



ROYAL NORWEGIAN
MINISTRY OF TRADE AND INDUSTRY

Proposition No. 32 (2008–2009) to the Storting

Government funding to Eksportfinans ASA

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*Recommendation from the Ministry of Trade and Industry dated 12 December 2008,
approved by the King-in-Council the same day
(the «Stoltenberg II» Government)*

1 Introduction and summary

Eksportfinans ASA (hereinafter «Eksportfinans») is a key supplier of competitive financing for the Norwegian export industry. Up to the summer of 2008 the company's high credit-ratings enabled it to raise funding on favourable terms in the international capital markets. The trend in the capital markets in the autumn of 2008, however, made it increasingly difficult to obtain long-term funding. Eksportfinans' operations require that the company has access to long-term funds. As a consequence of the situation in the capital markets, the customers within export financing have been given loan offers with reservations regarding access to long-term funding since the end of September 2008. The lack of access to long term funding in the international markets led to the Board of Eksportfinans preparing to warn the customers that a lending stop would shortly be introduced. Since it is currently very difficult for the Norwegian export industry to obtain export financing from sources other than Eksportfinans, the company's role as a supplier of export financing is more important than ever.

In order to ensure that Norwegian companies continue to be offered financing of export contracts that qualify for government-supported loans from Eksportfinans, the Government is putting forward a proposal that the State should offer Eksportfinans market based funding on specified terms.

2 General information on Eksportfinans ASA

The object of Eksportfinans is to develop and offer competitive financial services to the export industries. In addition, its subsidiary Kommunekreditt Norge AS (hereinafter «Kommunekreditt») provides financing to the two levels of local government, municipal and county.

Eksportfinans offers financing of Norwegian exports according to the OECD-affiliated agreement «Arrangement on Officially Supported Export Credits». There are two main forms of export financing: officially supported loans and market loans. The former are offered at a rate of interest fixed by the OECD, the so-called CIRR (Commercial Interest Reference Rate). Market loans can be offered at floating or fixed market rates in the major convertible currencies.

The Norwegian Guarantee Institute for Export Credits (GIEK) guarantees a large proportion of the CIRR loans that Eksportfinans provides.

Eksportfinans issues bond loans in the international capital markets to finance lending to the export industries and the local government sector.

The State, represented by the Ministry of Trade and Industry, became an owner of Eksportfinans in 2001 and holds 15 per cent of the shares. The object of the public ownership is to secure Norwegian export companies competitive financing terms compared with their international competitors. This is regarded as of importance, particularly for small and medium-sized enterprises. Public ownership was also intended to contribute to maintaining Norwegian backing of an important expertise sector, confer Report No. 13 (2006-2007)

to the Storting, «An Active and Long-Term Ownership».

The other 85 per cent of the shares are held by 26 banks operating in Norway. DnB NOR Bank ASA (40 per cent), Nordea Bank AB (23.2 per cent) and Danske Bank A/S (8.1 per cent) have the biggest ownership shares.

3 The current situation for Eksportfinans ASA

The Eksportfinans group has been hit hard by the turbulence in the international financial markets. A sharp increase in the risk premiums for debt, including on instruments with a high credit rating, has inflicted a high level of unrealised losses on the company's securities portfolio. On two occasions in the spring of 2008 the Government, on the basis of authorisation from the Storting and together with the other owners, helped to strengthen Eksportfinans. The Government has injected NOK 180 million of new capital into the company and is participating on a pro rata basis in a guarantee scheme that protects Eksportfinans against further decreases in value within a framework of NOK 5 billion. Severe losses due to commitments to Glitnir Bank h.f. in Iceland have served to weaken the company's equity capital.

In the autumn of 2008 the turbulence in the financial markets became aggravated, both in Norway and internationally. Under the prevailing market conditions it is, according to Eksportfinans, impossible for the company to raise long-term funding on acceptable terms. Without adequate financing with long-term maturities, the company's operations will sooner or later come to a stop, with all the undesirable consequences this will have for Norwegian export industries.

Lack of access to long-term funding is not unique to Norway and Eksportfinans. A meeting of the OECD's export credit groups this November discussed the financial crisis and how the export finance institutions could help to increase access to finance. The OECD countries, plus some non-member countries, agreed on a «Financial Crisis: Export Credit Statement» that signals that the countries will ensure that export financing schemes are operational in each individual country.

Eksportfinans' affiliation with the State via the administration of the 108 scheme and the public ownership stake has probably contributed to the company's high credit ratings. High ratings have made it possible to raise funding at favourable conditions in the international capital markets. The

low borrowing cost has also helped the company to expand in areas outside its core business, inter alia building up a big securities portfolio and lending to the local government sector. Expansion beyond the core business caused the company to be more poorly equipped to deal with the turbulence in the international financial markets.

4 More on CIRR loans

CIRR loans are fixed-rate loans with the same interest rate as government bonds in the relevant currency plus one percentage point. The interest rate is fixed before the borrower begins to draw down the loan, which means that the arrangement gives the holder of the loan offer free interest and currency options. The loan becomes more attractive if the market interest rate rises before the loan is disbursed.

For all contracts that qualify for CIRR loans, financing offers may be given. CIRR loans are offered as financing of contracts for export of Norwegian capital goods and services within the rules that at any given time are practised by GIEK. From 2002 onward, Norwegian shipowners with earnings in foreign currency have also had access to CIRR loans.

CIRR loans may amount to 85 per cent of the value of the export contract for capital goods and services. For shipping contracts, CIRR loans can cover up to 80 per cent of the contract value.

The foreign share of the goods and services in the export contract can amount to 50 per cent of the value of the contract, but in special cases a higher share is acceptable. A maximum of 30 per cent of the contract value can be from the purchasing country (local share).

The shortest permitted maturity of CIRR loans is two years. The longest permitted maturity is five years for high-income countries and normally up to ten years for low-income countries. The OECD can be notified of maturities of 8.5 years for deliveries to high-income countries. For shipping loans and renewable energy/hydropower the longest permitted maturities are 12 and 15 years respectively.

5 More on the 108 Scheme

The scheme for fixed-rate loans (CIRR loans) to foreign purchasers of Norwegian capital goods and to Norwegian shipowners with earnings in foreign currency, the so-called 108 Scheme, was established in 1978. The point of departure for the

scheme is the OECD-affiliated «Agreement on Officially Supported Export Credits». The agreement governs the competition between OECD countries inter alia as regards interest and repayment terms for officially supported loans for capital goods exports. The scheme is meant to help Norwegian exporters of capital goods to compete on equal terms with other exporters with national export credit schemes. The 108 scheme has been administered by Eksportfinans as long as it has existed.

Eksportfinans receives compensation for administering the scheme through a margin on each outstanding loan. The need for appropriation via the fiscal budget arises when the interest rates on the lending do not fully cover the borrowing and administration costs of the scheme. The appropriation will thereby depend on interest-rate calculations on new and existing lending under the scheme, the overall volume of outstanding credits in various currencies, the interest rates on the borrowing and currency fluctuations. The State consequently bears a risk related to the scheme's financial results.

On the basis of the Storting's annual authorisation decision, Eksportfinans is given approval for public funding of future deficits related to new loan offers in the coming year. The deficit in a single year is covered by an appropriation via the fiscal budget two years later, under Chapter 934, «Internationalisation Measures», Item 73 «Support for Capital Goods Exports». In addition, interest rate compensation is paid to Eksportfinans for the intervening period until the date of disbursement. See a more detailed description of the system in the fiscal budget, Proposition No. 1 (2008-2009) to the Storting, Ministry of Trade and Industry, Chapter 934 Item 73.

The following table shows the estimated deficit on the clearing account for the years 2008-2011. The estimates are based on the disbursement prognosis at the end of the third quarter of 2008, which is a more recent – and higher – estimate than contained in Proposition No. 1 (2008-2009) to the Storting.

	(in NOK million)			
	2008	2009	2010	2011
Deficit on clearing account	304	466	374	353
Expense to the State including interest	336	515	413	390

At the end of November 2008, the deficit on the clearing account was NOK 263 million.

Outstanding loans under the 108 Scheme at the end of November 2008 were NOK 31 billion.

6 Proposal for government funding to Eksportfinans ASA

The maintenance of a well-functioning 108 Scheme is of great importance for industrial policy. This is particularly important in times when industry's access to loans from banks is limited. In order to safeguard continued supply of financing for export contracts that qualify for officially supported loans from Eksportfinans, therefore, an agreement has been negotiated, which – with the consent of the Storting – means the State offering Eksportfinans funding on market terms. The agreement between the Norwegian State, represented by the Ministry of Trade and Industry, and Eksportfinans of 26 November 2008 (hereinafter «the Agreement») is attached as an unprinted appendix. The agreement means that the funding that the State provides to Eksportfinans shall exclusively be used to finance new export credits that qualify for official support, that is, CIRR loans. This means that Eksportfinans shall be able to give both CIRR loans and market loans to borrowers who are qualified for loans under the 108 Scheme.

The funding from the State shall be given with a maturity of five years, or shorter if Eksportfinans so wishes. The interest rate of these loans shall be on market terms; by this is meant that the interest that Eksportfinans pays to the State shall carry a mark-up on the State's borrowing rate. This mark-up is to reflect the advantage that Eksportfinans enjoys from having funding from the State. The State's claims on Eksportfinans shall not be transferable. A market interest rate shall be stipulated on the basis of principles stipulated in the Agreement. The intention is that the loan be given in NOK.

The Government proposes that the State, represented by the Ministry of Trade and Industry, undertakes to provide funding to Eksportfinans up to 31 December 2010.

The Agreement governs State financing of the official support arrangement for fixed-interest loans to the export industry, including the duration of the State's duty to provide loans and the application of the loan revenue. The Agreement also regulates corporate affairs, including shares with special dividend rights, the right of State inspection of

Eksportfinans and conditions related to salary and other compensation for senior management. Some of these matters are discussed below.

In order to ensure that assets are not transferred to the owners of Eksportfinans in consequence of this extraordinary access to funding from the Treasury, the parties have agreed that the State shall have a preference share; that is, a share with preferential rights vis-à-vis ordinary shares. This means that Eksportfinans shall increase its share capital by one share, subscribed for by the State at face value of NOK 10,500. This share shall be in a separate preference class, that from and including the 2009 financial year shall carry a right – stipulated in the Articles of Association – to an annual dividend corresponding to 22.5 of the company's annual profit in accordance with the last year's submitted annual accounts up to the statutory maximum dividend basis. Reversal of lending losses posted prior to 1 January 2009 and results from Kommunekreditt shall be excluded from the calculation basis.

Dividend on the preference share shall, as far as is compatible with sound operations and the company's financial strength, be disbursed in cash. Alternatively, such dividend shall be distributed in the form of the issue of new ordinary shares on the terms that applied to the share capital increase of 2008. The formulation of Eksportfinans' Articles of Association on this point shall be approved by the Government.

Eksportfinans shall redeem or purchase the preference share at face value as soon as Eksportfinans has submitted annual accounts and distributed dividend on the preference share for the financial year in which all loans from the State pursuant to the Agreement have been repaid in full.

Disbursements, including of dividend, on shares other than the preference share, shall require the State's approval, as long as Eksportfinans has loans issued by the State under this Agreement. Eksportfinans shall be freely able to undertake distribution or pay dividend to the extent that this derives from sale of and/or dividend or group contributions from Kommunekreditt, as far as this is compatible with sound operations and the company's financial strength.

In accordance with the Agreement the State shall be entitled at any given time, itself or through external assistance, to audit the operations of Eksportfinans. The State, or any party assisting the in such an audit, shall have access to all accounts and other relevant documentation in Eksportfinans and companies associated with Eksportfinans.

Up to 31 December 2010, wages and other benefits to senior executive employees in Eksportfinans shall not be increased. Nor shall senior executive employees in Eksportfinans in this period accumulate or receive bonuses, except for bonuses accumulated before 1 November 2008 in accordance with agreements entered into before this date. Wages, other benefits and any bonus schemes for senior executive employees after 31 December 2010 shall be approved in advance by the State, as long as there are outstanding loans under the Agreement.

The implementation of the Agreement is conditional upon the Storting granting its consent to the signature of the Agreement, and the Agreement's submission to and approval by the ESA. The Agreement must also be approved by the general meeting of Eksportfinans, confer Section 3-8 of the Public Limited Liability Companies Act. Shareholders of Eksportfinans, who, together with the State, hold more than two-thirds of the shares in Eksportfinans, must give their consent to the Agreement and pledge themselves to vote in favour of all necessary motions to implement this agreement at the company's general meeting. If all the above-mentioned conditions are not met by 31 January 2009, the Agreement will be cancelled.

7 The Agreement and the EEA Treaty's prohibition on State support

The EEA Treaty contains a general prohibition on State support (Article 61 subsection 1). Certain forms of State support may nevertheless be exempted from the general prohibition of that Article. The jurisdiction to enforce the EEA Treaty's rules on official support is vested in the EFTA Surveillance Authority (ESA). As mentioned above, the government loans to Eksportfinans will be on market terms. In order to make sure that the Agreement is in conformity with the state support regulations of the EEA Treaty, the Government will notify the Agreement to the ESA.

8 Evaluation by external consultants

In November 2008 the Ministry of Trade and Industry commissioned Arctic Securities ASA to assist it with evaluating how the State should secure a continued supply of officially supported export credits.

As preparation for the negotiations with Eksportfinans, Arctic Securities ASA has, on assignment from the Ministry of Trade and Industry, reported on the organisation of the Norwegian supply of CIRR loans. The company has considered how one could, at short notice, organise the Norwegian supply of CIRR loans, as a possible alternative to the State's contribution of financing solutions vis-à-vis Eksportfinans, so as to safeguard an operative 108 Scheme. The report formed the basis for the negotiations conducted between the State, represented by the Ministry of Trade and Industry and the Ministry of Finance, and Eksportfinans regarding the terms and conditions for a solution to the company's financing situation.

9 The Ministry's Evaluation

Officially supported export credits play an absolutely crucial role in the financing of Norwegian capital goods exports in a period of great volatility in the financial markets and few alternative sources of export financing. In such a situation it is important that the State ensures stable framework conditions for Norwegian exporters. Since 1978 Eksportfinans has managed the Norwegian arrangement for CIRR loans from the State. Eksportfinans has also collaborated closely on export financing with the commercial and savings banks. This means that Eksportfinans represents the largest and most competent sector in Norway for export financing. It is therefore the Ministry's opinion that the exporting enterprises' opportunities to make use of officially supported credits can best be safeguarded by ensuring that Eksportfinans remains in a position to provide such loans.

If Eksportfinans is to continue to finance exports that qualify for CIRR loans, the company must have access to long-term funding in a period in which the international market is not functioning. The company is not a bank and thus lacks access to the arrangements made available to the banking industry via Norges Bank, the Norwegian central bank. The Government has therefore concluded that the company can be offered loans from the State up to 31 December 2010, with maturities of up to five years, as long as this is done on market terms.

The proposal to offer funding to Eksportfinans directly from the Treasury in the period in question is motivated by the need to secure continued export finance. By channelling the loans through Eksportfinans, the State enables Eksportfinans to

fulfil its particular missions in the Norwegian financial system, related to financing export credits qualified for official support. Conditions must therefore be set that ensure that the advantage obtained by the company does not result in a transfer of value to the owners of Eksportfinans or to employees of the company. The Government has therefore set as a condition for the arrangement that the State, via a preference share, shall be entitled to 22.5 per cent of the company's profit before distribution to other owners. It has also been agreed that no salary increases or earning and payment of bonuses to senior management shall occur as long as the access to government funding is being maintained.

10 Economic and administrative consequences

The proposal will involve some increased administrative expenses for the Ministry of Trade and Industry and the Ministry of Finance in connection with managing and supervising the funding operation. These expenses are expected to be sufficiently modest that they can be covered within the proposed budgetary frameworks for 2009. Eksportfinans has estimated that the State interest-rate subsidies in connection with the 108 scheme may amount to NOK 500 million in each of the next few years. In the present situation the estimates are most uncertain, as the arrangement is governed by regulations and it is difficult to predict the demand for this kind of loans.

11 Changed objective category placement for Eksportfinans ASA

In the Ownership Report (Report No. 13 (2006-2007) to the Storting, «An Active and Long-Term Ownership»), considered by the Storting in April 2007, the objectives for State ownership of companies were divided into four objective categories:

1. Companies with commercial objectives
2. Companies with commercial objectives and national backing of the head office
3. Companies with commercial objectives and other specifically defined objectives
4. Companies with sector-policy objectives.

The categorisation is based on a recommendation from the State Ownership Commission (confer

NOU 2004:7). The intention was that a classification of the companies should contribute to greater clarity regarding the purposes of ownership and thereby create a better basis for management of the State's ownership interests.

The State as owner has primarily a commercial objective for the management of its ownership stake in Eksportfinans, and the company has so far been placed in Objective Category 1. At the same time it is a fact that industrial policy considerations was a key factor when, in 2001, the State took the ownership stake in Eksportfinans.

In the light of the important role of Eksportfinans in obtaining competitive financing for the Norwegian export industry – and the proposal submitted in this Proposition to the Storting – the Ministry of Trade and Industry has concluded that the State ownership stake in Eksportfinans shall from and including 2009 be placed in Objective Category 3.

12 Budgetary proposal

The proposal for State funding to Eksportfinans means that the company can be given loans from the Treasury in 2009 and 2010. The framework for the loans shall be stipulated on the basis of Eksportfinans' need for CIRR-qualified loans. The need in 2009 has been estimated at about NOK 30 billion. Maturity of the funding is up to five years, with a commercial interest rate in line with the Agreement.

Loans from the Treasury are budgeted under the (new) Chapter 2428, while amortisation/repayment is posted in the public accounts under the

(new) Chapter 5328. Loans and amortisation are posted gross, that is, the sums are expensed and posted to income every time the company raises or repays a loan. The interest rates that Eksportfinans is to pay on the loans are posted to income under the (new) Chapter 5628. The size of any interest incomes is most uncertain. For this reason no income appropriation is requested. The proposed budget decision is based on the assumption that in 2009 Eksportfinans will exclusively take out state loans with maturity longer than one year. Hence there will not be any question of proposing any income appropriation for amortisation as a consequence of the loan arrangement in the 2009 fiscal budget.

For 2009 the following appropriation is proposed:

Chapter 2428 (new) Eksportfinans ASA

Item 90 Loans

An appropriation of NOK 30 billion is proposed, to cover disbursement of new loans and refinancing of loans that fall due for payment in the course of 2009. The appropriation estimate is afflicted with uncertainty, and the Government will if necessary propose an appropriation change in connection with amendment of the budget in the spring or autumn of 2009.

The Ministry of Trade and Industry

h e r e b y r e c o m m e n d s :

That Your Majesty approves and signs a submitted draft Proposition to the Storting regarding State loans to Eksportfinans ASA.

We, **HARALD**, King of Norway,

h e r e b y c o n f i r m :

The Storting is requested to adopt a resolution on State loans to Eksportfinans in conformity with an enclosed proposal.

Proposal

for resolution on State loans to Eksportfinans ASA

I

The following changes shall be made in the fiscal budget for 2009:

Expenses:

Chapter	Item	Purpose	NOK
2428	(new) 90	Eksportfinans ASA Loan, in the sum of	30,000,000,000

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