

**OPINION OF THE EUROPEAN SYSTEMIC RISK BOARD**

**of 23 May 2024**

**regarding the Norwegian notification of an adjustment of the risk weight set for commercial immovable property pursuant to Articles 124(2) and 126(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012**

**(ESRB/2024/1)**

THE GENERAL BOARD OF THE EUROPEAN SYSTEMIC RISK BOARD,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to the Agreement on the European Economic Area<sup>1</sup>, in particular Annex IX thereof,

Having regard to Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board<sup>2</sup>, and in particular Article 3(2)(j) thereof,

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012<sup>3</sup>, and in particular Article 124(2) thereof,

Having regard to Decision ESRB/2015/4 of the European Systemic Risk Board of 16 December 2015 on a coordination framework for the notification of national macroprudential policy measures by relevant authorities, the issuing of opinions and recommendations by the ESRB, and repealing Decision ESRB/2014/2<sup>4</sup>.

Whereas:

- (1) The Norwegian Ministry of Finance, acting as the designated authority for the purpose of Article 124 of Regulation (EU) No 575/2013 in Norway, notified the European Systemic Risk Board (ESRB) on 25 April 2024 of its decision to adjust the risk weight applicable to exposures fully secured by mortgages on commercial immovable property (hereinafter 'commercial real estate (CRE) exposures') for banks using the Standardised Approach by exempting a subset of exposures, namely exposures secured by mortgages on agricultural immovable property, which is not considered to be residential immovable property (hereinafter 'agricultural CRE exposures'), from the measure. For agricultural CRE exposures, the standard level indicated in Article 126(1)

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<sup>1</sup> OJ L 1, 3.1.1994, p. 3.

<sup>2</sup> OJ L 331, 15.12.2010, p. 1.

<sup>3</sup> OJ L 176, 27.6.2013, p. 1.

<sup>4</sup> OJ C 97, 12.3.2016, p. 28.

of Regulation (EU) No 575/2013 will apply, namely a 50 % risk weight for exposures which meet all the conditions in Article 126(2) of Regulation (EU) No 575/2013. The risk weight for all other types of CRE exposures in Norway remains unchanged.

- (2) Under Articles 124 to 126 of Regulation (EU) No 575/2013, standard risk weights are assigned to exposures fully secured by mortgages on residential property and commercial immovable property.
- (3) According to Article 124(2) of Regulation (EU) No 575/2013, the authority designated in accordance with Article 124(1a) of Regulation (EU) No 575/2013 must periodically, and at least annually, assess whether the standard risk weights assigned under Regulation (EU) No 575/2013 are appropriately based on: the loss experience of exposures secured by immovable property; and forward-looking immovable property markets developments. Where, on the basis of that assessment, the authority designated in accordance with Article 124(1a) of Regulation (EU) No 575/2013 concludes that the risk weight does not adequately reflect the actual risks related to exposures secured by mortgages on commercial immovable property, and if it considers that the inadequacy of the risk weight could adversely affect current or future financial stability in its Member State, it may increase the risk weight applicable to those exposures within the ranges determined in Article 124(2), or impose stricter criteria than those set out in Article 126(2) of that Regulation. The designated authority must notify EBA and the ESRB of any adjustments to risk weights and criteria applied pursuant to Article 124(2) of Regulation (EU) No 575/2013.
- (4) Since 1989, the risk weight applicable to exposures fully and completely secured by mortgages on commercial immovable property in Norway has been set at 100 %. The 100 % risk weight was maintained when Regulation (EU) No 575/2013 entered into force even though Article 126(1) of that Regulation indicates 50 % as the level of standard risk weight for these exposures. More specifically, the Norwegian regulation on capital requirements and national adaptation of CRR/CRD IV<sup>5</sup> states that mortgages on commercial property shall not be taken into account when assigning risk weights in accordance with Article 124(2) of Regulation (EU) No 575/2013. This results in a risk weight of 100 % for most of these exposures, although the risk weight applied can differ depending on the categorisation of the exposure.
- (5) The adjusted risk weight is to apply from 30 June 2024.
- (6) Pursuant to Article 124(2), subparagraph 3, of Regulation (EU) No 575/2013 the ESRB is to provide the Member State concerned with an opinion on the proposed measure within one month of receipt of notification from the competent authority. The ESRB acknowledges the assessment provided by the Norwegian Ministry of Finance. The data on past losses on commercial property lending in Norway indicate that risk is extremely volatile. Whilst in “good times”, losses stemming from lending collateralised by commercial property can be very low,

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<sup>5</sup> [Forskrift om kapitalkrav og nasjonal tilpasning av CRR/CRD IV \(CRR/CRD IV-forskriften\).](#)

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in crisis periods they have had a significant share in total loan losses. However, agricultural real estate has, over time, been one of the sectors within commercial real estate with the lowest loss rates. While the full effect of high inflation and higher interest rates has not yet been fully transmitted to the economy and could lead to declining residential and commercial property prices and hence increased credit risk for banks, the likelihood of loan losses for banks stemming from the agricultural real estate sector seems to be lower. The earnings of many obligors whose exposures are secured by agricultural immovable property are positively affected by the eligibility to current State subsidy and support schemes.

- (7) Since the decision of the Norwegian Ministry of Finance entails a downward adjustment of the current measure in order to ensure that the risk weight adequately reflects the actual risk related to agricultural CRE exposures, Norwegian authorities are encouraged to assess over time and at least annually the appropriateness of the adjusted measure.

HAS ADOPTED THIS OPINION:

1. The measure of the Norwegian Ministry of Finance adjusting the risk weight applicable to exposures fully secured by mortgages on commercial immovable property for banks using the Standardised Approach by the exemption of agricultural CRE exposures is considered as appropriate to address the risks of CRE exposures of such banks in Norway. The exemption for exposures secured by mortgages on agricultural immovable property, which is not considered to be residential immovable property, in Norway aligns the risk weight for this subset with the level indicated in Article 126(1) of Regulation (EU) No 575/2013. The adjustment lowers the loss absorbency requirements for this subset of exposures relative to the current measure. The exemption adequately reflects the actual risk related to this subset of exposures. As regards the risk weight for exposures secured by non-agricultural CRE, a reduction would diminish resilience in the banking sector and might lead to increased lending in the sector, considering that the CRE market along with the overall current economic climate is characterised by high uncertainty.
2. The measure by the Norwegian Ministry of Finance adjusting the risk weight applicable to CRE exposures for banks using the Standardised Approach by the exemption of agricultural CRE exposures is assessed as effective and proportionate. Under the current circumstances, the measure does not entail disproportionate adverse effects on financial stability in Norway or in the Union, nor is it expected to form or create an obstacle to the proper functioning of the internal market. The exclusion of agricultural CRE exposures from the measure is justified by more favourable risk characteristics of this subsector, and it will not have a significant impact on the effectiveness of the measure.



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3. The ESRB notes that the Norwegian Ministry of Finance, acting as the designated authority for the purpose of Article 124 of Regulation (EU) No 575/2013, must periodically, and at least annually, assess whether the risk weights provided for in Regulation (EU) No 575/2013, or set by the designated authority in accordance with Article 124(1a) of Regulation (EU) No 575/2013, adequately reflect the actual risks related to exposures secured by mortgages on commercial immovable property and if it considers that the inadequacy of the risk weights could adversely affect current or future financial stability in Norway. Risk weights may be adjusted if deemed necessary in accordance with Article 124(2) of Regulation (EU) 575/2013, as further specified by Commission Delegated Regulation (EU) 2023/206<sup>6</sup>.
4. The attached assessment note entitled 'Assessment of a risk-weight adjustment for exposures secured by mortgages on commercial immovable property in Norway in accordance with Article 124 of the Capital Requirements Regulation' is an integral part of this Opinion.

Done at Frankfurt am Main, 23 May 2024.

*Head of the ESRB Secretariat, on behalf of the General Board of the ESRB*

Francesco MAZZAFERRO

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<sup>6</sup> Commission Delegated Regulation (EU) 2023/206 of 5 October 2022 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards specifying the types of factors to be considered for the assessment of the appropriateness of risk weights for exposures secured by immovable property and the conditions to be taken into account for the assessment of the appropriateness of minimum loss given default values for exposures secured by immovable property (OJ L 29, 1.2.2023, p. 1).