

Research Update:

# Norway-Based Eksportfinans ASA Upgraded To 'A-' On Well-Managed Wind Down; Outlook Stable

June 29, 2021

## Overview

- Over the past few years, Norway-based Eksportfinans ASA has materially wound down its structured liabilities, reducing risk and complexities, while building up a sizeable capital and liquidity buffer.
- Given the bank's ample liquidity and capital buffers relative to the remaining debt outstanding, we believe the risk of nontimely payment for senior unsecured bondholders continues to diminish.
- We therefore raised our long-term issuer credit rating on Eksportfinans to 'A-' from 'BBB+'.
- The outlook is stable, reflecting our expectation that an orderly wind down will continue while liquidity and capital will be kept at high levels.

### PRIMARY CREDIT ANALYST

**Olivia K Fleischmann**  
Stockholm  
+ 46 84 40 5904  
olivia.fleischmann  
@spglobal.com

### SECONDARY CONTACT

**Salla von Steinaecker**  
Frankfurt  
+ 49 693 399 9164  
salla.vonsteinaecker  
@spglobal.com

## Rating Action

On June 29, 2021, S&P Global Ratings raised its long-term issuer credit rating on Norway-based Eksportfinans ASA to 'A-' from 'BBB+'. The outlook is stable. At the same time, we affirmed our 'A-2' short-term issuer credit rating on the bank.

## Rationale

**Eksportfinans' management has shown the capacity to manage outstanding structured funding while an orderly wind down advances.** Over the past 10 years, Eksportfinans has capably managed the wind down of much of its balance sheet. Total assets stood at Norwegian krone (NOK) 11.2 billion (€1.1 billion) at March 31, 2021, compared with NOK215.5 billion at year-end 2010. A complex funding structure required ongoing management of derivatives as hedges. We now consider the complexity and size of the outstanding debt much lower, reducing risk of nonpayment.

**Our 'A-' rating incorporates the expectation that sizeable liquidity cushions will be available over the medium term.** Although risks remain related to Eksportfinans' outstanding debt, both liquidity and capital buffers are ample. The bank held a liquidity buffer of about NOK7 billion (1.75x outstanding debt), with high quality liquid assets and cash, and a superior risk-adjusted capital (RAC) ratio of 126.2% at year-end 2020--reflecting shareholders' equity of NOK6.3 billion. A proposal to the Norwegian Financial Supervisory Authority to disburse NOK1 billion of Eksportfinans' capital was declined in 2019. We anticipate any capital distribution would be approached with caution to ensure the bank remains very well capitalized.

**Operational risks to the wind down remain, but we expect shareholders could provide resources, if needed.** Eksportfinans now has 20 full-time employees, and while some support from the owners may be available, competence is concentrated and some (key) functions are outsourced. This may be a potential pocket of operational risk for the bank regarding critical risk and regulatory reporting functions, including derivatives servicing. Still, we believe that the shareholders could assume tasks or provide resources. Eksportfinans is 15% government owned and 85% bank-owned, including DNB (40%), Nordea (23%), Danske (8%), and other Norwegian savings banks (13%), and we do not expect any material changes to the ownership structure.

**Lending volumes are expected to continue to decline.** We believe that net profits are likely to remain slightly positive but small as the loan book shrinks over the coming years. Although there was some conservatism from Eksportfinans to make provisions related to loan-break costs in 2020, in addition to recognizing the shift of NOK83 million of loans to stage 3 (nonperforming; gross nonperforming assets as a share of loans was 3.6% at year-end), we anticipate asset quality will remain intact. Also about 77% of the loan book has a form of guarantee, either via the Norwegian government or from local municipalities or banks. Generally, Norway has fared well during the pandemic, helped in part by fiscal and monetary support mechanisms, and believe that economic conditions are set to improve in the latter part of 2021.

## Outlook

The stable outlook on Eksportfinans reflects our expectation that the former Norwegian export financing bank will continue to manage its rundown in a consistent manner. This includes maintaining a meaningful liquidity buffer to ensure that outstanding structured funding is covered. Eksportfinans' ownership structure is expected to remain unchanged and support continued high capital liquidity.

## Downside scenario

We could lower the ratings if the bank's capital materially falls such that there is concern over the cushion available to bondholders. Similarly, we would view negatively a deterioration in Eksportfinans' liquidity portfolio, which also provides a buffer for eventualities related to the outstanding funding structure. Furthermore, operational risks persist given competence is now concentrated, and key personnel risk could negatively affect what we believe will be a systematic approach to running down the bank.

## Upside scenario

We see limited upside potential at this stage since the bank continues to shrink and its scope is

becoming more limited.

## Ratings Score Snapshot

	To	From
Issuer Credit Ratings	A-/Stable/A-2	BBB+/Positive/A-2
SACP	a-	bbb+
Anchor	a-	a-
Business Position	Moderate (-1)	Moderate (-1)
Capital & Earnings	Very Strong (+2)	Very Strong (+2)
Risk Position	Adequate(0)	Moderate (-1)
Funding and Liquidity	Below Average and Adequate (-1)	Below Average and Adequate (-1)
Support	0	0
ALAC Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional factors	0	0

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Eksportfinans ASA, June 26, 2020
- Banking Industry Country Risk Assessment: Norway, Jan. 7, 2020
- Norway-Based Eksportfinans Outlook Revised To Positive On Continued Balance Sheet Contraction; Affirmed At 'BBB+/A-2', Nov. 23, 2017

- Norway's Eksportfinans Downgraded To 'BB+/B' On Lower Likelihood Of Government Support; Outlook Negative, Feb. 15, 2012
- Eksportfinans ASA Outlook To Negative On Weakened Business Model And Concerns Over Adequacy Of ERM; Ratings Affirmed, June 7, 2011

## Ratings List

### Upgraded; Ratings affirmed

	To	From
<b>Eksportfinans ASA</b>		
Issuer Credit Rating	A-/Stable/A-2	BBB+/Positive/A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceId/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.