

Research Update:

# Eiendomskreditt AS Long-Term Ratings Lowered To 'BBB-'; Outlook Stable

March 31, 2020

## Overview

- We now expect that the fall in oil prices and ongoing threat of COVID-19 will have substantial negative implications for the Norwegian economy.
- We also believe that these factors will likely have a longer-term negative impact on the commercial real estate (CRE) segment, among other vulnerable sectors.
- We believe that the above factors will place increased pressure on Eiendomskreditt's revenues and business position.
- We are therefore lowering the issuer credit ratings on Eiendomskreditt to 'BBB-/A-3' from 'BBB/A-2'.
- The stable outlook on Eiendomskreditt reflects our view that, despite the likely volatility in revenues, the company's very strong capital buffers will, to a large extent, help balance the potential deterioration in asset quality over the next 24 months.

### PRIMARY CREDIT ANALYST

**Natalia Yalovskaya**  
London  
(44) 20-7176-3407  
natalia.yalovskaya  
@spglobal.com

### SECONDARY CONTACT

**Erik Andersson**  
Stockholm  
+ 46 84 40 5915  
erik.andersson  
@spglobal.com

## Rating Action

On March 31, 2020, S&P Global Ratings lowered its long- and short-term issuer credit ratings on Norway-based Eiendomskreditt AS to 'BBB-/A-3' from 'BBB/A-2'. The outlook is stable.

## Rationale

The downgrade reflects our assessment that the fall in oil prices and ongoing threat of COVID-19 will have substantial negative implications for the Norwegian economy, particularly the CRE segment. We foresee weaker economic prospects and have therefore revised down our assumptions for new lending growth in the banking sector. At the same time, we consider that the Norwegian government has introduced ample efficient and timely measures to support the economy, banking sector, and households. We believe that this will help mitigate pressure on revenues of various businesses and individual borrowers' income. Nevertheless, we believe that the likely pressure on the CRE segment will strain Eiendomskreditt's revenues, mainly due to the

focus of its business on this segment, as well as individual name concentrations in its portfolio, compared with banks with more universal business profiles.

**CRE segment is likely to experience the combined effects of the coronavirus outbreak and lower oil price.** We believe that the effects of the COVID-19 outbreak and fall in oil price will likely have a more pronounced negative, and possibly longer-term, impact on certain business sectors, particularly the CRE segment. This is because we expect business revenues to be increasingly volatile, resulting in pressure in particular on various businesses that provide non-essential goods and services, such as non-food retail and hotels, which often make up a substantial share of revenues of businesses within the CRE segment. With increasing unemployment and weakening corporate sentiment, there is an increased risk of tenants defaulting, which would make it more difficult to negotiate new leases, raising the risk of vacancies for the CRE segment. We also think that, in the longer term, the current situation might result in many businesses switching to an online business model instead of actively developing a physical presence in urban centers.

The impact of the financial fallout from the pandemic on future property prices remains uncertain at this stage. Weaker cash flows and a decline in investment over coming quarters may result in negative revaluations and increased loan-to-value ratios by the end of the year.

**We consider Eiendomskreditt to be vulnerable to the challenging macroeconomic environment due to its limited market share and lack of business diversification** Although we note Eiendomskreditt's rigorous underwriting process and strong portfolio performance over the past few years (as evidenced by the loan-to-value on its portfolio of about 45% and good asset quality as reported as of end-2019), we consider that the challenging economic environment will constrain its revenues.

We expect that the company's focus on the CRE segment, with individual name concentrations in its portfolio, will make it vulnerable to the potential deterioration of some large exposures. We believe that this will result in notable pressure on the company's revenues and will likely require significant additional provisioning.

As a small company with a concentrated funding profile, Eiendomskreditt will likely be among those entities that find it more difficult to secure funding from the capital markets, which are very turbulent at the moment. However, we believe that the company's liquidity cushion will mitigate this to a large extent. In addition, over recent years we note that the company has managed to extend the maturity of its funding to about three years and we don't expect that it will need to access the capital markets until 2021, which is a strength given the current circumstances.

**Currently very strong capitalization largely mitigates the risks related to potential asset quality deterioration.** We still consider Eiendomskreditt's strong capitalization as a rating strength. Based on our capital assessment, the company's risk-adjusted capital (RAC) ratio before diversification was 24.7% as of end-2019. Despite potential asset quality deterioration, under our base case we assume that capitalization will remain above 15% over our forecast horizon. This means that the company will have sufficient capital buffers to absorb expected higher losses compared with the low levels observed in 2019.

However, we see downside risk to our projections owing to uncertainty around the potential impact of coronavirus on global economic growth that might have certain implications for Norway. If we need to revise our base-case assumptions, we'll also revise our assumptions underlying Eiendomskreditt's financial forecasts and RAC projections.

## Outlook

The stable outlook on Eiendomskreditt reflects our view that, despite the likely volatility in revenues, the company's very strong capital buffers will, to a large extent, help balance the potential deterioration in asset quality over the next 24 months.

## Downside scenario

We could consider revising the outlook on Eiendomskreditt to negative if we observed that the entity's risk profile indicators are not commensurate with a 'BBB-' rating on a sustained basis over the next 18-24 months. Specifically, we would revise our outlook to negative if the ongoing coronavirus outbreak, coupled with the oil price shock, leads to significant negative pressure on the performance of the CRE segment in Norway, resulting in substantially higher credit losses and additional provisioning needs than we currently expect. We consider that the company's funding profile might also become more vulnerable due to increased volatility of the covered bond markets.

## Upside scenario

Although we believe an upgrade is unlikely at present, if Eiendomskreditt is able to demonstrate stable, predictable revenue generation on a consistent basis and strong resilience of its asset quality to ongoing pressures, we could consider revising our outlook to positive.

We acknowledge a high degree of uncertainty about the rate of spread and peak of the coronavirus outbreak. Some government authorities estimate the pandemic will peak about midyear, and we are using this assumption in assessing the economic and credit implications. We believe the measures adopted to contain COVID-19 have pushed the global economy into recession (see our macroeconomic and credit updates here: [www.spglobal.com/ratings](http://www.spglobal.com/ratings)). As the situation evolves, we will update our assumptions and estimates accordingly.

## Ratings Score Snapshot

|                      | To                     | From                   |
|----------------------|------------------------|------------------------|
| SACP                 | bbb-                   | bbb                    |
| Anchor               | a-                     | a-                     |
| Business Position    | Weak (-3)              | Weak (-2)              |
| Capital and Earnings | Very Strong (+2)       | Very Strong (+2)       |
| Risk Position        | Moderate (-1)          | Moderate (-1)          |
| Funding              | Below Average and (-1) | Below Average and (-1) |
| Liquidity            | Adequate               | Adequate               |
| Support              | 0                      | 0                      |
| GRE Support          | 0                      | 0                      |
| Group Support        | 0                      | 0                      |
| ALAC Support         | 0                      | 0                      |

## Research Update: Eiendomskreditt AS Long-Term Ratings Lowered To 'BBB-'; Outlook Stable

|                      | To   | From |
|----------------------|------|------|
| Sovereign Support    | 0    | 0    |
| Additional Factors   | 0    | 0    |
| Holding Co. Notching | None | None |

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Coronavirus Impact: Key Takeaways From Our Articles, March 25, 2020
- Global Covered Bonds: Assessing The Credit Effects Of COVID-19, March 25, 2020
- Global Macroeconomic Update, March 24: A Massive Hit To World Economic Growth, March 24, 2020
- Norway, March 13, 2020
- BICRA Norway, Jan. 7, 2020

## Ratings List

### Downgraded; CreditWatch/Outlook Action

|                           | To              | From             |
|---------------------------|-----------------|------------------|
| <b>Eiendomskreditt AS</b> |                 |                  |
| Issuer Credit Rating      | BBB-/Stable/A-3 | BBB/Negative/A-2 |

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such

## Research Update: Eiendomskreditt AS Long-Term Ratings Lowered To 'BBB-'; Outlook Stable

criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceId/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.