

NCR comments: Kredittforeningen for Sparebanker Q4 2020 report

Our 'A-' issuer and issue ratings on Kredittforeningen for Sparebanker (KfS) are unchanged following the publication of its full-year 2020 results.

Green financing could spur new growth

KfS's lending fell by 16.4% in 2020 to NOK 4.0bn. Volumes were negatively affected by low funding requirements among member banks due to deposit growth induced by COVID-19 and liquidity facilities provided by the Norwegian central bank. However, a recent NOK 626m green bond issue represents a successful start to an initiative which could provide a basis for new growth and revitalise the company's business model.

Net interest margin under pressure

KfS's net interest margin was 0.14% in 2020, down from 0.15% a year earlier. The company's business model requires low lending spreads, and low short-term interest rates have negatively impacted its net interest margin in recent years. More than one-third of operating expenses are related to provisions to the national resolution fund, which is based on unsecured funding with a two-year lag. High fixed costs put pressure on net profit, which stood at NOK 0.2m for the full year compared with NOK 1.5m in 2019.

Capital ratios on the rise

KfS's reported common equity Tier 1 (CET1) ratio was 18.6% compared with 17.8% a year earlier, while its capital ratio was 24.5% (22.8%). NCR places additional emphasis on KfS's total capital ratio since additional capital above the CET1 ratio consists of equity certificate holder capital, while CET1 capital consists only of the member reserve.

This commentary does not constitute a rating action.

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Attachments

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