Nordic Credit Rating

FINANCIAL INSTITUTION

Norway
4 Feb. 2022

Kredittforeningen for Sparebanker

Rating Action Report

LONG-TERM RATING

A-

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

PRIMARY ANALYST
Geir Kristiansen
+4790784593
geir.kristiansen@nordiccreditrating.com

SECONDARY ANALYST
Sean Cotten
+46735600337
sean.cotten@nordiccreditrating.com

Kredittforeningen for Sparebanker 'A-' long-term issuer rating affirmed; Outlook stable

Nordic Credit Rating said today that it had affirmed its 'A-' long-term issuer rating on Kredittforeningen for Sparebanker (KfS). The outlook is stable. The 'N-1+' short-term rating was also affirmed. At the same time NCR affirmed the 'A-' senior unsecured issue rating.

Rationale

The long-term rating reflects KfS's strong capitalisation and low risk appetite. The company is a non-profit credit institution serving Norwegian savings banks. It has a concentrated loan portfolio, but funds only investment-grade savings banks. KfS has never experienced loan losses. Our assessment of the operating environment has improved due to recovering economic conditions as the COVID-19 pandemic subsides. The company is funded by senior loans with approximately the same maturity as its individual loans. It has no obligation to refinance these loans, and consequently refinancing and pricing risk are minimal.

Negatively, prospective changes in regulation represent a risk factor for KfS' business model. For example, the EU's bank capital and liquidity package (CRR II/CRD V) will likely have negative implications for the company's attractiveness as a funding source for its member banks. We have reduced our assessment of the company's earnings, which have been negatively affected by low interest rates and reduced business volumes. However, green bond issues in 2021 represented a successful start to an initiative which could revitalise the business model and we expect higher interest rates to bolster future earnings.

Stable outlook

The stable outlook reflects the resilience of the Norwegian savings bank sector 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. The business model would, in our opinion, simplify an orderly run-off, if necessary, without significant deterioration of credit quality or increased liquidity risk. We could raise the rating to reflect a stronger market position through, for example, success for the green bond initiative, or a common equity Tier 1 ratio sustainably above 22%. We could lower the rating to reflect lower credit quality of debtors either due to idiosyncratic or macroeconomic stress, a renewed fall in business volumes or increased concentration on lower credit quality, or a total capital ratio below 18%.

Rating list	To	From
Long-term issuer credit rating:	A-	A-
Outlook:	Stable	Stable
Short-term issuer credit rating:	N-1+	N-1+
Senior unsecured issue rating:	A-	A-

Figure 1. KfS rating scorecard

Subfactors	Impact	To	From
National factors	10.0%	a	a-
Regional, cross border, sector	10.0%	bbb+	bbb
Operating environment	20.0%	a-	bbb+
Capital	17.5%	a+	a+
Funding and liquidity	15.0%	a+	a+
Risk governance	5.0%	bbb	bbb
Credit risk	10.0%	a	a
Market risk	-	-	n/a
Other risks	2.5%	a	a
Risk appetite	50.0%	a	a
Market position	15.0%	bb-	bb-
Earnings	7.5%	bb	bb+
Loss performance	7.5%	aa	aa
Performance indicators	15.0%	bbb+	a-
Indicative credit assessment		**a-**	**a-**
Transitions		Neutral	Neutral
Peer comparisons		Neutral	Neutral
Borderline assessments		Neutral	Neutral
Stand-alone credit assessment		**a-**	**a-**
Material credit enhancement		Neutral	Neutral
Rating caps		Neutral	Neutral
Support analysis		Neutral	Neutral
Issuer rating		**A-**	**A-**
Outlook		Stable	Stable
Short-term rating		**N-1+**	**N-1+**

Figure 2. Capital structure ratings

Seniority	To	From
Senior unsecured	A-	A-

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 13 Feb. 2019.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
Primary analyst:	Geir Kristiansen, +4790784593, geir.kristiansen@nordiccreditrating.com
Rating committee chairperson responsible for approval of the credit rating:	Mille Fjeldstad, +4799038916, mille.fjeldstad@nordiccreditrating.com
Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	NCR's Financial Institutions Rating Methodology published on 14 Aug. 2018 NCR's Rating Principles published on 16 Sep. 2019 The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website nordiccreditrating.com/governance/policies. The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA).
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Company presentations, Data provided by external data providers, External market reports, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity.
Potential conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity. NCR does not have any direct or indirect shareholder with a holding of more than 5% of NCR's shares and votes. For further information, please refer to NCR's conflict of interest policy which is available on: https://nordiccreditrating.com/governance/policies
Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test or cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: nordiccreditrating.com/governance/policies.
Ancillary services provided:	No ancillary services were provided.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
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