

Eiendomskreditt AS

Primary Credit Analyst:

Virginia Arenius, Stockholm +46 (0) 84 40 53 53; virginia.arenius@spglobal.com

Secondary Contact:

Olivia K Grant, Stockholm + 46 84 40 5904; olivia.grant@spglobal.com

Research Assistant:

Kristian Pal, Stockholm

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Eiendomskreditt AS

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Anchor	a-		ALAC support	0	Issuer credit rating
Business position	Constrained	-3			
Capital and earnings	Very strong	+2			
Risk position	Moderate	-1			
Funding	Moderate	-1			
Liquidity	Adequate				
CRA adjustment		0			
			GRE support	0	
			Group support	0	
			Sovereign support	0	
					BBB-/Stable/A-3

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Issuer Credit Rating

BBB-/Stable/A-3

Overview

Key strengths	Key risks
Very high capital levels that we expect to remain over the next two years.	Concentration of the business model on commercial real estate (CRE) in Norway.
Conservative underwriting standards and strong risk management, supporting good asset quality.	Small size and very low market share.
Well-established links with owner banks and cooperation with transaction managers supports new business generation.	Reliance on the Norwegian covered bond market for funding and lack of direct access to the central bank.

We expect risk-adjusted capitalization to remain Eiendoms kreditt's key rating strength over the next two years. We expect Eiendoms kreditt's risk-adjusted capital (RAC) ratio to remain robust, between 25%-26% over the next 12-24 months compared to 23.6% as of Dec. 31, 2021 (25.0% at year-end 2020). Supported by high cost efficiency (cost-to-income ratio of 20.2% as of Sept. 30, 2022), relatively stable earnings generation of Norwegian krone (NOK)91.3 million (around €8.9 million) net interest income during the first nine months of 2022, and low provisioning levels below our assumption of through-the-credit-cycle-losses, we expect capitalization to remain a rating strength going forward.

Eiendomskreditt's very low market shares and concentration in the CRE sector in southwest and southeast Norway remain limiting factors, in our view. With total assets of NOK 6.5 billion (€615 million) at Sept. 30, 2022, we project total asset growth to continue at around 2% year on year. The bank's monoline profile as CRE financier, limited geographical scope, and asset size weigh on its overall business position, however.

Despite significant CRE exposure, prudent underwriting criteria and good risk management systems should continue to support Eiendoms kreditt's asset quality through 2024. Owing to its conservative lending policy and generally low risk profile, the bank reported low credit losses of eight basis points (bps) during the first nine months of 2022. Despite the weakening economic environment--high inflation, rising interest rates, and weaker growth internationally are softening domestic economic activity in Norway--we project loan losses of around 10-12 bps in 2023-2024. We believe Eiendoms kreditt's strong CRE expertise partially mitigates the risk stemming from its high concentration in the Norwegian CRE sector.

Outlook

The stable outlook on Eiendoms kreditt reflects our view that, despite the potential volatility in revenues due to its low market share and high revenue concentration, the bank's very strong capital buffers will support asset quality over the next 24 months.

Downside scenario

We could take a negative rating action on Eiendoms kreditt if we observed that its risk profile indicators were not commensurate with a 'BBB-' rating on a sustained basis over the next 12-24 months. Specifically, we could revise our outlook to negative if we see 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. In that scenario, we consider that the company's funding profile might also become more vulnerable due to volatility in the covered bond markets.

Upside scenario

Although we believe an upgrade is unlikely at present, if Eiendoms kreditt were to consistently demonstrate stable, predictable revenue generation and show that its asset quality remains strong and resilient, we could consider a positive rating action.

Key Metrics

Eiendoms kreditt AS--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31--				
(%)	2020a	2021a	2022f	2023f	2024f
Growth in customer loans	4.1	7.2	0.9-1.1	1.8-2.2	1.8-2.2
Cost to income ratio	21.8	22.0	20.7-21.8	20.7-21.8	21.5-22.6
Return on average common equity	7.1	8.3	8.0-8.8	7.7-8.5	7.5-8.3
New loan loss provisions/average customer loans	0.1	0.0	0.1-0.2	0.2-0.3	0.1-0.2
Gross nonperforming assets/customer loans	2.2	0.4	1.0-1.1	1.0-1.2	1.0-1.1
Risk-adjusted capital ratio	25.0	23.6	24.5-25.8	25.0-26.3	25.4-26.7

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: 'a-' Given That Eiendoms kreditt Only Operates In Norway

The 'a-' anchor reflects Eiendoms kreditt's sole focus on the Norwegian market.

Our assessment of low economic risk in Norway reflects the banking sector's resilience and capacity to withstand economic downturns. Strong capital and liquidity buffers and ample government support, backed by substantial reserves in Norway's sovereign wealth fund, the Government Pension Fund Global (GPF), helps limit economic risk. A rebound in private consumption and exports, supported by stronger oil and gas prices, underline our expectations of real GDP growth of 2.9% in 2022, followed by annual average growth of 1.8% over 2023-2025. This is expected to support stable business generation for banks, in addition to growth in net interest margins driven by higher interest rates, reinforcing profitability for the banking sector.

We believe external security risks for Norway stemming from the Russia-Ukraine conflict are limited, while the resulting increase in oil and gas prices is supporting nominal growth. Given the ample reserves in the GPF, Norway is very well-positioned to fund fiscal support programs, in our view. We consider that this, in turn, helps to largely stabilize the banking sector's asset quality during period of stress.

We recognize some latent risks to banks from structurally high household debt (226% of GDP at year-end 2021), driven by strong growth in house prices over the past decade. Although we consider household debt high, growth in household credit and house prices is declining amid rising interest rates. Over the medium term, we project a slowdown in house prices due to higher interest rates, stable residential construction, and low population growth.

Our assessment of industry risks for Norwegian banks incorporates the country's superior banking regulation, a stable competitive environment, and strong banking-sector capitalization. We consider Norway's financial regulation and supervision to be ahead of its peers' in terms of both regulatory oversight and innovation. Banks have been strengthening their credit assessments and overall underwriting standards and reducing their related risk exposures in recent years.

Overall, the Norwegian banking sector is stable, with low-risk appetites, despite tight competition in the retail segment. We believe that banks' strong profitability will shield the sector from higher losses in case of a severe downturn. Norwegian banks' average return on equity during the third quarter of 2022 increased to 11.6% (compared to 10.7% in 2021) and we estimate it will be 11.5%-12.5% throughout 2024 supported by rising interest rates, which are boosting net interest margins.

Moreover, we consider that Norwegian banks have benefited from being at the forefront of the digital transformation as seen in the joint mobile payment solution Vipps; the offering of accessible consumer-investment solutions; and the introduction of a digitalized mortgage-application process. A high digital-technology adoption rate and the population's openness to sharing data have helped drive this progress. The transformation will also help Norwegian banks keep their costs under control and further support the banking sector's resilience.

Although domestic deposits as a portion of the total funding base are lower in Norway than in many other European markets, we believe that Norwegian banks will continue to have reliable access to domestic and international capital

markets, in addition to deposits.

Business Position: CRE Monoliner With Very Low Market Share In Selected Norwegian Regions

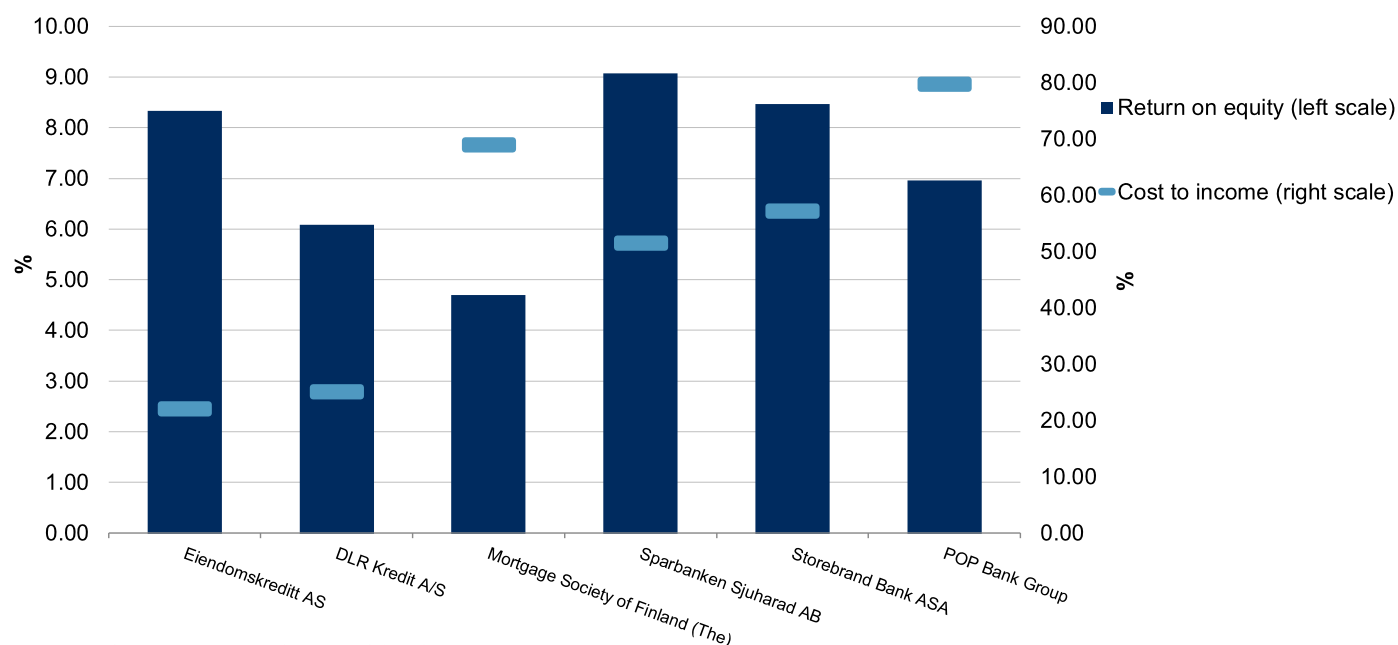
Established in 1997 in Bergen, Eiendoms kreditt is a specialist mortgage provider that traditionally focuses on the Southern Norwegian CRE sector. Eiendoms kreditt has a stable shareholder structure. It is owned by two investment companies (holding 30% each), 65 Norwegian savings banks (holding 38% in total)--for which Eiendoms kreditt functions as a covered bond funding vehicle--as well as other private financial investors.

With total assets of NOK6.5 billion (€615 million) at Sept. 30, 2022, the bank has a small-scale franchise with lean operations that support profitability (see chart 1). Notwithstanding its focus on property for SME, revenues are considered to be concentrated given Eiendoms kreditt's niche market position and we believe this could result in volatile earnings over time.

Chart 1

Eiendoms kreditt's Profitability And High Cost Efficiency Compares Well With Peers

Return on equity (ROE) and cost to income ratio (C/I)



Data as of Dec. 31, 2021. Source: S&P Global Ratings.

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Over the short term, Eiendoms kreditt's strategy is to continue to focus on distribution and cooperation with owner banks. Over the long term, the bank's objective is to maintain distribution evenly divided between its three origination

channels (i.e., via owner banks, transaction market, and in-house), which we believe will contribute to business stability for the bank. While the proportion of loan origination via the savings banks has varied over time, the business has supported Eiendomskreditt's loan growth and contributed to a stable revenue generation. During recent years, Eiendomskreditt has successfully increased its own in-house loan generation as well as deals originated in the transaction market in cooperation with other banks and market participants. Both these areas accounted for about 33% and 44% of total loan origination, respectively, at year-end 2021.

We consider that Eiendomskreditt's management team is stable and very experienced in its areas of focus. Nevertheless, the bank is still subject to key-person risk regarding its management team, operating with 10 full-time employees. Eiendomskreditt addresses this risk by promoting a multi-functional focus among the management team. We note that the board of directors are often involved in final credit assessment when loans are granted, which we believe adds some robustness in the credit decision-making process.

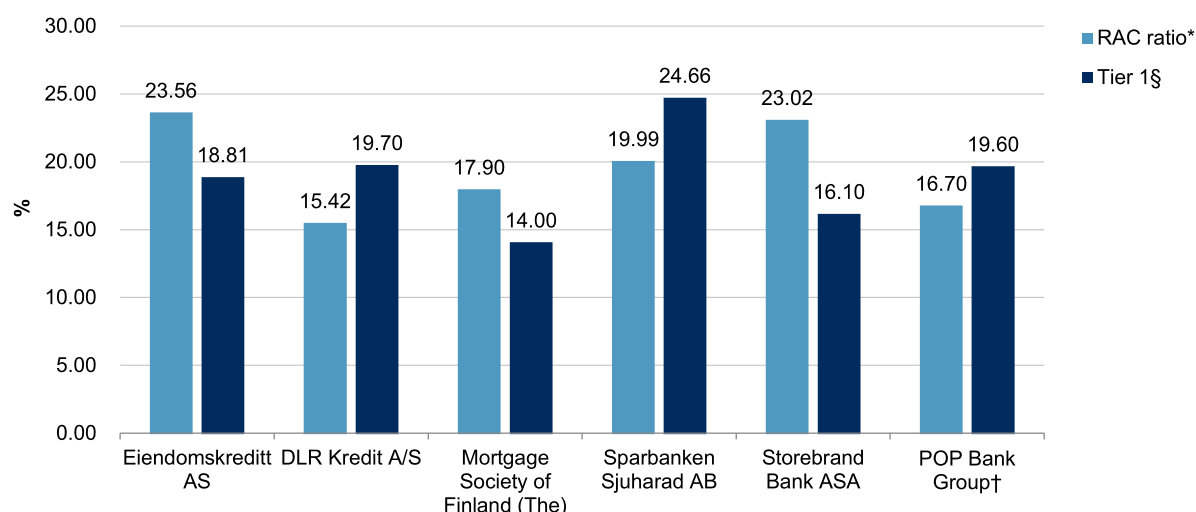
Capital And Earnings: Very Strong Capital Position, Supported By Internal Capital Generation

We expect Eiendomskreditt's capital and earnings to remain its primary rating strength. This reflects Eiendomskreditt's projected RAC ratio of 25%-26% over the next 12-24 months, compared with 23.6% as of December 31, 2022 (and 25.0% at year-end 2021) (see chart 2). We believe that its very high capitalization provides good buffers over minimum regulatory capital requirements and compares well with Nordic peers.

Chart 2

A Very Strong RAC Ratio Remains Eiendomskreditt's Key Rating Strength

S&P Global Ratings risk-adjusted capital versus tier 1 ratios



*Data as of Dec. 31, 2021. §Data as of Sept. 30, 2022. † Data as of June. 31, 2022. Source: S&P Global Ratings.

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The robust capital ratio, together with Eiendomskreditt's high-cost efficiency, which stood at 22.3% as of Sept. 30,

2022, are indicative of the bank's ability to absorb losses and build capital through stable earnings. The bank's earnings capacity is reasonably strong, with an earnings buffer of about 2.1% at year-end 2021, which compares well with the peer average of 1.0% during the same period.

Eiendoms kreditt maintains good quality of capital--common equity represented 91.3% of total adjusted capital as of Sept. 30, 2022 (90.8% as of year-end 2021). We expect the bank's management to continue with dividend distribution of up to 50% of net income in line with its long-term capital targets and historical track record.

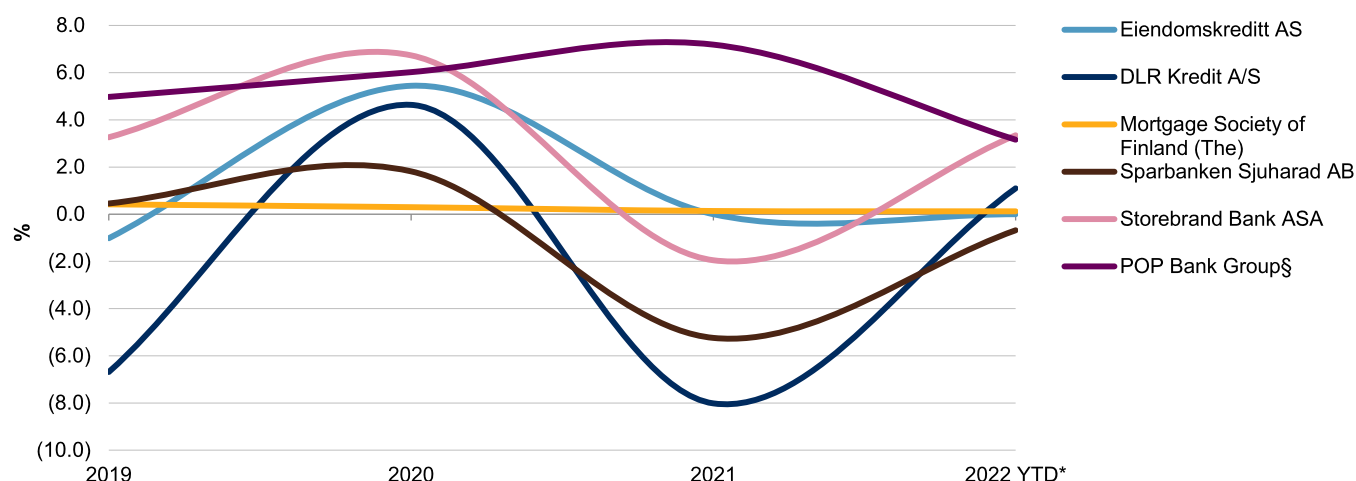
Risk Position: Concentrations In Norwegian CRE Somewhat Balanced By A Focus On Cash-Generating Projects With Good Performance

In our view, robust underwriting standards and sound risk management processes should support Eiendoms kreditt's asset quality over the next two years. Asset quality has remained very resilient and the bank did not report any credit losses during the first nine months of 2022 (11 basis points in 2021) (see chart 3). In our base-case scenario, we expect credit losses of around 3-9bps in 2022-2024, still below our normalized loss assumptions.

Chart 3

Eiendoms kreditt's Cost-Of-Risk Remains In Line With Peers

New loan loss provisions/average customer loans



YTD--Year till date. *Data as of Sept. 30, 2022. § † Data as of June 31, 2022. Source: S&P Global Ratings.

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We expect Eiendoms kreditt to maintain its narrow focus on the CRE sector and to continue to have sizable single name exposures over the next two years. In addition, with 42% of loans comprised of top 20 exposures as of June 30, 2022 (40% as of Dec. 31, 2021), single-name exposures are still high compared with peers. This risk concentration is only partly counterbalanced by Eiendoms kreditt's conservative underwriting standards, its focus on cash-generating projects as opposed to more risky construction and development projects, its collateralized loan portfolio with a loan-to-value ratio (LTV) of 42.6% as of Sept. 30, 2022 (47.0% as of Dec. 31, 2021), and good asset quality track

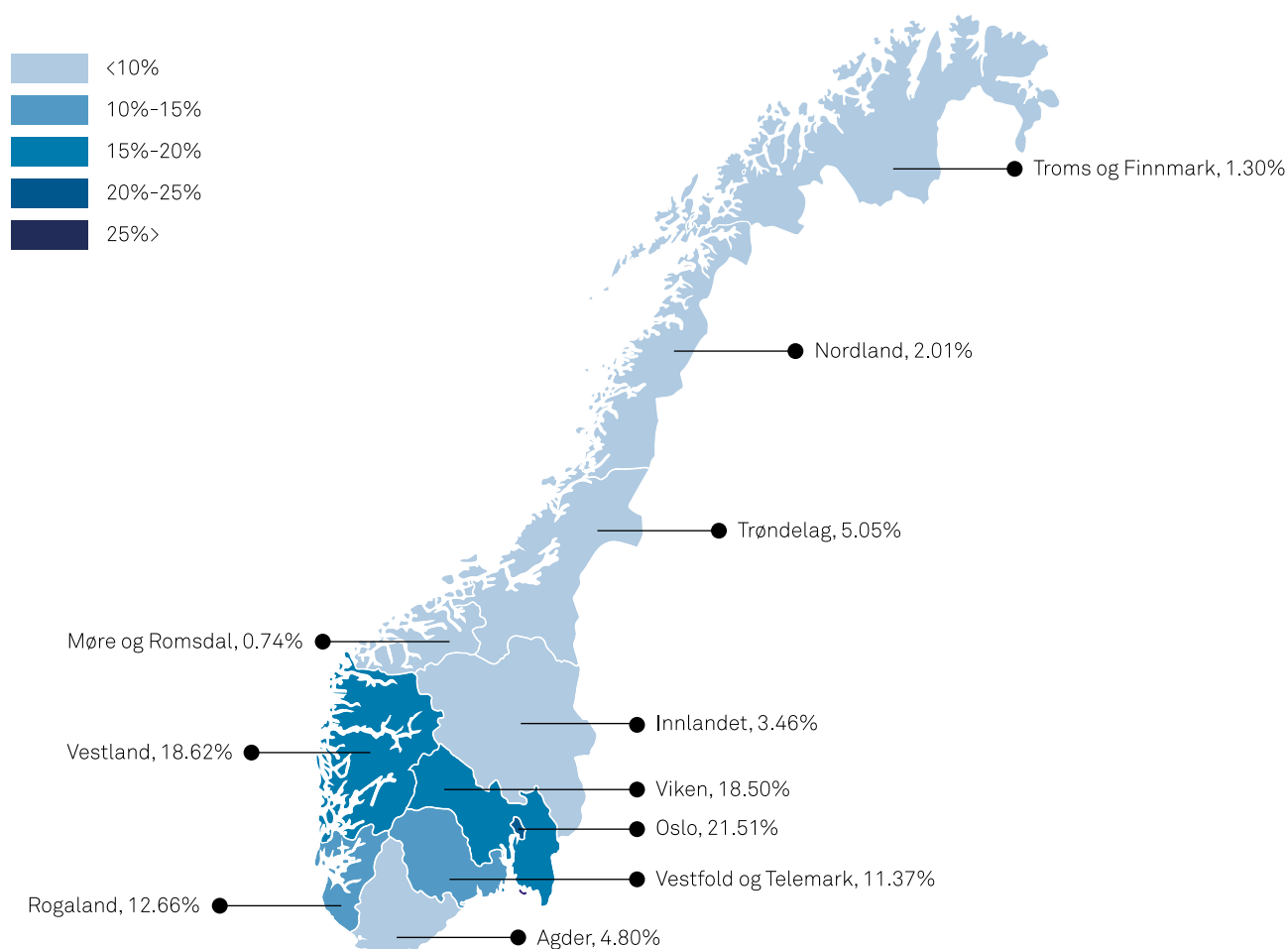
record. Indeed, Eiendomskreditt's articles of association determine a LTV cap of 65% for residential properties, 60% for apartments and rental buildings, and 55% for other properties.

CRE lending dominates the bank's loan book (amounting to 99% of total loans as of Sept. 30, 2022), reflecting Eiendomskreditt's growth strategy and expertise within this segment. Geographically, as of Sept. 30, 2022, about 71.3% of lending is concentrated in densely populated areas in the southwest and southeast (i.e., the counties of Oslo, Viken, Vestland, and Rogaland) and only 28.7% of exposures are in other areas of Norway with scattered populations (see chart 4). Although these are areas of high economic activity that have liquid real estate markets, the lack of exposure diversification and recent cooling of the real-estate market driven by rising interest rates, remains a key risk, in our view.

Chart 4

The Majority Of Eiendomskreditt's Lending Exposure Is Contentrated In Southwest And Southeast Norway

Lending by county



Data as of Sept. 30, 2022. Source: S&P Global Ratings.
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Funding And Liquidity: Concentrated Funding Base, With A Dependence On Wholesale Funding

The moderate funding assessment reflects Eiendoms kreditt's high reliance on wholesale funding, which we believe makes the bank susceptible to the erosion of market confidence in turbulent economic conditions. Our assessment also incorporates the lack of direct access to the central bank, which increases liquidity and funding risk during stressed market conditions. We do not consider potential support from the shareholders in our funding assessment.

Eiendoms kreditt's stable funding ratio (SFR), as measured by S&P Global Ratings, stood at 107.1% as of Dec. 31, 2021 (compared to 102.8% as of Dec. 31, 2020). Furthermore, as of Sept. 30, 2022, its regulatory net stable funding ratio (NSFR) stood at 121% (105.6% at year-end 2021). The bank's maturity profile has gradually extended to around three years and the bank targets 2.5-3 years average duration, with covered bonds remaining the key funding source (amounting to 85.5% of the funding base as of Sept. 30, 2022).

We assess Eiendoms kreditt's liquidity as adequate as reflected in our measure of broad liquid assets to short-term wholesale funding ratio of 1.8x for Dec. 31, 2021. The regulatory liquidity coverage ratio (LCR) stood at 104% as of Sept. 30, 2022 (210% at year-end 2021). We believe that LCR will remain volatile, yet comfortably above the minimum regulatory requirement of 100%.

Support: No Notches Of Uplift To The SACP

We consider Eiendoms kreditt to be of low systemic importance and believe that due to its size, the bank is unlikely to be subject to a well-defined bail-in resolution process. Therefore, we do not add any extraordinary external support uplift to the ratings on Eiendoms kreditt due to additional loss-absorbing capacity (ALAC) under our Financial Institutions Rating Methodology. Equally, we do not include parent support from any of the private shareholders in the ratings.

Additional Rating Factors

No other factors affect this rating.

Environmental, Social, And Governance

We consider ESG credit factors for Eiendoms kreditt to be broadly in line with industry and country peers.

As part of its ESG program, the bank has launched several policies and procedures that cover know-your-customer (KYC) checks, anti-financial-crime controls, product design, and sales processes standards.

We believe that Eiendoms kreditt's management team remains committed to its strong focus on customer relations and risk awareness and will exhibit disciplined execution. We consider the company's governance standards to be consistent with industry norms in Norway and the Nordic region overall.

In 2021, Eiendomskreditt developed a Green Bond Framework following the Green Bond Principles (GPB), as well as internal guidelines for green lending. Since then, all new loans are assessed with an ESG risk perspective, focusing mainly on climate risk and eligibility for green loans financing. Following its inaugural green covered bond loan issue in November 2021 (amounting to NOK300 million and followed by a tap issuance of NOK100 million in February 2022), Eiendomskreditt is planning to issue future loans of this profile as market conditions improve.

Key Statistics

Table 1

Eiendomskreditt AS--Key Figures					
(Mil. NOK)	--Fiscal year end Dec. 31--				
	YTD Sept. 2022	2021	2020	2019	2018
Adjusted assets	6,451.0	6,454.0	6,024.0	5,775.0	5,263.0
Customer loans (gross)	5,579.0	5,548.0	5,175.0	4,973.0	4,415.0
Adjusted common equity	896.0	842.0	814.0	761.0	735.0
Operating revenues	93.0	121.0	105.0	102.0	92.0
Noninterest expenses	19.0	27.0	23.0	23.0	20.0
Core earnings	57.0	72.0	58.0	60.0	54.0

NOK--Norwegian krone.

Table 2

Eiendomskreditt AS--Business Position					
(Mil. NOK)	--Fiscal year end Dec. 31--				
	YTD Sept. 2022	2021	2020	2019	2018
Total revenues from business line (currency in millions)	93.5	121.1	104.9	102.0	92.0
Commercial & retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	8.5	8.3	7.1	7.7	7.9

NOK--Norwegian krone.

Table 3

Eiendomskreditt AS--Capital And Earnings					
(Mil. NOK)	--Fiscal year end Dec. 31--				
	YTD Sept. 2022	2021	2020	2019	2018
Tier 1 capital ratio	18.8	16.1	17.1	17.2	17.8
S&P Global Ratings' RAC ratio before diversification	N/A	23.6	25.0	24.7	23.1
S&P Global Ratings' RAC ratio after diversification	N/A	10.5	11.1	10.7	10.8
Adjusted common equity/total adjusted capital	91.3	90.8	90.5	90.0	90.7
Net interest income/operating revenues	97.7	92.1	94.4	95.5	89.3
Fee income/operating revenues	4.7	4.3	4.3	3.1	2.4
Market-sensitive income/operating revenues	(2.4)	3.3	1.1	0.9	0.5
Cost to income ratio	20.3	22.0	21.8	22.7	22.2
Preprovision operating income/average assets	1.5	1.5	1.4	1.4	1.4

Table 3

Eiendoms kreditt AS--Capital And Earnings (cont.)

(Mil. NOK)	--Fiscal year end Dec. 31--				
	YTD Sept. 2022	2021	2020	2019	2018
Core earnings/average managed assets	1.2	1.1	1.0	1.1	1.0

NOK--Norwegian krone. RAC--Risk-adjusted capital. N/A--Not applicable.

Table 4

Eiendoms kreditt AS--Risk-Adjusted Capital Framework Data

(NOK 000s)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government and central banks	0.0	0.0	0.0	0.0	0.0
Of which regional governments and local authorities	0.0	0.0	0.0	0.0	0.0
Institutions and CCPs	590,627.0	132,562.5	22.4	99,494.3	16.8
Corporate	5,152,321.0	4,858,350.0	94.3	3,398,078.4	66.0
Retail	652,696.0	500,612.5	76.7	151,360.2	23.2
Of which mortgage	652,696.0	500,612.5	76.7	151,360.2	23.2
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	27,173.0	27,175.0	100.0	26,881.9	98.9
Total credit risk	6,422,817.0	5,518,700.0	85.9	3,675,814.7	57.2
Credit valuation adjustment					
Total credit valuation adjustment	--	8,662.5	--	0.0	--
Market risk					
Equity in the banking book	5,000.0	5,000.0	100.0	43,750.0	875.0
Trading book market risk	--	0.0	--	0.0	--
Total market risk	--	5,000.0	--	43,750.0	--
Operational risk					
Total operational risk	--	200,500.0	--	215,754.4	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	5,732,862.5	--	3,935,319.1	100.0
Total diversification/ Concentration adjustments	--	--	--	4,866,585.3	123.7
RWA after diversification	--	5,732,862.5	--	8,801,904.3	223.7
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		1,047,466.0	18.3	927,269.0	23.6
Capital ratio after adjustments‡		1,047,466.0	18.3	927,269.0	10.5

Table 4

Eiendoms kreditt AS--Risk-Adjusted Capital Framework Data (cont.)

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions.

‡Adjustments to tier 1 ratio are additional regulatory requirements (e.g. transitional floor or pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. NOK--Norwegian krone. Sources: Company data as of Dec. 31, 2021, S&P Global Ratings.

Table 5

Eiendoms kreditt AS--Risk Position

(Mil. NOK)	--Fiscal year end Dec. 31--				
	YTD Sept. 2022	2021	2020	2019	2018
Growth in customer loans	0.74	7.20	4.07	12.65	2.61
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	123.66	124.89	131.65	114.41
Total managed assets/adjusted common equity (x)	7.20	7.66	7.40	7.59	7.16
New loan loss provisions/average customer loans	N.M.	N.M.	0.11	-0.02	0.02
Net charge-offs/average customer loans	N.M.	N.M.	N.M.	N.M.	N.M.
Gross nonperforming assets/customer loans + other real estate owned	0.77	0.35	2.17	1.62	0.64
Loan loss reserves/gross nonperforming assets	8.68	19.05	5.93	2.07	5.91

NOK--Norwegian krone. N/A--Not applicable. N.M.--Not meaningful. RWA--Risk-weighted assets.

Table 6

Eiendoms kreditt AS--Funding And Liquidity

(Mil. NOK)	--Fiscal year end Dec. 31--				
	YTD Sept. 2022	2021	2020	2019	2018
Core deposits/funding base	0.0	0.0	0.0	0.0	0.0
Long-term funding ratio	92.7	92.6	89.0	84.0	87.4
Stable funding ratio	N/A	107.1	102.8	95.0	101.4
Short-term wholesale funding/funding base	8.6	8.6	13.0	18.9	15.0
Broad liquid assets/short-term wholesale funding (x)	N/A	1.8	1.2	0.8	1.1
Broad liquid assets/total assets	N/A	13.3	13.0	12.0	14.3
Short-term wholesale funding/total wholesale funding	8.5	8.5	12.8	18.6	14.7
Narrow liquid assets/3-month wholesale funding (x)	N/A	24.8	29.0	1.4	10.0

NOK--Norwegian krone. N/A--Not applicable.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
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- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
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- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

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Related Research

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- Global Bank Country-By-Country Outlook 2023 Greater Divergence Ahead, Nov. 17, 2022
- Global Credit Conditions Q4 2022: Darkening Horizons, Sept. 29, 2022
- Nordic Banks: Robust Capital Provides Cushion Against Tougher Times, Sept. 6, 2022
- Banking Industry Country Risk Assessment: Norway, Aug. 5, 2022
- Credit Conditions Europe Q3 2022: Pain On The Horizon, June 28, 2022
- When Rates Rise: Not All European Banks Are Equal, June 8, 2022
- Norwegian Bank Ratings Affirmed Under Revised FI Criteria, Feb. 4, 2022

Ratings Detail (As Of December 12, 2022)*

Eiendomskreditt AS

Issuer Credit Rating	BBB-/Stable/A-3
Senior Secured	AAA/Stable

Issuer Credit Ratings History

31-Mar-2020	BBB-/Stable/A-3
01-Jul-2014	BBB/Negative/A-2

Sovereign Rating

Norway	AAA/Stable/A-1+
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