

Eiendoms kreditt AS

Rating Action Report

COVERED BOND RATING

AAA

ISSUER RATINGS

LONG-TERM RATING

BBB

OUTLOOK

Stable

SHORT-TERM RATING

N3

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Eiendoms kreditt AS 'BBB' long-term issuer rating affirmed; Outlook stable

Nordic Credit Rating said today that it had affirmed its 'BBB' long-term issuer rating on Norway-based mortgage company [Eiendoms kreditt AS](#). The outlook is stable. The 'N3' short-term rating was also affirmed, as were the 'AAA' issue ratings on the company's covered bonds, the 'BBB' issue ratings on its senior unsecured bonds, the 'BB+' issue ratings on its Tier 2 bonds, and the 'BB-' issue ratings on its additional Tier 1 bonds.

Rating rationale

The affirmation reflects continued performance in line with our expectations. Eiendoms kreditt's performance has been stable so far in 2024, largely due to prudent underwriting, despite continuing uncertainty in the Norwegian commercial real estate market. Widened market yields in 2023 have impacted valuations this year, but we now expect them to remain relatively stable.

The long-term issuer rating reflects the operating environment for Norwegian commercial real estate companies, as well as Eiendoms kreditt's robust capitalisation and earnings and low historical and projected credit losses. It also reflects the company's concentrated loan portfolio, modest market position, and limited funding profile.

The issue rating on Eiendoms kreditt's covered bonds is ultimately based on the 'BBB' issuer rating and reflects the company's role as a commercial real estate lender and partner for small and mid-sized Norwegian banks. The covered bond ratings are supported by an '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.

Stable outlook

The stable outlook on the issuer rating reflects our view that Eiendoms kreditt will maintain its selective underwriting and moderate loan-to-value profile, thereby avoiding significant losses. We also believe that continued access to capital market financing will allow the company to continue to support its partner banks, as demand for real estate financing is likely to increase. We expect capital ratios to be boosted by the prospective positive impact of implementing the EU's Capital Requirements Regulations III.

We could raise the issuer rating to reflect improved capital and earnings (common equity Tier 1 capital ratio sustainably above 22%), pre-provision income sustainably above 3% of risk exposure amount, or a larger and more diverse loan book.

We could lower the rating to reflect a material deterioration in the operating environment that negatively affects the company's asset quality, a lasting reduction in the common equity Tier 1 capital ratio to below 15%, or risk-adjusted pre-provision income persistently below 1.5% of risk exposure amount.

Given the stable outlook on the issuer rating, we also expect the covered bond rating to remain stable.

Rating list

	To	From
Long-term issuer credit rating:	BBB	BBB
Outlook:	Stable	Stable
Short-term issuer credit rating:	N3	N3
Covered bond issue rating:	AAA	AAA
Senior unsecured issue rating:	BBB	BBB

Rating list

Tier 2 issue rating:

Additional Tier 1 issue rating:

To

BB+

BB-

From

BB+

BB-

Figure 1. Eiendomskreditt rating scorecard

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

Figure 2. Capital structure ratings

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

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 23 Feb. 2023.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
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Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	NCR's Financial Institutions Rating Methodology published on 14 Feb. 2024 NCR's Rating Principles published on 14 Feb. 2024 NCR's Group and Government Support Rating Methodology published on 14 Feb. 2024 NCR's Covered Bond Rating Methodology published on 14 Feb. 2024 The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website nordiccreditrating.com/governance/policies . The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA) .
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Company presentations, Data provided by external data providers, External market reports, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity.
Potential conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity. NCR does not have any direct or indirect shareholder with a holding of more than 5% of NCR's shares and votes. For further information, please refer to NCR's conflict of interest policy which is available on: https://nordiccreditrating.com/governance/policies
Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test or cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: nordiccreditrating.com/governance/policies .
Ancillary services provided:	No ancillary services were provided.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
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