

Kredittforeningen for Sparebanker

Rating Update

LONG-TERM RATING

A-

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

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NCR AFFIRMS 'A-' LONG-TERM RATING ON KREDITTFORENINGEN FOR SPAREBANKER; OUTLOOK STABLE

Today Nordic Credit Rating (NCR) affirmed its 'A-' long-term issuer rating and 'N-1+' short-term issuer rating on Kredittforeningen for Sparebanker (KFS). The outlook on the ratings is stable.

MACROECONOMIC UNCERTAINTY IS VERY HIGH

NCR has lowered its assessment of the Norwegian banking sector to 'a-' from 'a' due to the economic effects of the COVID-19 pandemic. We have also cut the savings bank sector and regional subscore by one notch to 'bbb'. In addition, NCR views the outlook for the domestic operating environment as negative given the abrupt reduction in economic activity and the uncertain prospects and timeline for an economic recovery. We note that many companies have elected to furlough employees using a government-supported programme which reduces costs for employers and maintains up to 80% of employees' wages. However, there was a significant rise in unemployment during the last weeks of March and we believe there will be long-term challenges for many sectors given varying degrees of economic shut down for Norway's neighbours and global trading partners and lower oil prices. Initially, the government's efforts to support the severe macroeconomic disruption could be effective, however, we believe that maintaining stability, especially in terms of bank earnings and credit losses, will become increasingly difficult the longer economic activity remains subdued.

KfS funds only investment-grade savings banks, resulting in concentrated but high-quality credit exposure, and the company has never had non-performing loans. KfS is funded by senior loans with approximately the same maturity as its individual loans and has minimal refinancing and interest rate risk. We believe that KfS has ample procedures to handle default by any of its borrowers.

The company was established in 2004 to help small savings banks with funding in a difficult environment, and the current crisis could help to revitalize its business model. The 1.5pp cut in the regulatory countercyclical buffer announced 13 Mar. 2020 makes it less likely that the membership fee that KfS charges its member banks will have to be increased. It also increases the possibility that we could consider increasing the capital subfactor score. The cancellation of KfS' proposed dividend for 2019 (NOK 1.25m) has no impact on the capital subsector score.

OUTLOOK STABLE

The outlook is stable, despite the more challenging operating environment, due to KfS's modest risk profile and expectations that the company's business model will take on improved relevance.

Our full analysis of KfS, published 19 Feb. 2020, is available at:

<https://nordiccreditrating.com/issuer/kredittforeningen-sparebanker>

POTENTIAL POSITIVE RATING DRIVERS

- Stronger market position through, for example, success for the company's green bond initiative or a more challenging market for small savings banks.
- Increased profitability, thereby improving resilience.

POTENTIAL NEGATIVE RATING DRIVERS

- Lower credit quality of borrowers due to the COVID-19 pandemic or other macroeconomic stress.
- Continuing fall in business volumes or increased concentration on lower credit quality.
- Total capital ratio below 18%.

Figure 1. Scoring summary sheet

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

Figure 2: Capital structure ratings

Seniority	Rating
Senior unsecured	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.
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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, Data provided by external data providers, External market reports, Press reports/public information
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.
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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