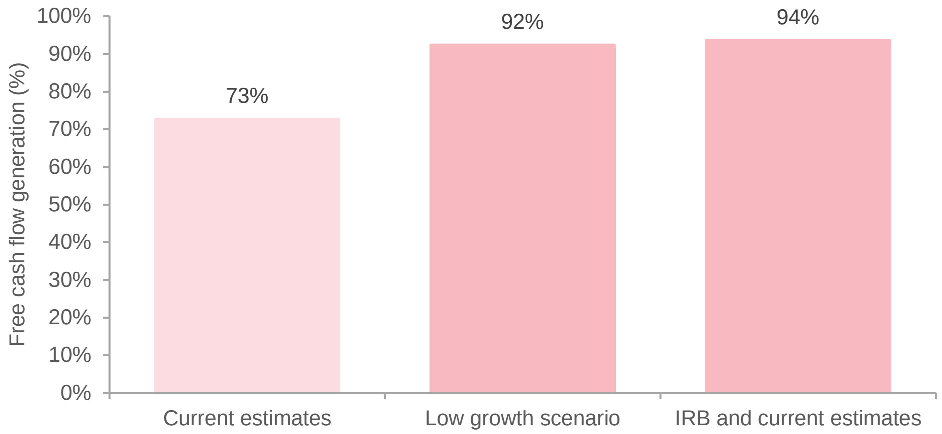
Table 23. Theoretically justified valuation based on various ROEs

ROE	8.0%	10.0%	12.0%	14.0%	16.0%	18.0%	20.0%	22.0%	24.0%
P/E	7.8	8.8	9.4	9.8	10.2	10.4	10.6	10.8	10.9
P/B	0.63	0.88	1.13	1.38	1.63	1.88	2.13	2.38	2.63

Source: Danske Bank Equity Research estimates

A key valuation driver in our banks is the free cash flow that they generate. We estimate this based on the cash profits generated and capital consumed. This follows that we want to own banks with as much cash profit generation and little capital consumption as possible. Growth banks with high lending intensity will typically screen badly on a relative basis in this type of exercise, as their capital consumption from lending growth is very high and the cash profits of the additional growth are spread over many years. For OmaSp, our estimated free cash generation is around 73% from Q2 23 until 2025E. However, if we assume that the bank was to grow at a slower pace, but still reap the profits of its current lending book, this number will jump to 92%, which is very decent. Furthermore, even with the current grow rate, if we assume that the IRB model application is accepted, the free cash generation would increase to 94% up until 2025E, which is again a very good figure.

Chart 67. Free cash flow generation under different scenarios



Source: Danske Bank Equity Research estimates

A similar argument can be made for the dividend yield. As most banks currently are making healthy ROEs and have high pay-out ratios, coupled with paying out excess capital, the dividend yields amongst peers are high. We do not think that this should penalise OmaSp, as the 20% pay-out ratio reflects the growth potential in the market where the capital can be put to good use. Furthermore, the bank has paid increased DPS year after year since 2017 based on its growing profits. However, if we assume that the growth potential is no longer there or returns fall to a level where it is better to distribute the capital generated to shareholders, we estimate the following dividend yields presented in the table below. Assuming a EUR32.5 share price and 60-80% payout ratio would then translate to a dividend yield of 10%, at the high end of the peer group.

Table 24. Dividend yield based on different pay-out assumptions

		Share price					
		30	**31**	**32**	**33**	**34**	**35**
Payout	**10%**	1.3%	1.3%	1.3%	1.2%	1.2%	1.1%
	20%	2.7%	2.6%	2.5%	2.4%	2.4%	2.3%
	40%	5.4%	5.2%	5.0%	4.9%	4.7%	4.6%
	60%	8.0%	7.8%	7.5%	7.3%	7.1%	6.9%
	80%	10.7%	10.4%	10.0%	9.7%	9.4%	9.2%
	100%	13.4%	13.0%	12.5%	12.2%	11.8%	11.5%

Source: Danske Bank Equity Research estimates

We use a Gordon growth model for our banks' coverage in the Nordic banking space. This gives us an effective tool to assess both the absolute and relative value between the banks. For OmaSp we use this model for our intrinsic valuation. In our model we use a cost of equity of 9% to 11%, normalised long-term ROE of 14% to 18%, and a 3% long-term growth rate. As OmaSp is growing at a rate above its peers, we do not believe that this model is very well equipped to capture the difference between the business fundamentals. We therefore also use a peer group analysis to triangulate our fair value ranges.

Table 25. Gordon growth model valuation based on normalized ROE and CoE

		Normalized ROE								
		14.0%	14.5%	15.0%	15.5%	16.0%	16.5%	17.0%	17.5%	18.0%
Cost of equity	9.0%	36.2	37.7	39.3	40.8	42.4	44.0	45.5	47.1	48.6
	9.3%	34.6	36.1	37.6	39.1	40.6	42.1	43.5	45.0	46.5
	9.5%	33.2	34.6	36.0	37.4	38.9	40.3	41.7	43.1	44.6
	9.8%	31.8	33.2	34.6	35.9	37.3	38.7	40.0	41.4	42.8
	10.0%	30.6	31.9	33.2	34.5	**35.8**	37.1	38.5	39.8	41.1
	10.3%	29.5	30.7	32.0	33.2	34.5	35.7	37.0	38.2	39.5
	10.5%	28.4	29.6	30.8	32.0	33.2	34.4	35.6	36.8	38.0
	10.8%	27.4	28.5	29.7	30.9	32.0	33.2	34.3	35.5	36.7
	11.0%	26.4	27.6	28.7	29.8	30.9	32.0	33.1	34.3	35.4

Source: Danske Bank Equity Research estimates

Risks related to our fair value range

There are a number of risks related to the assumptions we have made that underpin our estimates that could have both a positive and a negative impact on our valuation methodology.

- **Growth.** OmaSp has grown strongly over a number of years, which may not continue. There could be a lack of attractive acquisition targets in the market, which would mean that the bank cannot grow as quickly as it previously has. There could also be a negative development in the lending volumes in the market, which is materialising currently. If the economic development remains weak, or deteriorates further, it could have a negative effect on the growth trajectory.
- **Funding.** Deposit rates have remained low. This could change due to increased competition, which would have a negative effect on the net interest margins, if OmaSp is forced to also increase these. Furthermore, there could be higher than anticipated rates for the wholesale funding, which would further squeeze the margin. If the economic backdrop worsens significantly, we could also see liquidity problems that could have a significant negative effect on the availability of funding.
- **Loan losses.** Weaker than anticipated macro-outlook could have a negative effect on the loan losses in the portfolio, which are currently not reflected in estimates. This could have a significant effect on the ROE achievement.
- **Interest rates.** Interest rates could fall or rise by more than we have anticipated. This could have a significant impact on the interest income and depending on the direction, could raise or lower estimates. Furthermore, if interest rates return to their pre 2020 level, it could have a negative effect on the competitive pressures in Finland, which would lead to a lower than anticipated normalised ROE.
- **Governance and regulatory.** AML or other regulatory problems could have a significant negative effect on the bank if they materialise, which could impact the prospective volume growth, customer retention, funding rates and a range of other factors.
- **Housing market in Finland.** If house prices fall by more than anticipated, it would have a negative effect on the lending portfolio through loan losses, collateral, availability of funding, and other factors.
- **Operating costs.** These could increase by more than we have factored in, through either increased regulatory cost, more employees to drive loan growth or general inflation. There could also be a need to update IT systems or the core banking platform, which we have not factored into our estimates.
- **Capital.** We assume that the bank will in the long-term transition to an IRB model, but this may not materialise, which would have a negative effect on the potential free cashflow generation and tie up more capital for growth. There could also be additional regulatory

buffers imposed or tougher capital regulations, which would tie up additional capital in growth, or require the bank to build up its capital base by more than anticipated.

- **Regional factors.** There could be negative developments in the regional markets that the bank is exposed to, which may not affect the whole banking market, but would have a negative effect on OmaSp.

Executive management

Pasi Sydänlammi - CEO

Sydänlammi has an extensive track record in the Finnish banking industry. He has been CEO of OmaSp since 2009 and was CEO of Töysän Säästöpankki (one of the predecessors of OmaSp) since 2009. He currently sits as a member of the board in FinCap Asunnot Oy (since 2019), and SAV Finance Corporation (since 2016). Sydänlammi holds a Master of Administrative Sciences and an MBA. He has also completed the Executive Education Advanced Management program at Harvard Business School.

Prior to joining OmaSp he was CEO of Töysän Säästöpankki (2007- 2009) and CEO of Lammin Osuuspankki (2004-05). Prior to this Sydänlammi has experience from the Savings Banks' Union Coop (2002-03), Talent Partner Group (2001-02) and KPMG Oy Ab (2000-01). He has been chairman of the board in the Finnish Volleyball Association (2014-21) and has sat on the board of the Seinäjoki Football Club Oy SJK (2016-21), Kuortane Sports College (2016-21). He has also been a member of the Supervisory Board of Etera Mutual Pension Insurance Company (2017), Nooa Säästöpankki Oy (2012-13), Paikallispankkien PP-Laskenta Oy (2014-15), Savings Banks Association (2010-13), and Oy Samlink Ab in (2015-19).

Pasi Turtio - Deputy CEO & Head of Customer Operations

Turtio has been OmaSp's Deputy CEO since 2009 and the Director of Customer Operations since 2018. Between 2014 and 2017 he served as the regional director, and as a bank manager in OmaSp prior to this. Turtio is educated as an agrologist.

Prior to joining OmaSp he was branch manager and thereafter bank manager in Lammin Osuuspankki between 2001-08, and Chief Procurement Officer of Liha Heinonen Oy (1998-2001).

Sarianna Liiri - CFO

Liiri has been with OmaSp since 2014 and has been CFO since 2018. She was administrative officer between 2015-18 and development manager between 2014-15. She has been a member of the board of South Karelia Chamber of Commerce since 2018 and a member of the Local Banks PP-Laskenta Oy since 2019. Liiri holds a Master of Economic Sciences and an eMBA.

Prior to joining OmaSp she was an account manager of Etelä-Karjalan Säästöpankki from 2006 to 2014.

Ville Rissanen – Chief Digital Information Officer

Rissanen has been Chief Digital Information Officer since 2019. He has been a member of the Representative Council of the Karjaan-Pohjan Savings Bank Foundation since 2016 and Chairman of the Board of Påminne Oy since 2015. Rissanen holds a Master of Economic Sciences.

Prior to joining OmaSp he was IT Director at Aktia Bank between 2004-19, and IT Director of Gyllenberg Private Bank Oy (2001-04). He has held board positions in Aktia Finance Ltd (2016-18) and Samlink Oy (2011-19).

Minna Sillanpää – Chief Communications Officer

Sillanpää has been Chief Communications Officer of OmaSp since 2017. She is a member of the Nomination Committee in Ilkka-Yhtymä Oyj, and member of the Vice Chairman of the Supervisory Board (since 2016). She has a number of degrees, including Industrie- und Aussenhandelsassistent, Gross- und Aussenhandelskaufmann and a college degree in foreign trade, MBA and CBM.

Prior to joining OmaSp, she held CEO positions in the Regional Organization of Enterprises in South Ostrobothnia (2009-17) and E-P:n Yrittäjien Palvelu Oy (2009-17). She has also been deputy director of South Ostrobothnia Chamber of Commerce (2007-09), various positions at Berner Oy (1996-2007). Additional to this she was a member of the advisory committee for SMEs of the Regional Council of South Ostrobothnia (2007-17), member of the regional advisory committees at Fennia Oyj (2010-17) and Elisa Oyj (2010-17), Nordea Oyj (2012-14), Finnvera Oyj (2011-13). She has been regional Chairman in the Ministry of Economic Affairs and Employment's Työelämä 2020 project (2013-17), member of Into Seinäjoki Oy's marketing group Komia (2008-2016) and the management group (2009 and 2016). She was Chairman of the advisory committee of Finnish Institute of Occupational Health (Western Finland) between 2010 and 2015.

Hanna Sirkiä – Chief Legal Officer

Sirkiä is the newly appointed Chief Legal Officer since 2023. She holds a master's degree in law and received the honorary title varatuomari (Master of Laws, trained on the bench) in 2002.

Since 2008 she has held various positions in legal and risk control in the financial sector. Additional to this she has worked as a lawyer and partner since 2006 and government official since 2000 in expert and legal positions.

Kimmo Tapionsalo – Chief Risk Officer

Tapionsalo has been with OmaSp since 2013 and has been the Chief Risk Officer since 2016 (part of management team since 2019). He holds a Master of Economic Sciences, eMBA and CBM. He has been a member of the Samlink Oy Ab Audit Board since 2015.

Prior to joining OmaSp, Tapionsalo was a Banking and Corporate Banking Director and Head of Corporate Finance at Kantasäästöpankki Oy (2010-13), Head of Corporate Banking and Investment Manager at Nooa Säästöpankki Oy (2003-10), and Head of Bank and Investment Advisor at Aktia Plc (1998-03).

Board of Directors

Jarmo Salmi – Chairman of the Board

Salmi has been chair of OmaSp's board since 2019 and joined the board as a member in 2014. He is CEO of Asianajotoimisto Jarmo Salmi Oy and serves as Chairman of the Board of Kiinteistö Oy Kosken-Keskus since 2014. he was member of the Board of the Finnish Bar Association (2012–2015) and was a lawyer and responsible partner at Asianajotoimisto Lasse Salmi Ky (1991-2014). Salmi holds a Master of Laws.

Salmi owned 4,178 shares in OmaSp at YE(22).

Jyrki Mäkynen – Deputy Chairman of the Board

Mäkynen has served as deputy chairman of the board since 2014 and was the chair of the board prior to this (since 2009). Mäkynen has started his career in Oy HM Profiil Ab in 1992 and has served as CEO there since 2003. He is a member of the board of Fennia Insurance (since 2017) and the Vice Chairman since 2021. He is also a member of the Bank of Finland's Payments Council since 2014. Previously he has been Chairman of the Board of the Federation of Finnish Enterprises (2014-20) and President of the Council (2020-22). He has held chairman of the board positions in SMEunited (2014-20), Southern Ostrobotnia University Foundation (2010-21) and (Vice) Seinäjoki Joint Municipal Authority for Education Sedu (2017-21). He was a member of the Board of Seinäjoki University of Applied Sciences 2013-21, a member of the Seinäjoki City Council in 2004-21 and a member of the city's Board in 2009-12. Mäkynen holds a Master of Science in Economics.

According to OmaSp, Mäkynen is not independent in his relationship to the company but is independent in relation to OmaSp's significant shareholders.

Mäkynen owned 15,141 shares in OmaSp at YE(22).

Aila Hemminki – Member of the Board

Hemminki has been member of the board since 2017. She is an expert in business projects at Seinäjoki University of Applied Sciences, RDI, a position she has held since September 2021. She held various positions in the Savings Bank Foundation of Kuortane between 2009-2017 and been a member of the Board of Into Seinäjoki in 2017-21. Previously she has worked as a Change of Ownership Specialist for the Regional Organization of South Ostrobothnian Entrepreneurs (2018-21). She established Vauvatarvike Huvikumpu Ky (today Hevihill ky) in 1990 and worked as a shop trader until 2008. She has since then been involved in the management of rental properties. Since 1999 she has been a deputy member of the board of Hemimotors Oy. Hemminki holds a Master of Economic Sciences.

Hemminki owned 7,989 shares in OmaSp at YE(22).

Aki Jaskari – Member of the board

Jaskari has been a member of the board since 2014. He serves as the CEO of Nerkoon Höyläämö Oy since 1995. Jaskari has been a member of the Advisory Board of Leppäkosken Sähkö Group Oy since 2001, and a member of the Regional Advisory Committee of Pohjola Insurance Oy (2001-15). He was member of the Board of the Parkano Savings Bank in 2010-13. Jaskari holds a Master of Economic Sciences.

Jaskari owned 8,386 shares in OmaSp at YE(22).

Timo Kokkala – Member of the board

Kokkala has been a member of the board since 2014. Kokkala served as the Chair of the Board of Kantasäästöpankki Oy (2009-14) and prior to this, Hauho Savings Bank (1998-08). He was a member of the Supervisory Board in the Savings Bank Union between 2012 and 2014. He has been a farm operator since 1989 and holds a Master of Science in Agriculture and Forestry.

Kokkala owned 11,000 shares in OmaSp at YE(22).

Jaana Sandström – Member of the board

Sandström has been a member of OmaSp's board of directors since 2019. She is Professor of Strategic Accounting at LUT University and is the Vice Rector for education at LUT University since early 2023. She was Dean of LUT University School of Economics (2009-2014) and worked as lecturer and temporary assistant to the professorship prior to this. Prior to her academic career, Sandström worked in the forest industry from 1987 to 1991 at Enso Gutzeit Oy and Ekono Oy. She is also Second Vice-Chairmanship of the Board of Directors and the Chairmanship of the Committee on Scholarships of the Foundation for Economic Education. Sandström was a board member of South Karelian Cooperative (2013-2019), and EPAS Accreditation Board of the European Foundation for Management Development (EFMD) (2013-2019). Sandström holds a Doctor of Science (Technology).

Sandström owned 2,530 shares in OmaSp at YE(22).

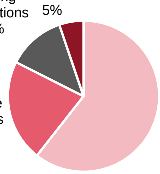
Jaakko Ossa – Member of the board

Ossa recently joined OmaSp's board of directors in 2023. He is a professor of financial law at the University of Turku, since 1998. He has held expert positions at Asianajotoimisto Astrea Oy (for around 20 years) and currently at Ossa Partners Oy. Ossa has been a member of the Board of several companies, including Liedon Savings Bank, Sp-Fund Management Company and the Savings Bank Association. He is Chairman of the delegation of Taxpayers Association of Finland (TAF) and the inspector of the Satakuntalais-Hämäläinen Student Nation (osakunta) of the University of Turku. Ossa holds a Doctor of Laws.

Company summary

Income breakdown by geographical area

Income breakdown by segment



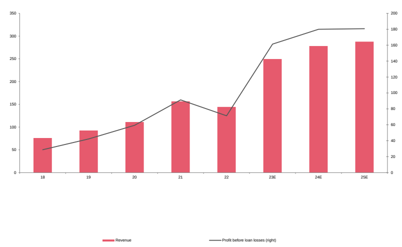
Company information

Oma Savings Bank
Lappeenranta, Valtakatu 32, 53100
Finland
www.omasp.fi

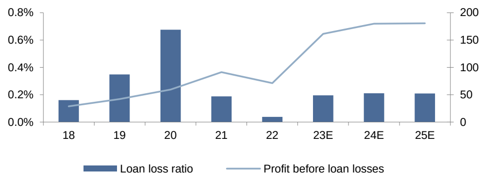
Main shareholders

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

Not for US distribution

Summary tables

INCOME STATEMENT										
Year end Dec, EURm	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**
Net interest income	31.7	36.5	39.3	49.4	57.5	67.8	80.1	105	192	215
Commissions	15.3	17.7	21.2	24.2	25.4	29.3	33.7	39.4	47.3	52.8
Total revenues	**54.4**	**60.3**	**74.1**	**76.0**	**92.6**	**111**	**157**	**144**	**250**	**278**
Costs	-32.3	-35.5	-41.1	-47.2	-50.3	-51.7	-65.3	-73.1	-88.3	-98.1
Pre-provision profits (PPP)	**22.0**	**24.8**	**33.0**	**28.7**	**42.3**	**59.4**	**91.3**	**71.3**	**161**	**180**
Loan losses	-3.6	-4.2	-2.6	-3.7	-9.6	-21.6	-7.3	-1.7	-10.5	-13.4
Pre-tax profit	**18.4**	**20.6**	**30.4**	**25.0**	**32.7**	**37.7**	**83.3**	**69.2**	**151**	**167**
Net profit	**14.8**	**16.0**	**24.0**	**20.3**	**27.5**	**30.7**	**66.2**	**55.4**	**121**	**133**
Net profit (adj.)	**14.8**	**16.0**	**24.0**	**20.3**	**27.5**	**30.7**	**66.2**	**55.4**	**121**	**133**

BALANCE SHEET										
EURm	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**
Lending	1,530	1,785	2,138	2,527	2,960	3,434	4,326	4,754	5,997	6,719
Other interest bearing assets	365	328	534	350	397	866	930	1,069	1,069	1,069
Goodwill	3.4	4.3	6.5	5.0	9.3	11.2	10.0	8.6	8.6	8.6
Total assets	**1,932**	**2,151**	**2,727**	**2,915**	**3,417**	**4,382**	**5,373**	**5,942**	**7,184**	**7,907**
Deposits from public	1,473	1,483	1,639	1,758	2,006	2,377	2,898	3,112	3,898	4,569
Wholesale funding	162	353	737	715	938	1,347	1,762	2,087	2,087	2,087
Subordinated debt	24.5	17.6	28.0	25.2	15.5	15.5	15.5	40.0	60.0	60.0
Equity	202	220	241	290	319	353	401	365	542	651
NTA	**202**	**221**	**241**	**290**	**320**	**353**	**401**	**365**	**542**	**651**

PER SHARE DATA	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**
No. of shares, fully diluted YE (m)		25.1	25.1	29.6	29.6	29.6	29.8	30.0	33.2	33.2
No. of shares, fully diluted avg. (m)		25.1	25.1	27.3	29.6	29.6	29.7	29.9	31.6	33.2
EPS (reported) (EUR)		0.64	0.98	0.78	0.93	1.04	2.20	1.85	3.64	4.02
EPS (adj.) (EUR)		0.64	0.96	0.69	0.93	1.04	2.22	1.85	3.64	4.02
DPS (EUR)		0.06	0.08	0.14	0.19	0.24	0.50	0.40	0.73	1.00
Book value per share (EUR)		8.81	9.63	9.81	10.8	11.9	13.5	12.2	16.3	19.6

MARGINS AND GROWTH	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
C/I, adjusted	65.5%	67.9%	64.3%	60.7%	53.2%	57.4%	50.6%	36.8%	36.6%	38.5%
NII/avg. lending	2.2%	2.0%	2.1%	2.1%	2.1%	2.1%	2.3%	3.6%	3.4%	3.1%
Loan loss ratio	0.25%	0.13%	0.16%	0.35%	0.68%	0.19%	0.04%	0.20%	0.21%	0.21%
NII growth	15.2%	7.6%	25.5%	16.6%	17.9%	18.2%	30.9%	83.3%	11.9%	1.8%
Revenue growth	11.0%	22.8%	2.5%	21.9%	20.0%	41.0%	-7.8%	72.9%	11.4%	3.5%
Cost growth	-9.9%	-15.7%	-14.9%	-6.5%	-2.7%	-26.4%	-11.9%	-20.8%	-11.1%	-9.1%
PPP growth	12.7%	32.9%	-12.9%	47.2%	40.5%	53.7%	-21.8%	126.2%	11.5%	0.4%
RWA growth	11.3%	13.6%	14.4%	19.0%	14.2%	17.7%	6.2%	27.5%	8.0%	8.0%

PROFITABILITY	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**
RoE, reported profits	8.7%	7.6%	10.4%	7.6%	9.0%	9.1%	17.5%	14.5%	26.6%	22.3%
RoNTA, adj. profits	8.7%	7.6%	10.4%	7.6%	9.0%	9.1%	17.5%	14.5%	26.6%	22.3%
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	19.4%	18.6%	17.6%	18.4%	16.8%	15.9%	15.5%	13.3%	15.4%	17.1%
RWA	1,036	1,153	1,310	1,499	1,784	2,037	2,398	2,547	3,247	3,507

VALUATION	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**
Share price (EUR)				7.00	8.88	10.6	17.1	18.6	20.6	20.6
Market cap (EURm)				207	263	314	509	558	683	683
P/E (reported) (x)				9.0	9.5	10.2	7.8	10.1	5.7	5.1
P/E (adj.) (x)				10.2	9.6	10.2	7.7	10.1	5.7	5.1
P/BV (x)				0.71	0.82	0.89	1.27	1.53	1.26	1.05
P/NTA (x)				0.71	0.82	0.89	1.27	1.53	1.26	1.05
Dividend yield				2.0%	2.1%	2.3%	2.9%	2.1%	3.5%	4.9%
Total yield (incl. buybacks)				2.0%	2.1%	2.3%	2.9%	2.1%	3.5%	4.9%

Source: Company data, Danske Bank Equity Research estimates

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