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**Summary:**  
**Eksportfinans ASA**

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## Summary:

# Eksporthfinans ASA

**Credit Rating:** AA+/Watch Neg/A-1+

## Rationale

The ratings on Eksporthfinans ASA primarily reflect Standard & Poor's Ratings Services' opinion regarding the likelihood of government support from the Kingdom of Norway (AAA/Stable/A-1+). They also reflect the company's excellent loan asset quality and robust capitalization. The ratings are constrained by Eksporthfinans' limited product and geographic diversity, barely adequate profitability, and our uncertainty about its future cash flows because of a portfolio hedge agreement.

With consolidated assets of Norwegian krone (NOK) 270.6 billion (€30.5 billion at NOK8.88 to €1) as of March 31, 2009, Eksporthfinans finances Norwegian exports; provides medium- and long-term credit to promote exports; and, on behalf of the Kingdom of Norway, manages government support schemes for export credit and grants credit facilities to developing countries.

In accordance with our updated criteria for rating government-related entities, our view of a likelihood of extraordinary government support will be based on our assessment of Eksporthfinans' importance to the government as Norway's only export-credit institution and its link with the Norwegian state, given the strong track record of government support received last year, despite relatively low ownership ties. The Norwegian government currently holds a 15% stake in Eksporthfinans.

The company's loan asset quality remains excellent, in our view, with the entire loan portfolio either guaranteed by the Norwegian government or by domestic and foreign banks. Loans to Norwegian municipalities will no longer be part of the company's business following the sell-off of its subsidiary Kommunekreditt. In 2008, the company had to make its first ever loan loss provision, which amounted to NOK508 million and related to a claim on an Icelandic bank. We expect this to be an isolated case, however.

Following a capital increase of NOK1.2 billion in March 2008, we consider Eksporthfinans' capitalization to be robust. At the end of March 2009, its Tier 1 ratio stood at 8.7%. Even though the profitability of Eksporthfinans' core operations is low, the company's returns are adequate in view of the nature of its operations and because it is under no shareholder pressure to meet higher profitability targets.

Eksporthfinans has two separate liquidity portfolios, which, as of March 31, 2009, represented about 36% of the company's total assets. Following significant mark-to-market (MTM) losses on its original liquidity portfolio (mainly composed of bank bonds and asset-backed securities), the company signed a portfolio hedge agreement with its owners to protect it from further MTM losses (up to NOK5 billion) as of March 1, 2008. This agreement stipulates that if the MTM value of the liquidity portfolio is higher on Feb. 28, 2011, which we consider highly likely, Eksporthfinans will have to pay all MTM profits earned until February 2011 to its owners. This implies disbursements that may likely be material in 2011.

## CreditWatch

We aim to resolve the CreditWatch over the next three months after further discussions with the relevant management and government officials. To resolve the CreditWatch we will continue to assess the importance of Eksportfinans' role to the Norwegian government and its links with the state. The CreditWatch status also reflects our expectation that Eksportfinans, after the recent divestment of Kommunekreditt, will have a significantly narrower business profile as an entity focusing solely on export financing. We would consider either affirming the ratings or lowering them by one or two notches.

## Related Research

See:

- "Enhanced Methodology For Rating Government-Related Entities Affects Three European Financial Institutions," published on July 6, 2009; and
- "Enhanced Methodology And Assumptions For Rating Government-Related Entities," published on June 29, 2009, on RatingsDirect.

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