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Research Update:

Norway-Based Eksportfinans Outlook Revised To Positive On Continued Balance Sheet Contraction; Affirmed At 'BBB+ / A-2'

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Overview

- We view the wind-down of Eksportfinans as becoming more predictable, because its balance sheet will contract by about one-third annually over the coming two years as a substantial portion of the debt matures, while the balance sheet remains comfortably buffered by the entity's very strong risk-adjusted capitalization, in our view.
- We are revising our outlook on Eksportfinans to positive from stable and affirming our 'BBB+/A-2' ratings.
- The positive outlook reflects our view that the likelihood of an orderly wind-down of the entity will continue to increase as the funded loan book reduces.

Rating Action

On Nov. 23, 2017, S&P Global Ratings revised its outlook on Norway-based Eksportfinans ASA to positive from stable. At the same time, we affirmed our 'BBB+/A-2' long- and short-term issuer credit ratings.

Rationale

The outlook revision points to our view of a likely increased possibility of an orderly wind-down of Eksportfinans in the coming two years, as a significant portion of outstanding debt matures. In our view, further reduction of the balance sheet diminishes the likelihood of nonpayment of Eksportfinans' senior creditors. Continued operational stability could lead us to see Eksportfinans' business position as stronger, and in line with other European wind-down entities. Such a reassessment to adequate from moderate would likely lead to an upgrade.

We expect that Eksportfinans' loan book will decrease by about 30% yearly through 2017-2019, in accordance with the planned maturities. Together with smaller derivative exposures and related counterparty concentrations, the balance sheet is set to become less complex, while risks of an ensuing balance sheet acceleration due to structured funding lessen. In addition, we believe that government and bank guarantees covering about 80% of the loan portfolio continue to mitigate credit risk.

We continue to assess Eksportfinans' capital and earnings as very strong,

reflecting our expectation of a largely stable capital base against rapidly decreasing risk-weighted assets. The institution's risk-adjusted capital (RAC) ratio was 87% at end-June 2017 (from 75% at end-2016)--an improvement due to a significant portion of the liquidity reserve reducing, outstanding loan contracts maturing, and a drop in market risk linked to hold-to-maturity asset-backed securities in its liquidity portfolio. By the end of 2018, we expect the RAC ratio to remain at over 100%, which is exceptionally high by global standards.

We continue to view funding as below average and liquidity as adequate. Eksportfinans' structured funding has reduced to about Norwegian krone (NOK) 7.1 billion at end-September 2017, but remains at one-third of all outstanding debt. During 2017, Eksportfinans returned to the capital market by issuing NOK2 billion (about \$245 million) of senior unsecured debt and by reactivating its €500 million commercial paper program, with NOK573 million outstanding as of end-September. The institution subsequently cancelled the US\$250 million credit facility granted by its main owner banks in September 2017, indicating increased comfort with the cash flow situation and an ability to manage liquidity squeezes during some stages of the wind-down. In addition, we believe that Eksportfinans could create further liquidity by repoing or selling its less-liquid portfolio hedge agreement portfolio if necessary.

In the absence of further material legal risks, the diminishing size of the balance sheet and structured funding risks could eventually make it easier for one of Eksportfinans' three large owner banks--DNB Bank ASA, Nordea Bank Norge ASA, or Danske Bank A/S--to absorb the bank. In connection with a sale or structural solution, it is likely that an extraordinary dividend would be made to its owner banks, subject to regulatory approval. The announcement of such an event would likely lead us to review our analysis of Eksportfinans' creditworthiness.

Outlook

The positive outlook on Eksportfinans reflects our view that the likelihood of an orderly wind-down of the entity will continue to increase as the funded loan book reduces. We believe that the significant maturities and associated reduction in the loan book and decreased derivative exposures over the next two years will heighten the likelihood of full and timely repayment of senior debt. The reduction in Eksportfinans' balance sheet and risks will potentially improve its RAC buffers from already exceptional levels. We could also revise our assessment of Eksportfinans' business position as a result of an increased possibility of a stable run down, for instance if the entity was to be acquired by one of its higher-rated owner banks, improving its likelihood of meeting its debt obligations.

We could revise the outlook to stable on signs of operational instability during Eksportfinans' wind-down process, or if its capital position materially weakened due to extraordinary dividend payments to its owner banks. We view the latter scenario as unlikely unless it occurs in conjunction with a sale.

Ratings Score Snapshot

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

Related Criteria

- 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: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Banking Industry Country Risk Assessment: Norway, March 14, 2017
- Eksportfinans ASA, Dec. 8, 2016
- Research Update: Norway-Based Eksportfinans ASA Upgraded To 'BBB+' On Continued Balance Sheet Reduction; Outlook Stable, Nov. 28, 2016

Ratings List

Outlook Action; Ratings Affirmed

	To	From
Eksportfinans ASA		
Counterparty Credit Rating	BBB+/Positive/A-2	BBB+/Stable/A-2
Senior Unsecured	BBB+	BBB+
Commercial Paper	A-2	A-2

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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.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at 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.

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