

# NCR comments: Kredittforeningen for Sparebanker Q3 2020 report

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

## **Green initiative to create renewed growth**

KfS's lending fell by NOK 0.3bn in the third quarter and NOK 0.8bn in the year to date to NOK 3.9bn. 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, KfS expects that an initiative to launch green bonds will drive new growth from the fourth quarter. It is resource intensive for small banks to issue green bonds, and KfS sees strong interest among member banks for this new product.

## **Existing business model under pressure**

KfS's net interest margin was 0.10% in the third quarter, down from 0.16% in the second. The company's business model requires low lending spreads, and low short-term interest rates have negatively impacted its net interest margin. A relatively normal level of net financials and operating costs generated a net loss of NOK 0.3m in the third quarter while year-to-date profit stood at NOK 0.7m at end-September. 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. More than half of the remaining costs are also variable. However, the company needs growth to ensure profitability.

## **Higher capital ratio**

KfS's reported common equity Tier 1 (CET1) ratio was 18.7% at the end of the third quarter compared with 17.1% three months earlier, while its capital ratio was 24.6% (22.6%). 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.

Unlike Norway's savings banks, KfS has not been positively impacted by capital discounts offered to SME customers as part of Norway's aim to implement EU capital requirements but will have to meet a higher capital requirement (1.5pp higher) from end-2022. However, KfS has a buffer (in its articles of association) to the regulatory requirement of 1.5pp, and the company's supervisory board has decided to propose to bondholders to remove the buffer from the articles of association. It also needs permission from the Norwegian financial supervisory authority.

This commentary does not constitute a rating action.

## **If you have any questions, please contact:**

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**Attachments**

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