MOODY'S
INVESTORS SERVICE

Rating Action: **Moody's downgrades Eksportfinans to Ba1 from Aa3; on review for further downgrade**

Global Credit Research - 22 Nov 2011

London, 22 November 2011 -- Moody's Investors Service has today downgraded Eksportfinans ASA's issuer and senior debt ratings to Ba1 from Aa3. The subordinated debt and hybrid ratings were also downgraded to Ba2 from A1 and B1(hyb) from A2(hyb), respectively. The short-term ratings were downgraded to Not Prime from Prime-1 and all long-term ratings remain on review for further downgrade.

Today's rating actions follow the decision by the Norwegian government on 18 November 2011 to take control over the system of government subsidised loans -- i.e. the 108-agreement scheme -- from Eksportfinans. The removal of this former monopolistic business position leaves Eksportfinans without a viable business model as a credit provider to the Norwegian export-finance industry. As a consequence, Eksportfinans is now subject to a run-off process.

The rating review will focus on (i) the implications of the run-off process for Eksportfinans's remaining operations (i.e., its liquidity and capitalisation); and (ii) the remaining value of its balance sheet.

RATINGS RATIONALE

On 20 October 2011, the Norwegian Ministry of Finance decided not to grant Eksportfinans a permanent exemption from the EU's Capital Requirement Directive (CRD), which means Eksportfinans will have to adhere to the large exposures provision; specifically, that no single exposure can exceed 25% of its regulatory capital. Since that decision, Moody's understands that Eksportfinans and its major owners, the government and large Nordic banks (DNB, Nordea, Danske Bank), had explored possibilities to overcome the consequent maximum exposure restrictions, but ultimately they have not found a successful solution.

The rating agency also understands that the government considers that Eksportfinans lacks the capacity to provide a relevant service to the Norwegian export-finance industry, which is skewed toward industries such as shipping, energy and other industries, which often require large loans. As a result, the government has decided to assume responsibility of Eksportfinans's future lending obligations under the 108-scheme . The loans under this scheme correspond to approximately 70% of Eksportfinans's loan book. Eksportfinans will, however, provide transitional services to the government until July 2012.

In Moody's view, the government's decision to relieve Eksportfinans of its position as operator of the 108-scheme, over which it has had a 30-year monopoly, has almost eliminated its franchise and business model. It also implies that the government lacks commitment towards Eksportfinans, in Moody's opinion. In addition, the rating agency believes that the inability of Eksportfinans's owners to come to a solution enabling Eksportfinans to maintain its prior operations indicates the owners' low willingness to support the institution.

The rating agency views Eksportfinans's credit worthiness, as it is gradually wound down, as not commensurate with an investment-grade rating, principally due to its run off status, combined with uncertainties on future funding and potential gaps in liquidity management over the medium term. Nevertheless, it positively notes that Eksportfinans's management has stated its intention to wind down the company in an orderly manner. It also notes that the company's asset quality remains solid (with the benefit of bank guarantees), and that its liquidity position is underpinned by a sizeable securities portfolio and a diversified funding structure. However, Moody's expects that, as Eksportfinans's access to capital market funding will be limited, it might have to rely on its owners (from time to time) for liquidity.

FOCUS OF THE REVIEW

During the rating review, Moody's will focus on the implications of the run-off process for the remaining operations of Eksportfinans, particularly regarding liquidity and capitalisation, as well as the remaining value of Eksportfinans's balance sheet.

Moody's understands that Eksportfinans will not take up any new loans other than to fulfil existing agreements under the 108-scheme. However, the run-off of the remaining balance sheet will still require re-financing at times, principally due to short-term liquidity gaps that might require external liquidity support. In the review period, Moody's will assess the ability of Eksportfinans to manage its future liquidity needs.

Whilst the continued review process will consider all possible options, Moody's says that it could potentially result in a further multi-notch downgrade of Eksportfinans's issuer and debt ratings, in particular (i) if the government's removal of the loans triggers early repayment of any outstanding debt obligation; or (ii) if the government or the owners do not provide explicit support in the run-down process.

In line with Moody's methodology for government-related issuers, Eksportfinans's Ba1 issuer and senior debt ratings rating is at the same level as its Baseline Credit Assessment of 11 (on a scale of 1 to 21, where 1 represents the lowest credit risk). Following the government's decision not to include Eksportfinans in its solution for the export industry, Moody's does not factor any systemic support into Eksportfinans's issuer and senior debt rating.

PRINCIPAL METHODOLOGIES

The principal methodologies used in rating Eksportfinans are Revised Methodology for Government Related Non-Bank Financial Institutions published in August 2006 and Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Headquartered in Oslo, Norway, Eksportfinans reported total assets of around NOK226.4 billion (EUR28.7 billion) at end-September 2011.

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