Kredittforeningen for Sparebanker

Full Rating Report

LONG-TERM RATING

A-

OUTLOOK

Negative

SHORT-TERM RATING

N2

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RATING RATIONALE

Our 'A-' long-term issuer rating on Norwegian savings bank lender Kredittforeningen for Sparebanker (KfS) reflects its strong capitalisation, low risk appetite, matched funding and unique market position. KfS provides funding to smaller Norwegian savings banks, resulting in significant concentrations but with low-risk counterparties. The company funds itself in the bond market, closely matching loan maturities. The rating is constrained by its non-profit structure, which limits internal capital generation, and limitations due to its small size.

As the number of smaller savings banks declines due to consolidation and growth, KfS's role in the market is evolving. We believe this shift is being accelerated by the company's transition from a cooperative association to a limited liability company, expected to occur in 2026. This change is linked to regulatory interventions concerning the use of membership contributions as common equity Tier 1 (CET1) capital.

NEGATIVE OUTLOOK

The negative outlook reflects our belief that KfS' increasing loan concentration is likely to persist and could accelerate with the transition to a limited liability company. It also reflects uncertainty regarding KfS' long-term capital levels. On the upside, we expect that both KfS' financial performance and the overall Norwegian savings bank sector will remain stable in the coming years. We also note that the company is making efforts to review its offering of products and services to its member banks, potentially supporting its role in the market.

DRIVERS FOR A STABLE OUTLOOK

- Tier 1 ratio maintained above 20% post-transition;
- sustained business volumes without increasing lending concentrations; and,
- maintained customer creditworthiness.

POTENTIAL NEGATIVE RATING DRIVERS

- Increased lending concentrations or a continued fall in business volumes.
- Lower credit quality of debtors.
- Current total capital ratio, or post-transition Tier 1 ratio, below 20% on a sustained basis.

Figure 1. Key credit metrics, 2023–2028e

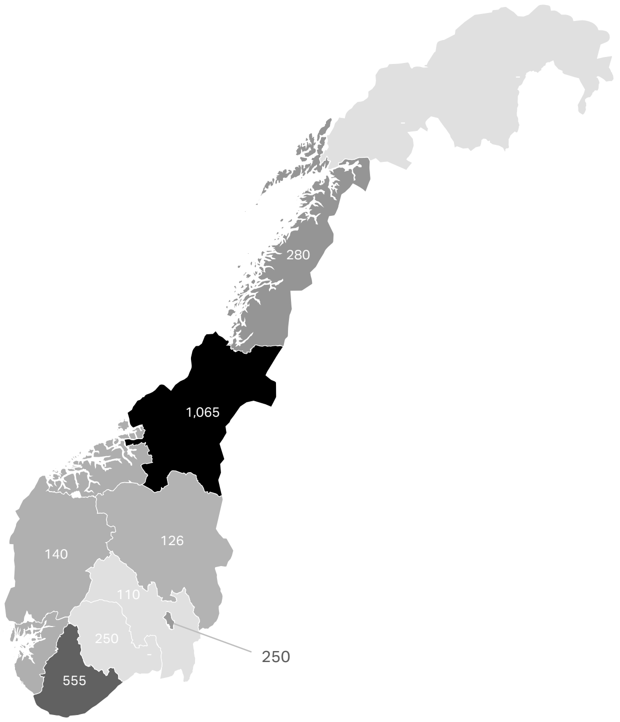
%	2022	2023	2024	2025	2026e	2027e	2028e
Net interest margin	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Pre-provision income/REA	0.0	0.7	0.8	0.4	0.2	0.3	0.3
Cost-to-income	96.6	52.3	43.1	57.6	74.0	63.1	65.8
Return on ordinary equity	0.0	1.7	2.4	2.3	1.1	1.0	0.9
Loan losses/net loans	-	-	-	-	-	-	-
CET1 ratio	21.3	20.6	17.7	18.8	22.7	22.9	22.9

Source: company and NCR. e–estimate. REA–risk exposure amount. CET1–common equity Tier 1. All metrics adjusted in line with NCR methodology.

ISSUER PROFILE

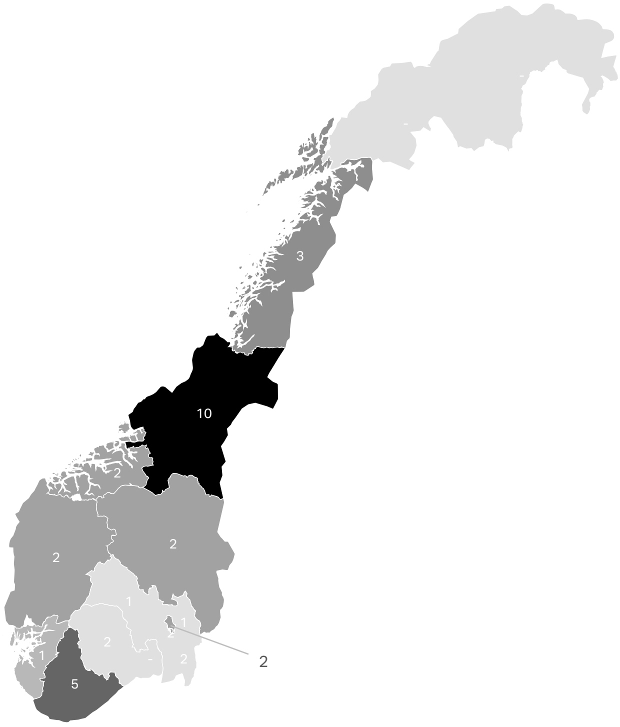
KfS is a credit association, providing medium-to long-term senior loans to Norwegian savings banks, established in 2004. The company was founded by Eiendomskreditt AS, with which it cooperates on operations. KfS is currently operating under a cooperative ownership model but is in the process of transitioning to a limited liability company.

Figure 2. Loan balance per county, 31 Dec. 2025



Source: company.

Figure 3. No. of member banks per county, 31 Dec. 2025



Source: company.

Competitive position

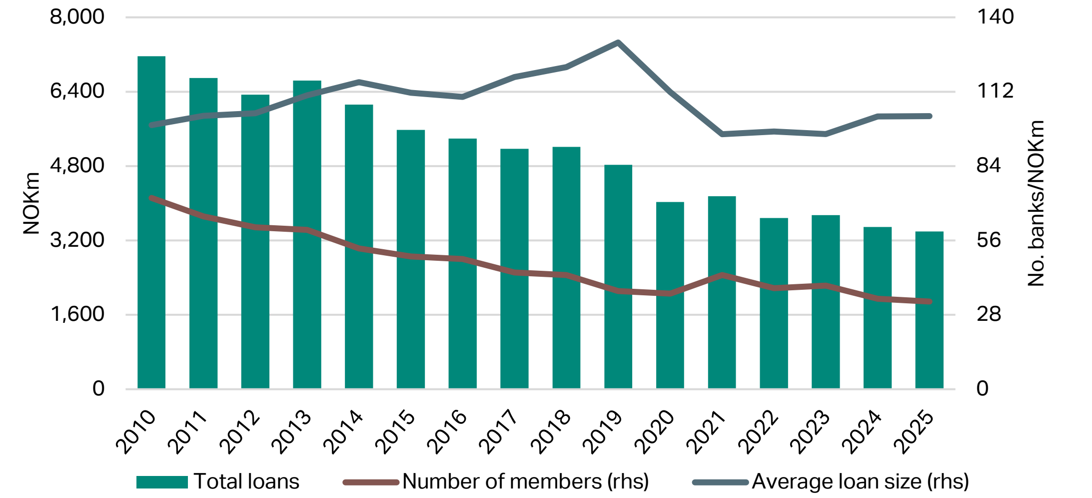
Important role despite small size amid changing market dynamics

KfS plays an important role in the Norwegian savings bank market by providing funding diversification, particularly for smaller banks with limited direct access to bond markets. This role has evolved as sector consolidation has reduced the number of small savings banks. KfS is seeking to maintain its position for example by offering green financing and is reviewing its product offering as part of its ongoing transition process.

Risk governance

KfS outsources certain operations to Eiendomskreditt and shares staff. We view this as integral to managing regulatory requirements and mitigating the significant key personnel risk. While resources are limited, we consider KfS' risk management framework as adequate, given its low-risk client base, simple business model and low transaction volumes.

Figure 4. KfS gross loans, membership and average loan size, 2010 – 2025



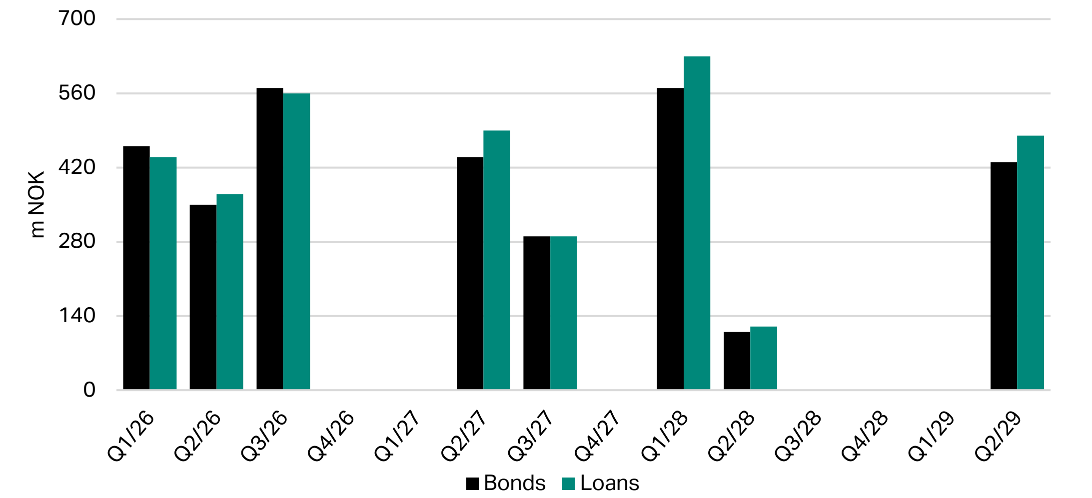
Source: company.

Matched funding limits refinancing risk

Funding and liquidity

We view funding and liquidity management as a relative strength for KfS, supported by the near full matching of funding to loan obligations. As KfS is not obligated to refinance its loans, refinancing risk is minimal.

Figure 5. Debt and lending maturity profile, 31 Dec. 2025



Source: company.

CREDIT RISK PROFILE

Operating environment

Benign operating environment and low-risk counterparties offset loan book concentration

Our assessment of KfS's operating environment is based on a combination of our assessment of Norway's banking environment, as well as the bank's exposure to the savings bank sector and regional concentrations (Figure 2).

Norwegian banks' net interest margins increased in 2022–2025 due to higher policy rates. While rates were cut somewhat in 2025, the still-elevated level is constraining credit growth, particularly in rate-sensitive segments. Market expectations and central bank guidance point to a higher likelihood of rate increases than further cuts in 2026, but strong competition and high deposit pass-through are expected to limit further margin upside. The Norwegian economy continues to benefit from high oil prices, but sentiment is dampened by heightened geopolitical uncertainty. While we consider the

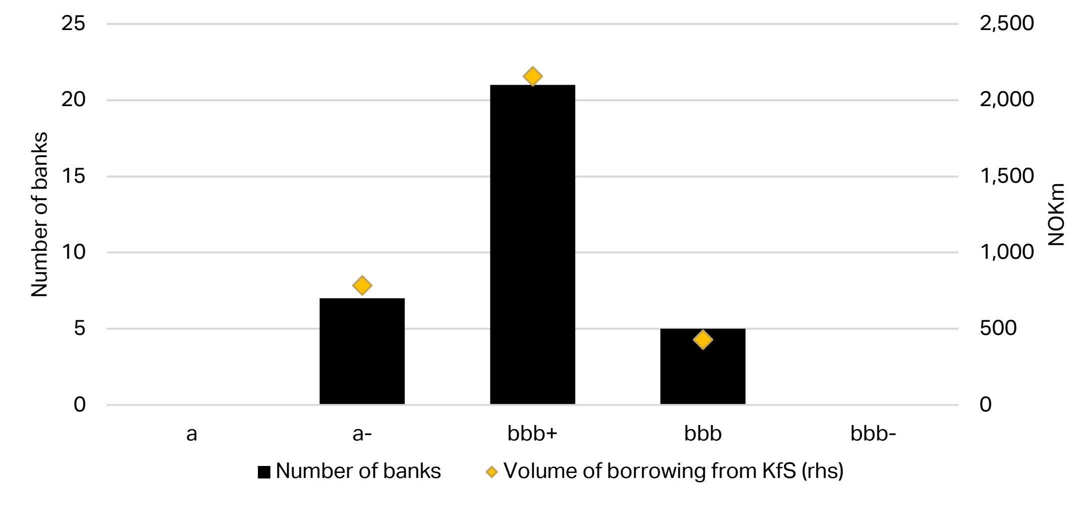
Norwegian economy to be strong, and the banking sector as resilient, there are risks concerning higher inflationary pressure, and continued pressure on property managers and developers.

KfS primarily lends to small and medium-sized Norwegian savings banks, with a concentration in Trøndelag county and the southern Sørlandet region, typically in smaller towns. In our regional assessment, we factor in weaker economic diversification and, to a varying extent, weaker growth prospects in some of these banks' markets. We consider the operating environment for small and medium-sized savings banks to be somewhat stronger than our average assessment of KfS' member banks, reflecting positive diversification effects at the group level.

Credit and market risk

We apply the same reasoning to our assessment of KfS's credit risk. While the bank has significant loan book concentrations, its exposures are to low-risk counterparties. We do not consider market risk to be material for KfS.

Figure 6. Loan volume by NCR credit assessment level, 31 Dec. 2025



Source: NCR data, company.

Loss performance

KfS has never had any realised loan losses nor non-performing loans, and we do not anticipate any in our forecast.

CAPITAL GENERATION

Transition strengthens CET1, but non-profit structure keeps capital generation weak

Capital

KfS' capital consists of ordinary equity, equity capital certificates (ECCs), and membership contributions. Unlike savings banks, it reports ECCs as Tier 2 capital, as these are subordinate to membership contributions. Membership contributions are considered common equity Tier 1 (CET1) capital, as they cannot be repaid to members without supervisory approval.

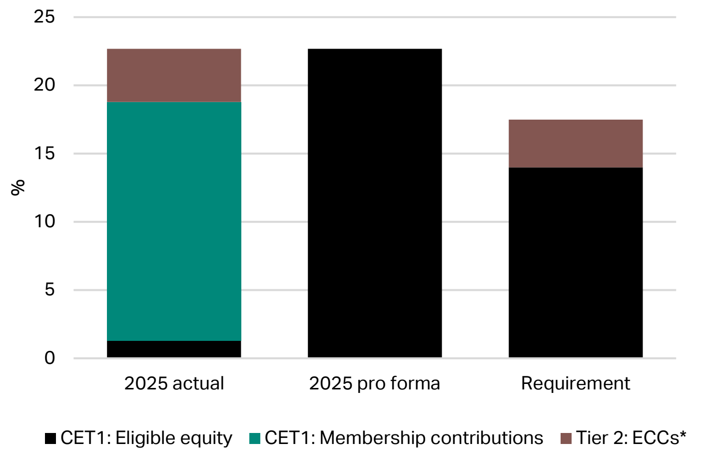
KfS' transition to a limited liability company is driven by technical regulatory classification considerations of membership contributions as CET1 capital. European and Norwegian supervisors have increased pressure on KfS, stating that membership contributions cannot be considered CET1 capital. Following the transition, membership contributions and ECCs will be converted into traditional shares and fulfil all regulatory requirements as CET1 ratio, all else equal (see Figure 8 for the pro-forma impact on 2025 capitalisation). The restructuring application is currently with the Norwegian Financial Supervisory Authority, and we expect the transition to begin – and possibly be completed – during the year. We expect KfS to facilitate the exit of banks that do not wish to remain shareholders post the transition, potentially through the company purchasing its own shares, thereby reducing capital. However, share buybacks are not included in our forecast.

Figure 7. Capital projection assumptions

%	2026e	2027e	2028e
Net interest margin	0.30	0.30	0.30
Loan growth	-5%	-3%	0%
Return on equity	1.1%	1.0%	0.9%
Dividend rate (to ECC-holders)	16%	16%	16%

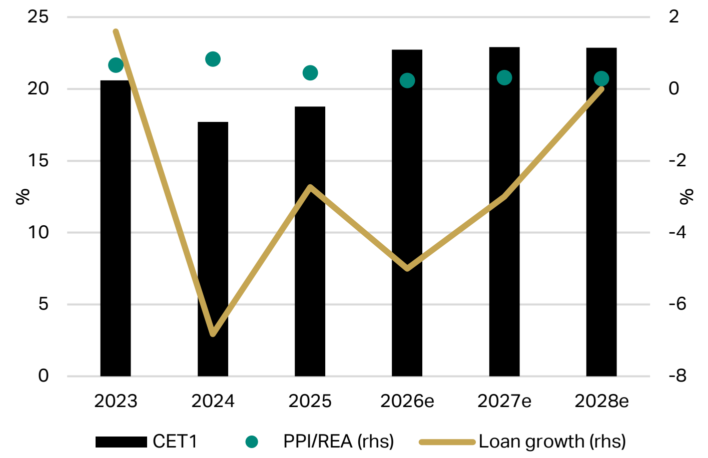
Source: NCR. e–estimate. All metrics adjusted in line with NCR methodology.

Figure 8. Capital ratios current vs. post-transition and requirement, 31 Dec. 2025



Source: company and NCR. *equity capital certificates.

Figure 9. Capital generation 2023 – 2028e



Source: company and NCR. e-estimate.

In our forecast through 2028, we expect loan growth rates to decline at a slower pace as the remaining banks stabilise their use of KfS as a funding source.

Earnings

KfS is a not-for-profit association, and we do not expect this to change following the transition. We anticipate slightly higher costs in 2026 related to the transition; however, these are not material and are neutral to our overall view that the company's internal capital generation is weak.

SUPPORT ANALYSIS

We assess the company's ownership as neutral under our group and government methodology. The majority of KfS's equity consists of member contributions, which are paid when members receive a loan. These contributions are not publicly disclosed. KfS also has equity capital certificates (ECCs) totalling NOK 50m, representing 17% of total equity, including member contributions.

Following the transition to a limited liability company, both member contributions and ECCs will be converted to equity shares.

Figure 10. Largest ECC-holders

	%
Eiendomskreditt AS	10.0
Sparebanken Norge	9.4
Sparebank 1 Sør-Norge	7.4

Source: company.

ISSUE AND SHORT-TERM RATINGS

Figure 11. Issue and short-term ratings

	Rating
Senior unsecured	A-
Short-term rating	N2; adequate due to LCR above 150% over the last four quarters.

Short-term and issue ratings are mapped to the long-term issuer rating, in accordance with our Financial Institutions Rating Methodology. In cases where two alternatives for short-term ratings are possible, the short-term rating is assigned based on liquidity being strong, adequate, or weak, as applicable. See definitions in the methodology.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS

We consider ESG factors throughout our analysis, when they are material to our credit assessment.

Figure 12. Priority ESG factors

Issue/area	Risk/opportunity	Impacted subsections (impact on credit assessment*)
Sustainable/green bond framework	Ability to offer green funding to savings banks is an advantage, as it allows them to diversify funding sources and access additional markets/investors.	Competitive position (++)
Physical climate risk to collateral	Climate-related damage to real-estate collateral (closely linked to supervision of insurance). Longer-term term effects on market values in flood-risk areas.	Credit risk (0) Loss performance (0)
Anti-money laundering capacity	Risk of sanctions and fraud due to insufficient control of customers. Less relevant due to responsibility lying mainly with individual savings banks.	Risk governance (0)
Control of sustainability issues	Credibility of green bond framework depends on rigour of application and allocation/impact reporting.	Competitive position (+) Risk governance (0)

*Defined on a 5-step scale ranging from double minus (--) to double plus (++), with (--) representing the most negative impact and (++) the most positive.

METHODOLOGIES USED

(i) Financial Institutions Rating Methodology, 12 May 2025.
(ii) Rating Principles, 14 Feb. 2024.
(iii) Group and Government Support Rating Methodology, 14 Feb. 2024.

RELEVANT RESEARCH

(i) Capital strength sets Norwegian savings banks up for 2026 growth, 9 Jan. 2026
(ii) Kredittforeningen for Sparebanker outlook revised to negative; 'A-' long-term issuer rating affirmed, 14 May 2025

Figure 13. KfS key financial data, 2022–2025

Key credit metrics (%)	FY 2022	FY 2023	FY 2024	FY 2025
INCOME COMPOSITION				
Net interest income to op. revenue	107.5	90.1	90.4	89.6
Net fee income to op. revenue	-0.2	-0.1	-0.1	0.0
Net gains and losses/operating revenue	-7.3	10.1	9.7	10.5
Net other income to op. revenue	0.0			-0.1
EARNINGS				
Net interest income to financial assets	0.2	0.3	0.3	0.3
Net interest income to net loans	0.2	0.3	0.3	0.3
Pre-provision income to REA	0.0	0.7	0.8	0.4
Core pre-provision income to REA (NII & NF&C)	0.1	0.5	0.7	0.3
Return on ordinary equity	0.0	1.7	2.4	2.3
Return on assets	0.0	0.1	0.1	0.1
Cost-to-income ratio	96.6	52.3	43.1	57.6
Core cost-to-income ratio (NII & NF&C)	90.1	58.1	47.8	64.3
CAPITAL				
CET1 ratio	21.3	20.6	17.7	18.8
Tier 1 ratio	21.3	20.6	17.7	18.8
Capital ratio	27.8	27.0	22.8	22.7
REA to assets	20.2	20.3	27.2	36.4
Dividend payout ratio		67.3	70.4	10.5
Leverage ratio	4.3	4.2	4.8	6.8
GROWTH				
Asset growth	-11.2	1.3	-6.7	-1.6
Loan growth	-11.2	1.6	-6.8	-2.7
Deposit growth				
LOSS PERFORMANCE				
Credit provisions to net loans				
Stage 3 coverage ratio				
Stage 3 loans to gross loans				
Net stage 3 loans to net loans				
Net stage 3 loans/ordinary equity				
FUNDING & LIQUIDITY				
Loan to deposit ratio				
Liquid assets to deposit ratio				
Net stable funding ratio	101.0	100.0	100.0	100.0
Liquidity coverage ratio	4894.0	0.0	0.0	1092.0

Key financials (NOKm)	FY 2022	FY 2023	FY 2024	FY 2025
BALANCE SHEET				
Total assets	3,790	3,838	3,580	3,523
Total tangible assets	3,790	3,838	3,580	3,523
Total financial assets	3,790	3,838	3,579	3,522
Net loans and advances to customers	3,686	3,745	3,489	3,394
Liquid assets	104	93	90	128
Customer deposits	–	–	–	–
Issued securities	3,576	3,622	3,351	3,228
of which other senior debt	3,576	3,622	3,351	3,228
of which subordinated debt	–	–	–	–
Total equity	213	213	225	68
of which ordinary equity	213	213	225	68
CAPITAL				
Common equity tier 1	163	160	173	241
Tier 1	163	160	173	241
Total capital	213	210	223	291
REA	766	779	976	1,282
INCOME STATEMENT				
Operating revenues	6	11	13	12
Pre-provision operating profit	0	5	7	5
Impairments	–	–	–	–
Net Income	0	4	5	3

Source: company. FY–full year. YTD–year to date.

Figure 14. KfS rating scorecard

Subfactors	Impact	Score
National banking environment	10.0%	a
Sector exposure assessment	5.0%	a-
Regional assessment	5.0%	bbb
Cross border assessment	-	-
Operating environment	20.0%	a-
Risk governance	7.5%	bbb
Capital	17.5%	a+
Funding and liquidity	15.0%	a+
Credit and market risk	10.0%	a-
Risk appetite	50.0%	a
Competitive position	15.0%	bb-
Earnings	7.5%	bb
Loss performance	7.5%	aa
Performance indicators	15.0%	bbb+
Indicative credit assessment		**a-**
Peer comparison		Neutral
Transitions		Neutral
Borderline assessments		Neutral
Stand-alone credit assessment		**a-**
Ownership		Neutral
Capital structure protection		Neutral
Rating caps		Neutral
Issuer rating		**A-**
Outlook		Negative
Short-term rating		**N2**

Figure 15. Capital structure ratings

Seniority	Rating
Senior unsecured	A-

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