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Eksportfinans ASA

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Eksportfinans ASA

SACP	bbb+

+

Support	0

+

Additional Factors	0

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

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

Issuer Credit Rating

BBB+/Positive/A-2

Major Rating Factors

Strengths:	Weaknesses:
• Robust capitalization. • Orderly wind-down in accordance with the company strategy.	• Residual exposure to structured funding and derivatives. • Operational risks during the wind-down.

Outlook: Positive

The positive outlook on Norway-based Eksportfinans ASA reflects S&P Global Ratings' view that the likelihood of the company's orderly wind-down will continue to increase as the funded loan book reduces.

We could upgrade Eksportfinans in the next two years if the significant maturities and associated reduction in the loan book, alongside decreased derivative exposures over the next two years, heighten the likelihood of full and timely repayment of senior debt. The reductions in Eksportfinans' balance sheet and risks should further improve the company's capital buffers from already exceptional levels.

We could revise our 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, though, unless it occurs in conjunction with the sale of the company.

Rationale

The ratings and positive outlook on Eksportfinans point to our view of a likely increased possibility of an orderly wind-down of Eksportfinans in the coming two years. In our view, further reduction of the balance sheet and the institution's exceptional capitalization diminish the likelihood of nonpayment of Eksportfinans' senior creditors. The institution still relies on a considerable share of structured products in its overall funding mix. However, the decrease in nonpayment risk due to the balance-sheet contraction, and the significant banks and government guarantees for loan exposures, largely offset this additional risk.

Anchor: 'a-' owing to blended economic risk, dominated by Norwegian exposure

The 'a-' anchor reflects Eksportfinans' primary focus on the Norwegian market.

Our assessment of low economic risk in Norway reflects the country's wealthy government, which is supported by returns from its global investment fund and a predictable political environment. The contraction in oil prices over 2014-2015 has seen loose monetary policy prevail over the past several years. Coupled with a competitive mortgage market, this contraction has triggered an increase in property valuations and household debt. This has contributed to material imbalances; at end-2017, debt to disposable income in Norway stood at 224%, which is high compared with other European countries.

However, we have seen a decrease in house prices since the start of 2017 because of stricter macroprudential regulations and increased housing supply. Nationally, this has meant annual nominal house-price growth slowed to about 1% over 2017 from 10% in 2016. The trend was even more marked in Oslo, where prices slowed to negative 3% in 2017 from positive 22% in 2016. Many of the regulations introduced in 2017 were carried forward, which supported the stability of the banking sector. Therefore, we anticipate that house prices will continue to stabilize over the next two years. In addition, bank losses related to oil and oil-related sector investment have been decreasing from a peak in 2016, against a positive economic backdrop, and we expect that asset quality will continue to improve.

Norway's banking regulator has been proactive in maintaining solid capital and liquidity requirements over several years, which supports our view of industry risk. Lending margins have improved over the past two years and now appear to be stabilizing at a slightly higher level; they had previously been under pressure.

Restrictions on domestic investments by Norway's Government Pension Fund Global have resulted in a sizable outflow of capital, some of which the banks are repatriating through the use of international wholesale funding. However, Norway's expanding bond market, banks' receipt of funding from foreign parent companies, and likely liquidity support from the government help offset some of the risks from what we see as a structural lack of deposits.

Table 1

Eksportfinans ASA--Key Figures					
	--Year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
(Mil. NOK)					
Adjusted assets	19,225	22,398	33,170	65,140	85,626

Table 1

Eksportfinans ASA--Key Figures (cont.)					
	--Year ended Dec. 31--				
	2018	2017	2016	2015	2014
(Mil. NOK)					
Customer loans (gross)	7,866	11,360	17,270	24,462	33,372
Adjusted common equity	6,100	6,591	6,983	6,841	6,713
Operating revenues	184.0	(224.0)	(641.0)	(406.0)	(5,598.9)
Noninterest expenses	89.0	114.0	107.0	142.0	180.5
Core earnings	118.0	84.0	177.0	172.0	130.0

NOK--Norwegian krone.

Business position: Increasing cash flow stability following gradual wind-down and debt repayment

Eksportfinans continues the wind-down of its balance sheet in an orderly fashion, resulting in a decreasing overall non-payment risk as loans continue to mature. In addition, compared with its peers, Eksportfinans benefits from important guarantee mechanisms from the Norwegian government and Nordic financial institutions.

Eksportfinans' ownership has been very stable over the past decade. The bank is owned by the Norwegian government (15%) and 23 banks (85%, with the main shareholders being DNB Bank ASA, Nordea Bank Abp, and Danske Bank A/S, which together account for 71.3% of the capital).

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 Organisation for Economic Co-operation and Development's consensus agreement of 1978. Since then, the company has been in run-off, a process that is expected to take several years, given the long-dated loans and financing on its balance sheet. We expect Eksportfinans' balance sheet, which amounted to Norwegian krone (NOK) 19.2 billion (€1.9 billion) as of Dec. 31, 2018 will continue to reduce in line with the company's forecasts, and that its balance sheet will contract by about 20%-25% annually over the coming two years as a substantial portion of the debt matures, further reducing the risk of nonpayment. Following the maturity of a substantial portion of outstanding loans in 2018, the company's balance-sheet size decreased by 14.2% compared with 2017, to represent just 9% of total assets at the end of 2011.

Table 2

Eksportfinans ASA--Business Position					
	--Year ended Dec. 31--				
	2018	2017	2016	2015	2014
(%)					
Total revenues from business line (currency in millions)	184.0	(224.0)	(401.0)	(406.0)	(5,598.9)
Commercial banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	1.1	(3.7)	(4.6)	(5.0)	(43.1)

Capital and earnings: Very strong capital metrics, driven by continued balance-sheet reduction

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 by financial institutions with comparatively high ratings or by the Norwegian sovereign.

We expect that capitalization of Eksportfinans will remain very strong, with a risk-adjusted capital (RAC) ratio before adjustment for diversification and concentration likely to remain at above 100% (i.e., well above our 15% limit for a very strong capitalization assessment) over the next two years. This is exceptionally high by global standards. As of Dec. 31, 2018, we measured Eksportfinans' RAC ratio at 119.2%, compared with 87.1% a year ago. This large improvement was mostly due to a significant reduction in the loan portfolio, and some reduction in market risk associated with hold-to-maturity asset-backed securities in Eksportfinans' liquidity portfolio. Our forecast reflects a further planned reduction in the loan portfolio and the possibility of further capital distribution to shareholders over the next two years.

In 2018, the company reported NOK71 million of net profit, after showing losses in 2014-2017. Although we expect the company to continue showing a positive financial result in the next two years, its revenues are rather volatile, due to its declining loan book and fluctuations in the value of unrealized losses and gains related to its own debt.

Nevertheless, this does not materially affect our view of the company's capital, since we expect it to maintain robust capital buffers to absorb unexpected losses, and we consider the increasing share of equity in the balance sheet as assets unwind to have a positive impact on the quality of capital. In our view, the low returns on equity will likely prompt shareholders to support continued capital distribution while the loan portfolio will further decline.

Table 3

Eksportfinans ASA--Capital And Earnings

	--Year-ended Dec. 31--				
	2018	2017	2016	2015	2014
(%)					
Tier 1 capital ratio	113.9	94.2	61.0	36.5	24.3
S&P Global Ratings' RAC ratio before diversification	119.2	N/A	74.1	35.9	33.9
S&P Global Ratings' RAC ratio after diversification	59.7	N/A	40.9	27.7	25.7
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	72.3	(85.3)	(40.6)	(92.1)	(8.2)
Fee income/operating revenues	(0.5)	0.4	0.2	0.5	0.0
Market-sensitive income/operating revenues	28.3	184.8	140.9	195.1	108.4
Noninterest expenses/operating revenues	48.4	(50.9)	(16.7)	(35.0)	(3.2)
Preprovision operating income/average assets	0.5	(1.2)	(1.5)	(0.7)	(6.2)
Core earnings/average managed assets	0.6	0.3	0.4	0.2	0.1

N/A--Not applicable.

Table 4

Eksportfinans ASA--Risk-Adjusted Capital Framework Data

	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
(000s NOK)					
Credit risk					
Government & central banks	452,801.0	706,851.9	156.1	15,448.7	3.4
Of which regional governments and local authorities	310,775.0	706,851.9	227.4	11,187.9	3.6
Institutions and CCPs	10,199,301.0	2,060,610.5	20.2	2,018,112.3	19.8
Corporate	7,993,480.0	1,713,950.9	21.4	842,599.6	10.5
Retail	0.0	0.0	0.0	0.0	0.0
Of which mortgage	0.0	0.0	0.0	0.0	0.0
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	281,347.0	1,347.0	0.5	701,332.6	249.3
Total credit risk	18,926,929.0	4,482,760.3	23.7	3,577,493.2	18.9
Credit valuation adjustment					
Total credit valuation adjustment	--	0.0	--	270,500.0	--
Market Risk					
Equity in the banking book	0.0	0.0	0.0	0.0	0.0
Trading book market risk	--	451,012.5	--	676,518.8	--
Total market risk	--	451,012.5	--	676,518.8	--
Operational risk					
Total operational risk	--	402,837.5	--	593,433.8	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	5,336,610.3	--	5,117,945.7	100.0
Total Diversification/ Concentration Adjustments	--	--	--	5,096,430.7	99.6
RWA after diversification	--	5,336,610.3	--	10,214,376.4	199.6
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		6,080,204.0	113.9	6,100,000.0	119.2
Capital ratio after adjustments‡		6,080,204.0	113.9	6,100,000.0	59.7

*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--Norwegian krone. Sources: Company data, S&P Global Ratings.

Risk position: Still high share of structured funding and counterparty concentrations

Our assessment of Eksportfinans' risk position reflects our view of the complexity of the company's structured funding, which comprises about 40.5% of all bond debt at end-December 2018. In addition, Eksportfinans depends on access to the derivatives market to control risk.

Derivative risk management places considerable demands on the company's administrative and system resources, in our view. We understand that Eksportfinans would have access to the key personnel of its major owner banks if it were to lose staff in risk functions associated with its funding or derivatives management.

We believe that strong government and bank guarantees continue to mitigate Eksportfinans' credit risk. Most of its loan portfolio is guaranteed either by the Norwegian Export Credit Guarantee Agency (GIEK; 44% of total loans) or Norwegian banks. The majority of guarantees from Norwegian banks are provided by DNB Bank ASA. Given the high quality guarantees, direct corporate risk exposure is limited, but the company is still exposed to a small number of key financial entities used to offload the risk inherent in its structured borrowings.

Furthermore, credit losses have been minimal over the company's operating history. The nonperforming (stage 3 loans according to International Financial Reporting Standard (IFRS) 9) accounted for NOK28 million as of end-December 2018, or 0.4% of total loans. Moreover, nonperforming loans were guaranteed either by the Norwegian government via GIEK (90% of the exposure) or by private banks, most of which operate in Norway.

Table 5

Eksportfinans ASA--Risk Position

	--Year ended Dec. 31--				
	2018	2017	2016	2015	2014
(%)					
Growth in customer loans	(30.8)	(34.2)	(29.4)	(26.7)	(29.5)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	99.6	N/A	81.1	29.5	31.8
Total managed assets/adjusted common equity (x)	3.2	3.4	4.8	9.5	12.8
Gross nonperforming assets/customer loans + other real estate owned	0.4	0.2	0.4	2.1	1.6

N/A--Not applicable.

Funding and liquidity: Below average funding, reflecting the uncertain nature of structured funding

In our view, Eksportfinans' financial profile balances the use of structured funding with uncertain maturities against the owners' stated willingness to assist in an orderly run-off. As such, we assess Eksportfinans' funding as below average and its liquidity position as adequate.

In the company's baseline assumption of maturity of its balance sheet, excess cash flows are present throughout the unwinding. Structured funding had reduced to about NOK4.6 billion as of end-December 2018, but continues to comprise a significant share of total funding at 35.6% of total liabilities.

More specifically, as of the same date, around 59% of the company's structured funding is subject to triggers and calls. As such, its maturity is uncertain and is dependent on market movements and trends in interest rates and exchange rates, which could deviate from the baseline expectations.

Contractually, these instruments are long term in nature, some expiring after 2021. However, the maturities could be materially shortened due to triggers associated primarily with currency movements between the U.S. dollar and the Japanese yen, and the Australian dollar and the yen.

The recent balance-sheet contraction and capital market issues have resulted in an improvement in our metrics for Eksportfinans, with the stable funding ratio at 89.6% at the end of Dec. 2018, compared with 67.9% at end-2016 and 99.2% at end-2014.

We consider that the company has adequate liquidity buffers with about 40% of its assets being held in liquid securities. The ratio of broad liquid assets to short-term wholesale funding decreased to 0.78x at year-end 2018 from 1.44x at year-end 2017 (which is still an improvement compared with 0.42x reported as of end-2016).

In our metrics, we assume that all loans require stable funding over one year, which is less relevant for a company in run-off. We expect that loans maturing from the end of 2018 will mature without complications and reduce the balance sheet according to the company's forecast. Lastly, we do not see material cash flow risks given the current improvements in the company's liquidity and funding ratios.

Table 6

Eksportfinans ASA--Funding And Liquidity

	--Year-ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
(%)					
Long-term funding ratio	73.2	88.2	60.3	48.7	72.9
Stable funding ratio	89.6	N/A	67.8	71.8	99.2
Short-term wholesale funding/funding base	42.1	17.5	52.2	58.7	30.2

N/A--Not applicable. N.M.--Not meaningful.

Support: No uplift above stand-alone credit profile

We do not incorporate any additional notches for potential government support in the ratings on the company despite the government ownership of a minority stake in Eksportfinans' capital.

Additional rating factors: None

No additional factors affect this rating.

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: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

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 June 7, 2019)*

Eksportfinans ASA	
Issuer Credit Rating	BBB+/Positive/A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Issuer Credit Ratings History	
23-Nov-2017	BBB+/Positive/A-2
28-Nov-2016	BBB+/Stable/A-2
29-Feb-2016	BBB/Positive/A-2
05-Dec-2014	BBB-/Positive/A-3
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.