

# RatingsDirect®

---

## Eiendomskreditt AS

**Primary Credit Analyst:**

Sean Cotten, Stockholm (46) 8-440-5928; sean.cotten@standardandpoors.com

**Secondary Contact:**

Olivia Fleischmann, Stockholm +46 (8) 440 5904; olivia.fleischmann@standardandpoors.com

### Table Of Contents

---

Major Rating Factors

Outlook

Rationale

Related Criteria And Research

# Eiendomskreditt AS

<b>SACP</b>	<b>bbb</b>		+	<b>Support</b>	<b>0</b>	+	<b>Additional Factors</b>	<b>0</b>
<b>Anchor</b>	<b>a-</b>			<b>GRE Support</b>	<b>0</b>		<b>Issuer Credit Rating</b>  <b>BBB/Negative/A-2</b>	
<b>Business Position</b>	<b>Weak</b>	<b>-2</b>		<b>Group Support</b>	<b>0</b>			
<b>Capital and Earnings</b>	<b>Very Strong</b>	<b>+2</b>		<b>Sovereign Support</b>	<b>0</b>			
<b>Risk Position</b>	<b>Moderate</b>	<b>-1</b>						
<b>Funding</b>	<b>Below Average</b>	<b>-1</b>						
<b>Liquidity</b>	<b>Adequate</b>							

## Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> <li>• Very high capital levels.</li> <li>• Conservative approach to risk underlined by high collateral values.</li> <li>• No credit losses since establishment in 1998.</li> </ul>	<ul style="list-style-type: none"> <li>• Small size and very low market shares.</li> <li>• Business model concentrated on commercial real estate in southern and western Norway.</li> <li>• Dependent on wholesale funding, particularly from the Norwegian covered bond market.</li> </ul>

## Outlook

Standard & Poor's Ratings Services' negative outlook on Norway-based mortgage provider Eiendomskreditt AS reflects the unfavorable economic risk trend we perceive in Norway's banking system. Furthermore, we believe any significant deterioration in Norway's economic conditions could have negative repercussions for Eiendomskreditt's operating performance, and the Norwegian real estate market in general.

We could take negative rating action if Eiendomskreditt made changes to its stringent underwriting policies leading to weakening asset quality and credit losses. We could also take negative rating action if Eiendomskreditt materially reduced its working capital. We also note that changes to the regulatory framework in Norway are set to increase disincentives for interbank exposures which could negatively affect Eiendomskreditt's business position over time. Therefore, a smaller role for Eiendomskreditt as a commercial real estate financier for its owner banks could be negative for the rating.

We could revise the outlook to stable if we saw an improvement in economic conditions and a reduction in the developing economic imbalances in Norway. In addition, we will need clarity with respect to the future ownership structure and support available from its owner banks, which could lead us to reassess our concerns about the company's business position or revisit our assessment of below average funding.

## Rationale

Eiendomskreditt's stand-alone credit profile (SACP) is 'bbb', reflecting the 'a-' anchor we assign to financial institutions operating in Norway, as well as the company's "weak" business position, "very strong" capital and earnings, "moderate" risk position, "below average" funding, and "adequate" liquidity, as our criteria define these terms. We consider Eiendomskreditt to be of "low" systemic importance, and consequently do not factor any extraordinary government support into the ratings.

### Anchor:'a-' for financial institutions operating only in Norway

Our criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine an institution's anchor, the starting point in assigning an issuer credit rating. The anchor for a financial institution operating only in Norway is 'a-', based on an economic risk score of '2' and an industry risk score of '3'.

We base our assessment of economic risk on Norway's robust economy, which is supported by its large oil fund, steady oil revenues, and stable political environment. That said, Norway's banks are competing for market share in Norwegian mortgages and supporting further increases in asset prices and household debt, which presents a growing risk for the economy. Additionally, we see downside risks linked to consumer confidence, as depressed oil prices and a sluggish European economy reduce corporate investments. However, given the government's ability to stimulate the economy, low interest rates, low unemployment, and strong social safety nets, we anticipate generally low credit losses in Norway in the short term.

Our assessment of industry risk for Norwegian banks reflects the dominance of stable Scandinavian banks and the domestic savings bank alliances. We regard the regulator as proactive in terms of setting relatively high capital requirements and monitoring banks' liquidity, and we note the government's track-record and capacity in providing the necessary liquidity support to the sector. Moreover, the expanding domestic bond market, and the likelihood of liquidity support from the government, helps offset some of the risks from what we see as a structural lack of deposits and banks' reliance on international wholesale funding.

**Table 1**

Eiendomskreditt AS: Key Figures					
	--Year-ended Dec. 31--				
(Mil. NOK)	2014	2013	2012	2011	2010
Adjusted assets	4,871.6	4,877.7	4,498.3	3,918.4	3,898.3
Customer loans (gross)	4,019.0	4,125.5	3,772.7	3,168.1	2,869.2
Adjusted common equity	409.8	380.3	299.1	261.4	210.2
Operating revenues	61.2	62.5	46.4	34.8	40.4
Noninterest expenses	18.7	18.9	15.9	15.0	14.2
Core earnings	31.6	31.4	22.0	14.3	18.9

NOK--Norwegian krone.

### Business position: Weak due to very low market share and concentrated business model

We consider Eiendomskreditt's business position to be "weak," due to its small size--total assets stood at Norwegian

krone (NOK) 4.8 billion (€580 million at 8.4 NOK/€) at end 2014--very low market share in Norway's residential and commercial real estate markets, and geographic and sector concentration. Eiendomskreditt is owned by 87 banks covering the alliances of Frende Alliance (45% ownership share), Eika Alliance (28%), Sparebank 1 Alliance (6%), and unaligned savings banks (21%).

Eiendomskreditt provides residential mortgages and commercial real estate loans, mainly to customers in the five largest counties of southern and western Norway. In addition to its geographic concentration, Eiendomskreditt is focused on the commercial real estate sector and has loaned the highest share to this sector of all domestic banks. Loans to the commercial real estate sector accounted for about three quarters of total lending as of end-2014. The share of commercial real estate has increased in part due to the heavy competition for residential mortgages in Norway, which has squeezed lending margins and led to a 22% decrease in Eiendomskreditt's residential mortgage volumes.

We note that concerns about the interconnections of financial institutions (FIs) in Norway have led the regulator to implement changes that could affect Eiendomskreditt's relationship with its owner banks. The two key disincentives are the increase in risk weights on interbank exposures from 20% to 100%, and the requirement for owner banks to consolidate FIs with over 50% ownership by other FIs in their capital assessment. The changes have already led some members of the Sparebank 1 alliance of savings banks to set up their own covered bond companies rather than use a single covered bond issuer, and the changes could impact owner banks' use of Eiendomskreditt as a financing vehicle. While there continues to be some uncertainty as to how this will affect Eiendomskreditt and its relationship with current owner banks, in our view, a material reduction in the distribution of loans via the owner banks could have a significant impact on the business position of Eiendomskreditt, which is already weak given its low market share and concentration. We note, however, that how this consolidation requirement will be applied to Eiendomskreditt remains uncertain, and that the regulatory capital consolidation process is subject to a transition period until January 2018.

In spite of its concentrations, we consider Eiendomskreditt to have a conservative approach to risk. This is underlined, in our view, by the company's priority of financing only commercial real estate with high collateral values within strict loan-to-value (LTV) limits. The company's operations are quite efficient with a cost-to-income ratio of around 30%; however, this is largely due to the small number of full-time employees--13--which leads to an element of key-man risk in the company.

**Table 2**

Eiendomskreditt AS: Business Position					
	--Year-ended Dec. 31--				
(%)	2014	2013	2012	2011	2010
Total revenues from business line (currency in millions)	61.2	62.5	46.4	34.8	40.4
Commercial & retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0

### Capital and earnings: Very strong due to very high and rising capital levels

We assess Eiendomskreditt's capital and earnings as "very strong," based on the company's risk-adjusted capital (RAC) ratio of 18.6% at end-2014, and its projected RAC ratio approaching 20% by 2016. Eiendomskreditt's RAC ratio includes two additional tier 1 (AT1) hybrid instruments totaling NOK75 million which we include in our calculations of

total adjusted capital. We believe Eiendoms kreditt's capital levels will be supported by modest growth over the ratings horizon, the absence of dividend payouts, and its cost-efficient operations.

**Table 3**

<b>Eiendoms kreditt AS: Capital And Earnings</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Tier 1 capital ratio	14.0	12.2	9.8	10.1	9.4
S&P RAC ratio before diversification	18.6	16.2	N.M.	N.M.	N.M.
S&P RAC ratio after diversification	10.4	9.6	N.M.	N.M.	N.M.
Adjusted common equity/total adjusted capital	84.5	90.5	100.0	100.0	100.0
Net interest income/operating revenues	96.2	96.7	89.5	96.8	94.9
Fee income/operating revenues	0.5	0.5	0.9	1.0	0.3
Market-sensitive income/operating revenues	2.0	1.4	7.5	(0.4)	2.3
Noninterest expenses/operating revenues	30.5	30.2	34.2	43.0	35.2
Provision operating income/average assets	0.9	0.9	0.7	0.5	0.7
Core earnings/average managed assets	0.6	0.7	0.5	0.4	0.5

N.M.--Not meaningful. S&P - Standard & Poor's. RAC - risk adjusted capital.

**Table 4**

<b>Eiendoms kreditt AS: Risk Position</b>						
	<b>--Year-ended Dec. 31--</b>					
<b>(%)</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	
Growth in customer loans		(2.6)	9.4	19.1	10.4	6.1
Total diversification adjustment/S&P RWA before diversification		77.9	69.3	N.M.	N.M.	N.M.
Total managed assets/adjusted common equity (x)		11.9	12.8	15.0	15.0	18.5
Gross nonperforming assets/customer loans + other real estate owned		2.1	3.8	2.1	0.5	0.6
Loan loss reserves/gross nonperforming assets		1.4	0.8	1.5	6.9	6.5

N.M.--Not meaningful. RWA - risk weighted assets. S&P - Standard & Poor's.

### **Risk position: Moderate due to concentrations in commercial real estate in southern Norway**

We consider Eiendoms kreditt's risk position to be "moderate," reflecting its concentration in southern and western Norway, increasing concentration in the commercial real estate sector, and single-name concentration.

Eiendoms kreditt's share of commercial real estate lending within total customer loans has grown steadily from about 40% in 2009 to about 75% at end 2014. The company has continued to hold high collateral standards and have had no credit losses in the firm's history. In addition, Eiendoms kreditt provides residential mortgage loans across the nation via its own sales channels and cooperation with an internet comparison site, as well as its exclusive relationship with the Norwegian Homeowners' Association.

Despite its concentration in a volatile sector, we consider Eiendoms kreditt's underwriting process to be conservative. Our view is underscored by LTV limits of 65% and collateral values for residential and commercial loans of 55%, respectively, both of which are below the regulatory requirements for inclusion in the company's covered bond pool. In our view, this has contributed to strong asset quality, best demonstrated by an absence of credit losses since the

company started operations in 1998. We also note that Eiendomskreditt performs its own credit analysis on loans transferred from its owners, ensuring that such loans fit the company's risk profile. At end-2014, loans totaling NOK83 million were considered to be in default but had collateral values exceeding the claims. The largest case was resolved without a credit loss in the first quarter, reducing the outstanding non-performing loans (NPLs) to about NOK20 million, underscoring the low risk in Eiendomskreditt's lending book. However, given the volatility in commercial real estate, we believe that the liquidity of the Norwegian commercial real estate market and the valuations of associated collateral could come under pressure during a period of stress, and lead to more substantial credit losses in the future. In particular, we note the uncertainty created by the significant drop in oil prices over the past year as a risk factor for Eiendomskreditt's exposure.

Table 5

<b>Eiendomskreditt AS: Risk-Adjusted Capital Framework Data</b>					
<b>(NOK 000s)</b>	<b>Exposure*</b>	<b>Basel II RWA</b>	<b>Average Basel II RW (%)</b>	<b>Standard &amp; Poor's RWA</b>	<b>Average Standard &amp; Poor's RW (%)</b>
<b>Credit risk</b>					
Government and central banks	43,806	0	0	2,190	5
Institutions	824,164	135,363	16	124,616	15
Corporate	2,695,283	2,694,338	100	1,955,363	73
Retail	1,412,108	494,000	35	366,569	26
Of which mortgage	1,346,167	470,925	35	323,080	24
Securitization	0	0	0	0	0
Other assets	0	0	0	0	0
Total credit risk	4,975,360	3,323,700	67	2,448,739	49
<b>Market risk</b>					
Equity in the banking book¶	5,617	0	0	45,638	813
Trading book market risk	--	0	--	0	--
Total market risk	--	0	--	45,638	--
<b>Insurance risk</b>					
Total insurance risk	--	--	--	0	--
<b>Operational risk</b>					
Total operational risk	--	106,588	--	117,094	--
		<b>Basel II RWA</b>		<b>Standard &amp; Poor's RWA</b>	<b>% of Standard &amp; Poor's RWA</b>
<b>Diversification adjustments</b>					
RWA before diversification		3,430,288		2,611,471	100
Total adjustments to RWA		--		2,035,389	78
RWA after diversification		3,430,288		4,646,859	178
		<b>Tier 1 capital</b>	<b>Tier 1 ratio (%)</b>	<b>Total adjusted capital</b>	<b>Standard &amp; Poor's RAC ratio (%)</b>
<b>Capital ratio</b>					
Capital ratio before adjustments		481,175	14.0	484,814	18.6

Table 5

Eiendomskreditt AS: Risk-Adjusted Capital Framework Data (cont.)				
Capital ratio after adjustments§	481,175	14.0	484,814	10.4

\*Exposure at default. €Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework.

¶Exposure and Standard & Poor's 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, 2014, Standard & Poor's.

### Funding and liquidity: Concentrated funding base with a dependence on wholesale funding, in particular Norwegian covered bonds

We assess Eiendomskreditt's funding as "below average." The company is dependent on wholesale funding, particularly the rather fragmented domestic covered bond market, making it susceptible to an erosion of market confidence in turbulent economic conditions, in our view. In addition, our assessment also considers the lack of direct access to the central bank. We do not consider potential support from the owner banks in our funding assessment.

Eiendomskreditt has extended its funding maturity profile and replaced outstanding commercial paper with longer-term senior and covered bonds. Eiendomskreditt's stable funding ratio, as measured by Standard & Poor's, stood at 113.5% at end-2014. This is a marked improvement from the 86% just two years ago, given the reduction in issued debt maturing in less than one year and reduction in the loan book.

We assess Eiendomskreditt's liquidity as "adequate." At end-2014, the company's had NOK761 million liquid assets in the form of bank deposits and liquid securities, with only NOK165 million in short-term wholesale funding. The company's broad liquid assets to short-term wholesale funding ratio improved significantly to 4.62x from 0.99x at end-2013, due to a decrease in short-term debt maturing within one year. We expect that these ratios will remain volatile, yet comfortable, due to the impact of debt becoming due within one year, given the small number of outstanding issues.

Table 6

Eiendomskreditt AS: Funding And Liquidity	--Year-ended Dec. 31--				
	2014	2013	2012	2011	2010
(%)					
Long term funding ratio	96.6	87.4	76.1	77.7	71.4
Stable funding ratio	113.5	98.8	86.0	88.2	85.8
Short-term wholesale funding/funding base	3.8	13.8	25.6	24.0	30.3
Broad liquid assets/short-term wholesale funding (x)	4.6	1.0	0.5	0.7	0.7
Short-term wholesale funding/total wholesale funding	3.7	13.7	25.6	24.0	30.3
Narrow liquid assets/3-month wholesale funding (x)	52.5	6.9	2.1	3.9	1.9

### Support: No notches of uplift to the SACP

We consider Eiendomskreditt to be of "low" systemic importance and consequently do not factor any extraordinary government support into the ratings. We also do not include any group support into the ratings, despite the company's ownership by 87 domestic savings banks.

## Related Criteria And Research

### Related Criteria

- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011

### Related Research

- Banking Industry Country Risk Assessment: Norway, Jan. 30, 2015

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

### Ratings Detail (As Of May 5, 2015)

#### Eiendomskreditt AS

Counterparty Credit Rating	BBB/Negative/A-2
Senior Secured	AA+/Negative
Senior Unsecured	BBB

#### Counterparty Credit Ratings History

01-Jul-2014	BBB/Negative/A-2
-------------	------------------

#### Sovereign Rating

Norway (Kingdom of)	AAA/Stable/A-1+
---------------------	-----------------

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

#### Additional Contact:

Financial Institutions Ratings Europe; FIG\_Europe@standardandpoors.com

Copyright © 2015 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

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

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

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

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

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