

# Eiendomskreditt AS

Full Rating Report

## COVERED BOND RATING

AAA

## ISSUER RATINGS

### LONG-TERM RATING

BBB

## OUTLOOK

Stable

## SHORT-TERM RATING

N3

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## SECONDARY CONTACTS

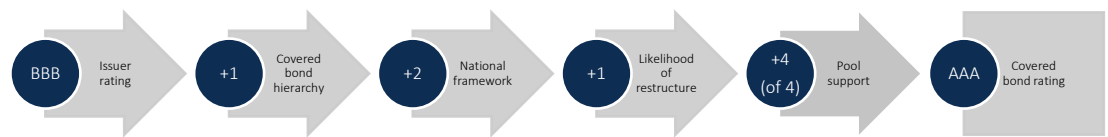
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## RATING RATIONALE

Our 'AAA' issue rating on covered bonds issued by Norway-based mortgage company Eiendomskreditt AS is ultimately based on our 'BBB' issuer rating on the company and its role as a commercial real estate lender and partner for small and mid-sized Norwegian banks. Our covered bond ratings are supported by our 'a+' qualitative assessment and our analysis of the potential for up to four notches of support from the cover pool, which indicates 'AAA' level support for bondholders in the unlikely event that the pool were to become a standalone entity.

Figure 1. Covered bond rating components



Given the stable outlook on the issuer rating on Eiendomskreditt we expect the covered bond ratings to remain stable. The current assessment of pool support is a maximum of four notches.

### RATING STRENGTHS:

- Moderate loan-to-value (LTV) profile of commercial mortgages and geographic diversity of cover pool.
- Low historical credit losses.
- Relationship with partner banks.

### COVERED BOND RATING DRIVERS:

- Increased credit risk due to higher LTV on commercial mortgages.
- Multi-notch reduction in our issuer rating on Eiendomskreditt.
- Material reduction in overcollateralisation resulting in weaker cover pool support.

Figure 2. Cover pool characteristics, Q2 2023–Q2 2024

	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024
Eligible cover pool assets (NOKm)	5,878	6,071	6,272	6,651	6,422
Outstanding covered bonds (NOKm)	4,700	4,807	4,809	4,970	4,950
Legal overcollateralisation (%)	25.1	26.3	30.4	33.8	29.7
Weighted-average LTV (%)	45.8	45.9	46.2	48.5	48.8
Average loan maturity (years)	5.6	5.5	4.8	4.5	3.5
Average bond maturity (years)	2.9	2.8	2.7	2.7	2.7
Average loan size (NOKm)	25.4	25.6	26.8	27.1	26.1
Commercial property share (%)	85.5	86.0	87.5	84.9	84.2
Residential rental property share (%)	14.5	14.0	12.5	15.1	15.8
>90 day past due loans (bps)	0.53	3.27	3.23	0.61	0.68
10 largest borrowers share (%)	25.0	23.6	24.4	24.0	24.6

Source: Eiendomskreditt (<https://eiendomskreditt.no/investor/cover-pool/>).

Figure 3. Loan per property by region (NOKbn), 30 Jun. 2024

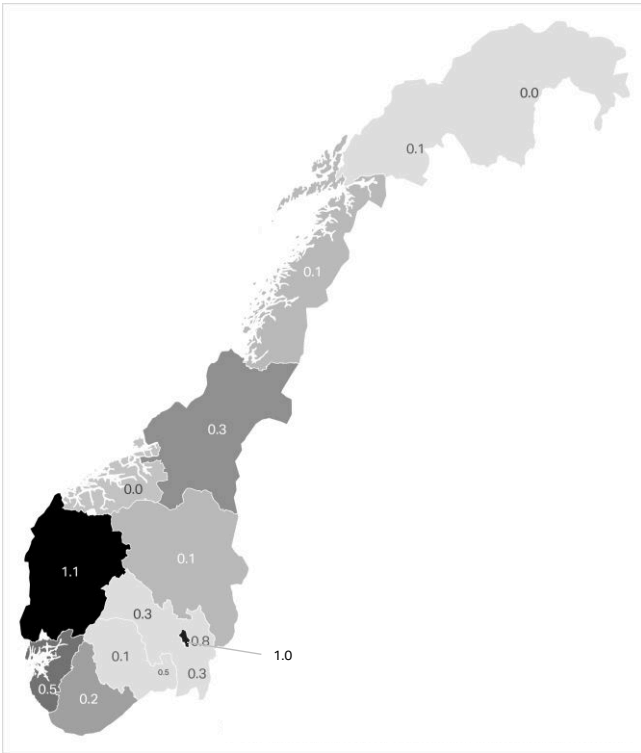


Figure 4. Weighted LTV by region (%), 30 Jun. 2024

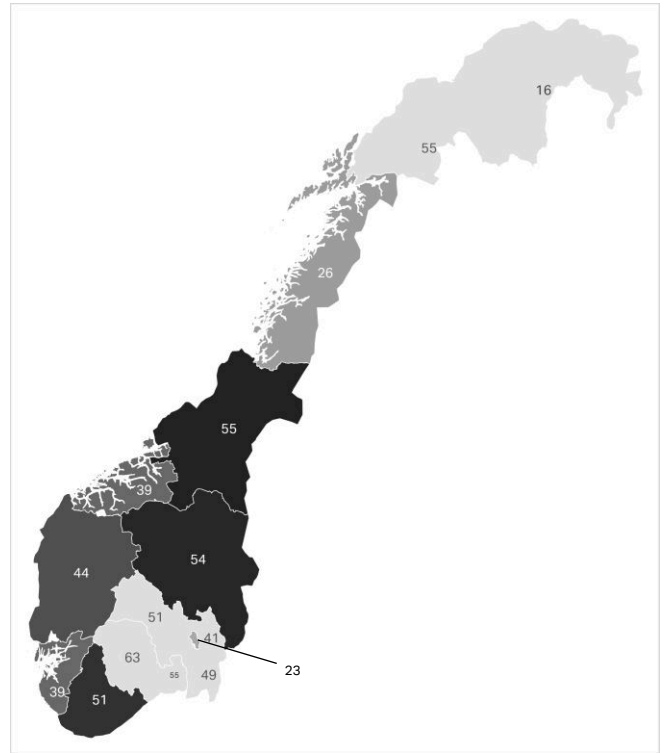


Figure 5. Average loan size per property by region (NOKm), 30 Jun. 2024

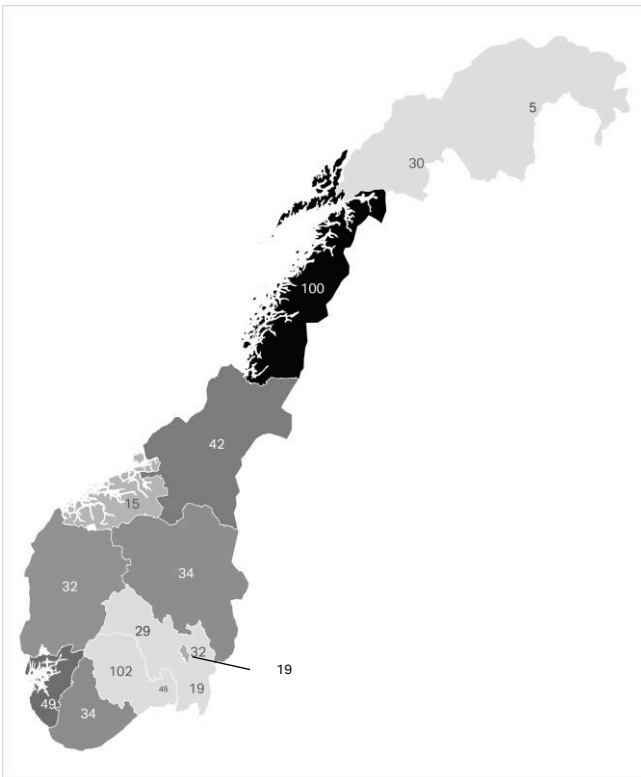
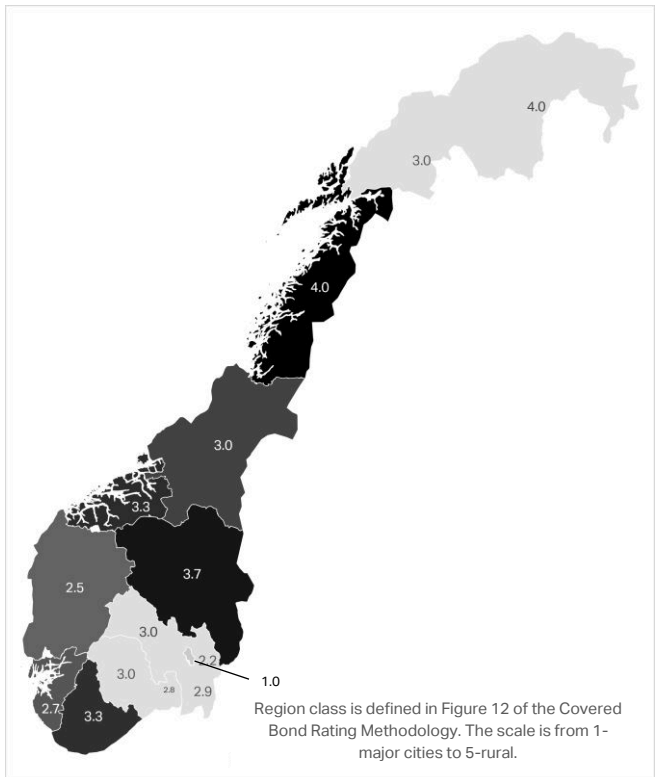


Figure 6. Average class of properties by region, 30 Jun. 2024

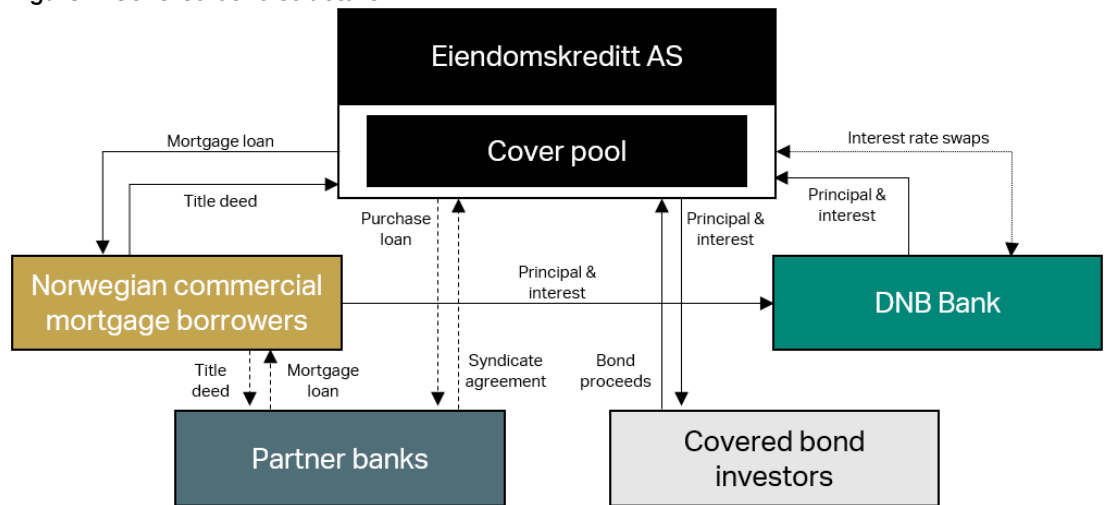


**COMPANY PROFILE**

Eiendomskreditt was established in 1997 and is a regulated mortgage credit institution based in Bergen, Norway. The company is a specialised mortgage provider, financing commercial real estate for SME borrowers, multi-family rental housing and housing association mortgages. The company has issued covered bonds in Norway since 2009 and received approval to issue European Covered Bond (Premium) covered bonds in 2022. As of 30 Jun. 2024, virtually all loans are included in the cover pool. Most of the financed properties are in metropolitan areas of Norway's largest regions, with Vestland, Oslo, Akershus and Rogaland accounting for nearly two-thirds of lending.

Meteva AS (Trond Mohn) and R Transit AS (the Rieber family) each own 30% of the company. In addition, over 60 Norwegian savings banks, Voss Veksel og Landmandsbank ASA, and Pareto Bank own over 38%. Eiendomskreditt is independent and not aligned with any Norwegian savings bank alliances, however all of these alliances are represented among the owners.

**Figure 7. Covered bond structure**



**QUALITATIVE ASSESSMENT**

Qualitative assessment

Our qualitative assessment of Eiendomskreditt's covered bonds is 'a+', reflecting the issuer rating on the company and the notches of support described below. Our qualitative assessment indicates a relatively low likelihood that the cover pool will become a standalone entity, and a high likelihood that bondholders will receive timely coupon and principal payments. However, given that the qualitative assessment does not reach the 'aaa' level, a bottom-up analysis of the cover pool was undertaken to determine the ability of the underlying assets to support timely payments and full repayment.

**Issuer rating 'BBB'**

The repayment capacity for covered bonds is linked to Eiendomskreditt's own credit quality. Our 'BBB' issuer rating on Eiendomskreditt reflects the company's moderate risk appetite, conservative underwriting, strong capital position, modest competitive position, and expectations of strong cost efficiency and modest loan losses. The outlook on our issuer rating on Eiendomskreditt is stable. Details of the issuer rating rationale are provided at the end of this report.

**Senior unsecured issue rating in line with the issuer rating**

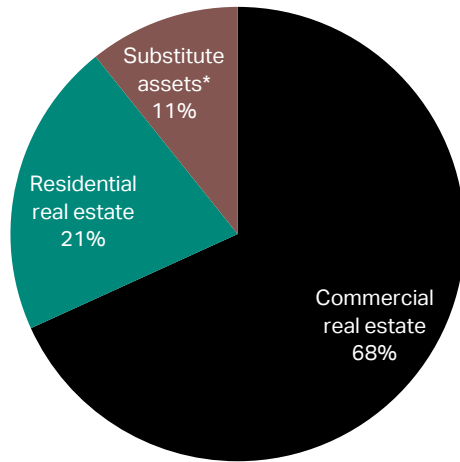
Eiendomskreditt's liability structure consists primarily of covered bonds, which are already excluded from bail-in according to the EU's Bank Recovery and Resolution Directive (BRRD), which has been in effect in Norway since 1 Jan. 2019 (BRRD II has been in effect since 1 Jun. 2022). In addition, as of 30 Jun. 2024, the company had three outstanding senior unsecured bonds totalling NOK 525m, of which NOK 125m matures in October 2024, as well as NOK 80m in outstanding senior unsecured commercial paper. We expect Eiendomskreditt to maintain a ratio of senior unsecured lending to outstanding covered bonds of 10-15% to support its overcollateralisation.

We consider covered bonds to have structural priority above other liabilities, given the preferential claim of the cover pool over most the company's loan assets in the event of default. As a result, we add

an additional notch of uplift to the covered bond ratings in comparison with ratings on the company's senior unsecured instruments. This reflects the BRRD's explicit definition of covered bonds as having priority claim over senior unsecured debt obligations in the default hierarchy of financial institutions.

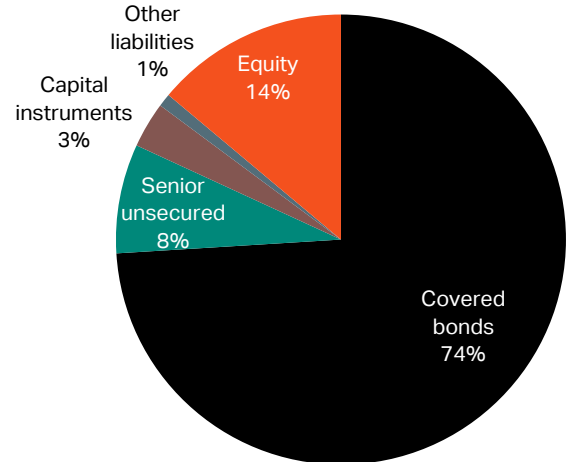
For more details on the BRRD and the creditor hierarchy in Norway, see Appendix I.

Figure 8. Loans and assets, 30 Jun. 2024



Source: company. \*rental, cooperatives, and households.\*\*53% cash and 47% bonds.

Figure 9. Liabilities and equity, 30 Jun. 2024



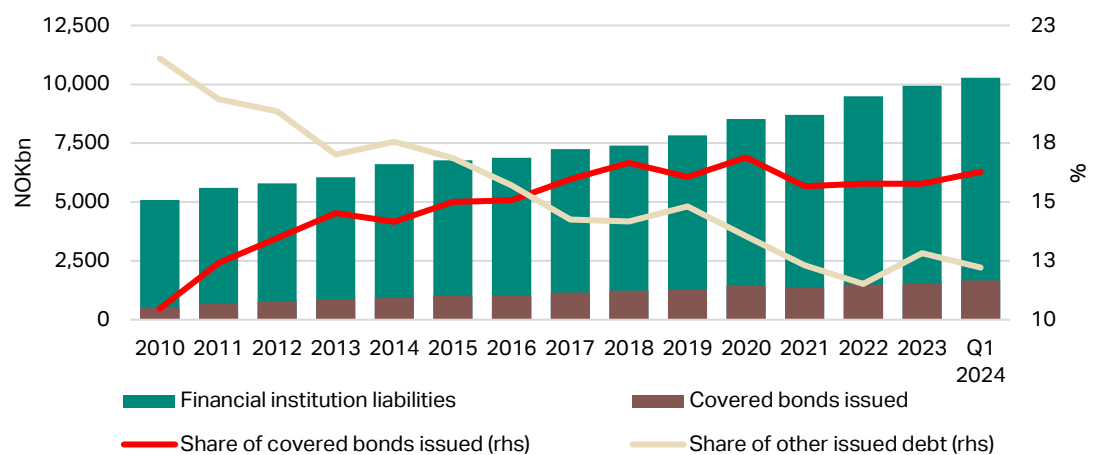
Source: company.

**National regulations provide two-notch uplift to covered bond ratings**

We consider the legal framework for Norwegian covered bonds as supportive of the creditworthiness of covered bonds secured by residential and commercial mortgage loans, adding an additional two notches to the rating on Eiendomskredit's covered bonds. For more details see Appendix I.

In addition to strong national regulations, covered bonds are a significant part of the Norwegian financial fabric and constitute a material portion of domestic bank financing. The country had over NOK 1.7 trillion in outstanding covered bonds as of 31 Mar. 2024, constituting a material proportion of low-risk market assets. Covered bonds represent 16% of Norwegian monetary financial institution liabilities, making them one of the most important financing sources in the country's banking system, behind only customer deposits.

Figure 10. Norwegian financial institutions' share of liabilities by type, 2010-Mar. 2024



Source: Statistics Norway, Finance Norway.

**Uncertain likelihood of restructuring leads to 'a+' qualitative assessment**

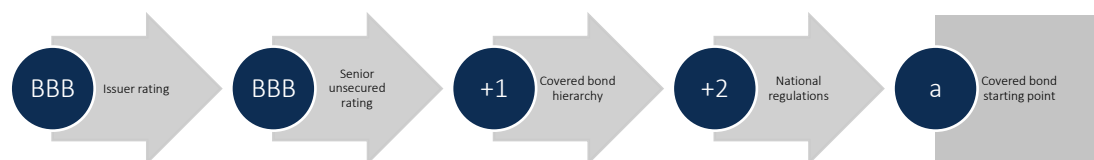
The possibility of resolution or restructuring is an important component in our evaluation of the likelihood of Eiendomskredit's cover pool being run down by an administrator. In our view, we believe a restructuring could allow the cover pool to continue servicing the covered bonds as a going

concern under new ownership. However, the likelihood is uncertain, resulting in only one notch of uplift.

We consider the resolution of Eiendoms kreditt as unlikely given its relatively small size and niche profile. The company has not been named as a systemically important financial institution in Norway, nor has the issuer received any minimum requirement for own funds and eligible liabilities requirements from the Norwegian regulator. Neither does our assessment consider that default by Eiendoms kreditt, with nearly NOK 5bn in outstanding covered bonds, would be material enough to risk the financial stability of the banking market or to negatively affect the reputation of Norwegian covered bonds among investors.

However, we consider that default by Eiendoms kreditt could have financial repercussions for its partner banks. For this reason, we believe it likely that a high proportion of still-performing loans would be repatriated by partner banks with the means to finance their customers' loans on their own balance sheets. An increase in prepayments of pool loans would support the liquidity of the cover pool. After this initial effect, we believe that larger commercial or regional banks could acquire the remaining performing assets and support the cover pool as a going concern.

Figure 11. Covered bond starting point



Our evaluation of the impact of restructuring compares the implicit default frequency of the covered bond starting point with the probability of the covered bonds being protected in a restructuring. We assess the probability of restructuring as 33%, reflecting considerable uncertainty compared with an issuer with a high likelihood of resolution or a pool of residential mortgages. This results in a qualitative assessment of 'a+'.

Figure 12. Qualitative assessment based on the covered bond starting point and the probability of resolution or restructuring

COVERED BOND STARTING POINT	95%	67%	33%	0%
aaa	aaa	aaa	aaa	aaa
aa+	aaa	aaa	aaa	aa+
aa	aaa	aaa	aa+	aa
aa-	aaa	aa+	aa	aa-
a+	aaa	aa	aa-	a+
a	aaa	aa	<b>a+</b>	a
a-	aa+	aa-	a	a-

**COVER POOL ANALYSIS AND STRESS TESTING**

Our cover pool analysis results in four additional notches of support from the security in the cover pool, the maximum possible given the qualitative assessment of 'a+'. This results in a 'AAA' rating on Eiendoms kreditt's covered bonds. We have used loan, property and borrower level details from Eiendoms kreditt to analyse pool assets and conduct sensitivity analysis and credit risk stress testing on the cover pool according to our criteria. In addition, we have complemented detailed data with data available from Eiendoms kreditt's quarterly covered bond summaries to stress cash flows according to the standard stress assumptions specified in our criteria.

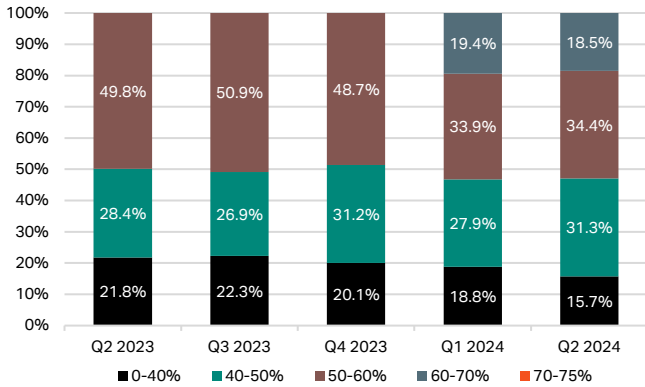
Our stress test shows that even in our most difficult stress scenario, the cover pool assets are sufficient to cover liquidity needs for five years (see Figure 27). We have no overcollateralisation requirement in our methodology but stress pool assets to determine the ability to fulfil commitments as a standalone entity. Accordingly, overcollateralisation is a key component of an issuer's ability to repay bondholders in full in the event of a rundown.

For details on our stress test approach and assumptions, see Appendix II.

**LTV levels rise due to higher yields**

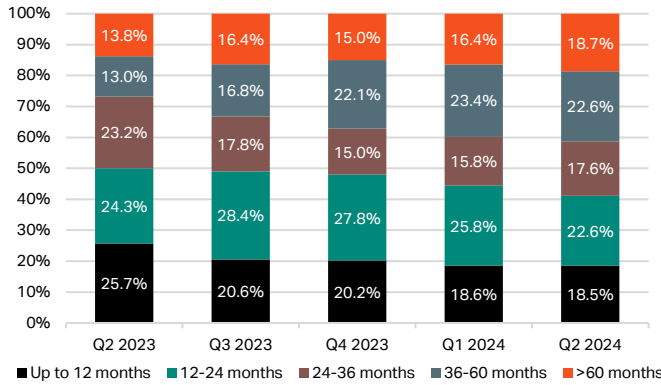
The following charts (Figures 13-22) provide an overview of the cover pool assets. As of 30 Jun. 2024, the pool included NOK 6.4bn in eligible commercial, housing association and multi-family housing mortgage loans, i.e. loans qualifying for overcollateralisation, LTV and loan performance requirements. This results in a legal overcollateralisation of 29.7%. In addition, Eiendomsrett had a balance of NOK 39m in non-eligible loans in the cover pool, resulting in total overcollateralisation of 30.5%. As of 30 Jun. 2024, the cover pool included NOK 0.7bn in eligible substitute assets, of which a little more than half was cash held at DNB Bank and the remainder Norwegian covered bonds.

**Figure 13. Share of pool by whole-loan LTV, last five quarters**



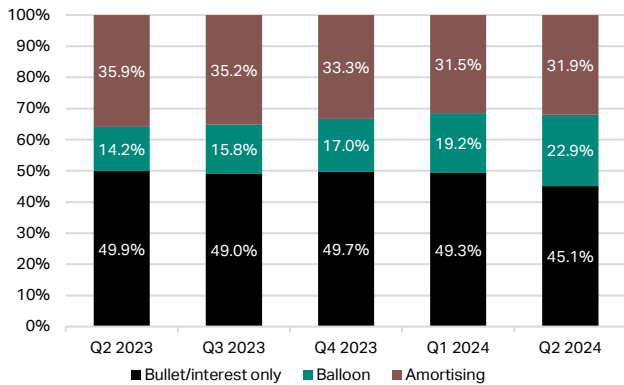
Source: company. Entire eligible loan amount in respective bucket based on borrowers' LTV.

**Figure 15. Share of pool by loan seasoning, last five quarters**



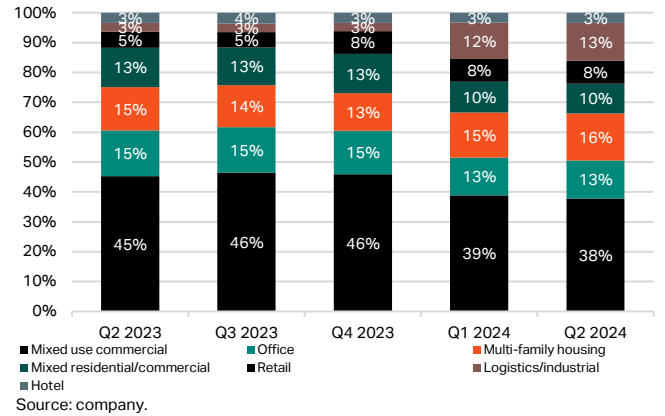
Source: company.

**Figure 17. Share of pool by payment profile, last five quarters**



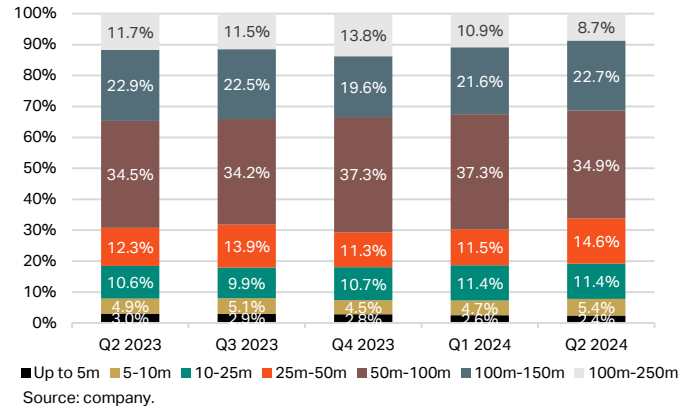
Source: company.

**Figure 14. Share of pool by property type, last five quarters**



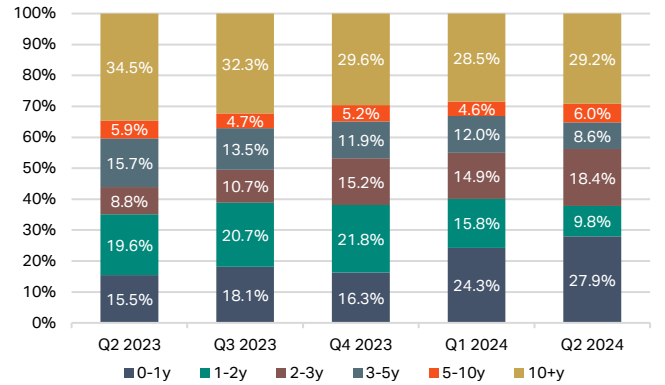
Source: company.

**Figure 16. Share of pool by loan size (NOK), last five quarters**



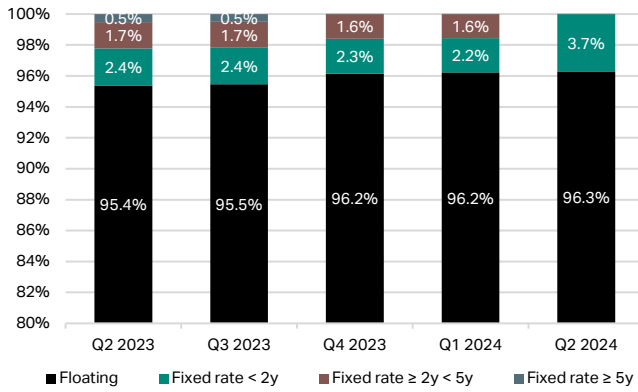
Source: company.

**Figure 18. Share of pool by maturity, last five quarters**



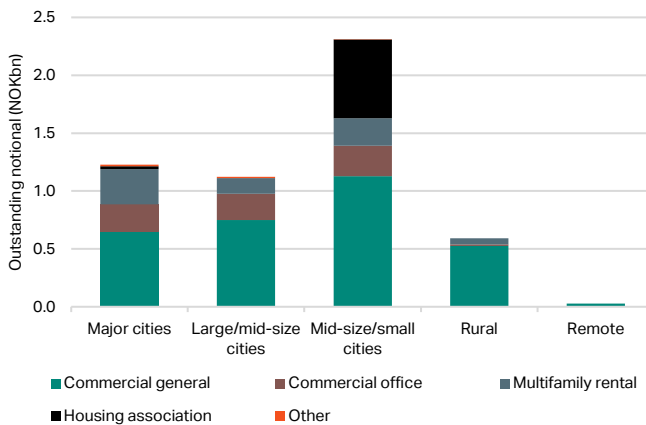
Source: company.

Figure 19. Share of pool by interest rate, last five quarters



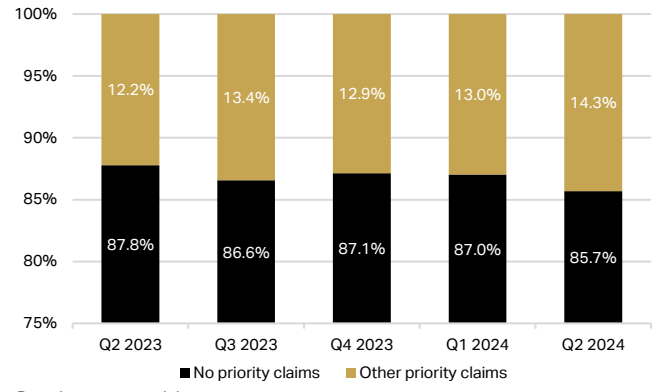
Source: company.

Figure 21. Region class and property type, 30 Sept. 2023



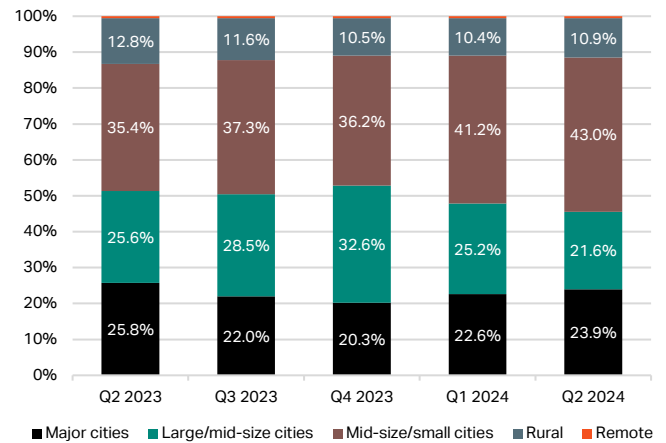
Based on cover pool data, NCR region definitions.

Figure 20. Share of pool by priority claims, last five quarters



Based on cover pool data.

Figure 22. Region class, Q2 2023-Q2 2024



Based on cover pool data, NCR region definitions.

**Credit risk stress tests show higher losses due to increased LTV levels**

Our stress scenarios are based on Norwegian commercial real estate prices being in line with their long-term trend levels (+/- 5%). Market yields widened gradually in 2022 and 2023, but because Eiendomskreditt revalues its cover pool only once a year in the first quarter (unless one-off adjustments are deemed necessary), we saw a major shift in average LTV levels in the first quarter of 2024, with the LTV of about a fifth of the cover pool rising above the 60% threshold. This also impacted stressed losses in the quarter (see Figure 13 and Figure 23). We expect aggregate yields, and consequently valuations, to be mostly stable through 2025, implying that LTV levels should stabilise around current levels.

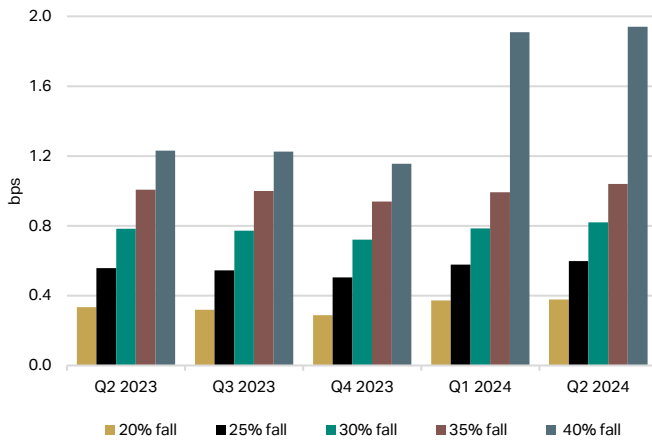
We do not make an additional geographic concentration adjustment to the stressed losses, reflecting the spread of the portfolio across Norway's primary commercial real estate markets (Figure 3) and that its geographic diversity is similar to that of other Norwegian residential and commercial cover pools.

Given the low LTV profile of the loan book, Eiendomskreditt had low expected losses, even with a 40% reduction on current valuations (as of 30 Jun. 2024). While expected losses have increased from the second quarter of 2023, in absolute terms they have remained modest, with 194 bps in expected losses if the current portfolio were to decline by 40% (compared with 46bps with a 45% decline in the first quarter of 2023). The increase has been partly driven by a few exposures with increased risk and high LTV, as well as a group of exposures with LTV above 60%.

The cover pool has greater single-name concentration than most Norwegian cover pools given the nature of commercial real estate loans in comparison with private residential mortgages. The company's policy limits the top 10 loans to a maximum 30% of commercial loans in the portfolio and the top 20 loans to a maximum 50%. The largest loan is NOK 182m with an LTV of 51%. The top 25 exposures total NOK 2.8bn or 43% of the cover pool and had a weighted average LTV of 43.4% as of 30 Jun. 2024. Given the property- and loan-level stress test, single-name concentrations are reflected in

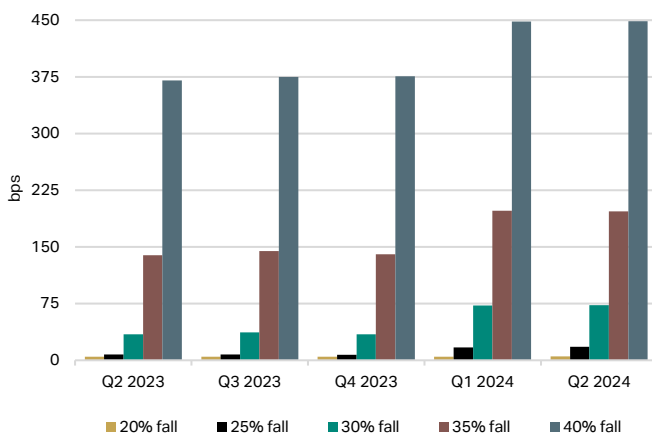
the stress test scenarios. Our Level 5 credit risk stress test resulted in a one-year credit loss of NOK 243m, 4.5% of pool loans and 25% of Tier 1 capital as of 30 Jun. 2024 (see Figure 25).

**Figure 23. Expected loss as a share of cover pool loans, based on actual portfolio composition and NCR stress test, Q2 2023-Q2 2024**



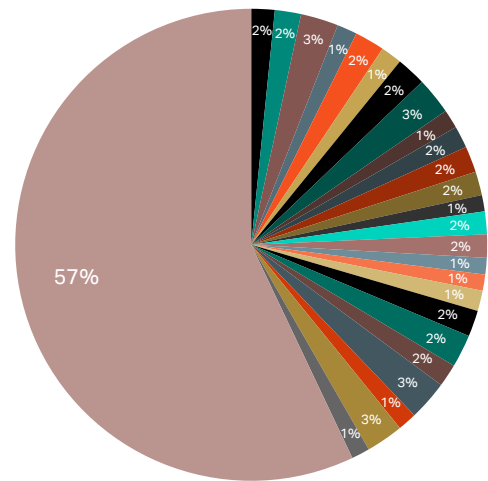
Based on NCR analysis of company data.

**Figure 25. One-year credit loss as a share of cover pool loans, based on actual portfolio composition and NCR stress, Q2 2023-Q2 2024**



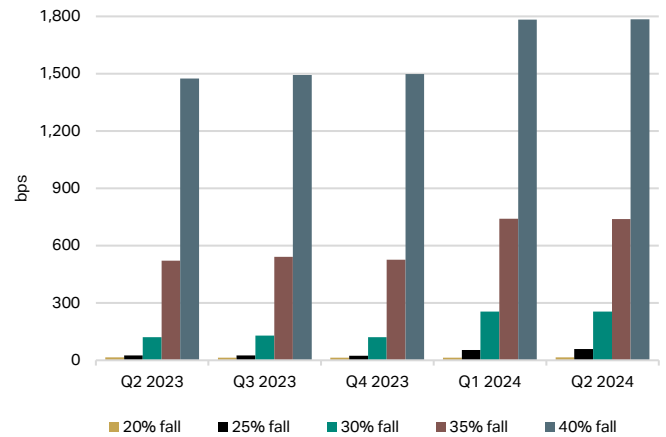
Based on NCR analysis of company data.

**Figure 24. Top 25 exposures as a share of eligible cover pool loans, 30 Jun. 2024**



Source: company.

**Figure 26. Multi-year credit loss as a share of cover pool loans, based on actual portfolio composition and NCR stress test, Q2 2023-Q2 2024**



Based on NCR analysis of company data.

**Cash flow stress test shows no shortage after five-year rundown**

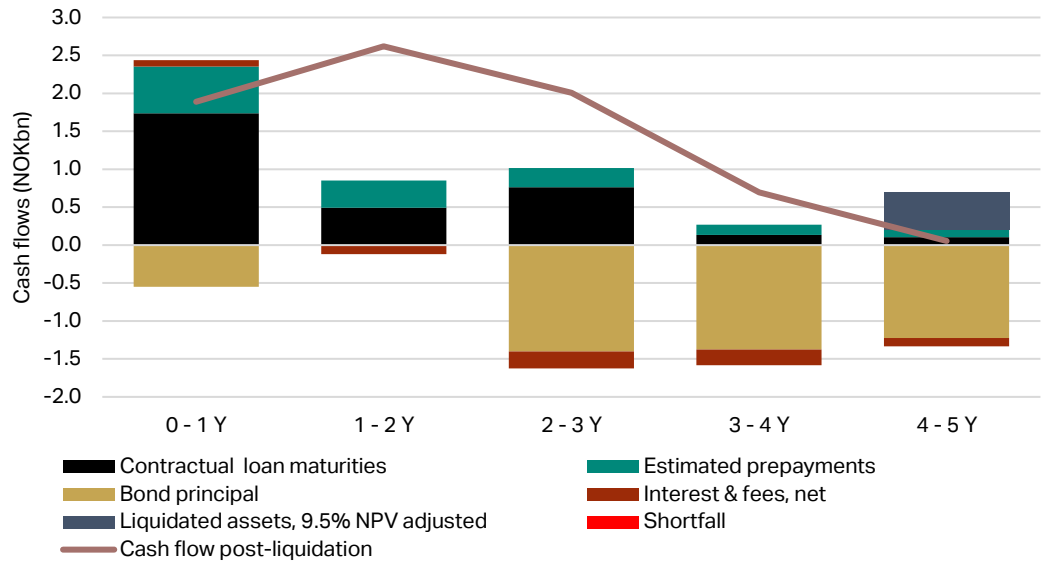
The stressed losses and non-performing loans are input into our cash flow stress test based on an assumption of the portfolio being run down by an administrator and outstanding bonds being repaid by selling pool assets at a discount.

Our stress analysis shows that even in our most extreme cash flow scenario (Level 5), the sale of highly discounted cover pool assets at the end of the fifth year is sufficient to repay existing bondholders (see Figure 27). The scenario assumes prepayments of 10% and repayment of performing loans at maturity. It also assumes that margins on performing loans will fall from 2.6% to 0%.

The outcome of this analysis is theoretical given the assumption that the stress is immediate and based on current assets and outstanding bonds. The stress scenario is primarily dependent on our assumptions about the severity of discount rates and the liquidation rebates on assets sold. Interest and fees have only a modest impact on our analysis of Eiendomskredit's stressed cash flows. The fact that the cover pool now passes our Level 5 stress test, where previously it passed only passed Level 4, has no practical implications for the rating, given that the cover pool has received the maximum level of uplift (four notches).



Figure 27. Stressed cash flows in level 5 scenario, 30 Jun. 2024



Based on NCR analysis of company data. NPV-net present value

**ADDITIONAL FACTORS**

**Counterparty risk from interest rate swaps with DNB Bank**

Swaps in the cover pool serve to reduce the interest rate risk between the pool and the outstanding bonds by swapping bond interest payments to the three-month Norwegian Interbank Offered Rate. The maturity profile of the swap agreements generally reflects that of the outstanding maturities of the bonds. Eiendoms kreditt's primary interest rate swap counterparty is DNB Bank, which fulfils our criteria in terms of the creditworthiness of swap counterparties. DNB Bank is also the bank account provider for Eiendoms kreditt. We believe that Eiendoms kreditt will actively replace deteriorating and/or defaulting derivative counterparties to support the hedging profile of the cover pool and uphold regulatory requirements and do not adjust the rating on the covered bonds despite the concentration in Eiendoms kreditt's swap partners.

## EIENDOMSKREDITT ISSUER RATING

Our 'BBB' long-term issuer rating on Eiendomskreditt reflects the operating environment for Norwegian commercial real estate, as well as the company's robust capitalisation and earnings and low historical and projected credit losses. It also reflects weaknesses due to the concentration of Eiendomskreditt's loan portfolio, its modest market position, and its concentrated funding profile.

We expect yields in the Norwegian real estate market to remain relatively stable, with only small changes in aggregate property values. A central bank's decision to keep interest rates high for longer than in other European jurisdictions, is likely to continue to pressure borrower liquidity and dampen investment sentiment. Consequently, we expect slightly weaker asset quality metrics and modest loan growth through 2025, before they strengthen in 2026 and beyond.

### STABLE OUTLOOK

The outlook is stable, reflecting our view that Eiendomskreditt will maintain its selective underwriting and moderate LTV profile, thereby avoiding significant losses. We also believe that Eiendomskreditt's continued access to capital market financing will allow it to continue to support its partner banks, as demand for real estate financing is likely to increase slowly. We expect capital ratios to be boosted by the prospective positive impact of implementing the EU's Capital Requirements Regulations III (CRR3).

#### POSITIVE RATING DRIVERS:

- Improved capital and earnings, with a common equity Tier 1 (CET1) capital ratio sustainably above 22%.
- Pre-provision income sustainably above 3% of risk exposure amount (REA).
- Increased size and diversification of loan book.

#### NEGATIVE RATING DRIVERS:

- A material deterioration in the operating environment that negatively affects asset quality.
- A lasting reduction in the CET1 capital ratio to below 15%.
- Risk-adjusted pre-provision income persistently below 1.5% of REA.

Figure 28. Key credit metrics, 2020–2026e

	(%)	2020	2021	2022	2023	2024e	2025e	2026e
Net interest margin		1.7	1.8	1.9	2.2	2.3	2.3	2.2
Loan losses/net loans		0.11	0.00	0.00	0.00	0.06	0.06	0.01
Pre-provision income/REA*		1.6	1.7	1.9	2.4	2.5	2.6	2.6
Cost-to-income		21.8	22.0	20.2	17.5	18.2	19.1	19.6
Return on ordinary equity		7.1	8.3	8.8	10.1	10.1	9.7	10.0
Loan growth		4.0	7.3	4.6	1.7	3.0	5.0	5.0
CET1 ratio*		15.5	14.6	16.9	16.4	16.9	18.4	18.3
Tier 1 ratio*		17.1	16.1	18.6	18.0	18.5	20.0	19.9
Tier 1 ratio excl. CRR3		17.1	16.1	18.6	18.0	18.5	18.1	18.0

Source: company and NCR. e—estimate. All metrics adjusted in line with NCR methodology. \*REA and capital ratios from 2025 are estimated in accordance with CRR3 as currently proposed.

### RATING RATIONALE

We view the Norwegian banking market as the strongest in the Nordic region given strong capital and earnings, and exceptional public finances. In our view, the risk of a deeper recession in Norway is low, but economic activity has slowed, and is likely to remain subdued through 2025.

Our assessment of the operating environment is largely affected by our view of the property management sector in Norway. In our view the sector continues to face increased financial risk. We believe stable interest rates and normal levels of inflation will be positive for the sector, but that vacancy risk will remain slightly elevated for the remainder of 2024, especially at retail and office properties. In addition, increases in rental revenue are only starting to catch up with higher operating and financing costs for much of the sector, and cash positions have been strained to a varying degree for the past two years. Property values declined in 2023, due to wider yields though these were offset

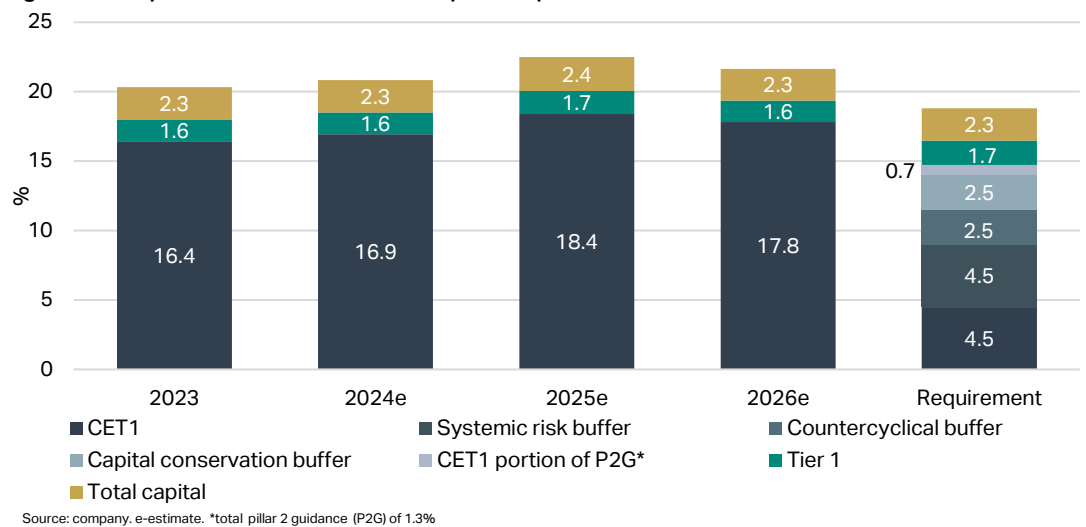
Operating environment

Risk appetite

slightly by higher net operating margins. We expect only moderate value changes in the remainder of 2024, as long-term interest rates settle, but with possible large variations within the sector. Generally, we expect risk levels in the sector to decline in the first half of 2025, but believe that a significant number of small companies and projects will remain at greater risk than a few years earlier. We believe that risk resources are proportionate and adequate, and view Eiendoms kreditt as having a restrained risk appetite despite its focus on a relatively high-risk segment. The company has a simple business model and a small portfolio of outstanding loans and borrowers. It conducts its own evaluation of risk associated with potential money laundering by customers. This includes loans distributed by partner banks and/or transaction managers. The company has just over 10 employees and we view key-person risk as significant. However, the management team is experienced and the board includes current and former executives from Norwegian savings banks and other senior executives with legal and advisory experience. Cooperation with Kredittforeningen for Sparebanker, with which the company shares offices, provides access to additional and flexible resources.

Eiendoms kreditt's capital ratios improved materially with the implementation of the EU's SME rebate for banks operating in Norway in 2022, which included a reduction in the average risk weights applied to commercial real estate loans. The company's CET1 ratio was 17.2% as of 30 Jun. 2024, and its Tier 1 ratio 19.1%. We expect lower capital ratios by end-2024 due to higher projected loan growth in the second half of the year, and that loan growth will reduce the Tier 1 ratio to 18% by end-2026, excluding any impact from implementation of CRR3. We include an impact of around 2pp for both the CET1 and Tier 1 ratios as a result of CRR3 in 2025 and 2026, but note that the exact impact is difficult to estimate at this point. We also note that Eiendoms kreditt could be particularly sensitive to volatile REA as a result of new LTV thresholds under CRR3, but that this should be mitigated by new directives on property valuations for banks.

Figure 29. Capital ratios 2023–2026e, capital requirement as of Q2 2024

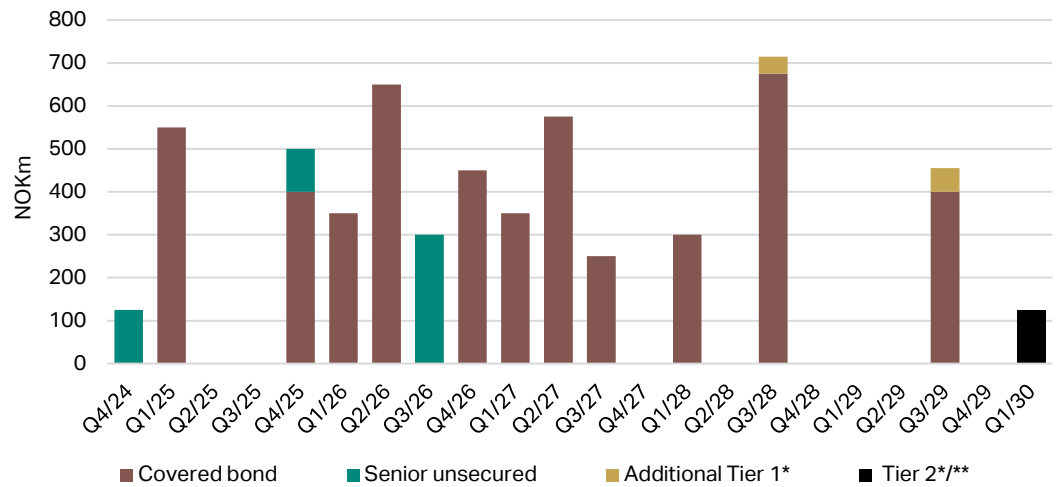


We assume that following the likely positive impact of CRR3, Eiendoms kreditt will continue to pay out 70% of net profit to its owners, providing some capital flexibility. The company's regulatory CET1 requirement was 14.7% as of 30 Jun. 2024 and its Tier 1 requirement was 16.5%, including a 1.3pp pillar 2 requirement.

We view covered bonds as a stable funding source in the Nordic market and note that Eiendoms kreditt's green covered bonds could expand its investor base. We also believe that tap issuance and the practice of early buybacks as well as Norway's history of supporting liquidity in the covered bond market support overall liquidity for all domestic issuers. However, Eiendoms kreditt is one of the smallest issuers in Norway with about 0.3% of outstanding bonds and one of only two issuers (along with SpareBank1 Nærings kreditt) issuing covered bonds backed primarily by commercial real estate. For this reason, we believe that the company could face more difficulty in refinancing in times of stress than other Norwegian covered bond issuers. In addition, the company issues senior unsecured bonds to finance additional collateral and liquid assets necessary for maintaining

regulatory funding and liquidity ratios, increasing its dependence on functioning capital markets. All outstanding bonds are denominated in Norwegian kroner, thereby matching the underlying assets.

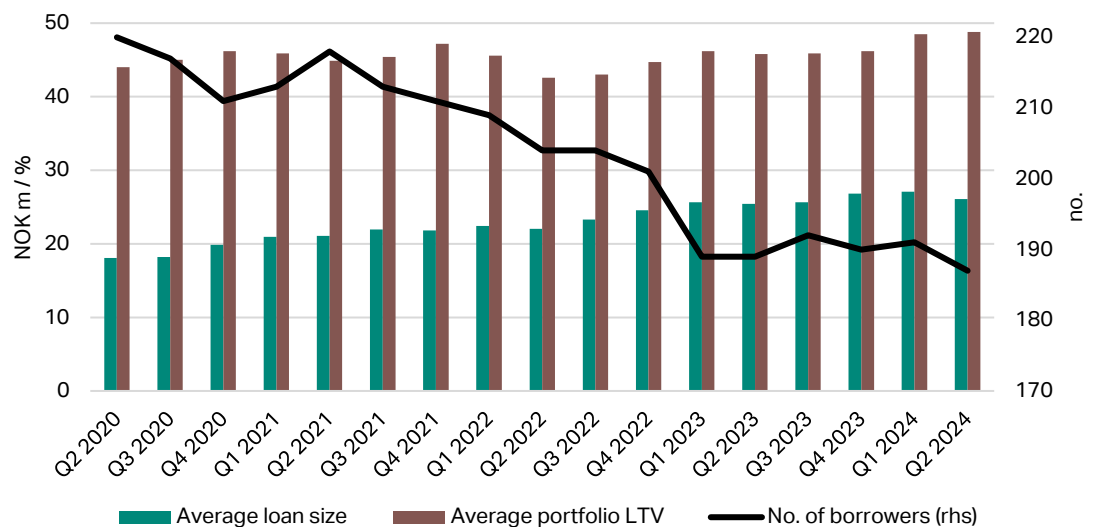
Figure 30. Debt maturity profile, 30 Jun. 2024



Source: company. \*date reflects first call date. \*\*NO0013315937 issued on 20 Aug. 2024, replacing instrument called on 17 Sep.

Eiendoms kreditt has material concentrations in its credit risk profile due to the size of the loan book and its role as a commercial real estate lender. As of 30 Jun. 2024, the cover pool consisted of 221 loans to 187 borrowers, highlighting the small scale of the operation compared with those of other mortgage institutions in Norway. These concentrations are largely captured in our stress testing of the portfolio, which points to strong resilience in the loan book in all but the most dramatic scenarios. Concentrations have increased in recent years, and we expect the company to focus on limiting them. Eiendoms kreditt also take into consideration transition and physical risk associated with all new loans, and is working with Norwegian company Eiendomsverdi AS to understand the inherent exposure to climate-related risk more fully given its real estate lending profile.

Figure 31. Loan book details, Q2 2020-Q2 2024



Source: company. Based on cover pool eligible loans.

The geographic spread of the portfolio covers the whole country, with many borrowers and properties located in major cities and centres of economic activity. The weighted LTV based on indexed property values was 48.8% as of 30 Jun. 2024, up from 46.2% at end-2023 but remaining commensurate with the company's modest risk appetite. Eiendoms kreditt extends loans through three primary channels; in-house, via partner banks, or via transaction managers. While demand has been weak over the past two years, we expect it to pick up slowly, and consider Eiendoms kreditt's flexible origination channels as supportive of growth.

**Competitive position** Eiendoms kreditt began issuing covered bonds for its partner banks in 2009, establishing its role as an alternative financier of partner banks' customer loans as well as its own originated loans. The company is not part of any of Norway's banking alliances, but has owner banks from all the alliances. However, the company is a minor financial institution in domestic terms and has negligible income outside of net interest income from mortgage lending. In addition, it aims to use green loan financing to improve its attractiveness to partner banks and customers.

**Performance indicators** Eiendoms kreditt's earnings are robust, primarily due to the small size of its operations and the sharing of costs and resources with Kredittforeningen for Sparebanker. Earnings have improved due to high interest rates and high risk premiums for commercial real estate borrowers. We project pre-provision income to REA will fall slightly as net interest margins decline, but remain above 2% through our forecast period, with cost metrics increasing from exceptionally low levels toward 20%.

Eiendoms kreditt has a history of low credit losses, even though it sets aside loss reserves for Stage 1 performing loans and has reported a volatile level of net non-performing loans since reporting according to IFRS 9 in 2020. While the proportion of net Stage 3 loans has decreased from a high of 3.2% in 2022, we expect Stage 2 and Stage 3 loans to remain elevated through 2025, before declining in 2026. Loan-loss provisions have increased slightly, but forecast loan losses include further write-downs of a seized property that remains on the company's books.

**ESG factors** Environmental, social and governance (ESG) factors are considered throughout our analysis where material to the credit assessment. On aggregate, we view Eiendoms kreditt's ESG profile as having a neutral impact on its creditworthiness. The company's activities include the provision of green financing for green loans to partner banks and direct customers.

**Figure 32. Priority ESG factors**

Issue/area	Risk/opportunity	Impacted subsections (impact on credit assessment*)
Sustainable/green bond framework	Diversity of funding sources, access to additional markets and investors.	Funding & liquidity (+)
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 (-) Loss performance (0) Risk governance (0)
Anti-money laundering capacity	Risk of sanctions and fraud due to insufficient control of customers, given the relatively high risk in the construction sector and Eiendoms kreditt's limited size.	Risk governance (-)
Control of sustainability issues	Credibility of green bond framework depends on rigour of application and allocation/impact reporting.	Risk governance (0)

\*Defined according to a 5-step scale ranging from double minus (--) to double plus (++), with (-) representing the most negative impact and (++) the most positive. See [ESG factors in financial institution ratings](#).

**Ownership support** Eiendoms kreditt is owned by Meteva AS and R Transit AS, each with a 30% stake. In addition, over 60 Norwegian savings banks, Voss Veksel og Landmandsbank ASA and Pareto Bank own over 38%, with other private investors owning less than 2%. We note that Meteva and R Transit would require regulatory approval to increase their ownership shares above 30% and consider this an obstacle to additional capital support.

**Issue and short-term ratings** Our rating on Eiendoms kreditt's senior unsecured instruments is in line with the 'BBB' issuer rating. The bank has an outstanding tier 2 instrument and two additional tier 1 instruments, which we rate two and four notches below the issuer rating, respectively. Consequently, the tier 2 instrument is rated 'BB+', while the tier 1 instruments are rated 'BB-'.

The short-term rating is 'N3', in line with our definition for the long-term rating level ('BBB').

#### METHODOLOGIES USED

- (i) [Financial Institutions Rating Methodology](#), 14 Feb. 2024.
- (ii) [Covered Bond Rating Methodology](#), 14 Feb. 2024
- (iii) [Rating Principles](#), 14 Feb. 2024.
- (iv) [Group and Government Support Rating Methodology](#), 14 Feb. 2024.

#### RELEVANT RESEARCH

- (i) [Nordic consumer banks' earnings continue to offset elevated provisions](#), 10 Sep. 2024
- (ii) [Norwegian savings banks' capitalization boosted by CRR3](#), 26 Jun. 2024
- (iii) [Swedish savings banks face weaker earnings and low loan growth in 2024](#), 6 Feb. 2024
- (iv) [Norwegian savings banks face margin squeeze in 2024](#), 11 Dec. 2023
- (v) [Mid-sized Norwegian savings banks navigate economic challenges](#), 28 Aug. 2023.

## Appendix I: Norwegian regulation

### BRRD and creditor hierarchy

Following Norway's adoption of the BRRD, the creditor hierarchy for Norwegian banks is as follows:

1. Secured or collateralised obligations, including covered bonds.
2. Guaranteed deposits.
3. Unguaranteed household and SME deposits.
4. Senior preferred debt and wholesale and institutional deposits.
5. Senior non-preferred debt.
6. Subordinated debt.
7. Tier 2 capital instruments.
8. Additional Tier 1 instruments.
9. Equity.

The directive also limits the potential for bail-in of covered bonds in instances in which covered bond liabilities exceed eligible cover pool assets. The Norwegian regulator uses independent oversight of the cover pool register to ensure that liabilities never exceed the value of pool assets.

### Norwegian covered bond regulation

Norwegian covered bond legislation was introduced in 2007 and the law is governed by the Norwegian Financial Institutions Act (*Lov om finansforetak og finanskonsern*) and related regulation (*Forskrift om finansforetak og finanskonsern*). On 8 Jul. 2022 Norway implemented its version of the EU's updated covered bond directive.

The Norwegian Covered Bonds Issuance Act ensures:

- the bankruptcy remoteness of the cover pool and the maintenance of an accurate register of pool assets, including derivative agreements;
- covered bond investors' preferential claim to pool assets;
- covered bond investors' pari passu claim with other senior creditors to additional assets;
- independent monitoring of the cover pool appointed by the Norwegian Financial Supervisory Authority;
- a liquidity buffer requirement covering 180 days of net outflows using extended maturity dates for extendable maturity (soft bullet) bonds;
- soft bullet bonds are only extended if approved by the Norwegian regulator to avoid insolvency;
- acceptance of lower-rated derivative counterparties, where necessary, to avoid counterparty concentrations;
- separate bank accounts for pool-related transactions; and
- the national administrator's authority to borrow and issue derivatives, as well as sell assets, if necessary, to maintain a balance between incoming and outgoing cash flows.

In addition, the law sets out the following conditions for cover pool assets:

- property exposures should be located in Norway or other states of the European Economic Area;
- maximum LTV of 80% for residential mortgages and 60% for holiday properties included as eligible security;
- maximum LTV of 60% for commercial and agricultural mortgages included as eligible security, which can be increased to 70% if overcollateralisation in the cover pool exceeds 10% (Agricultural mortgages are defined as either primarily residential or commercial);
- maximum of 5% single-name concentration in the cover pool;
- the amount of additional liquid security that can be pledged in the cover pool is 20%; and
- the nominal value of eligible pool assets must exceed bond liabilities by 5%, i.e. overcollateralisation of 5%.

## Appendix II: Stress test details

Our standalone stress testing of the cover pool assumes that all forms of external support for the pool are exhausted and that only the underlying assets can provide enough liquidity to make coupon and principal payments. The stress test was conducted based on cover pool details as of 30 Jun. 2024. This analysis begins with the assumption that the issuer and/or banking group is being liquidated and administrators have committed to winding down the pool and selling necessary assets at a discount to ensure investors receive timely payment. For more details of the stress assumptions, see *Appendix 1: Analysing the Cover Pool* in our [Covered Bond Rating Methodology](#), 14 Feb. 2024.

For each scenario, if the modelled cash flows demonstrate that the existing cover pool assets can generate enough liquidity to repay outstanding covered bonds then a notch of cover pool support is added to the qualitative assessment, up to a maximum of 'aaa'. This is measured by comparing the existing overcollateralisation with the modelled interest cash flows and cover pool liquidation proceeds to make coupon and principal payments and the modelled default rates for mortgages and other cover pool assets.

We conduct credit risk and cash flow stress testing on the cover pool assets with five increasingly difficult stress scenarios – Level 1 to Level 5 – with Level 5 being the most severe. Where the qualitative assessment is below 'aaa', the varying levels of stress can determine whether additional credit support is available from pool assets and reflected in additional notches in the covered bond ratings. For Eiendoms kreditt, with a qualitative assessment of 'a+', the potential exists for up to four notches of support based on the pool analysis.

### Segment differences

Commercial and multi-family rental housing carries the default risk of the property owner and their ability to service their loans. Ability to service debt is also dependent on maintaining low vacancies and stable rental income. The strength and available alternatives in the local rental market and attractiveness of the underlying asset therefore play a large role in the default risk for these types of loans. Eiendoms kreditt allows a maximum 55% LTV for commercial properties and a 60% LTV for multi-family housing properties. In terms of expected losses (see Figure 33), we assume that the one-year probability of default of these exposures is 1.8% ('BB' according to our rating principles).

We view housing association loans as carrying similar default risk to residential mortgages, but with a higher concentration given the higher average loan sizes. Housing cooperatives in Norway can increase fees to tenant owners and own the physical collateral. In addition, the risk of vacancy or unpaid rent is minimal for housing associations once all tenant rights are sold. When housing associations default, the building is sold to a new owner, forcing the tenant owners to become renters and lose their own ownership rights. Eiendoms kreditt allows a maximum 65% LTV for housing association properties. In terms of expected losses, we assume that the one-year probability of default for housing association loans is 0.2% ('BBB' according to our rating principles).

According to our criteria, the current price level results in property value stresses as described below. We expect commercial properties to have a higher probability of default and price correction than housing associations. In addition, we adjust stressed valuations based on the basis of our definition of the region class of the specific property.

**Figure 33. Standard asset quality assumptions used in credit risk stress testing (%)**

	Housing association probability of default*	Housing association price fall	Commercial property probability of default* (3x)	Commercial property price fall (1.25x)
Level 1	4	20	12	25.00
Level 2	5.2	25	15.7	31.25
Level 3	6.9	30	20.6	37.50
Level 4	9	35	27	43.75
Level 5	11.8	40	35.4	50.00

\*Half of instances of default are assumed to result in an executive auction at discounted prices.



**Figure 34. Eiendomskreditt key financial data, 2020–Q2 2024 YTD**

Key credit metrics (%)	FY 2020	FY 2021	FY 2022	FY 2023	Q2 2024 YTD
<b>INCOME COMPOSITION</b>					
Net interest income to op. revenue	94.4	92.1	96.0	95.6	93.5
Net fee income to op. revenue	4.3	4.3	4.4	3.5	4.0
Net trading income to op. revenue	1.1	3.3	-0.4	0.9	2.2
Net other income to op. revenue	0.3	0.3	0.0		0.3
<b>EARNINGS</b>					
Net interest income to financial assets	1.7	1.8	1.9	2.2	2.3
Net interest income to net loans	2.0	2.1	2.2	2.5	2.7
Pre-provision income to REA	1.6	1.7	1.9	2.4	2.6
Core pre-provision income to REA (NII & NF&C)	1.5	1.6	1.9	2.4	2.5
Return on ordinary equity	7.1	8.3	8.8	10.1	10.6
Return on assets	1.0	1.1	1.2	1.4	1.5
Cost-to-income ratio	21.8	22.0	20.2	17.5	17.1
Core cost-to-income ratio (NII & NF&C)	22.1	22.8	20.2	17.6	17.5
<b>CAPITAL</b>					
CET1 ratio	15.5	14.6	16.9	16.4	17.2
Tier 1 ratio	17.1	16.1	18.6	18.0	19.1
Capital ratio	19.4	18.3	21.1	20.3	21.5
REA to assets	89.4	88.8	76.5	79.9	76.6
Dividend payout ratio	49.6	49.8	49.8	70.0	69.9
Leverage ratio	15.1	14.1	14.1	14.2	14.6
<b>GROWTH</b>					
Asset growth	4.3	7.1	2.9	1.2	-0.6
Loan growth	4.0	7.3	4.6	1.7	-1.8
Deposit growth					
<b>LOSS PERFORMANCE</b>					
Credit provisions to net loans	0.11		0.00	0.00	0.08
Stage 3 coverage ratio	3.31	0.67	3.21	1.14	1.02
Stage 3 loans to gross loans	2.13	0.35	0.93	3.27	0.70
Net stage 3 loans to net loans	2.06	0.35	0.90	3.24	0.70
Net stage 3 loans/ordinary equity	12.63	2.18	5.67	20.07	4.34
<b>FUNDING &amp; LIQUIDITY</b>					
Loan to deposit ratio					
Liquid assets to deposit ratio					
Net stable funding ratio	102.1	105.6	116.2	117.0	120.0
Liquidity coverage ratio	204.0	209.7	130.3	112.0	0.0
<b>Key financials (NOKm)</b>					
<b>BALANCE SHEET</b>					
Total assets	6,024	6,454	6,644	6,726	6,687
Total tangible assets	6,024	6,454	6,644	6,725	6,687
Total financial assets	6,006	6,443	6,631	6,700	6,666
Net loans and advances to customers	5,169	5,544	5,797	5,893	5,786
Total securities	474	561	506	528	498
Customer deposits	-	-	-	-	-
Issued securities	5,034	5,441	5,583	5,638	5,623
of which other senior debt	4,909	5,316	5,458	5,512	5,498
of which subordinated debt	125	125	125	125	125
Total equity	929	964	1,002	1,035	1,025
of which ordinary equity	844	879	917	950	930
<b>CAPITAL</b>					
Common equity tier 1	837	837	861	883	883
Tier 1	922	922	946	968	978
Total capital	1,047	1,047	1,071	1,093	1,103
REA	5,387	5,733	5,083	5,376	5,125
<b>INCOME STATEMENT</b>					
Operating revenues	105	121	131	154	83
Pre-provision operating profit	82	94	104	127	69
Impairments	6	0	0	3	3
Net Income	58	72	79	94	50

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

**Figure 35. Eiendomskreditt rating scorecard**

Subfactors	Impact	Score
National factors	5.0%	a
Regional, cross border, sector	15.0%	bbb-
Operating environment	20.0%	bbb
Risk governance	5.0%	bbb-
Capital	17.5%	a-
Funding and liquidity	15.0%	bbb
Credit risk	10.0%	bb+
Market risk	-	-
Other risks	2.5%	bbb
Risk appetite	50.0%	bbb
Competitive position	15.0%	bb
Earnings	7.5%	a+
Loss performance	7.5%	bbb
Performance indicators	15.0%	a-
<b>Indicative credit assessment</b>		<b>bbb</b>
Transitions		Neutral
Borderline assessments		Neutral
Peer calibration		Neutral
<b>Stand-alone credit assessment</b>		<b>bbb</b>
Material credit enhancement		Neutral
Rating caps		Neutral
Support analysis		Neutral
<b>Issuer rating</b>		<b>BBB</b>
Outlook		Stable
<b>Short-term rating</b>		<b>N3</b>

**Figure 36. Capital structure ratings**

Seniority	Rating
Covered bond	AAA
Senior unsecured	BBB
Tier 2	BB+
Additional Tier 1	BB-

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