

Research Update:

Norwegian Eksportfinans ASA Outlook Revised To Positive On Receding Wind-Down Risks; 'A-/A-2' Ratings Affirmed

May 31, 2024

Overview

- Further progress has been made by Norway-based Eksportfinans in winding down its balance sheet and reducing risk.
- In our view, the bank has substantial liquidity and capital, which increasingly buffer the remaining tail risks associated with the balance sheet run-down.
- We have therefore revised the outlook to positive from stable and affirmed our long- and short-term issuer credit ratings on Eksportfinans at 'A-/A-2'.
- The positive outlook reflects growing track record of risk management related to structured funding and our anticipation that risks are likely to decline further as the bank progresses on its wind-down.

PRIMARY CREDIT ANALYST

Olivia K Grant
Dubai
+971 56 680 1008
olivia.grant
@spglobal.com

SECONDARY CONTACT

Salla von Steinaecker
Frankfurt
+ 49 693 399 9164
salla.vonsteinaecker
@spglobal.com

Rating Action

On May 31, 2024, S&P Global Ratings revised its outlook on Eksportfinans to positive from stable. At the same time, we affirmed our 'A-/A-2' long- and short-term issuer credit ratings on Eksportfinans ASA.

Rationale

Risks decrease as Eksportfinans' wind-down continues to advance. In particular, the reduction in complexity of the remaining structured funding results in declining tail risks for the remainder of the wind-down. For nearly 13 years, Norway's former export financing bank has smoothly progressed its balance sheet tapering and as of March 31, 2023, total assets stood at just under Norwegian krone (NOK) 6 billion (about €526 million). Previously, Eksportfinans had been faced with a complex funding structure that required the use of derivatives to hedge, but because of certain triggers, many of the bank's outstanding structured notes matured in 2023. We think that

continued reduction of complexity reduces downside risks to the rating.

Operational risks to the wind-down are likely to prevail until completion, but ongoing support from the owners is a mitigating factor. Eksportfinans has 19 full-time employees and with the recent appointment of a new CFO in January 2023, illustrates it can attract skilled and motivated staff. We note that while contingency plans are in place in case key personnel chose to leave, competence remains concentrated. As such, we consider this represents a potential pocket of operational risk for the bank. Our expectation of ongoing support from the owners in adverse scenarios mitigates the concerns. In our base case we do not expect any material changes to the ownership structure as Eksportfinans is 15% government-owned and 85% bank-owned, including by DNB Bank (40%), Nordea (23%), Danske (8%), and other Norwegian savings banks (13%).

Robust liquidity and capital buffers continue to support the rating. Broad liquid assets of NOK3.5 billion represent about 55% of total assets and over 4x the total outstanding structured funding, implying Eksportfinans' liabilities remain well-covered. In addition to this, the bank's total adjusted capital (TAC) of NOK4.9 billion leads to a risk-adjusted capital (RAC) ratio of 182% as of year-end 2023, which we see as a very strong buffer for tail risk during the wind-down. In 2024, the Norwegian Financial Supervisory Authority approved a NOK 1 billion disbursement of capital, which was deducted from the capital base in fourth-quarter 2023; we exclude this amount from our capital measure. We anticipate that despite the distributions, the bank will remain very well capitalized.

Lending volumes will continue to decline. About 60% of the NOK1.1 billion loan book is set to mature over the coming two years, pressuring profitability. However, interest rates have boosted profitability and led to positive net earnings in 2023, reversing the loss-making trend seen in the previous two years. We anticipate net profits will remain positive over 2024-2026, aided by Eksportfinans' lean cost base, in addition to the slow pace of interest rate cuts as outlined by the Norwegian central bank, Norges Bank. Furthermore, with about 62% of the loan book covered by a guarantee from the Norwegian government, local municipalities, or banks, we anticipate asset quality will remain intact.

Outlook

The positive outlook on Eksportfinans reflects the track record of the successful risk management related to structured funding and our anticipation that risks are likely to decline further as the bank progresses on its wind-down.

With decreasing complexity and balance sheet scale to wind down, we expect that the sizable liquidity portfolio and strong capital will increasingly buffer the remaining risks.

We expect Eksportfinans' ownership structure to remain unchanged and expect ongoing support from its owners in case of adverse scenarios.

Upside scenario

We could consider an upgrade if we continue to see evidence of strong risk, capital, and liquidity management, while the complexity and size of the operations decrease and the bank remains sufficiently profitable to support its orderly wind-down.

Downside scenario

We could revise the outlook to stable if capital was distributed at a faster pace than anticipated or there was a marked deterioration in the bank's liquidity portfolio.

Key personnel risk also remains a consideration to ensure operational risks are kept at bay. Shifts in staffing could also imply a lack of stability for the wind-down and could lead to a negative rating action.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	A-/Positive/A-2	A-/Stable/A-2
SACP	a-	a-
Anchor	a-	a-
Business position	Moderate (-1)	Moderate (-1)
Capital and earnings	Very strong (+2)	Very strong (+2)
Risk position	Adequate (0)	Adequate (0)
Funding and liquidity	Adequate and Moderate (-1)	Adequate and Moderate (-1)
Comparable ratings analysis	0	0
Support	0	0
ALAC support	0	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Eksportfinans ASA		
Issuer Credit Rating	A-/Positive/A-2	A-/Stable/A-2

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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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