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Research Update:

Norway-Based Eksportfinans Upgraded To 'BBB/A-2' As Balance Sheet Contracts; Outlook Remains Positive

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

Norway-Based Eksportfinans Upgraded To 'BBB/A-2' As Balance Sheet Contracts; Outlook Remains Positive

Overview

- We now consider that the wind-down of Eksportfinans is becoming more predictable as large portions of the balance sheet mature.
- We are therefore raising our counterparty credit ratings on Eksportfinans to 'BBB/A-2' from 'BBB-/A-3'.
- The positive outlook reflects our view that further clarity on the orderly wind-down of the entity could be achieved over the coming quarters as a significant portion of outstanding debt matures.

Rating Action

On Feb. 29, 2016, Standard & Poor's Ratings Services raised its long- and short-term counterparty credit ratings on Norway-based Eksportfinans ASA to 'BBB/A-2' from 'BBB-/A-3'. The outlook remains positive.

Rationale

The upgrade reflects our view of the diminishing likelihood of nonpayment of Eksportfinans' senior creditors. Further maturity of structured debt with unknown maturity and the successful management of the reductions in the balance sheet have improved the stability of the wind-down, in our view. We now consider that an orderly wind-down of Eksportfinans is becoming increasingly likely. We anticipate that the bank's capital and debt positions will continue to improve, supporting a stable wind-down and our positive outlook on the issuer credit rating.

We now apply a two-notch negative adjustment to the rating for our weak assessment of Eksportfinans' business position; we previously applied a three-notch negative adjustment. Our reassessment accounts for our view that Eksportfinans has made considerable progress in managing down its balance sheet and containing a variety of risks, which has facilitated stable debt repayment. Nevertheless, our assessment continues to reflect the company's position as a run-off business with a long-tailed asset and liability portfolio.

We continue to assess Eksportfinans' capital and earnings as very strong, reflecting the accumulation of capital as the balance sheet is reduced. We anticipate that the risk-adjusted capital (RAC) ratio could almost double by

the end of 2016 from 28% at the end-June 2015 as a significant portion of the loan book matures and liquidity reserves are used to repay maturing debt over the year. By the end of 2017, we project that the RAC ratio could exceed 70%. However, we see an increasing likelihood that Eksportfinans will be acquired by the end of 2017, which could affect the stand-alone capital position.

We continue to regard the bank's risk position as moderate. Although we acknowledge further reductions in key risk factors, following the resolution with the Glitnir estate in January 2016, one outstanding legal risk remains. Although it is unlikely to affect our view of capital, a negative outcome in the claim and counter-claim between Eksportfinans and its 15% owner (the Norwegian Ministry of Trade, Industry, and Fisheries) could cost more than one year's core earnings (approximately Norwegian krone [NOK] 150 million (€15 million)). Furthermore, we recognize decreases in complexity as acceleration risks associated with structured funding abate and outstanding derivative exposures are reduced. In addition, we believe that strong government and bank guarantees continue to mitigate credit risk, even as Norwegian shipping, oil, and offshore exposures struggle with falling oil prices, offsetting the negative trends we see in the Norwegian banking sector.

We continue to view funding as below average and liquidity as adequate. The size of the structured funding has dropped to about NOK10 billion, of which approximately NOK7 billion with unknown maturity due to calls or triggers at end 2015, from NOK19 billion in December 2014. We believe that asset and liability mismatches as debt and loans mature will lead Eksportfinans to use its USD1 billion credit facility during 2016 and 2017 to bridge the gap before the cash flow situation improves in 2018. In addition, we believe that Eksportfinans could create further liquidity by reposing or selling its less liquid portfolio hedge agreement (PHA) portfolio, if necessary, as well as factoring in implicit support from the owners.

Furthermore, we believe that, in the absence of further legal risks, the diminishing size of the balance sheet and structured funding risks will eventually make it easier for one of the three large owner banks--DNB Bank ASA, Nordea Bank Norge ASA, or Danske Bank A/S--to acquire Eksportfinans by the end of 2017. This would lead us to review our ratings on Eksportfinans.

Outlook

Our positive outlook on Eksportfinans reflects our view that the likelihood of an orderly wind-down of the entity should continue to increase as the funded loan book reduces. The positive outlook also reflects our view that the significant repayment of debt maturing in May 2016 and the ensuing reduction in the loan and liquidity portfolio over the next two years should increase the likelihood of full and timely repayment of senior debt. In addition, the reduced size and complexity of the balance sheet increase the possibilities of Eksportfinans' acquisition, likely carried out by one of the three major shareholding banks. Depending on the circumstances, either of these events could improve the likelihood of senior debt repayment, in our view.

We could consider raising the rating further if the reduction in the balance sheet continues to improve the overall capital and risk position of Eksportfinans. We could also reassess Eksportfinans' business profile as a result of an increased likelihood of a stable wind-down if the entity became a target for an acquisition by one of its higher-rated owner banks, strengthening the likelihood of its debt obligations being met.

As Eksportfinans continues the orderly reduction of its balance sheet and structured funding, the risk of a downgrade also decreases. However, we could revise the rating if Eksportfinans faces issues with liquidity, in particular given the high share of debt maturing in 2016. In addition, we could revise the outlook to stable if Eksportfinans made extraordinary dividend payments to its owner banks, but we view this as unlikely unless in connection with a sale or structural solution.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BBB/Positive/A-2	BBB-/Positive/A-3
SACP	bbb	bbb-
Anchor	a-	a-
Business Position	Weak (-2)	Weak (-3)
Capital and Earnings	Very Strong (+2)	Very Strong (+2)
Risk Position	Moderate (-1)	Moderate (-1)
Funding	Below Average (-1)	Below Average (-1)
Liquidity	Adequate	Adequate
Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	0

Related Criteria And Research

Related Criteria

- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Commercial Paper I: Banks, March 23, 2004

Related Research

- Banking Industry Country Risk Assessment: Norway, Dec. 1, 2015

Ratings List

Upgraded

	To	From
Eksportfinans ASA		
Counterparty Credit Rating	BBB/Positive/A-2	BBB-/Positive/A-3
Senior Unsecured	BBB	BBB-

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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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's 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.

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