S&P Global Ratings

RatingsDirect®

Eksportfinans ASA

Primary Credit Analyst:
Gabriel Forss, Stockholm + 46 84 40 5933; gabriel.forss@spglobal.com

Secondary Contact:
Olivia K Grant, Dubai +971 56 680 1008; olivia.grant@spglobal.com

Table Of Contents

Eksportfinans ASA

Rating Score Snapshot

Issuer Credit Rating
A-/Positive/A-2

SACP: a-		
Anchor	a-	
Business position	Moderate	-1
Capital and earnings	Very strong	+2
Risk position	Adequate	0
Funding	Moderate	-1
Liquidity	Adequate	
CRA adjustment		0

Support: 0	
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Additional factors: 0
Issuer credit rating
A-/Positive/A-2

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview	
Key strengths	**Key risks**
Orderly wind-down proceeds as planned.	Operational risks related to personnel persist.
Sizable capital and liquidity buffers.	Remaining structured funding represents residual risk.
Management capable of managing current operations.	

Eksportfinans' management has demonstrated its capacity to manage the structured funding as the wind-down progresses. Over the past 13 years, Eksportfinans' management has successfully managed the wind-down of a significant portion of the company's balance sheet. Total assets stood at just under Norwegian krone (NOK) 6.0 billion (about €0.5 billion) at June 30, 2024, compared with NOK215.5 billion (€18.7 billion) at year-end 2010. Many of the bank's more complex funding instruments matured in 2023. Even though some instruments that require derivatives for hedging remain outstanding, tail risks related to Eksportfinans' funding continued to reduce.

Operational risks related to the wind-down persist but are somewhat mitigated by shareholders' ongoing support. Eksportfinans has 19 full-time employees. While owners can provide some support, competence is concentrated and significant functions are outsourced, meaning operational risks related to the wind-down remain. Our expectation of ongoing support from the owners in case of adverse scenarios partly mitigates our concerns. In our base case, we do not expect any material changes in the ownership structure as Eksportfinans is 15% government-owned and 85% bank-owned, including by DNB Bank (40%), Nordea Bank Abp (23%), Danske Bank A/S (8%), and other Norwegian savings banks (14%).

Robust liquidity and capital buffers continue to support the rating. Broad liquid assets of NOK3.4 billion represent about 56% of total assets and about 5.3x of the total outstanding funding that remained at June 30, 2024. This implies Eksportfinans' liabilities remain well covered. This, coupled with the bank's superior risk-adjusted capital (RAC) ratio of 182% as of year-end 2023 indicates a very strong capital buffer to protect against potential tail risks related to the wind-down. In March 2024, the Norwegian Financial Supervisory Authority approved a NOK1 billion (€86 million) capital disbursement, which was deducted from the capital base in fourth-quarter 2023. We deducted this amount from our total adjusted capital (TAC) measure. We anticipate that the bank will remain very well capitalized, despite this and future distributions.

Lending volumes will continue to decline. About 60% of the NOK1 billion loan book is set to mature over the coming two years, putting pressure on profitability. That said, high interest rates have boosted profitability, leading to positive net earnings in 2023, which reversed the loss-making trend Eksportfinans experienced over the prior two years. We anticipate a modest return on average common equity of about 2%-3% over 2024-2026 (5.6% as of year-end 2023), aided by Eksportfinans' lean cost base and the slow pace of interest rate cuts as outlined by the Norwegian central bank, Norges Bank. Furthermore, with about 62% of the loan book covered by a guarantee from the Norwegian government, local municipalities, or banks, we anticipate asset quality will remain intact, with non-performing assets as a share of lending continuing to be close to 0% over the next two years.

Outlook

The positive outlook on Eksportfinans reflects its track record in successfully managing risks related to structured funding, as well as our anticipation that risks will likely decline further as the bank progresses the wind-down.

With decreasing complexity and balance sheet scale to wind down, we expect that the sizable liquidity portfolio and strong capital will increasingly buffer the remaining risks.

We expect Eksportfinans' ownership structure will remain unchanged and expect ongoing support from its owners in case of adverse scenarios.

Downside scenario

We could revise the outlook to stable if capital was distributed at a faster pace than anticipated or if there was a marked deterioration in the bank's liquidity portfolio.

Key personnel risk also remains a consideration to ensure operational risks are kept at bay. Shifts in staffing could also imply a lack of stability for the wind-down and could lead to a negative rating action.

Upside scenario

We could consider an upgrade if we continued to see evidence of strong risk, capital, and liquidity management, while the complexity and the size of the operations decrease and the bank remains sufficiently profitable to support its orderly wind-down.

Key Metrics

Eksportfinans ASA--Key ratios and forecasts

	--Fiscal year ends Dec. 31--				
(%)	**2022a**	**2023a**	**2024f**	**2025f**	**2026f**
Growth in customer loans	(20.9)	(16.6)	(7.5)-(5.5)	(9.0)-(7.0)	(6.0)-(4.0)
Growth in total assets	(15.6)	(15.5)	(22.5)-(20.5)	(8.8)-(7.2)	(5.0)-(3.0)
Net interest income/average earning assets (NIM)	1.7	3.7	3.8-4.2	3.1-3.5	2.9-3.2
Cost to income ratio	115.8	12.9	18.0-19.0	27.5-28.5	33.5-34.5
Return on average common equity	(0.1)	5.6	2.5-3.5	2.0-3.0	2.0-3.0
New loan loss provisions/average customer loans	(0.1)	(0.1)	0.0	0.0	0.0
Gross nonperforming assets/customer loans	0.0	0.0	0.0	0.0	0.0
Risk-adjusted capital ratio	176.0	181.8	170.0-180.0	140.0-150.0	100.0-110.0

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: 'a-', Reflecting The Exposure To Norway

The 'a-' anchor reflects Eksportfinans' weighted credit exposures (net of guarantees) in Norway and its domicile in Norway.

We expect Norway's real GDP will rebound to 1.0%-1.7% over 2024-2025, from 0.5% in 2023. We forecast household consumption will recover in 2024, aided by easing interest rates and declining inflation. Significant oil and gas capital expenditure will continue to drive overall investment activity, but weaker net exports due to lower gas prices will likely impair growth.

Despite high interest rates and the macroeconomic slowdown, a significant correction in house prices has not materialized as the labor market remains supportive and housing supply is low due to depressed residential construction. We expect household credit growth will be subdued until year-end 2024, given that higher interest rates are expected to persist and that household credit growth is forecast to remain close to 2.5%-3.5% over 2025-2026. While Norwegian household debt is relatively high in a European context at about 239% of disposable income in 2023, which can create a sensitivity to higher interest rates, we do not expect household debt will decline, given the prevailing housing supply shortage.

Our assessment of industry risk for Norwegian banks incorporates the country's superior banking regulation and stable competitive environment, as well as the banking sector's strong capitalization. We consider Norway's financial regulation and supervision surpass peers' from a regulatory oversight and innovation perspective. Over recent years, banks have strengthened their credit assessments and overall underwriting standards and reduced their related risk exposures.

The Norwegian banking sector is stable, with a low risk appetite, despite strong competition in the retail segment. Recent consolidation is a testament to this, with Danske Bank A/S exiting and selling its retail book to Nordea Bank Abp. We believe banks' high profitability, sound capital adequacy, and sound risk management increase the financial system's resilience and mitigate risks in case of a severe downturn. Norwegian banks' return on equity (ROE) averaged about 12.3% as of first-quarter 2024. We anticipate ROE will remain stable at about 11%-12% over 2024-2025 since we expect interest rates will remain high, compared with European peers, and support net interest margins. We consider Norwegian banks are at the forefront of the digital transformation. This is thanks to their accessible and user-friendly products that will continue to aid cost management and further support the banking sector's resilience, efficiency, and sound profitability over the next few years.

Business Position: The Gradual Wind-Down Continues

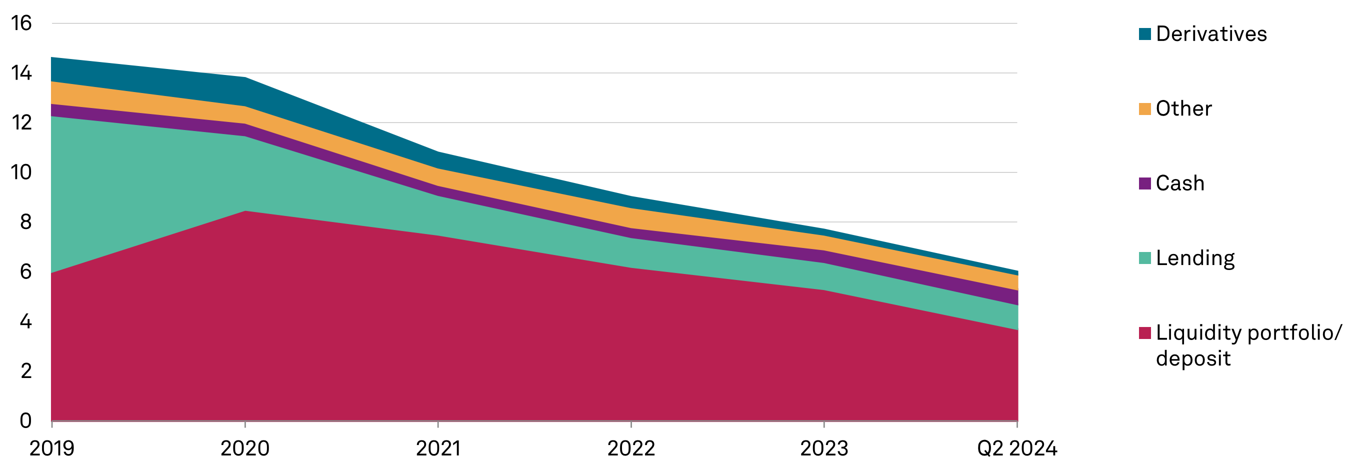
The wind-down of Eksportfinans' balance sheet continues in an orderly fashion, gradually reducing the overall risk of nonpayment to senior creditors as loans continue to mature. Unlike peers, Eksportfinans benefits from guaranteed mechanisms from Nordic financial institutions.

The run-off of Eksportfinans' business resulted from the Norwegian government's decision in November 2011 to terminate the company's responsibility for commercial interest reference rate loans under the OECD consensus agreement of 1978. Since 2011, the company has been in run-off, with long-dated loans and financing gradually maturing over the past 13 years. Owners continued to support the run-off and were ready to provide resources if necessary. The balance sheet is currently about half the size it was in 2020 and we project loan volumes will continue to decline over the coming years (see chart 1).

Chart 1

The balance sheet has decreased significantly since 2019

Development of total assets between 2019 and second-quarter 2024 (bil. NOK)



NOK--Norwegian krone. Sources: S&P Global Ratings, Q2 2024 financial report.

Capital And Earnings: A Sizable Capital Buffer Exists

Our assessment of Eksportfinans' capital and earnings reflects the bank's very robust capitalization. In addition, most of the company's assets carry low risk weights, given the guarantees from financial institutions with comparatively high ratings or from the Norwegian sovereign.

We expect Eksportfinans' capitalization will remain very strong, with the RAC ratio before adjustments for diversification and concentration likely to remain above 100% over the next two years. This is well above our 15% limit for a very strong capitalization assessment and exceptionally high by global standards. We calculate Eksportfinans' RAC ratio increased to 181.8% as of Dec. 31, 2023, from 176% in 2022, due to improved earnings.

Our forecast takes into consideration that the bank will likely seek to distribute 100% of net profits over the next two years, in addition to shareholder remuneration of about NOK1.0 billion annually. We expect risk-weighted assets will continue to decline over this period. Eksportfinans has neutralized many risks, while maintaining ample capital buffers, and we believe shareholders will continue to manage capital conservatively over the medium term. If Eksportfinans does not distribute the capital, the RAC ratio will exceed 200% by 2025.

Risk Position: Complexity Management Is Well In Hand

Eksportfinans continues to manage the complexities of the remaining funding successfully. Currently only 11% of the bank's funding consists of structured funding with unknown maturity dates. We treat this type of funding as longer-dated debt as various calls and triggers are features of the instruments. The bank has demonstrated that it is prepared to manage trigger events, given its large liquidity portfolio and significant capital buffer. We note that all structured funding is hedged through swap contracts with highly rated counterparties, where credit support annexes are in place with daily mark-to-market valuations and exchange of collateral if necessary. Over many years, this has been a key risk, which the bank has navigated well. As the structured funding matures or calls are triggered, derivatives as a share of the balance sheet will continue to decline.

Much of Eksportfinans' credit risk is mitigated by the strong government and bank guarantees that constitute approximately 62% of the loan book. Highly rated Norwegian banks account for the remaining 38% of loans. Credit losses have been minimal over the bank's operating history, with no stage 3 loans (according to International Financial Reporting Standard 9) since 2020. About 60% of the loan book is measured at fair value through profit or loss, while about 40% of loans are measured at amortized costs as of June 30, 2024--the latter primarily representing government-supported loans, also known as commercial interest reference rate loans. We note that the bank has not granted any new loans since 2011 and that the current loan portfolio comprises shipping, oil, renewable energy, banking, and the municipal sector in Norway.

Operational risks are a consideration, although the appointment of a new CFO in January 2023 illustrates that the bank can attract skilled and motivated staff. Additionally, incentives to increase loyalty mitigate the risk of staff attrition. Considerable focus is placed on business continuity planning, with Eksportfinans dedicated to maintain close relationships with intermediaries and derivative counterparties.

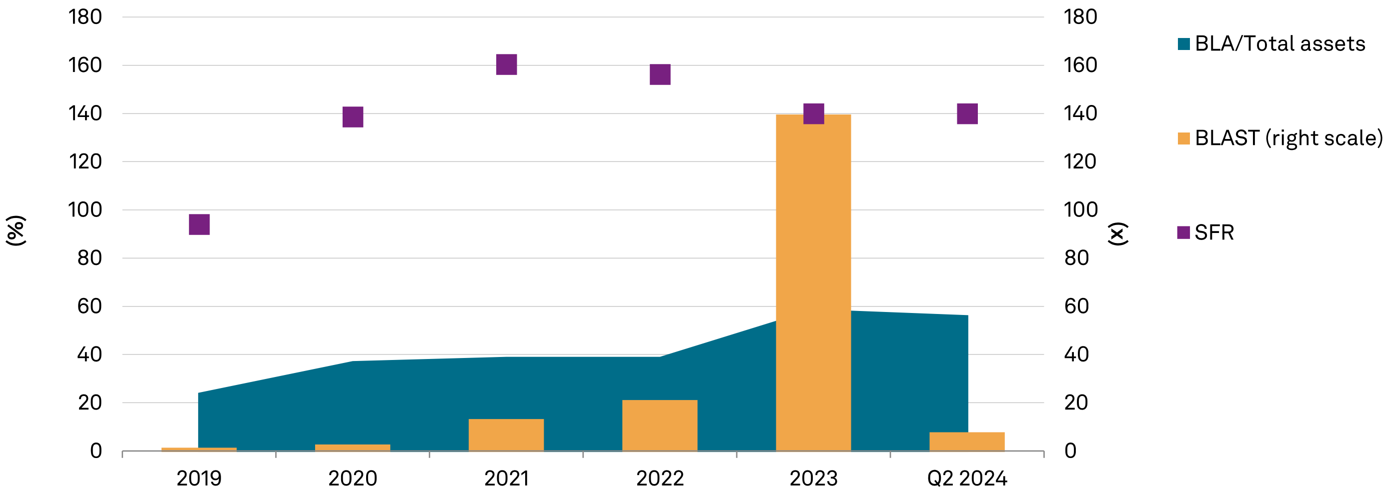
Funding And Liquidity: Structured Funding Risks Remain Despite Ample Liquidity

We assess Eksportfinans' funding as moderate, given the lack of central bank access. We assess its liquidity position as adequate, given its broad liquid assets of NOK3.4 billion as of June 30, 2024, compared with NOK4.5 billion as of year-end 2023. Generally, we do not see material cash flow risks, in light of the material improvements in the company's liquidity and funding ratios. While these metrics have been volatile, both funding and liquidity risks have been actively managed.

Contractually, a small portion of Eksportfinans' structured instruments are long term, with a maturity date after 2027. However, these maturities could shorten materially with Japanese yen weakening against the U.S. dollar and the Australian dollar. That was the case in second-quarter 2024, when the outstanding amount of these instruments declined by 85%. Eksportfinans' liquidity buffers remain ample and are equivalent to 56% of total assets, comprising the securities portfolio of NOK3.7 billion and cash equivalents of NOK0.6 billion. Our liquidity measure indicates that Eksportfinans' broad liquid assets covered 7.4x of its short-term funding needs as of June 30, 2024 (see chart 2). With the few maturities outstanding, this measure will be exposed to some volatility, given that the wholesale funding is based on a certain valuation model. This also applies to the stable funding ratio, which stood at 206% as of June 30, 2024 (based on contractual versus expected maturities of funding instruments).

Chart 2

Eksportfinans' liquidity metrics point to ample coverage for maturing funding
Development of various liquidity and funding metrics between 2019 and Q2 2024



Q--Quarter. BLA--Broad liquid assets. BLAST--Broad liquid assets to short-term wholesale funding. SFR--Stable funding ratio. Source: S&P Global Ratings.

Environmental, Social, And Governance

ESG factors have no material influence on our credit rating analysis of Eksportfinans.

Eksportfinans is developing climate risk reporting, according to the recommendations from the Task Force On Climate-Related Financial Disclosures. Based on the loan book structure as of January 2024, solar and recyclable energy companies accounted for more than 50% of loans. In 2021, Eksportfinans expanded its current credit assessment procedure to include parameters related to counterparties' ESG policies.

Despite the small numbers of employees and the simple organizational structure, we consider the governance standards are in line with the Norwegian standards, as Eksportfinans adheres to the Norwegian code of practice for corporate governance and follows the corporate social responsibility and governance standards stated in the Norwegian government's white paper on state ownership.

Key Statistics

Table 1

Eksportfinans ASA--Key figures

	--Year ended Dec. 31--				
(Mil. NOK)	**2024***	**2023**	**2022**	**2021**	**2020**
Adjusted assets	5,983.0	7,625.0	9,023.0	10,691.0	13,774.0
Customer loans (gross)	601.0	643.0	771.0	975.0	2,307.0
Adjusted common equity	4,948.0	4,937.0	5,885.0	5,883.0	6,050.0
Operating revenues	154.0	340.0	76.0	118.0	170.0
Noninterest expenses	50.0	44.0	88.0	86.0	86.0
Core earnings	40.0	274.0	22.0	(213.0)	(14.0)

*Data as of June 30. NOK--Norwegian krone.

Table 2

Eksportfinans ASA--Business position

	--Year ended Dec. 31--				
(%)	**2024***	**2023**	**2022**	**2021**	**2020**
Total revenues from business line (mil. NOK)	154.0	340.0	76.0	118.0	170.0
Commercial banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Commercial and retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	3.0	5.6	(0.1)	(2.5)	0.7

*Data as of June 30. NOK--Norwegian krone.

Table 3

Eksportfinans ASA--Capital and earnings

	--Year ended Dec. 31--				
(%)	**2024***	**2023**	**2022**	**2021**	**2020**
Tier 1 capital ratio	213.7	170.2	178.3	156.6	124.5
S&P Global Ratings' RAC ratio before diversification	N/A	181.8	176.0	175.0	117.9
S&P Global Ratings' RAC ratio after diversification	N/A	58.3	54.9	61.0	64.3
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	93.5	79.1	194.7	78.8	81.2
Fee income/operating revenues	0.0	(0.6)	(1.3)	(0.8)	(0.6)
Market-sensitive income/operating revenues	6.5	21.5	(93.4)	22.0	19.4
Cost-to-income ratio	32.5	12.9	115.8	72.9	50.6
Preprovision operating income/average assets	3.1	3.6	(0.1)	0.3	0.6
Core earnings/average managed assets	1.2	3.3	0.2	(1.7)	(0.1)

*Data as of June 30. N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

Eksportfinans ASA--Risk-adjusted capital framework data

(Thousand NOK)	Exposure*	Basel III RWA	Average Basel III RW (%)	S&P Global Ratings' RWA	S&P Global Ratings' average RW (%)
Credit risk					
Government and central banks	2,571,211.0	340,358.0	13.2	87,347.1	3.4
Institutions	5,177,328.0	1,203,939.0	23.3	896,529.7	17.3
Corporate	304,931.0	253.0	0.1	24,588.0	8.1
Retail	3,510.0	1,228.5	35.0	814.0	23.2
Of which mortgage	3,510.0	1,228.5	35.0	814.0	23.2
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	186,662.0	20,662.0	11.1	642,940.6	344.4
Total credit risk	8,243,642.0	1,566,440.5	19.0	1,652,219.4	20.0
Market risk					
Equity in the banking book	0.0	0.0	0.0	0.0	0.0
Trading book market risk	--	0.0	--	0.0	--
Total market risk	--	0.0	--	0.0	--
Insurance risk					
Total insurance risk	--	886,083.0	--	0.0	--
Operational risk					
Total operational risk	--	334,287.5	--	1,062,662.5	--
Diversification adjustments					
RWA before diversification	--	2,786,811.0	--	2,714,881.9	100.0
Total diversification/Concentration adjustments	--	--	--	5,751,943.9	211.9
RWA after diversification	--	2,786,811.0	--	8,466,825.8	311.9
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		4,743,073.0	170.2	4,937,000.0	181.8
Capital ratio after adjustments‡		4,743,073.0	170.2	4,937,000.0	58.3

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g., transitional floor or Pillar 2 add-ons). RAC--Risk-adjusted capital. RW--Risk weight. RWA--Risk-weighted assets. NOK -- Norway Krone. Sources: Company data as of Dec. 31, 2023, S&P Global Ratings.

Table 5

Eksportfinans ASA--Risk position

		--Year ended Dec. 31--			
(%)	**2024***	**2023**	**2022**	**2021**	**2020**
Growth in customer loans	(13.1)	(16.6)	(20.9)	(57.7)	(58.3)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	211.9	220.9	186.7	83.3
Total managed assets/adjusted common equity (x)	1.2	1.5	1.5	1.8	2.3

Table 5

Eksportfinans ASA--Risk position (cont.)

		--Year ended Dec. 31--			
(%)	**2024***	**2023**	**2022**	**2021**	**2020**
New loan loss provisions/average customer loans	N.M.	(0.1)	(0.1)	0.2	0.6
Gross nonperforming assets/customer loans + other real estate owned	0.0	0.0	0.0	0.0	3.6

*Data as of June 30. N/A--Not applicable. N.M.--Not meaningful. RWA--Risk-weighted assets.

Table 6

Eksportfinans ASA--Funding and liquidity

		--Year ended Dec. 31--			
(%)	**2024***	**2023**	**2022**	**2021**	**2020**
Long-term funding ratio	92.0	99.5	97.9	96.8	82.5
Stable funding ratio	205.6	201.8	156.1	160.3	138.5
Short-term wholesale funding/funding base	70.8	3.8	8.1	8.4	34.7
Broad liquid assets/short-term wholesale funding (x)	7.4	139.1	20.7	12.8	2.3
Broad liquid assets/total assets	56.0	58.4	38.6	38.6	36.8
Regulatory liquidity coverage ratio	N/A	1,965.0	2,469.0	4,901.0	4,990.0
Short-term wholesale funding/total wholesale funding	70.8	3.8	8.1	8.4	34.7
Narrow liquid assets/3-month wholesale funding (x)	11.1	202.1	105.4	77.8	2.5

*Data as of June 30. N/A--Not applicable.

Eksportfinans ASA--Rating component scores

Issuer credit rating	**A-/Positive/A-2**
Risk position	a-
Anchor	a-
Economic risk	2
Industry risk	3
Business position	Moderate
Capital and earnings	Very strong
Risk position	Adequate
Funding	Moderate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Banking Industry Country Risk Assessment Update: September 2024, Sept. 27, 2024
- Norwegian Eksportfinans ASA Outlook Revised To Positive On Receding Wind-Down Risks; 'A-/A-2' Ratings Affirmed, May 31, 2024
- Banking Industry Country Risk Assessment: Norway, Nov. 27, 2023

Ratings Detail (As Of October 11, 2024)*		
Eksportfinans ASA		
Issuer Credit Rating		A-/Positive/A-2
Senior Unsecured		A-
Short-Term Debt		A-2
Issuer Credit Ratings History		
31-May-2024	*Foreign Currency*	A-/Positive/A-2
29-Jun-2021		A-/Stable/A-2
23-Nov-2017		BBB+/Positive/A-2
31-May-2024	*Local Currency*	A-/Positive/A-2
29-Jun-2021		A-/Stable/A-2
23-Nov-2017		BBB+/Positive/A-2
Sovereign Rating		
Norway		AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.