

Fitch Affirms Eksportfinans IDR at 'AAA'; Capital Contribution Securities Downgraded to 'AA' [Ratings](#)

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Fitch Ratings-London-19 February 2008: Fitch Ratings has today downgraded Eksportfinans' GBP50m Capital Contribution Securities' (CCS) Long-term rating to 'AA' from 'AA+' and affirmed the Long-term ratings of its USD15m and USD60m dated subordinated debt issues at 'AA+'. Eksportfinans' other ratings were affirmed at Long-term Issuer Default (IDR) 'AAA' with Stable Outlook, senior unsecured debt 'AAA', Short-term IDR 'F1+', Individual 'B', Support rating '1' and Support Rating Floor 'AAA'.

The downgrade of the CCS rating follows the downgrade on 1 November 2007 of Eksportfinans' Individual rating to 'B' from 'A'. Today's downgrade is in line with Fitch's methodology for the rating of hybrids of issuers, the Long-term IDRs of which are driven by potential sovereign support (for more details, please see the criteria report, entitled "Support Ratings and the Rating of Bank Hybrid Capital and Preferred Stock", published on 27 July 2005 and available on Fitch's website, www.fitchratings.com). Fitch typically assumes that sovereign support would flow through to dated subordinated debt holders but, in the absence of strong evidence to the contrary, considers there to be a lower (potentially nil) probability of support being forthcoming where capital instruments have greater loss absorption potential, including the CCS, whose coupons can be deferred. Because of the Norwegian government's 15% direct stake in Eksportfinans, the company's close ties to various government departments and its important role in export and local municipality lending, Fitch factors a moderate element of support into the CCS's ratings.

Despite the absence of any explicit guarantee, Fitch continues to consider there to be an extremely high probability that the government would support Eksportfinans if required. The Norwegian government owns 15% of Eksportfinans, acquired in 2001 to give a strong signal of support. Eksportfinans' largest shareholder is DnB NOR Bank (40%), which is 34%-owned by the Norwegian government. The expected participation by the government in Eksportfinans' NOK1.2bn share issue announced on 18 January further illustrates the government's commitment to maintain its ownership share in Eksportfinans. The issue will strongly support Eksportfinans' capitalisation, with the end-2007 Tier 1 ratio expected to increase to 9.6% from 6.3%.

The affirmation of the Individual rating of 'B' reflects Eksportfinans' continued excellent asset quality, good risk management, sound liquidity, and the expected improvement in capitalisation once the share capital increase is finalised. It also considers potential volatility in reported profitability under IFRS and a few large, although high quality, exposures relative to Eksportfinans' equity. Despite strong volume growth in 2007, particularly in municipality lending (up 20%) and government-supported lending (up around 120%), and contained cost growth, the performance in the core business was not sufficient to absorb NOK1.1bn of unrealised marked-to-market losses on the company's liquidity portfolio. This resulted in a net loss of NOK150m for 2007. However, unrealised marked-to-market losses should recover either as markets recover or as bonds move towards maturity, provided the credit quality of the exposure remains stable. At end-2007, Eksportfinans' liquidity portfolio totalled NOK80bn and constituted senior bonds from banks, agencies and treasuries, with an average rating of 'AA-' (AA minus) (together, 65% of the portfolio), and asset backed securities (mainly 'AAA'-rated European RMBS) (35% of the portfolio). Eksportfinans does not have any direct exposure to the US mortgage and subprime markets.

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