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Ratings

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Eksportfinans ASA

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SACP	a-		+	Support	0	+	Additional Factors	0

Anchor	a-	
Business Position	Moderate	-1
Capital and Earnings	Very Strong	+2
Risk Position	Adequate	0
Funding	Below Average	-1
Liquidity	Adequate	

ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
A-/Stable/A-2

Credit Highlights

Overview	
Key strengths	**Key risks**
Orderly wind-down proceeds as planned.	Operational risks related to personnel persist.
Sizeable capital and liquidity buffers.	Outstanding structured funding creates uncertainties.
Management capable of managing current operations.	

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 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 Bank (40%), Nordea Bank (23%), Danske Bank (8%), and other Norwegian savings banks (13%), and we do not expect any material changes to the ownership structure.

We expect lending volumes will 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 we believe that economic conditions are set to improve in the latter part of 2021.

Outlook: Stable

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.

Key Metrics

Eksportfinans ASA--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31--				
(%)	**2019a**	**2020a**	**2021f**	**2022f**	**2023f**
Growth in operating revenue	24.5	(25.8)	(39.0)-(47.7)	(2.7)-(3.2)	5.5-6.7
Growth in customer loans	(29.6)	(58.3)	(18.0)-(22.0)	(18.0)-(22.0)	(18.0)-(22.0)
Return on average common equity	1.6	0.7	0.1-0.1	0.1-0.1	0.1-0.2
New loan loss provisions/average customer loans	N.M.	0.6	0.1-0.1	0.1-0.1	0.1-0.1
Gross nonperforming assets/customer loans	0.5	3.6	1.3-1.4	0.0-0.0	0.0-0.0
Risk-adjusted capital ratio	118.6	126.2	147.0-155.0	170.5-179.5	194.0-204.0

a--Actual. f--Forecast. N.M.--Not meaningful. All figures are S&P Global Ratings-adjusted.

Anchor: 'a-' Reflecting Focus In Norwegian Market

The 'a-' anchor reflects Eksportfinans' focus on the Norwegian market. Our assessment of low economic risk in Norway reflects the high level of wealth, strong returns from the sovereign investment fund, and a predictable political environment. We view that government programs have substantially offset the dual pressures of the sharp decline in oil prices and a recessionary environment prompted by the COVID-19 pandemic. In our base case, we project that Norway will record a 3.2% GDP growth rebound in 2021. We believe the current macro stress could put pressure on the banking sector's asset quality, revenue, and profitability over the next two years. Specific segments of concern include the oil sector, small and midsize enterprises, commercial real estate, and other cyclical sectors.

We consider that Norwegian banks' residential mortgage portfolio, which accounts for about 55% of total bank loans in the sector, will be more resilient in the wake of the pandemic than corporate sector exposures, due to various government employment and income support measures. That said, we recognize some latent risks to banks from structurally high levels of household debt, driven by strong growth in house prices over the past decade, and banks' exposure to the cyclical commercial real estate segment.

Our assessment of industry risks for Norwegian banks incorporates our view of effective banking regulation, a stable competitive environment, and strong sector capitalization. We consider that the government authorities, including the banking regulator, have been proactively addressing difficulties related to the current stress, including by introducing an unprecedented key policy rate cut and temporary relaxation of the countercyclical capital buffer requirements, as well as providing liquidity support to the banking sector.

Moreover, we consider that Norwegian banks have benefited from being at the forefront of the digital transformation in banking. In a COVID-19 context, being digital frontrunners has enabled banks to continue providing a high-quality service to customers, since banks already moved from branch-based operations into a predominantly digital environment a while ago. We consider that this will also help Norwegian banks keep their costs under control, which will support their profitability over the medium term. Although domestic deposits in the total funding base are lower in Norway than in many other European markets, we believe Norwegian banks will maintain their reliable access to domestic and international capital markets, in addition to deposits.

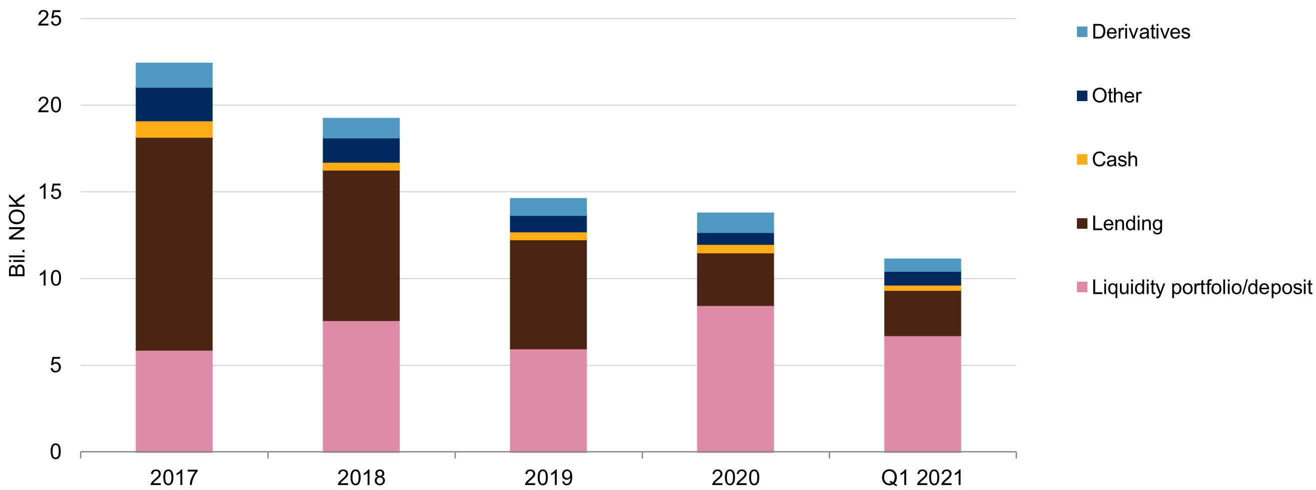
Business Position: Gradual Wind-Down Continues As Outlined

The wind-down of Eksportfinans' balance sheet continues in an orderly fashion, gradually reducing the overall risk of nonpayment to senior creditors as loans continue to mature. In addition, compared with its peers, Eksportfinans benefits from guarantee mechanisms from the Norwegian government and Nordic financial institutions.

The run-off of Eksportfinans' business is a consequence of the Norwegian government's decision in November 2011 to terminate the company's responsibility for commercial interest reference-rate loans under the Organization for Economic Co-operation and Development's consensus agreement of 1978. Since then, the company has been in run-off mode, with long-dated loans and financing gradually maturing over the past 10 years. The balance sheet is about half the size relative to five years ago (chart 1); we expect loan volumes will further decline about 20% per year over the coming years given the bank's immaterial scope at this stage.

Chart 1

Eksportfinans' Total Assets Have Been Shrinking



Source: S&P Global Ratings. NOK--Norwegian krone.

Eksportfinans' ownership has been very stable over the past decade. The bank is owned by the Norwegian government (15%) and 22 banks (85%). The main shareholders are DNB Bank ASA, Nordea Bank Abp, and Danske Bank A/S, which together account for 71.2% of the capital.

Capital And Earnings: Sizeable Capital Buffer Is Available

Our assessment of Eksportfinans' capital and earnings reflects its very robust capitalization. In addition, most of the company's assets carry low risk weights, given the guarantees from financial institutions with comparatively high ratings or from the Norwegian sovereign.

We expect that Eksportfinans' capitalization will remain very strong, with the RAC ratio before adjustments for diversification and concentration likely to remain above 100% over the next two years, which is well above our 15% limit for a very strong capitalization assessment. This is exceptionally high by global standards. As of Dec. 31, 2020, we calculated Eksportfinans' RAC ratio at 126.2%, compared with 110.2% a year earlier. This reflects a further significant reduction in the loan portfolio in 2020, in addition to a reclassification of the liquidity portfolio from market risk to credit risk.

Given Eksportfinans' has neutralized much of its risks, a full dividend has been paid out for 2019 and 2020, and we believe shareholders will continue with conservative capital management over the medium term.

Risk Position: Complexity Is Expected To Be Capably Managed

We believe that Eksportfinans has now reached a steady-state balance in how to approach much of the company's more complex structure funding. From a credit risk perspective, much of this is mitigated given the strong government and bank guarantees that cover approximately 77% of the loan book.

In February 2021, the last of the bank's plain vanilla debt fell due. While 67% of Eksportfinans funding is made up of structured funding with unknown maturity, which we treat as longer-dated debt with various calls and triggers, the bank is prepared to manage such eventualities given the coverage afforded by both the liquidity portfolio and ultimately a very high level of capital. Note that all structured funding is hedged through swap contracts with highly rated counterparties, where credit support annexes are in place with daily mark-to-market and exchange of collateral if needed. This has been a key risk for many years that the bank is fully capably to manage. We do note that operationally Eksportfinans could be exposed to some risk if personnel were to shrink further, given the competency that has been achieved over the past decade.

Furthermore, credit losses have been minimal over Eksportfinans' operating history. At the onset of the pandemic about 13% of total loans or NOK632 million were reclassified as stage 3 loans according to International Financial Reporting Standard 9 in the first quarter of 2020 and mark as nonperforming; by the end of the year, this figure was revised to cover 3% of total loans, or NOK83 million. Also as of end-March 2021, 79% of the loan book is measured at fair value through profit or loss, while about 21% of loans are measured at amortized costs--the latter primarily representing government supported loans known as Commercial interest reference rate loans.

Funding And Liquidity: Structure Funding Risks Remain Although Ample Liquidity Is Available

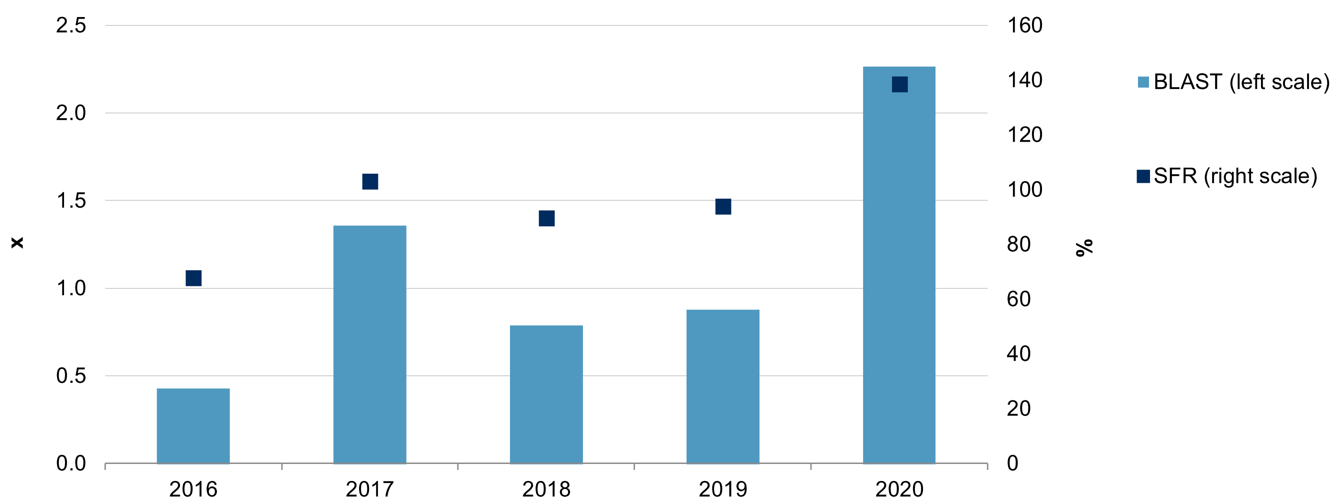
We assess Eksportfinans' funding as below average given the lack of central bank access, and its liquidity position as adequate given the bank had a liquidity buffer of NOK7.0 billion as of March 31, 2021, at its disposal. Generally, we do not see material cash flow risks given the improvements in the company's liquidity and funding ratios.

Contractually, most of the remaining structured instruments are long term in nature, with many expiring after 2027. However, their maturities could shorten materially due to triggers primarily associated with fluctuating exchange rates of the U.S. dollar, Japanese yen, and Australian dollar. Therefore, maturity of this funding is dependent on market movements and trends in interest and exchange rates, which could deviate from the company's baseline expectations, representing liquidity risk for the company. Still, we consider that the company has adequate liquidity buffers equivalent to 63% of total assets, comprising of the securities portfolio of NOK6.7 billion and cash equivalents of NOK0.3 billion. As a result of very few near-term maturities and Eksportfinans' liquidity portfolio, our measure of broad liquid assets to short-term wholesale funding indicates 16.4x coverage of short-term funding needs as of first-quarter 2021.

The continued balance-sheet contraction and lack of capital market issuance has led to improvements in our funding and liquidity metrics for Eksportfinans. These metrics have been volatile in the past, but since 2018 progress has been made (see chart 2), with the stable funding ratio at 152.7% at end-March 2021 (based on contractual/expected maturities of funding instruments).

Chart 2

Eksportfinans' Liquidity And Funding Metrics Fluctuate



BLAST--Broad liquid assets to short-term wholesale funding. SFR--Stable funding ratio. Source: S&P Global Ratings.

Key Statistics

Table 1

Eksportfinans ASA--Key Figures					
	--Year ended Dec. 31--				
(Mil. NOK)	**2021***	**2020**	**2019**	**2018**	**2017**
Adjusted assets	11,161	13,774	14,575	19,225	22,398
Customer loans (gross)	1,916	2,307	5,535	7,866	11,360
Adjusted common equity	5,895	6,050	6,071	6,100	6,591
Operating revenues	41	170	229	184	(224)
Noninterest expenses	27	86	88	89	114
Core earnings	(43)	(14)	45	118	84

*Data as of March 31. NOK--Norwegian krone.

Table 2

Eksportfinans ASA--Business Position					
	--Year ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Total revenues from business line (mil. NOK)	41	170	229	184	(224)

Table 2

Eksportfinans ASA--Business Position (cont.)

	--Year ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Commercial banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Commercial and retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	0.8	0.7	1.6	1.1	(3.7)

*Data as of March 31. NOK--Norwegian krone.

Table 3

Eksportfinans ASA--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Tier 1 capital ratio	148.1	124.5	125.5	113.9	94.2
S&P Global Ratings' RAC ratio before diversification	N/A	126.2	110.2	119.2	N/A
S&P Global Ratings' RAC ratio after diversification	N/A	67.3	50.5	59.7	N/A
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	56.1	81.2	70.3	72.3	(85.3)
Fee income/operating revenues	N/A	(0.6)	(0.4)	(0.5)	0.4
Market-sensitive income/operating revenues	43.9	19.4	30.1	28.3	184.8
Cost to income ratio	65.9	50.6	38.4	48.4	(50.9)
Preprovision operating income/average assets	0.4	0.6	0.8	0.5	(1.2)
Core earnings/average managed assets	(1.4)	(0.1)	0.3	0.6	0.3

*Data as of March 31. N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

Eksportfinans ASA--Risk-Adjusted Capital Framework Data

(NOK 000s)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**S&P Global Ratings' RWA**	**Average S&P Global Ratings' RW (%)**
Credit risk					
Government and central banks	2,215,744.0	314,107.0	14.2	76,414.5	3.4
Of which regional governments and local authorities	1,657,037.0	314,107.0	19.0	59,653.3	3.6
Institutions and CCPs	10,068,202.8	2,885,177.0	28.7	1,815,719.1	18.0
Corporate	1,845,252.0	0.0	0.0	368,029.3	19.9
Retail	3,016.0	1,056.0	35.0	699.4	23.2
Of which mortgage	3,016.0	1,056.0	35.0	699.4	23.2
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	303,402.0	19,145.0	6.3	708,044.1	233.4
Total credit risk	14,435,616.8	3,219,485.0	22.3	2,968,906.4	20.6
Credit valuation adjustment					
Total credit valuation adjustment	--	1,072,665.0	--	1,394,464.5	--
Market Risk					
Equity in the banking book	0.0	0.0	0.0	0.0	0.0

Table 4

Eksportfinans ASA--Risk-Adjusted Capital Framework Data (cont.)					
Trading book market risk	--	0.0	--	0.0	--
Total market risk	--	0.0	--	0.0	--
Operational risk					
Total operational risk	--	365,387.5	--	429,215.6	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification	--	4,658,000.0	--	4,792,586.6	100.0
Total diversification/ concentration adjustments	--	--	--	4,197,540.9	87.6
RWA after diversification	--	4,658,000.0	--	8,990,127.4	187.6
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		5,796,772.0	124.4	6,050,000.0	126.2
Capital ratio after adjustments‡		5,796,772.0	124.4	6,050,000.0	67.3

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. NOK--Norway krone. CCPs--Central counterparty clearing house. Sources: Company data as of Dec. 31, 2020, S&P Global Ratings.

Table 5

Eksportfinans ASA--Risk Position					
	--Year ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Growth in customer loans	(67.8)	(58.3)	(29.6)	(30.8)	(34.2)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	87.6	118.3	99.6	N/A
Total managed assets/adjusted common equity (x)	1.9	2.3	2.4	3.2	3.4
New loan loss provisions/average customer loans	0.4	0.6	N.M.	N.M.	N.M.
Gross nonperforming assets/customer loans + other real estate owned	4.3	3.6	0.5	0.4	0.2

*Data as of March 31. N/A--Not applicable. N.M.--Not meaningful. RWA-Risk-weighted assets.

Table 6

Eksportfinans ASA--Funding And Liquidity					
	--Year ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Long-term funding ratio	97.7	82.5	70.6	73.2	88.2
Stable funding ratio	152.7	138.5	93.9	89.6	103.1
Short-term wholesale funding/funding base	5.8	34.7	56.1	42.1	17.5
Broad liquid assets/short-term wholesale funding (x)	16.4	2.3	0.9	0.8	1.4
Short-term wholesale funding/total wholesale funding	5.8	34.7	56.1	42.1	17.5
Narrow liquid assets/3-month wholesale funding (x)	39.4	2.5	3.4	8.6	1.7

*Data as of March 31.

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

- Norway-Based Eksportfinans ASA Upgraded To 'A-' On Well-Managed Wind Down; Outlook Stable, June 29, 2021
- 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

Anchor Matrix

Industry Risk	Economic Risk									
	1	**2**	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	**a-**	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of August 3, 2021)*	
Eksportfinans ASA	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured	A-
Short-Term Debt	A-2
Issuer Credit Ratings History	
29-Jun-2021	A-/Stable/A-2
23-Nov-2017	BBB+/Positive/A-2
28-Nov-2016	BBB+/Stable/A-2
Sovereign Rating	
Norway	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.