

# EKSPORTKREDITT

Export Credit Norway

QUARTERLY REPORT  
Q3 2016



# MAJOR CHANGES IN THE NORWEGIAN EXPORT MARKET FOR CAPITAL GOODS

Export Credit Norway's lending balance totalled NOK 72.8 billion at the end of Q3 2016, with the company disbursing NOK 2.2 billion in new loans during the quarter. Whereas the company registered record application volumes in the second quarter of the year, levels have now stabilised and are on a par with previous quarters. Reduced oil prices and investment levels in the offshore sector are reorienting applications in the ship financing segment towards different passenger vessels, fishing boats, wellboats and service ships for offshore wind farms.

## DEVELOPMENTS IN THE LENDING PORTFOLIO

Export Credit Norway's lending portfolio totalled NOK 72.8 billion as at 30 September 2016. Exchange rate movements, particularly against the US dollar, reduced the lending balance by NOK 2 billion in Q3 2016, compared to Q2<sup>1</sup>. Market loans accounted for 37% (Q3 2015: 42%) of the lending balance at quarter-end, while fixed rate (CIRR<sup>2</sup>) loans accounted for 63% (Q3 2015: 58%). The company disbursed NOK 2.2 billion in new loans in Q3 2016 – 10% in the form of market loans and 90% in the form of CIRR loans. Maritime industries and oil and gas equipment continue to dominate the company's loan disbursements. A total of NOK 7.6 billion has been disbursed thus far in 2016.

Repayments in Q3 2016 amounted to NOK 2.2 billion, while early loan redemptions totalled NOK 1.5 billion. Export Credit Norway received NOK 398 million in interest income from its lending activities during the quarter.<sup>3</sup>

## DEVELOPMENTS IN THE APPLICATION VOLUME AND ORDER BOOK

In the third quarter, Export Credit Norway received 48 loan applications representing a total application volume of NOK 24.4 billion. Although the total number of applications is somewhat lower than in the previous quarter, the application volume has increased compared to the corresponding period last year (Q3 2015: 62 applications/application volume of NOK 19.6 billion).

Of the total number of applications received in Q3 2016, 56% (Q3 2015: 48%) related to projects in the oil and gas and maritime industries, while the remaining 44% (Q3 2015: 52%) concerned financing for projects in the industry and

environmental technology sector.

Application numbers and applied-for loan amounts were somewhat lower in the third quarter than in earlier quarters of 2016. Despite a decline from the exceptionally high volume in Q2 2016, the application volume for the oil and gas production equipment sector remains strong. Although individual applications involve large sums, the current market situation means that the related projects are generally given low completion probabilities.

Export Credit Norway calculates a probability-adjusted order book – the company's best estimate of future loan disbursements linked to the loan applications it has received. As at 30 September 2016, the probability-adjusted order book totalled NOK 19.1 billion. The non-probability-adjusted order book totalled NOK 59.7 billion as at the same date. At the end of Q3 2016, the probability-adjusted order book was distributed as follows: maritime industries (ships and ship equipment): 64%; oil and gas: 28%; industry and environmental technology: 8%.

## GUARANTEE ARRANGEMENTS AND INSTALMENT DEFERMENTS

As at quarter-end, 73% of the company's lending portfolio was guaranteed by GIEK. The remaining 27% of the portfolio was guaranteed by Norwegian banks (14%) and foreign banks (13%). The largest individual guarantor among the Norwegian banks had a portfolio share of 7%, while the corresponding figure for the largest foreign guarantor was 2%. As at 30 September 2016, the lowest rating class in the company's guarantor portfolio was BBB.

Export Credit Norway is processing a large number of enquiries regarding

instalment deferment and loan restructuring, primarily occasioned by the challenging market conditions faced by many borrowers following the decline in oil prices. While some restructurings have been agreed in the first half of the year, further large-scale loan restructurings are expected to follow.

## FUTURE OUTLOOK

The market for Norwegian exports of capital goods is undergoing major change. Reduced oil prices and investment levels in the offshore sector have altered the market for the supplier industry. Shipyards are shifting focus away from the offshore sector onto different passenger vessels, marine vessels, fishing boats, wellboats, service ships for offshore wind farms, etc. The export credit scheme is a highly relevant tool for the yards in this reorientation. Exporters are giving broader consideration to maritime opportunities in segments such as shipping, energy, mining and seafood. Other capital exports from Norway account for smaller volumes, and are spread across a range of industries. The depreciation of the Norwegian krone against the US dollar and Euro in recent quarters has improved the competitiveness of Norwegian exporters in general, although the krone has strengthened somewhat in the autumn of 2016.

During this restructuring phase, disbursements are expected to be lower than in earlier years. Nonetheless, application volumes remain high, and the number of more complicated transactions is increasing. This is particularly true of financing for projects and companies in developing countries and emerging economies, and projects involving new export customers. The table below illustrates this trend. The proportion of applications from non-OECD countries has increased from 29% to 38% since 2014.

<sup>1</sup> The Norwegian krone appreciated against the US dollar from Q2 2016 to the end of Q3 2016.

<sup>2</sup> CIRR (Commercial Interest Reference Rate) loans are made in accordance with the OECD agreement on officially supported export credits. The interest rate is based on the rate on government bonds in a given currency, and is set by the OECD on the 15th of each month. CIRR loans may be made in all OECD currencies. Repayment periods vary from two to 12 years. Loans made for certain defined purposes may have repayment periods of up to 18 years.

<sup>3</sup> Interest income is stated at the actual exchange rate.

	2014		2015		Q3 2016	
	Number	Percent	Number	Percent	Number	Percent
New loan applications from non-OECD countries <sup>4</sup>	91	29 %	93	34 %	76	38 %
New loan applications from OECD countries	225	71 %	182	66 %	124	62 %
Applications with a Norwegian borrower (of the total)	95	30 %	77	28 %	42	21 %
Total number of loan applications <sup>5</sup>	316	100 %	275	100 %	199	100 %

service model, new customer and marketing plans and a new digital communications strategy. Export Credit Norway will continue to work closely with Innovation Norway, GIEK and GIEK Kredittforsikring to optimise products for businesses undergoing restructuring and businesses facing difficult market conditions.

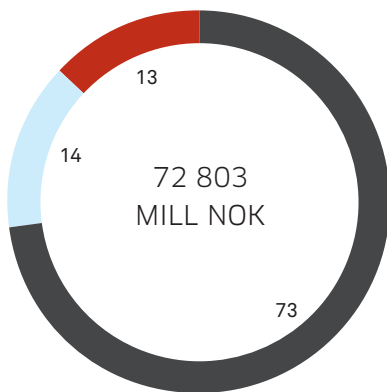
Long-term export financing from Export Credit Norway will be relevant for businesses that export capital goods and services to end customers.

The company is taking various steps to strengthen its market analysis, customer advice and sales and marketing expertise and capacity. In 2016, these include developing and implementing a new customer

#### MANAGEMENT AND OPERATIONS

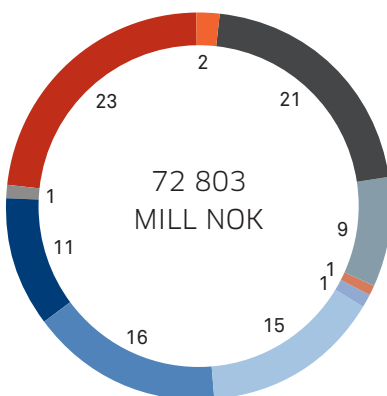
In the third quarter of 2016, Export Credit Norway's administrative costs equalled 0.03% of the lending balance. This figure is on a par with preceding quarters.

LENDING PORTFOLIO GUARANTORS (PERCENTAGES)



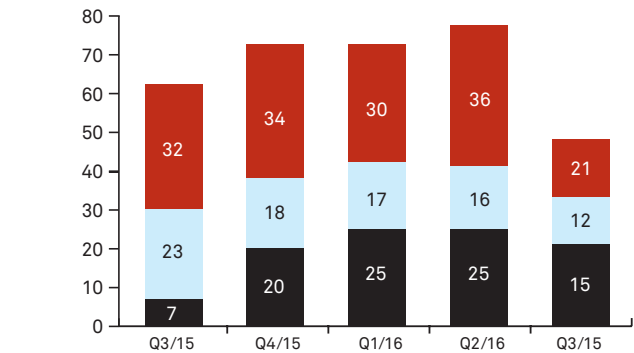
- GIEK
- Norwegian banks
- Foreign banks

LENDING PORTFOLIO BY SEGMENT (PERCENTAGES)



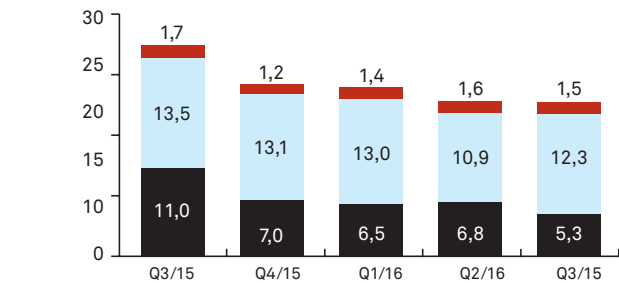
- Industry and environmental technology
- Equipment for drilling ships
- Equipment for semi-submersible platforms
- Jack-up equipment
- Other oil and gas equipment
- Other types of ships and equipment
- Platform supply vessels (PSVs) and equipment
- Anchor-handling tug supply (AHTS) vessels and equipment
- Ferries, fishing boats and equipment
- Construction ships and equipment

NUMBER OF APPLICATIONS BY SECTOR AND QUARTER



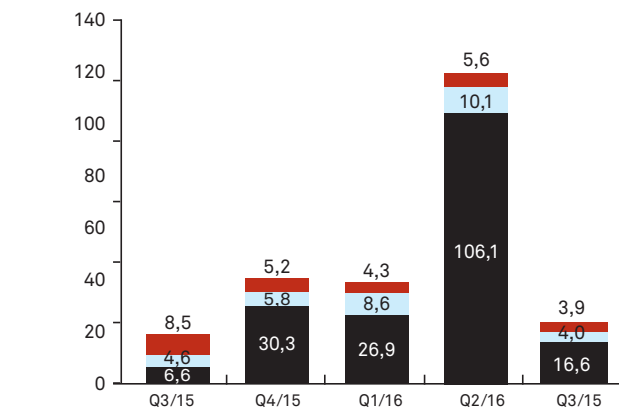
- Oil and gas equipment
- Ships and ship equipment
- Industry and environmental technology

DEVELOPMENT OF THE PROBABILITY-ADJUSTED ORDER BOOK (NOK BILLION)



- Oil and gas equipment
- Ships and ship equipment
- Industry and environmental technology

DEVELOPMENT OF THE APPLICATION VOLUME (NOK BILLION)<sup>4</sup>



- Oil and gas equipment
- Ships and ship equipment
- Industry and environmental technology

<sup>4</sup> Export Credit Norway experienced a significant increase in application volume in the second quarter of 2016. The increase is mainly due to a small number of applications with large volumes.

# KEY FIGURES FOR THE LENDING PORTFOLIO AS AT 30 SEPTEMBER 2016

(ALL AMOUNTS IN NOK MILLION)

## QUARTERLY LENDING BALANCE BY CURRENCY AND LOAN TYPE

Currency <sup>6</sup>	Balance 30 Sept. 2015	Balance 31 Dec. 2015	Balance 31 March 2016	Balance 30 June 2016	Balance 30 Sept. 2016
<b>CIRR LOANS</b>					
NOK	17 252	16 784	16 564	16 200	16 034
GBP	415	416	361	337	308
EUR	612	616	629	614	782
USD	25 125	26 997	27 739	28 663	28 749
SEK					34
<b>Total</b>	<b>43 404</b>	<b>44 812</b>	<b>45 293</b>	<b>45 814</b>	<b>45 906</b>
<b>MARKET LOANS</b>					
NOK	7 653	7 452	7 450	7 647	7 713
GBP	256	313	273	256	227
EUR	652	658	589	582	554
USD	22 678	23 264	20 962	21 128	18 403
<b>Total</b>	<b>31 240</b>	<b>31 686</b>	<b>29 274</b>	<b>29 613</b>	<b>26 897</b>
<b>TOTAL</b>					
NOK	24 905	24 235	24 014	23 848	23 747
GBP	671	729	633	593	534
EUR	1 265	1 273	1 217	1 196	1 336
USD	47 803	50 261	48 702	49 791	47 153
SEK					34
<b>Total</b>	<b>74 644</b>	<b>76 499</b>	<b>74 567</b>	<b>75 428</b>	<b>72 803</b>

## LENDING PORTFOLIO BY SECTOR

	(NOK million)	Share
Oil and gas equipment	22 950	31,5 %
Ship equipment	3 361	4,6 %
Ships	45 027	61,8 %
Environment technology	1 042	1,4 %
Industry	423	0,6 %
<b>Total</b>	<b>72 803</b>	<b>100 %</b>

## COSTS (PERCENTAGE OF TOTAL LENDING PORTFOLIO, SHARE OF LOANS DISBURSED DURING THE PERIOD)

(All amounts in NOK million)	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Lending balance at end of period	74 644	76 499	74 567	75 428	72 803
Costs during the period	23,6	30,1	24,7	21,3	25,1
<b>Administrative costs as a percentage of the lending balance<sup>7</sup></b>	<b>0,03 %</b>	<b>0,04 %</b>	<b>0,03 %</b>	<b>0,03 %</b>	<b>0,03 %</b>

<sup>6</sup> The amounts have been converted into NOK based on Norges Bank's mid-rate on the last banking day of the month.

<sup>7</sup> Balance at quarter-end.

Totals in tables and figures may vary due to rounding.