

Model User Motors On

Despite sharply increasing competition among top-rated credits for the attractive funding opportunities in structured notes, mtn-i's Global MTN Issuer of the Year remains the model user of the world's MTN markets. 2007 saw Eksportfinans – winner of this award previously in 2006 – shrug off questions over its credit and take its relentless marketing, its unparalleled flexibility and its exceptional use of technology to new heights, reports Julian Lewis.

“We really are passionate about this business,” affirms Martine Mills Hagen, senior vice president and head of funding at Eksportfinans. “We love dealing with the MTN market and trying to be the best issuer.”

The Norwegian export credit agency's pursuit of excellence has led to some notable innovations. Most prominently, it invested significantly in an on-line pricing and documentation system. The “completely essential and invaluable” eFunding, for which 29 leading dealers have signed up, has now delivered 18,000-plus price quotes. It also documented 40% of the agency's EMTNs last year and provides straight-through processing of its most frequently traded structures, such as target redemption and power reverse dual currency notes.

Less high-profile, but also telling, is its commitment of a full-time treasury professional to ‘mapping’ the Japanese markets – its key funding source, accounting for one-third of its USD15bn 2007 borrowing programme by investor volume. “We want to know every transaction done there,” says Mills Hagen, who claims that the agency – which has been borrowing in the country since the early 1980s - has learned to recognise the target investor bases and locations for most Uridashi deals. One of its most successful regions after Tokyo is the millionaire-dense Nagoya area.

This in-depth market research has contributed to what Mills Hagen terms Eksportfinans' “very good base understanding of what drives each market and what you have to do to do well”. An example is the US mid-market: “you can't say you want to be there and have a USD5m minimum size – you have to be willing to provide investors of all sizes with the exposure they require.”

NURTURING RELATIONSHIPS

The highest ambition level is also evident in the agency's emphasis on flexibility and responsiveness. “We are totally committed to being the most flexible issuer of all,” she claims. While affirming that its flexibility is not infinite (“not to the extreme”), she cites Eksportfinans' ultra-rapid response time to dealer trade inquiry (under 15 minutes normally), its absence of minimum deal size or non-call period requirements and its unlimited willingness to buy its paper back.

This stance has seen Eksportfinans issue deals as small as USD20,000 and buy back unsold Uridashi notes. Both of these concrete examples involve domestic dealers embarking on their first placements for the agency.

“We encourage them to get the first one done. Then they'll think



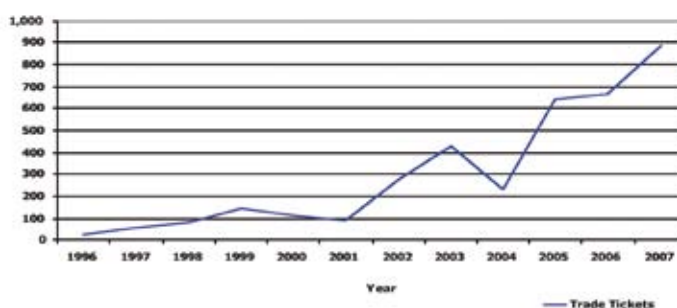
of us when they have a bigger deal,” Mills Hagen argues. This willingness to nurture local relationships is another key element of its approach.

Indeed, Eksportfinans says that it emphasises relationships with dealers – as many as 36 firms, plus an increasing number of their foreign operations, completed deals for it last year – over individual transactions. It also highlights calendar offerings in the US, such as the 20 small reverse convertibles that Natixis delivered for it in a single month last year.

This helps explain the agency's fervent marketing of its credit and that of triple-A Norway, its majority owner (55%) via direct and indirect stakes. Its commitment to meeting all types of investors and dealers around the world, including regional players in its core Japanese and US markets, led the treasury team to rack up some 300 days on the road last year – sometimes recruiting the resident Norwegian ambassador to host or support its events. It even became the first issuer ever to visit the central bank of Papua New Guinea.

A recent exclusive mtn-i poll of eight global MTN houses saw the agency ranked first among all leading borrowers for both its marketing prowess and its flexibility.

Eksportfinans - Global Debt Issues by Number of Transactions: 1996-2007



Source: Eksportfinans.

BALANCING MARKETS

Employing a target public bond to structured note ratio of 50:50 to 40:60 (for liquidity and ratings reasons), Eksportfinans' increased 2007 funding requirement drove its structured programme to new heights. Overall, it issued a record 849 private placements, including over 200 deals of less than USD1m-equivalent in size and more than 500 below USD5m.

Highlights included a record 83 Uridashi transactions (largely equity-linkers) totalling USD2.6bn-equivalent, among some 560 Japanese-targeted issues. Although price competition is increasing, funding levels have remained highly attractive in Japan and the vast number of 'baby boomers' reaching retirement in the next few years should keep the ultra-cheap funds flowing, Eksportfinans believes.

The US is increasingly key too, with a record USD2bn of funding from 200-plus deals - including a USD200m commodity index-linker with Morgan Stanley and as many as 60 single-stock notes - last year. "No one can dispute that the MTN market has only reached the tip of the iceberg in the US. We see huge potential there," says Mills Hagen.

This includes the agency callable sector, where some European triple-As (notably International MTN Issuer of the Year, KfW) have already enjoyed success. Eksportfinans completed a USD100m issue in the sector with Lehman Brothers late last year.

US flows also balance Eksportfinans' reliance on Japan, where sales for all issuers fell at the turn of the year. Further balance has come from increased local Scandinavian deals, such as a DKK1.485bn Danish retail-targeted Turkish lira play via Nordea - one of its shareholders.

The agency also has ambitions to enter new markets, providing they can meet its cost targets. It has already invested in gaining approval for domestic issues in Malaysia and Thailand and is exploring potential in Shariah-compliant debt and the Middle East more generally. It is also looking further ahead to possible issues in Latin America and elsewhere in emerging markets.

RATING REVIEW

2007 closed on an unwelcome note for Eksportfinans after Moody's placed its Aaa rating on review with a negative outlook. This followed the announcement of NOK64m in unrealised losses on its investment portfolio.

The agency insists that it has no direct sub-prime exposure and holds only senior financial debt and triple-A-rated asset-backed securities. It argues that the Q3 07 loss is merely the inevitable result of marking securities whose value has fallen to market and anticipates future gains.

"Moody's action was most unfortunate. We are doing everything we can to work with them," says Mills Hagen. She stresses the "record"

volume of new debt (USD2.2bn-equivalent in 166 transactions) that the agency has succeeded in selling since Moody's change on November 1. "Investors are taking a different view."

Already used to managing the issue of its complex credit (no state guarantee, only partial state ownership and a 20% risk weighting), Eksportfinans expects to meet the new challenge head-on. "We will have to do even more marketing in 2008," Mills Hagen believes. ■

RUNNER-UP:

SEK

ike Eksportfinans, fellow Nordic agency SEK has been a by-word for borrowing sophistication over more than two decades. 2007 saw it once again attract some of the year's most unusual and notable transactions, with highlights including a jumbo credit-linked in Venezuelan bolivars issued for HSBC and a five-strong African currency FX basket for Barclays Capital.

The agency also harnessed last year's bullish commodity markets, issuing as much as USD1.5bn in commodity-linked notes to rank as the asset class's leading third-party name by a factor of three. Most of these flows were in the US, where SEK put its name to a USD1bn package of Merrill Lynch-structured 'ELEMENTS' exchange-traded notes. Underlying to the 15-year issues is the Rogers commodity index and its agriculture, energy and metals sub-indices. It also traded two USD150m notes on the DJ-AIG benchmark with Morgan Stanley.

Other US jumbos included another USD250m ELEMENTS with Merrill on BNP Paribas' SPECTRUM, a US large cap momentum index; a USD135m Asian currency basket (CNY/MYR/SGD) with Goldman Sachs; and a USD107m equity index-linker on the S&P Consumer Staples Select Sector Index, again with Goldman.

Elsewhere, it tapped into Asian investors' appetite for liquid lighter US dollar rate structures from premium credits with a USD500m fixed-rate callable via JP Morgan; the pair also combined on a couple of USD100m issues.

SEK's continuing focus on Japan also delivered a number of significant deals. These included a JPY13.558bn 20-year FX-linker via an undisclosed dealer and a USD300m-equivalent multi-currency package of Nikkei digitals (largely in Australian dollars) via Mizuho - part of a longer series shared with overall winner Eksportfinans and its compatriot Kommunalbanken. ■