Research Update:

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

June 29, 2021

Overview

- Over the past few years, Norway-based Eksportfinans ASA has materially wound down its structured liabilities, reducing risk and complexities, while building up a sizeable capital and liquidity buffer.
- Given the bank's ample liquidity and capital buffers relative to the remaining debt outstanding, we believe the risk of nontimely payment for senior unsecured bondholders continues to diminish.
- We therefore raised our long-term issuer credit rating on Eksportfinans to 'A-' from 'BBB+'.
- The outlook is stable, reflecting our expectation that an orderly wind down will continue while liquidity and capital will be kept at high levels.

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Rating Action

On June 29, 2021, S&P Global Ratings raised its long-term issuer credit rating on Norway-based Eksportfinans ASA to 'A-' from 'BBB+'. The outlook is stable. At the same time, we affirmed our 'A-2' short-term issuer credit rating on the bank.

Rationale

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

Lending volumes are expected to 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 believe that economic conditions are set to improve in the latter part of 2021.

Outlook

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.

Ratings Score Snapshot

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

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

- Eksportfinans ASA, June 26, 2020
- 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

Ratings List

Upgraded; Ratings affirmed

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