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Research Update:

Norwegian Mortgage Company Eiendomskreditt 'BBB/A-2' Ratings Affirmed; Outlook Negative

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Overview

- We expect that Eiendoms kreditt will maintain its current strategy and underwriting standards despite material lending growth in 2017 and a new ownership structure.
- We are therefore affirming our 'BBB/A-2' ratings on Eiendoms kreditt.
- The negative outlook reflects our view of heightening economic risks in Norway and the possibility that, if the company were to increase its risk appetite or it experienced asset quality deterioration, we could take a negative rating action.

Rating Action

On April 27, 2017, S&P Global Ratings affirmed its 'BBB/A-2' long- and short-term counterparty credit ratings on Norwegian mortgage company Eiendoms kreditt AS. The outlook is negative.

Rationale

The affirmation reflects our assumption that Eiendoms kreditt will maintain its conservative underwriting standards and high asset quality under its new ownership and despite our expectations of rapid loan growth in 2017 and increased strategic focus on commercial real estate loans. In our view, the new owners' capital injection of Norwegian krone (NOK) 122 million (about €13 million) in early 2017 and greater cooperation on loan transfers from owner banks enables Eiendoms kreditt to grow their loan book considerably over the next year.

We do not project any changes in Eiendoms kreditt's conservative underwriting standards and high asset quality, which have contributed to the mortgage company's exceptional track record of zero credit losses since its establishment in 1998. In our view, these strengths are currently offset by risks related to Eiendoms kreditt's small size and material concentration in commercial real estate, largely in southern and western Norway. We note that a change in risk appetite, increased operational risks, or early signs of asset quality deterioration could constrain Eiendoms kreditt's creditworthiness, and we now reflect this in our downside scenario for Eiendoms kreditt.

Outlook

The negative outlook indicates that we could lower the ratings on Eiendoms kreditt within our two-year outlook horizon if the negative trend we see for Norwegian economic risk causes us to revise down our anchor for banks operating in Norway to 'bbb+' from 'a-'. The negative trend is primarily driven by the increasing economic risk we perceive in Norway's banking system in general, and in southern and western Norway in particular, based on growing imbalances and low oil prices. In addition, continued deterioration in oil-related industries could hurt asset quality and result in credit losses for Eiendoms kreditt, which has a concentration in commercial real estate loans in southern and western Norway.

We could also lower the rating if Eiendoms kreditt's growth strategy results in a material change in risk appetite, loan concentrations, or increased operational risks, or if we see early signs of asset quality deterioration.

We could revise the outlook to stable if we were to observe an improvement in economic conditions, with slowing development in household debt and house prices, as well as improved conditions for the oil industry.

Ratings Score Snapshot

Issuer Credit Rating	BBB/Negative/A-2
SACP	bbb
Anchor	a-
Business Position	Weak (-2)
Capital and Earnings	Very strong (+2)
Risk Position	Moderate (-1)
Funding and Liquidity	Below average and (-1) Adequate
Support	(0)
ALAC Support	(0)
GRE Support	(0)
Group Support	(0)
Sovereign Support	(0)
Additional Factors	(0)

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017

- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

Eiendoms kreditt AS

Counterparty Credit Rating
Senior Unsecured

BBB/Negative/A-2
BBB

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