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**Research Update:**

# Eksportfinans ASA Long-Term Rating Lowered To 'AA' On Revised Methodology For GREs And Narrower Business; Outlook Stable

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## Research Update:

# Eksportfinans ASA Long-Term Rating Lowered To 'AA' On Revised Methodology For GREs And Narrower Business; Outlook Stable

## Overview

- Standard & Poor's has revised its methodology and assumptions for rating government-related entities.
- We are also lowering Eksportfinans' stand-alone credit profile due to its significantly narrower business profile in the future, following the sell-off of its municipal lender Kommunekreditt Norge AS.
- As a result of these two factors, we are lowering our long-term rating on Eksportfinans to 'AA' and affirming the short-term rating at 'A-1+'.
- The stable outlook reflects our opinion of the 'very high' likelihood of extraordinary support from the Norwegian government in case of need, and is supported by the low risk profile of Eksportfinans' core operations.

## Rating Action

On Sept. 4, 2009, Standard & Poor's Ratings Services lowered its long-term counterparty credit rating on Norway-based Eksportfinans to 'AA' from 'AA+' and affirmed the short-term rating at 'A-1+'. The ratings were removed from CreditWatch, where they were placed with negative implications on May 7, 2009, on the announcement that Eksportfinans had reached an agreement to sell its subsidiary Kommunekreditt Norge AS. The outlook is stable.

## Rationale

The rating action reflects the implementation of our enhanced methodology and assumptions for rating government-related entities (GREs). It also reflects that we have lowered our stand-alone credit profile (SACP) on Eksportfinans to 'A' from 'A+' following the recent divestment of its municipal lending subsidiary Kommunekreditt. According to our enhanced GRE methodology, we assess the likelihood of extraordinary support from the Kingdom of Norway (AAA/Stable/A-1+) to Eksportfinans to be 'very high,' which results in a final counterparty credit rating of 'AA'.

The ratings on Eksportfinans also reflect the company's very strong loan asset quality and robust capitalization. The ratings are constrained by Eksportfinans' limited product and geographic diversity, and only adequate profitability.

We have applied our enhanced GRE criteria to Eksportfinans and we assess the likelihood of timely and sufficient extraordinary government support to Eksportfinans, in case of financial distress, to be 'very high'. This is based

on our assessment that Eksportfinans plays a 'very important' role for the government and that the link between Eksportfinans and the government is 'very strong'.

The Norwegian government holds a 15% ownership stake in Eksportfinans and the remaining 85% is held by commercial banks--the three largest owners being DnB NOR Bank ASA (AA-/Negative/A-1+), Nordea Bank Norge ASA (AA-/Stable/A-1+), and Fokus Bank, part of Danske Bank A/S (A+/Negative/A-1).

Despite this limited ownership share, however, the government has demonstrated its support to Eksportfinans on a number of occasions in the recent past. The government participated pro rata in the Norwegian krone (NOK) 1.2 billion capital injection and the NOK5 billion portfolio hedge agreement in spring 2008. Triggered by the financial crisis, the government offered Eksportfinans a temporary funding agreement, implying that Eksportfinans can fund Commercial Interest Reference Rate (CIRR) export lending via the government budget in 2009 and 2010. Moreover, the government has moved Eksportfinans from the previous owner category '1' to category '3', which comprises companies with specific objectives other than purely commercial.

With the divestment of Kommunekreditt, Eksportfinans will over the coming two to three years gradually roll off its municipal lending operations and assume a significantly narrower business profile as a pure export lender to the Norwegian export industry. The company's loan asset quality remains very strong, and we expect the NOK508 million loan loss provision related to a claim on an Icelandic bank in 2008 to be an isolated case. We view capital as being robust. At the end of June 2009, the Tier 1 capital ratio was 9.0%. At the end of March 2009, the risk-adjusted capital (RAC) ratio was 8.1%. Had the municipal lending book already been rolled off, the pro forma RAC ratio would have been 8.7% at the same date.

Even though the profitability of Eksportfinans' 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.

## Outlook

The stable outlook reflects Eksportfinans' close ties with the Norwegian government, as well as its good relationships with the other existing shareholders. It also reflects the company's continued strong credit fundamentals, including expected maintenance of very strong loan asset quality and robust capitalization.

A negative rating action could follow if there were indications that government support would be less forthcoming than we currently expect, even though we consider this scenario less likely. Any material change in the company's shareholder structure, as well as any significant deterioration in its capital ratios or its risk profile could possibly put pressure on the ratings. A positive rating action is relatively unlikely at this stage.

## Related Research

Enhanced Methodology And Assumptions For Rating Government-Related Entities, published June 29, 2009, on RatingsDirect.

## Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Eksportfinans ASA		
Counterparty Credit Rating	AA/Stable/A-1+	AA+/Watch Neg/A-1+
Senior Unsecured	AA	AA+/Watch Neg
Subordinated	AA-	AA/Watch Neg
Junior Subordinated	A-	A/Watch Neg
Commercial Paper	A-1+	A-1+/Watch Neg

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