Financial Institutions

MOODY'S RATINGS

CREDIT OPINION

20 December 2024

Update

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RATINGS

Eika Boligkreditt AS

Domicile	Norway
Long Term CRR	A2
Type	LT Counterparty Risk Rating
Long Term CRA	A2(cr)
Type	LT Counterparty Risk Assessment
Long Term Issuer Rating	A3
Type	Issuer Rating - Dom Curr
Outlook	Stable

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Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Eika Boligkreditt AS

Update to credit analysis following periodic review

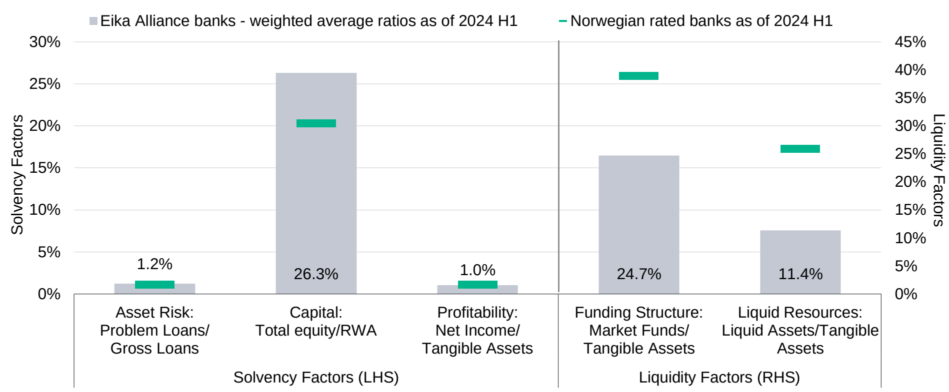
Summary

Eika Boligkreditt AS's A3 long-term issuer rating, its A2 Counterparty Risk Rating (CRR) and its A2(cr) Counterparty Risk (CR) Assessment reflect the respective weighted-average credit profiles of the banks that are shareholders and users of Eika Boligkreditt as well as our assessment of the likelihood that the Eika banks will support Eika Boligkreditt, in case of need, taking into account the balance of their formal obligations and other incentives to do so under the Eika structure.

Our view of the owner banks' credit profiles reflects (1) the strong financial fundamentals of the alliance banks including their strong capitalisation, solid historical asset quality and low-risk retail lending focus, as well as high exposure to Norway's property sector and high market funding dependence; (2) the level of integration with the member banks, which in turn have committed to provide limited capital and liquidity support, albeit falling short of a legally-binding commitment amongst the banks to support each other; and (3) our Advanced Loss Given Failure (LGF) analysis on the banks' liability structure that leads to rating uplift for their issuer ratings, CRRs, and CR Assessments. Our assumption of a low probability of support from the Government of Norway (Aaa, stable) does not result in any further uplift to the ratings.

Exhibit 1

Rating Scorecard - Key Financial Ratios



This exhibit shows the weighted average ratios for all Eika alliance banks, including LBA banks. Please note that Exhibit 2 presents data for Eika Boligkreditt itself.
Source: Eika Boligkreditt and Moody's Ratings

Credit strengths

» Eika alliance banks' stand-alone creditworthiness, which is supported by solid capital and historically strong asset quality

» The member banks' commitment to safeguard Eika Boligkreditt's access to sufficient liquidity and capital

Credit challenges

» High concentrated exposure of the individual banks and Eika Boligkreditt to the Norwegian real estate market

» Lack of an explicit guarantee by the owner banks towards Eika Boligkreditt's obligations

Rating outlook

The stable outlook on Eika Boligkreditt's long-term issuer rating reflects our view that the owner banks' high capital base and strong asset quality will endure, while profitability will be supported by elevated, albeit declining, interest rates, partly offset by lower lending growth.

Factors that could lead to an upgrade

» Eika Boligkreditt's ratings could be upgraded following further improvements in profitability, combined with sustained risk profiles and capitalisation of the owner banks.

» A material strengthening of the owner banks' legal commitment towards Eika Boligkreditt could also result in a rating upgrade.

Factors that could lead to a downgrade

» The ratings could be downgraded if the credit profile of a significant portion of the alliance banks' financial fundamentals weakened, especially their asset quality.

» Eika Boligkreditt's ratings would also be downgraded in case of reduced likelihood of the owner banks supporting it, for example by substantially loosening the support agreements that are currently in place between Eika Boligkreditt and the owner banks.

Key indicators

Exhibit 2
Eika Boligkreditt AS (Consolidated Financials) [1]

	06-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (NOK Billion)	123.1	121.0	126.6	114.9	120.6	0.6[4]
Tangible Common Equity (NOK Billion)	6.2	6.0	5.9	5.2	5.2	4.7[4]
Problem Loans / Gross Loans (%)	--	0.0	0.0	0.1	--	0.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	15.9	15.5	15.2	13.8	14.1	14.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	--	0.3	0.4	0.9	--	0.5[5]
Net Interest Margin (%)	0.6	0.4	0.4	0.7	0.7	0.6[5]
PPI / Average RWA (%)	0.1	0.1	-0.3	0.0	0.3	0.0[6]
Net Income / Tangible Assets (%)	0.0	0.0	-0.1	0.0	0.1	0.0[5]
Cost / Income Ratio (%)	66.6	63.4	-286.7	103.5	37.5	-3.1[5]
Market Funds / Tangible Banking Assets (%)	49.4	49.8	50.7	50.4	51.4	50.3[5]
Liquid Banking Assets / Tangible Banking Assets (%)	15.7	15.7	20.0	15.6	17.2	16.8[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel II; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel II periods.
Sources: Moody's Ratings and company filings

Profile

The Eika alliance is the third-largest banking group in Norway that as of end of November 2024 was made up of a group of 45 Norwegian local savings banks together with Eika Boligkreditt, Eika Gruppen, and Eika Banksamarbeidet. Eika Boligkreditt's ownership includes 45 alliance banks and a declining stake from 11 banks that are transferring their assets from the covered bond entity, with ten of these banks exiting together in October 2021. Total assets of the Eika alliance were equivalent to €43 billion and it had 198 local branch offices, while as of December 2023 the Eika alliance held a 9.3% combined market share in retail lending.

Individual members operate independently from each other, but the Eika alliance provides a number of services which also act as incentives for member banks to remain members of the Eika alliance. Eika Boligkreditt's purpose is to provide access to the international debt capital markets to its owner savings banks. Eika Gruppen provide services such as a shared information technology infrastructure, marketing, and credit risk monitoring. Eika Banksamarbeidet procures products and services on behalf of the alliance members.

Detailed credit considerations

The strong credit profiles of the banks that own Eika Boligkreditt form the starting point for the company's ratings

To assess the credit profiles of the banks that collectively form the alliance and own Eika Boligkreditt we analyse three key components: (1) the individual member banks' stand-alone creditworthiness, as established by their respective geographic areas of operations, financial characteristics and any relevant qualitative factors; (2) their capacity and willingness to help each other in case of failure of one or more members; and (3) the application of our Advanced LGF analysis on the individual members' liability structures in order to assess the extent to which junior debt classes could cushion the impact of any regulatory "bail-in" of the banks' creditors.

The majority of the alliance banks maintain relatively strong financial fundamentals, with limited variations in credit quality amongst individual members.

Eika Alliance banks benefit from a very supportive operating environment in Norway

The banks continue to benefit from operating in Norway's Very Strong - operating environment, which reflects the country's economic resilience, built on its ample natural resources and a fiscal framework that shields the economy from oil price volatility. Norwegian banks benefit from operating in a wealthy, developed country with very high economic, institutional and government financial strength, and very low susceptibility to adverse events.

The main risks to the banking system stem from its extensive use of market funding, and Norway's increased household debt and high real estate prices. As a result, Norwegian banks' credit profiles remain vulnerable to significant declines in commercial real estate (CRE) prices, highlighting some modest industry concentration risks. However, the household sector's strong debt-servicing ability, the

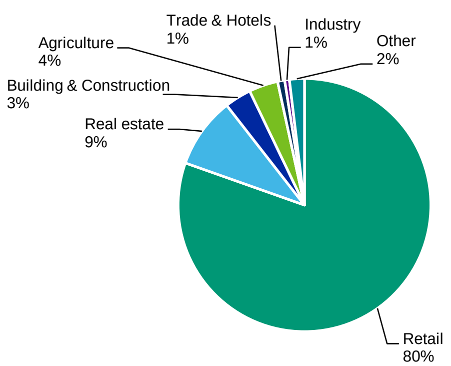
Norwegian government's well-coordinated monetary and regulatory policies, and the country's sizeable sovereign wealth fund, which supports the economy during crises, mitigate these risks.

Historically strong asset quality, although exposure to Norway's real estate sector is high

Eika Alliance banks' asset quality is strong, supported by a high proportion of retail lending, largely comprised of conservatively underwritten residential mortgages with an average loan-to-value ratio of 61% as of December 2023. However, alongside some direct lending to real estate and construction, the banks are highly exposed to Norway's property sector.

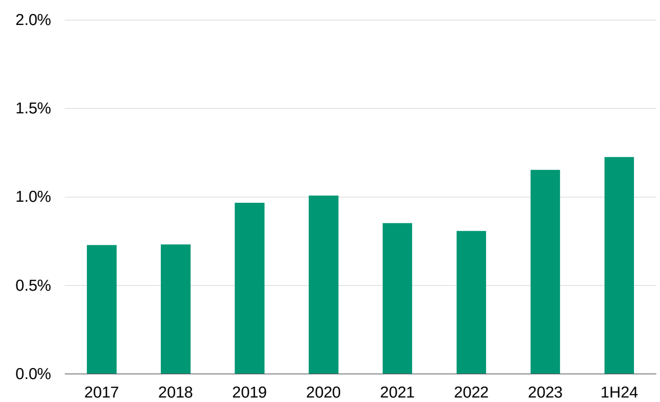
On an aggregated basis, owner banks' share of problem loans have remained low despite pressure from high interest rates, only rising marginally from 1.15% to 1.23% in the six months to June 2024, slightly above the pre-pandemic level of 0.97% in 2019. Looking ahead, we expect asset quality metrics to remain similarly strong, with borrowers' interest burden abating slightly in 2025 as the policy rate declines.

Exhibit 3
Retail lending forms the bulk of owner banks' lending...
Loan book breakdown by sector (incl transferred loans)



Source: Eika Boligkreditt and Moody's Ratings

Exhibit 4
...supporting historically low and stable levels of problem loans
Eika Banks' Aggregated Problem Loans / Gross Loans (incl transferred loans)

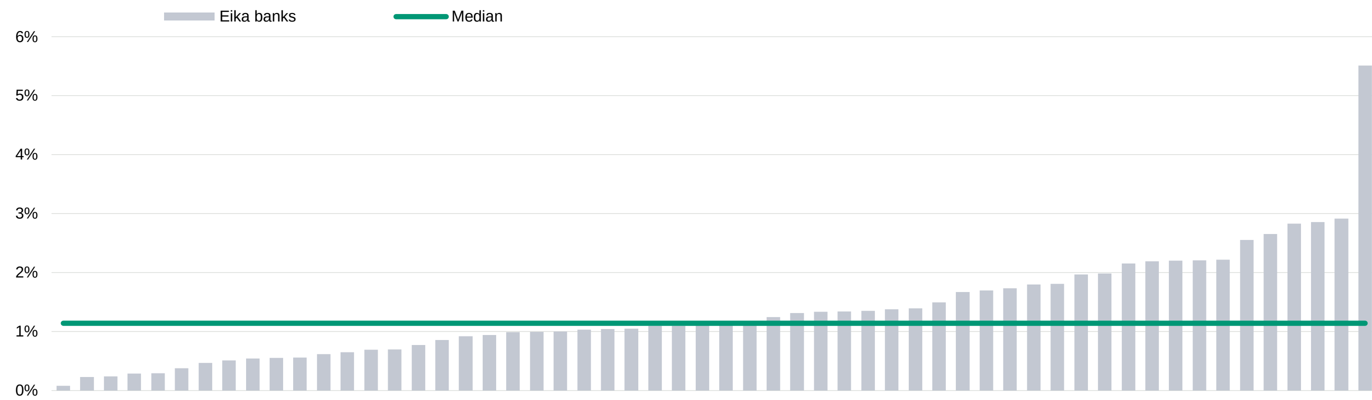


Source: Eika Boligkreditt and Moody's Ratings

Member banks' strong asset performance reflects their retail banking focus, and is also supported by little to no exposure to shipping and the oil sectors, which have historically contributed to a sizable share of credit losses in Norwegian banks. Individually, member banks face concentration risks due to their small size and reach, heavily exposed to one area and in some cases moderately exposed to single counterparties. Despite this, loan losses have historically been low with relatively limited deviation in the share of problem loans among individual banks.

Exhibit 5

Aggregated metrics are strong, yet differences in risk appetite and lending portfolios drives some variance in credit quality across the cohort
Problem Loans / Gross Loans of Eika banks as of June 2024



Source: Eika Boligkreditt and Moody's Ratings

High capital levels provide a buffer against potential credit losses

Capital levels for the Eika alliance banks are high with both total equity to risk-weighted assets (RWA) and equity to tangible assets on average higher than their rated Norwegian peers. We expect capitalisation to remain strong going forward on the back of high capital requirements.

The median equity to risk weighted assets ratio of the Eika Alliance banks stood at 26.3% as of half-year 2024 (see the first Exhibit below), higher compared to 20.3% for other Norwegian rated banks. The lowest equity/RWA ratio by an alliance bank was 19.5%, and the highest 36.7% as of the end of June 2024. The weighted average consolidated Common Equity Tier 1 ratio of the Eika alliance banks was 19.6%, with most banks having sufficient buffers above the regulatory requirements, and we expect the Eika banks to continue to meet their overall regulatory requirements with a buffer.

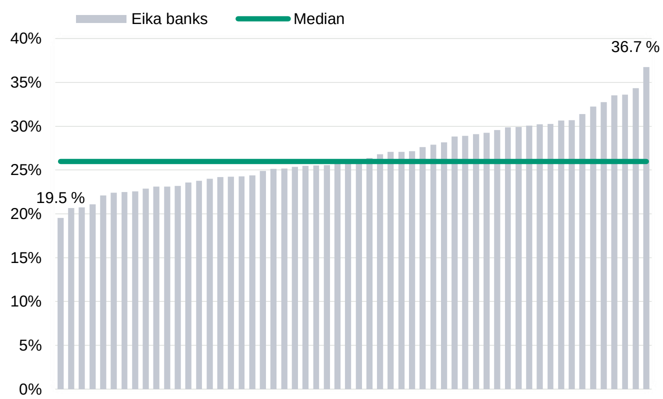
Furthermore, equity to total assets (including assets transferred to Eika Boligkreditt) is strong at a median of 10.1% as of June 2024 (see the second Exhibit below) and compares favourably to regional peers (6.9% for other Norwegian rated banks). Since all Eika banks apply the standardised approach in calculating RWAs, the banks' capital metrics are less sensitive to rises in credit risk compared to banks using more risk-sensitive models, and to potential amendments in regulatory methods to calculating RWAs, including floor requirements.

Although Eika alliance banks have supported weaker banks with equity in the past, there is no legally binding support agreement that requires member banks to support each other. Furthermore, in our view the Eika alliance banks have limited access to capital in case of need given the small size of the banks' and because the majority of the member banks are not publicly listed. This mean the banks primarily rely on earnings retention to shore up their buffers and finance growth.

Exhibit 6

Eika banks are well capitalised...

Total Equity / RWA of Eika banks as of June 2024

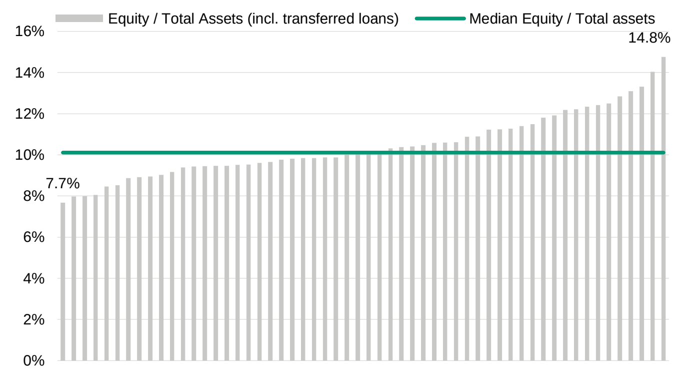


Source: Eika Boligkreditt and Moody's Ratings

Exhibit 7

...supported by strong leverage

Total Equity / Total Assets (incl transferred loans) of Eika banks as of June 2024



Source: Eika Boligkreditt and Moody's Ratings

Competition and lower interest rates will put pressure on profitability

Eika alliance banks' profitability is robust and roughly in line with their larger domestic peers, as reflected in their weighted-average annualized net profit to total assets ratio of 1.0% in the first half of 2024, compared with the average of 1.1% for the rated Norwegian banks. Member banks benefit from operational efficiencies, such as common IT systems and platforms that Eika Gruppen develops, as well as risk policies and procedures, which the banks can then customise.

Member banks also benefit from access to products developed by and sourced through the alliance, providing a boost to non-interest income. However, revenue is primarily sourced through lending activities, with aggregated net interest income comprising 83% of core income in first half 2024. Given their limited earnings diversification, we expect member banks' earnings to moderate slightly in 2025 as interest rates decline.

Despite their small size, on average Eika banks benefit from solid cost efficiency with a weighted average cost-to-income ratio of 41% in first half 2024, which compares well in a broader European banking context, although higher than the rated Norwegian average of 35%. Cost efficiency has also improved through a reduction in transition costs now that all member banks have transitioned to the new core banking platform. We expect the alliance banks to continue to focus on cost control, although cost reduction measures are limited by their smaller scale and inflexible cost base.

Solid liquidity buffers mitigate high reliance on wholesale funding

Eika banks are significantly exposed to more volatile wholesale funding, although this exposure is lower than the average of their rated Norwegian peers. The banks' weighted average market funds ratio (including 50% of covered bonds issued through Eika Boligkreditt) was 24.7% of tangible banking assets as of first half of 2024, below the 38.9% of Norwegian rated banks as of the same date.

Eika banks benefit from access to Eika Boligkreditt, enabling them to secure cheaper funding and face lower refinancing risks than on their own. Concurrently, some banks exhibit certain deposit concentrations, which could pose downside risks to their funding profile if not managed properly.

The Eika alliance banks maintain solid liquidity buffers with an average of 11.4% of liquid assets to tangible banking assets (excluding Eika Boligkreditt's liquid assets but including transferred assets) as of first half of 2024, and average LCR was a strong 296%. Besides cash and dues from other banks, the banks' liquidity buffers include securities portfolios, which mainly comprise covered bonds, local and government bonds, senior bank issues and money market funds. Eika Boligkreditt also maintains prudent liquidity buffers, with an internal target to maintain liquid assets to cover 100% of upcoming maturities in the next 6 months, and 75% over the next 12 months.

ESG considerations

In line with our general view for the banking sector, Eika Boligkreditt and Eika alliance banks have a low exposure to Environmental risks. See our Environmental risks heat map for further information.

We believe banks face moderate Social risks. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy which is partly mitigated by sizeable technology investments. Fines and reputational damage due to product misselling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services, increasing information technology cost, aging population concerns in several countries, impacting demand for financial services or socially driven policy agendas that may translate into regulation that affects banks' revenue base. These trends are particularly important for Eika banks because they predominantly engage in retail banking activities and play an important role in their local communities. See our Social risks heat map for further information.

Governance is crucial for both Eika Boligkreditt and its owner banks, as it is for all players in the banking industry. Weaknesses in corporate governance can deteriorate a company's credit quality, while strengths can enhance its credit profile. Although Eika banks are typically small with limited resources and expertise to address developments in this area individually, they benefit from the systems and training provided by the alliance, such as in the area of anti-money laundering. Eika Boligkreditt's ownership structure, where member banks' ownership shares are calculated and therefore fluctuate in accordance with the volume of each bank's transferred loans, presents unique governance challenges. Although this has resulted in some board turnover, governance risks are mitigated by Eika Boligkreditt's strong track record of strategic execution with a conservative risk appetite, along with a very stable management team. Nevertheless, corporate governance remains a key credit consideration and requires continuous monitoring.

Support and structural considerations

Our assessment of the banks' credit strength does not incorporate any mutual support uplift among member banks

There are strong incentives for the banks to support each other in case of stress and there are past examples of such mutual assistance. However, our assessment of the banks' credit profiles does not result in any rating uplift for the purpose of establishing the collective strength of the banks behind the Eika alliance.

The banks do not have a legally binding commitment to support each other in case of need. Further, there is limited benefit that could be incorporated in the banks' ratings given the small variations in standalone credit quality among banks. Instead, the banks are more likely to allocate their resources in support of Eika Boligkreditt itself, and this support is already incorporated in the final ratings.

Affiliate support

The A3 issuer rating, A2(cr) CR Assessment, and A2 CRR assigned to Eika Boligkreditt incorporate our view of the likelihood that the owner banks will support Eika Boligkreditt.

While there is no explicit commitment from the banks to directly support Eika Boligkreditt's obligations vis-à-vis its bondholders, there are publicly-available and legally enforceable agreements in place between the banks and Eika Boligkreditt to safeguard Eika Boligkreditt's own access to adequate liquidity and capital.

Specifically, on a proportionate basis, banks would need to subscribe to any new covered bond issues in case there is a disruption in the covered bond market, and to new capital issuances to maintain Eika Boligkreditt's metrics above its regulatory requirements. Moreover, in case one or more of Eika Boligkreditt's owners are not able to provide their share of capital, the remaining banks may be required by Eika Boligkredit to increase their contribution, this is up to a maximum of twice their initial allocation.

The level of available liquidity support was lowered in an update to Eika Boligkreditt's Note Purchase Agreement (NPA), announced in May 2024. The previous NPA stipulated Eika Boligkreditt's owner banks' collective requirement to subscribe to new covered bonds issued by Eika Boligkreditt, in the case that certain banks are unable to subscribe to new issuance. The revised NPA prescribes the removal of this secondary commitment that all non-subscribed covered bond notes would be purchased by the remaining banks. In addition, the maximum allowable additional covered bonds that could be purchased by each owner bank reduced to 20% from 100% of its total amount of covered bonds issued under the programme. Despite this reduction in the level of available support, the rating incorporates our view that there remains solid integration in the Alliance.

Additionally, our view also reflects additional factors, such as the absence of any provision to avoid payment under the agreement, Eika Boligkreditt's strategic fit and strong operational integration with the alliance banks, as well as the reputational and operational risks associated to the sharing of a common brand and a common technology platform.

The application of our Advanced LGF analysis lifts the banks' credit profiles

Our assessment of the member banks' credit risk profile includes our loss-given failure (LGF) analysis. Since all member banks operate in Norway, which we consider an operational resolution regime, we apply our Advanced LGF analysis to individual bank's liability waterfalls. As part of this analysis and given the banks' small size and more retail and small-and-medium business focus, we assume that 10% of the banks' deposit base is made up of so-called "junior" deposits (i.e., more loss absorbing) rather than our standard assumption of 26%.

Our LGF analysis results, on average, in a two notch uplift to the banks' respective issuer rating levels and a three notch uplift to their respective CR Assessments and CRRs.

Government support

We do not incorporate any government support uplift in the banks credit profiles because of the implementation of a resolution legislation in Norway and the banks' small individual national market shares.

Ratings

Exhibit 8

Category	Moody's Rating
EIKA BOLIGKREDITT AS	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating -Dom Curr	A3

Source: Moody's Ratings

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