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Eksportfinans ASA

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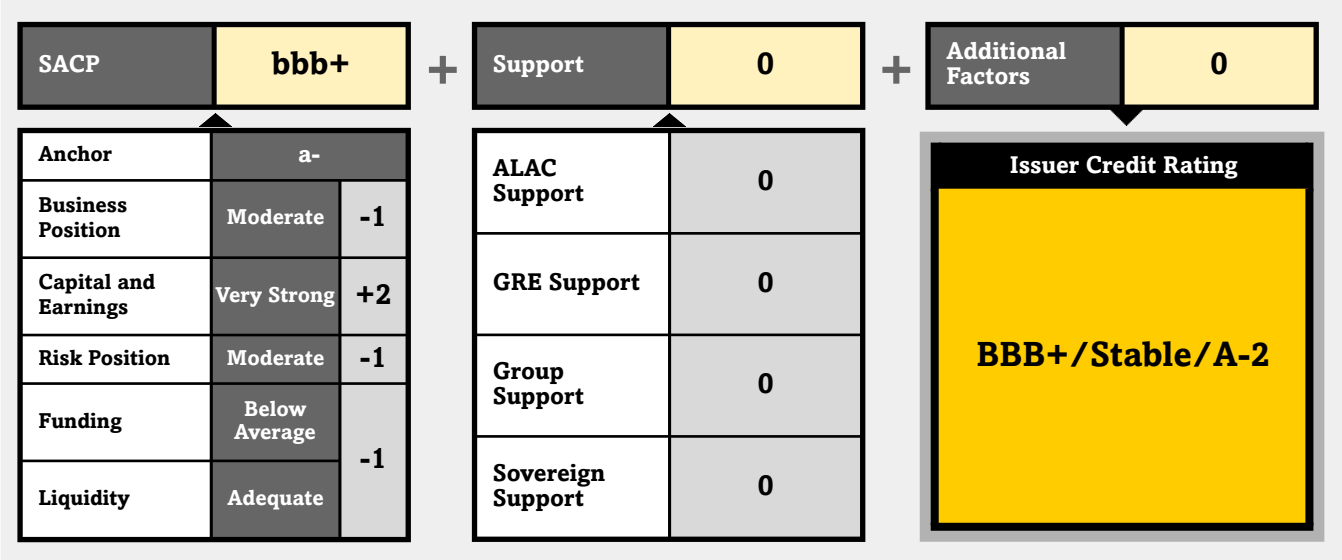
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Eksporthfinans ASA



Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> • Robust capitalization. • Successful management of the wind-down of loan book and funding. 	<ul style="list-style-type: none"> • Residual structured funding and derivative exposures. • Operational and liquidity risks during the wind-down.

Outlook: Stable

S&P Global Ratings' stable outlook on Eksporthfinans reflects our expectation of an orderly wind-down of the entity and full and timely repayment of senior obligations as the funded loan book reduces. While our Banking Industry Country Risk Assessment (BICRA) for Norway is on a negative trend, the stable outlook on Eksporthfinans reflects that any revision of the anchor is unlikely to affect the ratings on Eksporthfinans thanks to the guarantees by the higher rated Norwegian government and owner banks.

We could consider raising the rating if the reduction in the balance sheet continues to support the stability of Eksporthfinans' balance sheet and its capacity to repay all creditors in full and on time.

As Eksporthfinans continues the orderly reduction of its balance sheet and structured funding, the risk of a downgrade also decreases, but could be triggered by unexpected and material balance sheet stress or an extraordinary reduction in capital.

Rationale

The ratings and stable outlook on Eksportfinans reflect our view of diminishing risks of nonpayment of Eksportfinans' senior creditors. The ratings reflect our view of Eksportfinans' moderate business position, very strong capital and earnings, moderate risk position, below average funding, and adequate liquidity.

Anchor: 'a-' owing to high share of Norwegian exposure and credit guarantees

Our bank criteria use our Banking Industry Country Risk Assessment's economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for Eksportfinans is 'a-', based on an economic risk score of '2' and an industry risk score of '3'.

We see a separation between our outlook on Eksportfinans and the presently negative trend on the Norwegian BICRA. This reflects our view that the guarantees by the highly rated Norwegian government and owner banks mitigate the BICRA factors that contribute to a potential downward revision in the anchor for Norwegian banks.

We base our assessment of economic risk on our view that Norway has a wealthy government, supported by returns from the country's global investment fund, considerable oil revenues, and a predictable political environment. The Norwegian economy is undergoing a transformation due to a decline in oil investments and steep contraction of the oil price, but GDP continues to grow as the depreciation of the Norwegian krona (NOK) in recent years has restored competitiveness for Norway's exporters. Falling policy rates, competition for mortgage market share, and immigration-led population growth continue to support increases in residential house prices, with the exception of the oil-concentrated Rogaland region, including Stavanger. As a result of rising asset values, household debt continues to accumulate at a pace exceeding disposable income and presents a growing risk for the economy. There are signs that consumer confidence is falling and we expect bank losses due to direct and indirect impacts of lower oil investment. However, given the government's stimulus capabilities, tax cuts, a relatively high share of government employment, low interest rates, low unemployment, and strong social safety nets, we anticipate the rise in credit losses will remain manageable for banks with diversified national exposures.

Our assessment of industry risk for Norwegian banks reflects the proactive regulator, relatively high capital requirements and focus on improvements in banks' liquidity, and we note the government's history of and ability to provide impartial liquidity support to the sector. The market is dominated by DNB Bank, other Scandinavian banks, and domestic savings bank alliances, though we note that there is heavy competition for mortgage market shares, which has pressed lending margins in recent years. Restrictions on domestic investments by the global fund result in a large export of capital, which is repatriated to some degree by the banks' use of international wholesale funding. However, the expanding domestic bond market, a large share of foreign parent funding, and the likelihood of liquidity support from the government help offset some of the risk from what we see as a structural lack of deposits.

Table 1

Eksportfinans ASA Key Figures						
--Year ended Dec. 31--						
(Mil. NOK)	2016*	2015	2014	2013	2012	2011
Adjusted assets	37,103	65,140	85,626	100,788	157,397	213,913

Table 1

Eksportfinans ASA Key Figures (cont.)						
--Year ended Dec. 31--						
(Mil. NOK)	2016*	2015	2014	2013	2012	2011
Customer loans (gross)	18,876	24,462	33,372	47,363	71,879	96,541
Adjusted common equity	6,463	6,713	6,713	6,721	6,216	4,398
Operating revenues	(215)	(406)	(5,599)	(6,679)	(24,515)	41,935
Noninterest expenses	85	142	180	165	144	214
Core earnings	200	172	130	566	829	945

*Data as of Sept. 30. NOK--Norwegian krone.

Business position: Increasing cash flow stability following large debt maturities

In our view, Eksportfinans' business position has become more neutral for its creditworthiness following recent debt maturities and continued management of the winding down process. We now consider the business position as moderate, resulting in a single notch of negative adjustment. Eksportfinans is owned by 23 Norwegian banks (85%) and the Norwegian government (15%), but the main shareholders are DNB Bank ASA, Nordea Bank Norge ASA, 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 Cooperation and Development's consensus agreement of 1978. Since then, the company has been in run-off, a process that will likely take several years, given long-dated loans and financing on the balance sheet.

We expect Eksportfinans' balance sheet, which totaled NOK37 billion as of Sept. 30, 2016. (\$4.3 billion) will continue to reduce in line with the company's forecasts (see chart 1), and that significant loan maturities in 2017 will reduce the risk of non-payment further. The maturity of a significant portion of outstanding debt in May 2016 reduced the size of the balance sheet dramatically to 56% of the end-2015 level and 17% of the end-2011 levels (just after its loss of mandate).

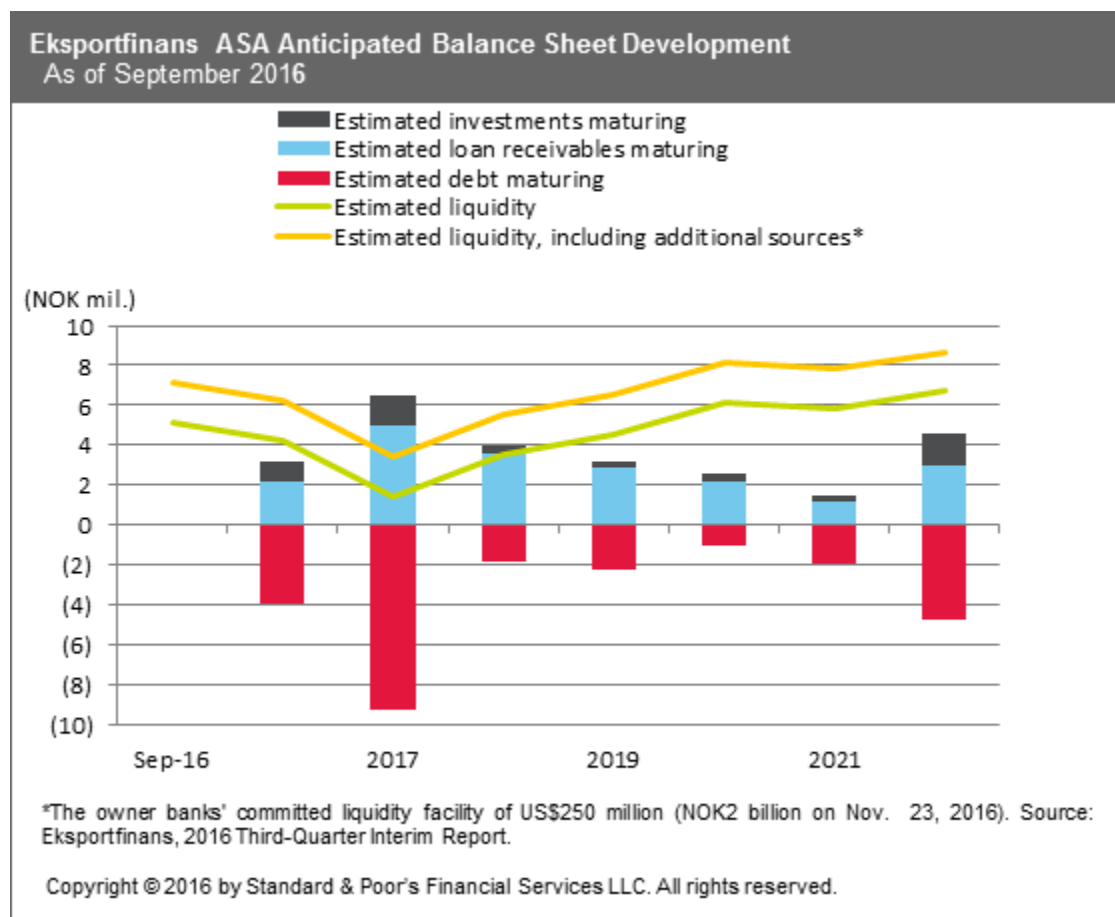


Table 2

Eksporthfinans ASA Business Position						
	--Year ended Dec. 31--					
(%)	2016*	2015	2014	2013	2012	2011
Total revenues from business line (mil. NOK)	100	100	100	100	100	100
Commercial banking/total revenues from business line	(3.0)	(5.0)	(43.1)	(33.4)	(68.8)	150.8
Return on equity	3.9	2.5	1.9	8.8	15.6	23.5

*Data as of Sept. 30. NOK--Norwegian krona.

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

We assess Eksporthfinans' capital and earnings as very strong, and expect the capital ratios by our measures will continue to grow as the balance sheet declines. In addition, most of the company's assets carry low risk weights, given that the guarantees by financial institutions with comparatively high ratings or by the Norwegian sovereign.

At end-2015 we measured the risk-adjusted capital (RAC) ratio at 35.9%, and as of end-September 2016 and we estimate that the RAC ratio was over 50% (from 35.9% at end-2015), due to a significant portion of the liquidity reserve reducing, outstanding loan contracts maturing, and a reduction in market risk associated with hold-to-maturity asset-backed securities in Eksporthfinans' liquidity portfolio. By end-2018, we anticipate the ratio will be over 70%,

assuming no dividends to Eksportfinans' shareholders.

Eksportfinans' earnings continue to be negative by International Financial Reporting Standards, due to the revaluation of derivatives in the hold-to-maturity portfolio and the unwinding of unrealized gains on their own debt. These adjustments have little impact on our view of capital, due to exclusion of revaluation reserves from our measures and considering the very high ratios and increasing share of equity in the balance sheet as assets unwind. In our view, the low returns on equity could accelerate an eventual acquisition or, less likely, a significant pay-out of capital at Eksportfinans.

Table 3

Eksportfinans ASA Capital And Earnings						
	--Year ended Dec. 31--					
(%)	2016*	2015	2014	2013	2012	2011
Tier 1 capital ratio	50.0	36.5	24.3	36.8	25.0	16.1
S&P Global Ratings' RAC ratio before diversification	N.M.	35.9	33.9	31.6	25.9	11.2
S&P Global Ratings' RAC ratio after diversification	N.M.	27.7	25.7	22.6	23.0	11.9
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	(90.2)	(92.1)	(8.2)	(10.4)	(5.1)	3.7
Fee income/operating revenues	0	0.5	0	0	0	0
Market-sensitive income/operating revenues	302.3	195.1	108.4	110.5	105.3	96.3
Noninterest expenses/operating revenues	(39.5)	(35.0)	(3.2)	(2.5)	(0.6)	0.5
Preprovision operating income/average assets	(0.8)	(0.7)	(6.2)	(5.3)	(13.3)	19.4
Core earnings/average managed assets	0.5	0.2	0.1	0.4	0.4	0.4

*Data as of Sept. 30. RAC--Risk-adjusted capital. N.M.--Not meaningful.

Table 4

Eksportfinans ASA Risk-Adjusted Capital Framework Data					
(NOK 000s)	Exposure*	Basel II RWA	Average Basel II RW (%)	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
Credit risk					
Government and central banks	693,558	84,036	12	23,328	3
Institutions	27,646,635	5,499,228	20	7,403,203	27
Corporate	27,021,332	7,113,176	26	4,974,714	18
Retail	0	0	0	0	0
Of which mortgage	0	0	0	0	0
Securitization§	1,894,768	649,213	34	947,384	50
Other assets	207,500	207,500	100	205,277	99
Total credit risk	57,463,793	13,553,152	24	13,553,905	24
Market risk					
Equity in the banking book†	0	0	0	0	0
Trading book market risk	--	2,330,011	--	3,495,016	--
Total market risk	--	2,330,011	--	3,495,016	--

Table 4

Eksportfinans ASA Risk-Adjusted Capital Framework Data (cont.)					
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	1,079,063	--	2,018,376	--
(NOK 000s)	Basel II RWA		S&P Global Ratings' RWA	% of S&P Global Ratings' RWA	
Diversification adjustments					
RWA before diversification	16,962,225		19,067,297	100	
Total Diversification/Concentration Adjustments	--		5,626,106	30	
RWA after diversification	16,962,225		24,693,402	130	
(NOK 000s)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings' RAC ratio (%)	
Capital ratio					
Capital ratio before adjustments	6,184,101	36.5	6,841,000	35.9	
Capital ratio after adjustments†	6,184,101	36.5	6,841,000	27.7	

*Exposure at default. §Securitisation Exposure includes the securitisation 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. Sources: Company data as of Dec. 31, 2015, S&P Global Ratings.

Risk position: High share of structured funding and counterparty concentrations

Our moderate assessment of Eksportfinans' risk position reflects our view of the complexity of the company's structured funding, which comprises nearly one-third of all bond debt at end-September 2016. 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 note that, while outstanding derivative exposures are declining, counterparty concentrations remain material. We understand that Eksportfinans' would have access to key personnel of its major owner banks if it were to lose key staff in risk functions associated with its funding or derivatives management.

We believe that strong government and bank guarantees continue to mitigate credit risk, even while Norwegian shipping, oil, and offshore exposures struggle with falling oil prices. Given 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. Moreover, credit losses have been minimal over the company's operating history, and, as of end-September 2016, all nonperforming loans (NOK614 million) are guaranteed either by the Norwegian government via the Guarantee Institute for Export Credits or by private banks, most of which operating in Norway.

Table 5

Eksportfinans ASA Risk Position						
	--Year ended Dec. 31--					
(%)	2016*	2015	2014	2013	2012	2011
Growth in customer loans	(30.5)	(26.7)	(29.5)	(34.1)	(25.5)	13.5

Table 5

Eksportfinans ASA Risk Position (cont.)						
	--Year ended Dec. 31--					
(%)	2016*	2015	2014	2013	2012	2011
Total diversification adjustment / S&P Global Ratings' RWA before diversification	N.M.	31.8	31.8	39.9	12.8	(6.2)
Total managed assets/adjusted common equity (x)	10.4	12.8	12.8	15.0	25.3	48.6
Growth in adjusted assets	(57.4)	(23.9)	(15.0)	(36.0)	(26.4)	(0.8)
Gross nonperforming assets/customer loans + other real estate owned	3.3	2.1	1.6	0.4	0.9	0.5

*Data as of Sept. 30. RWA--Risk-weighted assets. N.M.--Not meaningful.

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

We assess Eksportfinans' funding as below average and its liquidity position as adequate, resulting in a combined assessment of moderate. In our opinion, this balances the use of structured funding with uncertain maturities against the owners' stated willingness to assist in an orderly run-off.

In the company's baseline assumption of maturity of its balance sheet, excess cash flows throughout the unwinding (see chart 1). Structured funding had reduced to about NOK8.6 billion as of end-September 2016, but remains one-third of all outstanding debt. This funding can be subject to triggers and calls and, as such, has an uncertain maturity structure that could deviate from the baseline scenario in chart 1. Contractually, these instruments are long term in nature, many expiring after 2021. However, the maturities could be materially shortened due to triggers associated primarily with movements in the U.S. dollar to the Japanese yen, the Australian dollar to the yen, and the NIKKEI 225 equity index.

In addition to the existing liquidity on the company's balance sheet, we note that Eksportfinans retains an annually-renewed US\$250 million (NOK2 billion) committed liquidity facility from its three-largest owner banks. The liquidity facility of US\$250 million was reduced by Eksportfinans from US\$1 billion after May 2016 and US\$ 2 billion a few years ago, indicating Eksportfinans' confidence to reduce the balance sheet in an orderly fashion. We believe that, in the event of asset and liability mismatches as the debt and loans mature, Eksportfinans would use its credit facility. In addition, we believe that Eksportfinans could create further liquidity by repurchasing or selling its less liquid portfolio hedge agreement portfolio if necessary.

Eksportfinans' funding metrics have deteriorated due to the large share of debt that matured in 2016 and the associated reduction in liquid assets. In addition, the US\$ 1 billion of outstanding debt that matures in June 2017 affects our measures as of end-September 2016. This can be seen in falling ratios: stable funding fell to 68.9% at end-September 2016, from 99.6% at end-2014 and broad liquid assets to short-term whole sale funding (one year), fell to 0.5x from 1.2x as of the same dates.

Our metrics assume that all loans require stable funding over one year, which is less relevant for a company in run-off, and do not include the off-balance-sheet liquidity facility. We note that the projected maturity of NOK7.2 billion in loans by end-2017 is not captured in our funding metrics, and we do not see material cash flow risks, given the available facility from the owner banks. We also note that an additional Swiss franc 300 million (NOK2.5 billion) matured without complications in November 2016, reducing the balance sheet by 7% since the latest public figures at end-September 2016.

Table 6

Eksportfinans ASA Funding And Liquidity						
--Year ended Dec. 31--						
(%)	2016*	2015	2014	2013	2012	2011
Core deposits/funding base	0.0	0.0	0.0	0.0	0.0	0.0
Long-term funding ratio	58.6	48.7	72.9	75.4	66.6	72.4

*Data as of Sept. 30.

External support: No notches included in the rating despite strong owners

The actions taken by the Norwegian government in November 2011 support our conclusion that Eksportfinans has low systemic importance.

Additional rating factors: None

No additional factors affect this rating.

Related Criteria And Research

Related Criteria

- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions - January 29, 2015
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework - June 22, 2012
- Banks: Rating Methodology And Assumptions - November 09, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Bank Capital Methodology And Assumptions - December 06, 2010
- Commercial Paper I: Banks - March 23, 2004
- Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Norway-Based Eksportfinans Upgraded To 'BBB/A-2' As Balance Sheet Contracts; Outlook Remains Positive, Feb 29, 2016
- Eksportfinans ASA, Dec. 7, 2015
- Banking Industry Country Risk Assessment: Norway, Dec. 1, 2015
- Norway-Based Eksportfinans Upgraded To 'BBB-/A-3' On Reduced Structured Funding Risk; Outlook Remains Positive, Dec. 5, 2014
- Outlook On Norway-Based Eksportfinans Revised To Positive Due To Reduced Legal Risk; 'BB+/B' Ratings Affirmed, May 20, 2014
- Norway-Based Eksportfinans 'BB+/B' Ratings Affirmed On Japanese Court Decision, March 31, 2014
- Norway-Based Eksportfinans 'BB+/B' Ratings Placed On CreditWatch Negative Pending Japanese Court Decision, March 26, 2014
- Norway-Based Eksportfinans Ratings Unaffected Following Communication On Upcoming Court Ruling, Feb. 26, 2014
- Norway's Eksportfinans ASA 'BB+/B' Ratings Affirmed On Steady Business Run Down; Outlook Negative, Nov. 5, 2013

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 December 8, 2016)

Eksporthfinans ASA

Counterparty Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2

Counterparty Credit Ratings History

28-Nov-2016	BBB+/Stable/A-2
29-Feb-2016	BBB/Positive/A-2
05-Dec-2014	BBB-/Positive/A-3
20-May-2014	BB+/Positive/B
31-Mar-2014	BB+/Negative/B
26-Mar-2014	BB+/Watch Neg/B
15-Feb-2012	BB+/Negative/B

Sovereign Rating

Norway (Kingdom of)	AAA/Stable/A-1+
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*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.

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