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Eiendomskreditt AS

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Rating Score Snapshot

Issuer Credit Rating

BBB-/Stable/A-3

SACP: bbb- → Support: 0 → Additional factors: 0

Anchor	a-	
Business position	Constrained	-3
Capital and earnings	Very strong	+2
Risk position	Moderate	-1
Funding	Moderate	-1
Liquidity	Adequate	
CRA adjustment	0	

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
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

Overview

Key strengths	Key risks
Very high level of capitalization.	Concentrated business model toward commercial real estate (CRE) in Norway.
Conservative underwriting standards and strong risk management supports asset quality.	Small size and very low market share.
Well-established links with owner banks and cooperation with transaction managers support 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 Eiendomskreditt's key rating strength over the next two years. We expect Eiendomskreditt's risk-adjusted capital (RAC) ratio to remain robust at about 23%-24% over the next 12-24 months compared to 23.2% as of year-end 2022. This is supported by a forecast of annual net revenues of about Norwegian krone (NOK) 140 million-NOK150 million (about €12 million-€13 million), that thanks to high-cost efficiency, leads to stable annual earnings generation of about NOK85 million-NOK90 million (about €7 million-€8 million) over the next two years. Combined with dividend distributions of approximately 50% of net profits, this allows a steady capital build-up to support lending growth of about 1%-3% through 2025.

A very low market share and concentration in the Norwegian CRE sector remain limiting factors. Eiendomskreditt's focus on a single sector presents a risk from both a revenue and risk perspective, in our view, given there is limited geographical scope and their scale will likely remain small. The three sources of lending will continue to be syndicated

transactions, owner bank transactions, and in-house origination. While we note that Eiendoms kreditt ranks in the bottom half of the Norwegian banking sector in terms of total assets, many of the owner banks that utilize the covered bond program for funding are much larger in size, which provides some scope for continued lending growth beyond in-house and syndicated deals.

Prudent underwriting and a robust risk management framework will support asset quality through 2025. As a result of headwinds facing the Norwegian CRE sector, one of Eiendoms kreditt's larger exposures led to an increase in the bank's nonperforming loan ratio, which stood at 3.4% as of Sept. 30, 2023 (year to date). While the cost of risk is forecast to increase to 5-15 basis points (bps), and remain manageable, we believe that Eiendoms kreditt's strong CRE expertise will serve the bank well, as this continues to point to asset quality remaining robust relative to peers.

Outlook

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

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. We consider that, in that scenario, 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--				
	2021a	2022a	2023f	2024f	2025f
Growth in operating revenue	15.4	7.8	13.5-15.5	(2.5)-(4.5)	(1.5)-(3.5)
Growth in customer loans	7.2	4.6	(0.5)-0.5	1.5-2.5	2.5-3.5
Net interest income/average earning assets (NIM)	1.8	1.9	2.0-2.3	1.9-2.2	1.8-2.1
Cost to income ratio	22.0	20.2	17.5-18.5	18.5-19.5	19.0-20.0
Return on average common equity	8.3	8.8	9.5-10.5	8.5-9.5	8.0-9.0

Eiendoms kreditt AS--Key ratios and forecasts (cont.)

(%)	--Fiscal year ended Dec. 31--				
	2021a	2022a	2023f	2024f	2025f
New loan loss provisions/average customer loans	0.0	0.0	0.05-0.15	0.00-0.10	0.00-0.10
Gross nonperforming assets/customer loans	0.4	0.9	3.0-4.0	0.5-1.5	0.0-1.0
Risk-adjusted capital ratio	23.6	23.2	23.0-24.0	23.0-24.0	23.0-24.0

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 view of low economic risks in Norway reflects the banking sector's resilience to shocks, as seen during the pandemic and in the current uncertain macroeconomic environment. Strong capital and liquidity buffers on many levels, in addition to ample government support, which is backed by substantial reserves in Norway's sovereign wealth fund, the Government Pension Fund Global (GPF), are expected to limit economic risk. We anticipate economic growth will abate to about 1.2%-1.4% over 2023-2024, following 2022's strong growth. Much of this year's growth will be aided by investments in climate and energy transition, offsetting weaker consumption impulses. The decline in household consumption follows on from high inflation and high interest rates. As such, we recognize there are some risks to Norwegian banks from a structurally high ratio of debt to disposable income, which at 238% as of first-quarter 2023, creates high sensitivity to interest rates. Similarly, we continue to monitor the commercial real estate sector, given that banks have considerable exposure relative to European peers.

Our view of industry risks for Norwegian banks incorporates the country's conservative banking regulation, a stable competitive environment, and a strongly capitalized banking sector backed by solid profitability. We believe that the authorities are proactively addressing emerging risks, including cyber threats and environmental, social, and governance risks. Similarly, we consider Norway's financial regulation and supervision to be ahead of its peers in terms of both regulatory oversight and innovation. We believe that banks have been strengthening their credit assessments and overall underwriting standards, reducing their related risk exposures in recent years. We also consider Norwegian banks to be at the forefront of digital transformation, thanks to their offering of accessible and user-friendly solutions that help manage costs and further support the banking sector's resilience and sound profitability. Although domestic deposits as a portion of the total funding base are lower in Norway than in other European markets, we believe that Norwegian banks will continue to have reliable access to domestic and international capital markets, in addition to stable warranted deposits.

Business Position: Small CRE Specialist In Select Norwegian Regions

Established in 1997 in Bergen, with total assets of NOK6.6 billion (€558 million) at Sept. 30, 2023, Eiendoms kreditt is a specialist mortgage provider focusing on the Norwegian CRE sector. Executing with lean operations supports profitability. However, given the bank's niche market position, we believe this could result in volatile earnings over time.

Eiendoms kreditt originates mortgage loans via syndicated loans through transaction managers (typically Pareto Bank) and owner banks (namely various Norwegian savings banks), in addition to in-house via their own brand. Over the past two years, the transaction market has been active and as of year-end 2022 represented about 46% of new loan generation, leading to distribution via owner banks representing about 30%. More generally, Eiendoms kreditt aims to maintain distribution evenly divided across the three origination channels, which we believe contributes to business stability for the bank. As such, while the proportion of loan origination via the savings banks has varied over time, the consistency of their volumes has been supportive for Eiendoms kreditt's loan growth, steadying revenue generation.

In turn, Eiendoms kreditt provides access to its covered bond program for funding for its origination partners and shareholders. Furthermore, we consider the bank's shareholder structure to be stable, with ownership represented by two investment companies--each holding 30%--in addition to 65 Norwegian banks that hold 38% in total, where the mix of shareholding banks includes Norwegian savings banks and Pareto Bank. In addition, Eiendoms kreditt's management team is very experienced within CRE lending. However, we recognize there is key-person risk given the bank only employs 11 full-time employees. This risk is addressed by promoting a multi-functional focus across the management team. We note that the board of directors is often involved in final credit assessments when loans are granted, which we believe adds further robustness to the credit decision-making process.

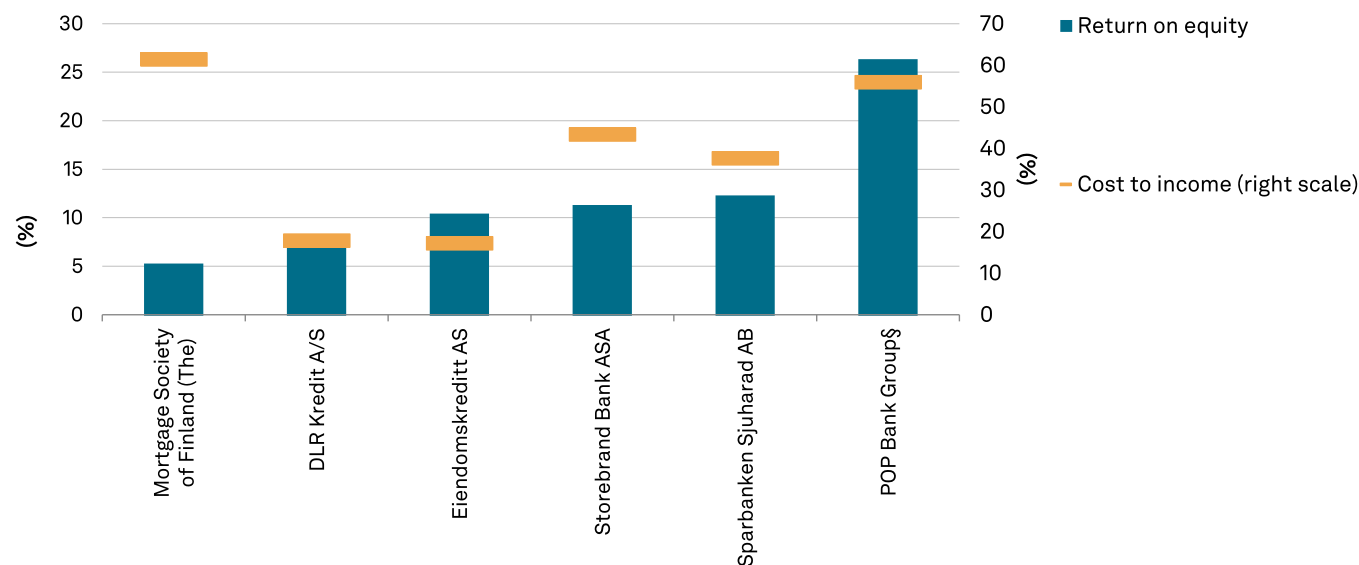
Capital And Earnings: Very Strong Capital Position, Supported By Internal Capital Generation

Eiendoms kreditt's capital and earnings is expected to remain its primary rating strength. This reflects Eiendoms kreditt's projected RAC ratio of about 24%-25% over the next 12-24 months compared with a RAC ratio of 23.2% as of Dec. 31, 2022.

While lending growth is expected to be tepid in 2023, margins have improved in the wake of central bank interest rate hikes and have buoyed net-interest income. Over 2024-2025 we see lending growth increasing at a pace of about 2%-3% per year but believe margins could tighten, weighing a bit on operating revenue growth. However, the bank's earnings capacity is projected to remain reasonably strong, thanks in part to a high-cost efficiency as exhibited by a cost-income ratio of 17.2% as of Q3 2023 (see chart 1). We currently forecast a three-year average capital build of about 85-90 basis points (bps) as a share of S&P risk-weighted assets over 2023-2025. This assumes Eiendoms kreditt's management will continue with an annual dividend distribution of up to 50% of net income in line with its long-term capital targets and historical track record.

Chart 1**Eiendoms kreditt's earnings generation and high cost efficiency compares well with peers**

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



Data as of Sept. 30, 2023. \$Data as of June 30, 2023. Source: S&P Global Ratings.
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Eiendoms kreditt maintains good quality of capital with adjusted common equity representing 92% of total adjusted capital (TAC) as of Sept. 30, 2023, i.e., 8% of our measure of the bank's capital is made up of two additional tier 1 (AT1) hybrid instruments, one of which was smoothly replaced in April ahead of a May 2023 call date. These instruments allow for a meaningful buffer above regulatory requirements, and as of Q3 2023 Eiendoms kreditt's total capital ratio was 21% compared to a requirement of 17.3%.

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

Robust underwriting standards and a sound risk management framework are expected to characterize Eiendoms kreditt's risk profile, where the sole focus for customer lending will be toward the Norwegian CRE sector.

Geographically, as of Sept. 30, 2023, about 71.8% 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 28.2% of exposures are in other areas of Norway with scattered populations. 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.

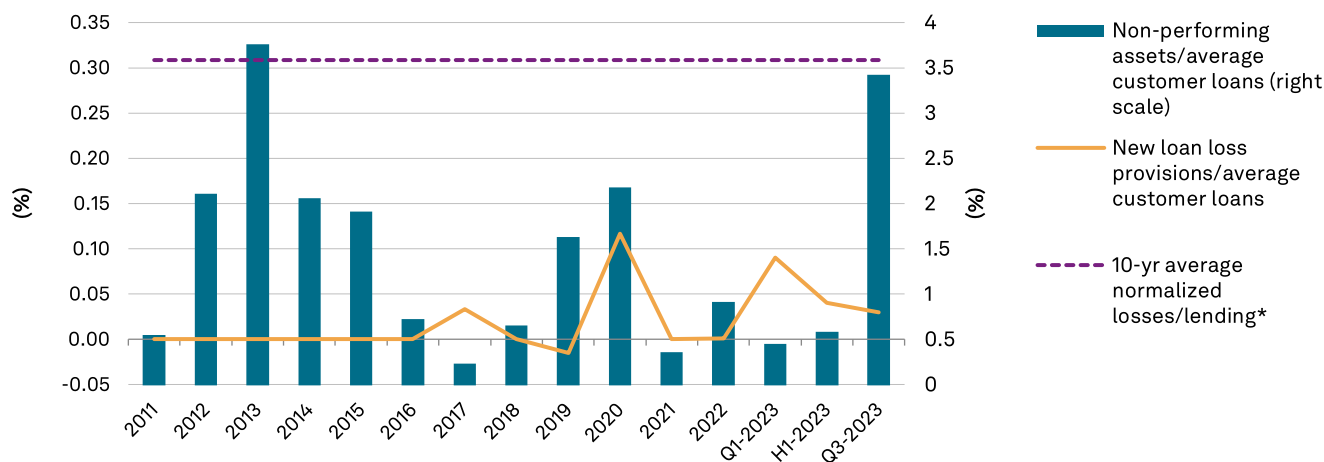
Similarly, we also note that Eiendomskreditt will likely continue to have sizable single name exposures, with top 20 exposures at 42% of lending as of year-end 2022. This risk concentration is somewhat counterbalanced by Eiendomskreditt's conservative underwriting standards, where there is a focus on cash-generating projects as opposed to more risky construction and development projects. Eiendomskreditt's credit granting policy was recently revised lower to have a loan-to-value (LTV) cap of 55% for residential property (including apartments and rental buildings) and 50% for other properties in place. Previously the policy had been 65% for residential property, 60% for apartments and rental buildings, and 55% for other commercial property.

This conservative framework has underpinned the historically robust asset quality metrics, where prior to the pandemic the cost of risk had been about 0 bps in terms of lending for about a decade (see chart 2). However, given the challenges facing the CRE sector, in Q3 a larger exposure was classified as stage 3 nonperforming. As a result, Eiendomskreditt's nonperforming loan (NPL) ratio increased to 3.4% as of end of September, compared with 0.9% as of year-end 2022. We anticipate this exposure will be re-classified as performing in the coming quarters, reinforcing our view that while the need for additional new loan-loss provisions will remain low, NPLs are likely to average about 1.5%-2.5% over 2023-2024.

Chart 2

Eiendomskreditt's cost-of-risk expected to remain contained

Asset quality developments since 2011



*Based on S&P Normalized losses over 2013-2022 as a share of gross customer loans. Sources: S&P Global Ratings and S&P CapIQ.

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Funding And Liquidity: Covered Bond Funding Is The Primary Funding Source

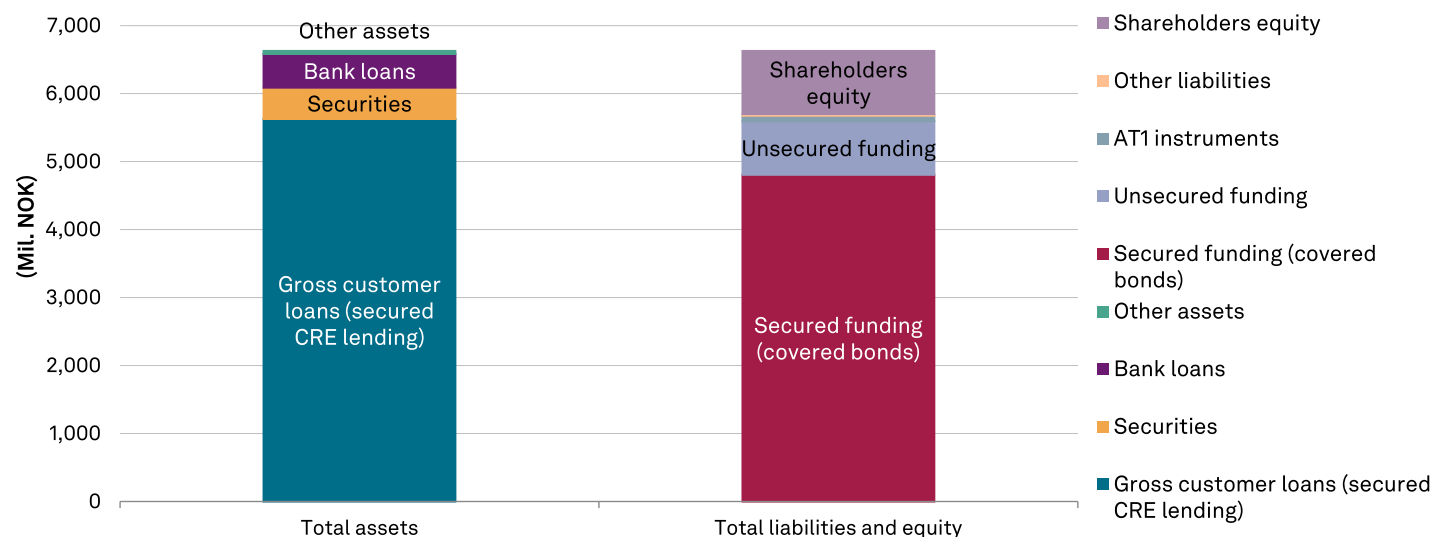
Given Eiendomskreditt's balance sheet structure (see chart 3), where its asset base serves as a robust pool for its covered bond funding program, we anticipate the reliance on wholesale funding will remain. Our moderate funding

assessment incorporates the view that this can create a sensitivity toward market confidence in turbulent economic conditions. We also take into account a lack of direct access to the central bank, which increases liquidity and funding risk during stressed market conditions. We currently do not consider potential support from the shareholders in our funding assessment.

Chart 3

Eiendomskreditt's balance sheet matches assets to funding sources

As of Q3 2023



NOK--Norwegian krone. Source: S&P Global Ratings.

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That said, Eiendomskreditt's stable funding ratio (SFR), as measured by S&P Global Ratings, stood at 100.9% as of Sept. 30, 2023, indicating a balanced approach to managing upcoming funding needs with available stable funding sources. Furthermore, as of Sept. 30, 2023, the bank's regulatory net stable funding ratio (NSFR) stood at 121% (above the regulatory minimum of 100%). Eiendomskreditt's maturity profile has been gradually increasing to around three years, and the bank targets to have 2.5-3.0 years' average duration on outstanding bonds. Norwegian covered bonds are typically issued with a five-year maturity.

We assess Eiendomskreditt's liquidity as adequate, as reflected in our measure of broad liquid assets to short-term wholesale funding ratio of 1.1x for Sept. 30, 2023, given the bank holds just under NOK 1 billion in liquid assets and bank loans. In terms of securities, these are in large part bonds issued by Norwegian savings banks and municipalities, including highly rated covered bonds. The regulatory liquidity coverage ratio (LCR) stood at 218% as of Sept. 30, 2023, indicating the bank is well equipped to handle a liquidity stress scenario. While the BLAST and LCR ratios will remain volatile, given there is a sensitivity to maturing wholesale funding, we believe they will be at about 1x and 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, Eiendoms kreditt 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. At year-end 2022, the outstanding amount of the program was NOK 450 million and green loans made up approximately 11% of customer lending. Eiendoms kreditt will continue to allocate green bond proceeds to a qualified portfolio of loans across three categories: newer buildings in the top 15% most energy-efficient buildings in Norway; renovated buildings; and energy-efficiency improvement measures for buildings. As per the end of 2022, newer office, residential, and hotel buildings, in addition to industry and storage buildings, dominated the green loan book.

Key Statistics

Table 1

Eiendoms kreditt AS--Key Figures					
--Year-ended Dec. 31--					
(Mil. NOK)	2023*	2022	2021	2020	2019
Adjusted assets	6,627.4	6,643.7	6,453.6	6,023.5	5,775.0
Customer loans (gross)	5,625.5	5,800.8	5,548.0	5,175.3	4,973.1
Adjusted common equity	929.0	861.9	842.3	814.3	760.9

Table 1

Eiendomskreditt AS--Key Figures (cont.)					
	--Year-ended Dec. 31--				
(Mil. NOK)	2023*	2022	2021	2020	2019
Operating revenues	112.6	130.5	121.1	104.9	102.0
Noninterest expenses	19.4	26.4	26.7	22.9	23.1
Core earnings	69.6	79.0	71.6	58.1	60.0

*Data as of Sept. 30. NOK--Norwegian krone.

Table 2

Eiendomskreditt AS--Business Position					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Total revenues from business line (currency in millions)	112.6	130.5	121.1	104.9	102.0
Commercial & retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	10.3	8.8	8.3	7.1	7.7

*Data as of Sept. 30.

Table 3

Eiendomskreditt AS--Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Tier 1 capital ratio	18.5	18.6	16.1	17.1	17.2
S&P Global Ratings' RAC ratio before diversification	N/A	23.2	23.6	25.0	24.7
S&P Global Ratings' RAC ratio after diversification	N/A	10.2	10.5	11.1	10.7
Adjusted common equity/total adjusted capital	91.6	91.0	90.8	90.5	90.0
Net interest income/operating revenues	95.6	96.0	92.1	94.4	95.5
Fee income/operating revenues	3.4	4.4	4.3	4.3	3.1
Market-sensitive income/operating revenues	1.0	(0.4)	3.3	1.1	0.9
Cost to income ratio	17.2	20.2	22.0	21.8	22.7
Preprovision operating income/average assets	1.9	1.6	1.5	1.4	1.4
Core earnings/average managed assets	1.4	1.2	1.1	1.0	1.1

*Data as of Sept. 30. N.A.--Not available.

Table 4

Eiendomskreditt AS--Risk-Adjusted Capital Framework Data					
(NOK 000s)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global RWA	Average S&P Global RW (%)
Credit risk					
Government & central banks	0	0	0	0	0
Of which regional governments and local authorities	0	0	0	0	0
Institutions and CCPs	517,550	116,325	22	86,839	17
Corporate	5,304,595	4,086,625	77	3,498,507	66
Retail	747,582	609,213	81	173,364	23

Table 4

Eiendoms kreditt AS--Risk-Adjusted Capital Framework Data (cont.)					
Of which mortgage	747,582	609,213	81	173,364	23
Securitization§	0	0	0	0	0
Other assets†	34,262	34,263	100	33,895	99
Total credit risk	6,603,989	4,846,425	73	3,792,605	57
Credit valuation adjustment					
Total credit valuation adjustment	--	4,225	--	0	--
Market Risk					
Equity in the banking book	5,000	5,000	100	43,750	875
Trading book market risk	--	0	--	0	--
Total market risk	--	5,000	--	43,750	--
Operational risk					
Total operational risk	--	216,588	--	239,691	--
(NOK 000s)	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global RWA	% of S&P Global RWA
Diversification adjustments					
RWA before diversification	--	5,072,238	--	4,076,046	100
Total Diversification/ Concentration Adjustments	--	--	--	5,185,654	127
RWA after diversification	--	5,072,238	--	9,261,699	227
(NOK 000s)		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		1,070,952	21.1	946,907	23.2
Capital ratio after adjustments‡		1,070,952	21.1	946,907	10.2

*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 -- Norway Krone. Sources: Company data as of 'Dec. 31 2022', S&P Global Ratings.

Table 5

Eiendoms kreditt AS--Risk Position	--Year-ended Dec. 31--					
	(%)	2023*	2022	2021	2020	2019
Growth in customer loans		(4.0)	4.6	7.2	4.1	12.7
Total diversification adjustment/S&P Global Ratings' RWA before diversification		N/A	127.2	123.7	124.9	131.6
Total managed assets/adjusted common equity (x)		7.1	7.7	7.7	7.4	7.6
New loan loss provisions/average customer loans		0.0	N.M.	N.M.	0.1	(0.0)
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		3.4	0.9	0.4	2.2	1.6
Loan loss reserves/gross nonperforming assets		1.0	7.3	19.1	5.9	2.1

*Data as of Sept. 30. N/A--Not applicable. N.M.--Not meaningful.

Table 6

Eiendomskreditt AS--Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Core deposits/funding base	0.0	0.0	0.0	0.0	0.0
Long-term funding ratio	86.3	86.3	92.6	89.0	84.0
Stable funding ratio	100.9	98.4	107.1	102.8	95.0
Short-term wholesale funding/funding base	16.2	16.2	8.6	13.0	18.9
Broad liquid assets/short-term wholesale funding (x)	1.1	0.9	1.8	1.2	0.8
Broad liquid assets/total assets	14.4	12.1	13.3	13.0	12.0
Short-term wholesale funding/total wholesale funding	15.9	15.9	8.5	12.8	18.6
Narrow liquid assets/3-month wholesale funding (x)	4.9	4.1	24.8	29.0	1.4

*Data as of Sept. 30.

Eiendomskreditt AS--Rating Component Scores	
Issuer Credit Rating	BBB-/Stable/A-3
SACP	bbb-
Anchor	a-
Economic risk	2
Industry risk	3
Business position	Constrained
Capital and earnings	Very strong
Risk position	Moderate
Funding	Moderate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

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- Banking Industry Country Risk Assessment: Norway, Aug. 05, 2022

Ratings Detail (As Of December 11, 2023)*

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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