

Kredittforeningen for Sparebanker

Norway
Financial institutions30 Apr. 2019
Result comment

LONG-TERM RATING

A-

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

PRIMARY ANALYST

Geir Kristiansen
+47 907 845 93
geir.kristiansen@nordiccreditrating.com

SECONDARY ANALYST

Sean Cotten
+46 732 324 378
sean.cotten@nordiccreditrating.com

CLIENT SERVICES

Kristine Sunde
+47 993 269 79
kristine.sunde@nordiccreditrating.com

This commentary does not reflect a rating action.

Our 'A-' issuer and issue ratings for Kredittforeningen for Sparebanker (KfS) are unchanged following the publication of its Q1/19 results. A high level of maturities in the quarter lead to a 6.9% fall in lending volumes. KfS funds only investment-grade savings banks, and has not incurred loan losses in its 15 year history.

LOWER VOLUMES DUE TO HIGH REDEMPTIONS

Gross lending fell from NOK 5.2bn at year-end 2018 to NOK 4.8bn as of first quarter 2019 due to higher-than-normal redemptions of NOK 0.9bn. Redemptions are low in the second quarter, however, which we believe will give room for volume growth. The net interest margin was stable at 0.14% while operational costs increased. We expect the quarterly cost level to remain NOK 0.15m higher than last year going forward.

IMPROVED CAPITAL RATIO

KfS' reported CET1 ratio was 17.4% per Q1/19 vs 16.9% as of end 2018 while its capital ratio was 22.2% (21.6%). NCR places additional emphasis on KfS' total capital ratio since the additional capital above the CET1 consists of Equity Capital Certificates which have a higher priority than the member reserve, which counts as CET1 capital.

OUTLOOK¹

The stable outlook reflects the strong operating environment for Norwegian banks and KfS' modest risk profile. We believe that possible challenges for the company's business model due to regulatory changes will not result in higher default risk given its high asset quality and low refinancing and liquidity risk.

POTENTIAL POSITIVE RATING DRIVERS:

- Increased loan diversification and stronger market position.
- Improved credit quality of debtors (savings banks).
- Increased profitability improving resilience.

POTENTIAL NEGATIVE RATING DRIVERS:

- Lower credit quality of debtors either due to idiosyncratic or macroeconomic stress.
- Continuing fall in business volumes or increased concentration on lower credit quality.
- Lower capitalisation.

¹ The outlook and rating factors have not changed since our latest full report from 28 Oct. 2019, available at nordiccreditrating.com.

NORDIC CREDIT RATING AS**OSLO****Biskop Gunnerus' gate 14A****0185 Oslo****Norway**www.nordiccreditrating.compost@nordiccreditrating.com**STOCKHOLM****Engelbrektsgatan 9-11****114 32 Stockholm****Sweden**

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