

EKSPORTKREDITT

Export Credit Norway

QUARTERLY REPORT
Q3 2017



RESTRUCTURING REFLECTED IN THE PORTFOLIO – HIGH MARKET ACTIVITY

Export Credit Norway's lending balance totalled NOK 69.2 billion at the end of Q3 2017. The company disbursed NOK 97.6 million in new loans during the third quarter. Among other things, Export Credit Norway provided export financing for innovative assistance products for disabled children, mobile telephony power supply solutions and a production line for ready-to-use emergency food.

DEVELOPMENTS IN THE LENDING PORTFOLIO

Export Credit Norway's lending portfolio totalled NOK 69.2 billion as at 30 September 2017. Exchange rate movements reduced the lending balance by NOK 2.4 billion from Q2 to Q3 2017¹. Market loans accounted for 38% (Q3 2016: 37%) of the lending balance at quarter-end, while fixed rate (CIRR²) loans accounted for 62% (Q3 2016: 63%). Of the company's disbursements during the quarter, 71% took the form of market loans, and 29% the form of CIRR loans.

Repayments in Q3 2017 amounted to NOK 1.4 billion, while early loan redemptions totalled NOK 127 million. Export Credit Norway received NOK 396 million in interest income from its lending activities during the quarter³.

The low new-loan disbursement volume recorded in the third quarter is linked to ongoing restructuring of the Norwegian industrial sector, and is in line with the company's market growth expectations as communicated in previous quarters. However, several large loan agreements signed thus far in 2017 are scheduled for disbursement in the years ahead. The agreements currently total NOK 7,5 billion, and are evenly distributed between the maritime and onshore sectors.

DEVELOPMENTS IN THE APPLICATION VOLUME AND ORDER BOOK

In the third quarter, Export Credit Norway received 45 loan applications

representing a total application volume of NOK 22.3 billion. The number of applications and application volume are slightly lower than in the third quarter of last year (Q3 2016: 48 applications/NOK 24.4 billion).

Of the total number of applications received by Export Credit Norway in Q3 2017, 49% (Q3 2016: 56%) related to projects in the oil and gas and maritime industries, while the remaining 51% (Q3 2016: 44%) concerned financing for projects in the industry and environmental technology sector.

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 2017, the probability-adjusted order book totalled NOK 14.8 billion, compared to NOK 19.1 billion as at the same date in 2016. At the end of Q3 2017, the probability-adjusted order book was distributed as follows: maritime industries (ships and ship equipment): 66%; oil and gas: 21%; industry and environmental technology: 13%.

Maritime industry exporters have reoriented their operations significantly in the past two years, and Export Credit Norway is monitoring their efforts to target new market segments closely. The third quarter of the year saw continued demand for new-builds from the fisheries and aquaculture segments, as well as for smaller cruise and passenger vessels and new wellboats for use in aquaculture.

GUARANTEE ARRANGEMENTS AND INSTALMENT DEFERMENTS

As at quarter-end, 72.8% of the company's lending portfolio was guaranteed by GIEK. The remaining 27.2% of the portfolio was guaranteed by Norwegian banks (13.8%) and foreign banks (13.4%). This distribution has remained relatively constant in recent years. The largest individual guarantor among the Norwegian banks had a portfolio share of 8.4%, while the corresponding figure for the largest foreign guarantor was 2.6%. As at 30 September 2017, the lowest rating class in the company's guarantor portfolio was BBB.

Export Credit Norway is still processing instalment deferments and loan restructurings, primarily occasioned by the challenging market conditions faced by many borrowers following the decline in oil prices. While some companies have completed restructurings in 2016 and 2017, further restructurings are expected, particularly in the rig sector. It may also be necessary to refinance and restructure previously adjusted loans to certain borrowers, as the economic downturn has proven to be more prolonged than initially expected.

FUTURE OUTLOOK

In its draft Fiscal Budget for 2018, the Government has proposed a new loan and guarantee scheme for the purchase of ships built in Norway for Norwegian shipping companies and intended for use in Norwegian waters. Financing will be provided for vessels such as fishing boats,

¹ The Norwegian krone appreciated against the US dollar from the end of Q2 2017 to the end of Q3 2017.

² 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.

³ Interest income is stated at the actual exchange rate.

ferries, wellboats and express boats. If approved by the Storting (the Norwegian parliament), the new scheme will be administered by Export Credit Norway and GIEK, and become operational in the first half of 2018. The scheme is to run for an initial period of three years, with a guarantee cap of NOK 10 billion. Export Credit Norway will be authorised to loans on market terms.

Norwegian shipyards have already shifted focus from oil and gas onto new market segments. If the new loan and guarantee scheme receives parliamentary approval, it is likely to give a solid boost to Norwegian shipping companies, Norwegian yards and their sub-contractors. It should help to even out capacity utilisation at yards and ensure continuity in terms of innovation, staffing levels and expertise. This in turn will improve the competitiveness of Norway's shipyards and maritime cluster, and lay a foundation for the realisation of further export opportunities. Export Credit Norway expects to devote considerable resources to the administration of the scheme going forward.

Earlier this year, Export Credit Norway's mandate was expanded to include financing for offshore fish farms. This constitutes a further important boost for the Norwegian export industry. Norway is a leader in the development of new fish farming technologies, and it is important to protect this position. For the supply chains it is important that the technology development takes place in Norway. This ensures both technology and expertise to be transferred between industries (cluster effect), and facilitates the potential for new export. Export Credit Norway will continue to monitor this segment closely.

The government's strategy for export and internationalisation, launched on 4 September of this year, permits Export Credit Norway to use guarantors with lower long-term credit ratings, for an initial period of three years and subject to a defined guarantee cap. Under the scheme, the minimum rating requirement will be reduced from BBB to BB. The change, which will take effect following amendment of the Export Credit Regulations, will allow the com-

pany to work with a wider range of bank guarantors on transactions involving emerging economies and developing countries.

Export Credit Norway has noted a stable inflow of applications from the industry and environmental technology sector, as well as an increase in transactions involving "new" industries such as pharmaceuticals, water supply, telecoms and health services.

The majority of exporters are small and medium-sized businesses (SMEs). Export sales support is a major need in this segment, and Export Credit Norway is giving priority to adapting and marketing its financial solutions to this segment.

MANAGEMENT AND OPERATIONS

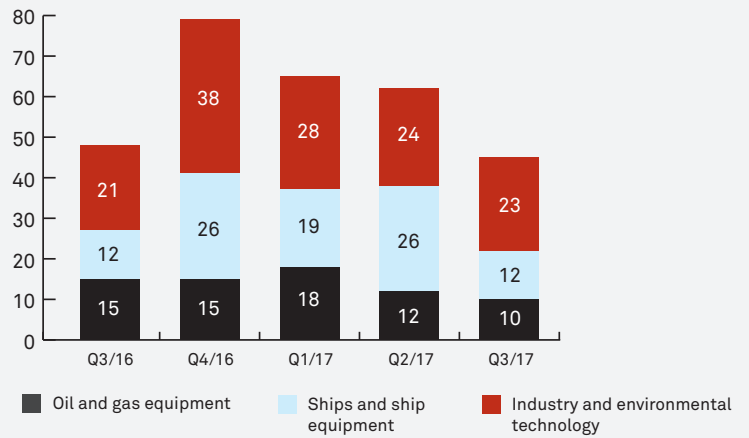
In the third quarter of 2017, Export Credit Norway's administrative costs totalled NOK 25.7 million, equal to 0.04% of the lending balance. These figures are on a par with preceding quarters.

LENDING PORTFOLIO GUARANTORS (PERCENTAGES)

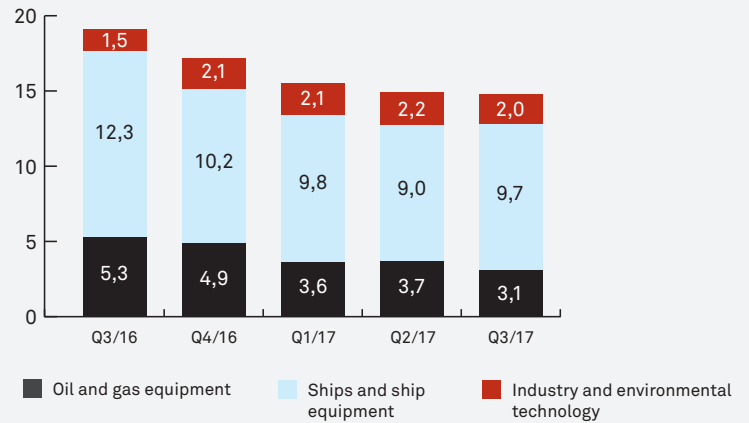


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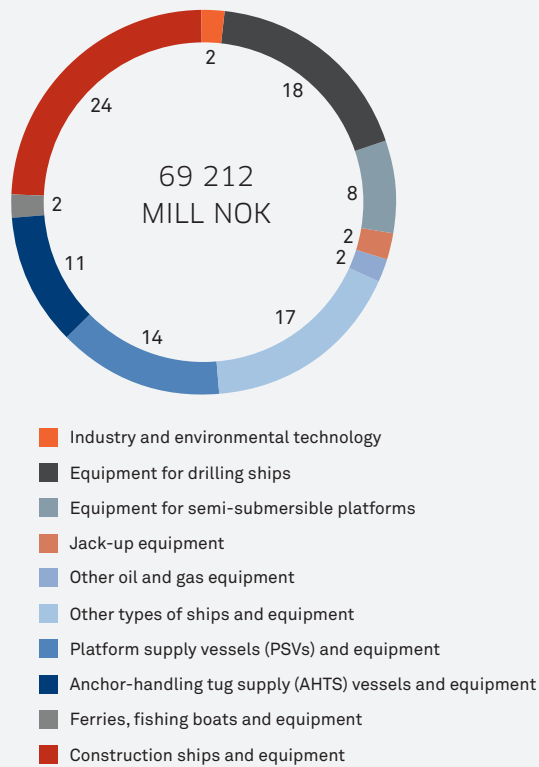
NUMBER OF LOAN APPLICATIONS BY SECTOR AND QUARTER



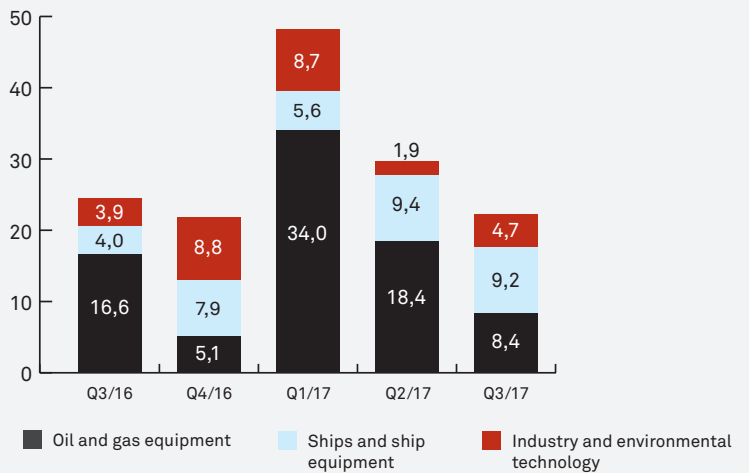
DEVELOPMENT OF THE PROBABILITY-ADJUSTED ORDER BOOK (NOK BILLION)



LENDING PORTFOLIO BY SEGMENT (PERCENTAGES)



DEVELOPMENT OF THE APPLICATION VOLUME (NOK BILLION)



Totals in tables and figures may vary due to rounding.

KEY FIGURES FOR THE LENDING PORTFOLIO AS AT 30 SEPTEMBER 2017

QUARTERLY LENDING BALANCE BY CURRENCY AND LOAN TYPE

(All figures in NOK million)

Currency ⁴	Balance 30 Sept. 2016	Balance 31 Dec. 2016	Balance 31 March 2017	Balance 30 June 2017	Balance 30 Sept 2017
CIRR LOANS					
CAD				440	436
NOK	16,034	15,369	14,955	14,625	14,408
GBP	308	309	258	271	264
JPY			94	92	84
EUR	782	1,028	1,090	1,105	1,072
USD	28,749	30,004	30,420	28,790	26,818
SEK	34	39	45	46	43
Total	45,907	46,749	46,862	45,369	43,124
MARKET LOANS					
CAD					142
NOK	7,713	7,645	7,704	7,454	7,289
GBP	227	229	231	199	184
EUR	554	560	548	632	604
USD	18,403	21,322	20,465	19,421	17,869
Total	26,897	29,756	28,948	27,706	26,088
TOTAL					
CAD				440	577
NOK	23,747	23,014	22,659	22,079	21,698
GBP	535	538	489	470	448
JPY			94	92	84
EUR	1,336	1,588	1,638	1,737	1,675
USD	47,152	51,326	50,885	48,211	44,687
SEK	34	39	45	46	43
Total	72,803	76,505	75,811	73,075	69,212

LENDING PORTFOLIO BY SECTOR

	(NOK million)	Share
Oil and gas equipment	20,753	30.0%
Ship equipment	2,516	3.6%
Ships	44,440	64.2%
Environmental technology	1,027	1.5%
Industry	477	0.7%
Total	69,212	100%

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

(All amounts in NOK million)	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Lending balance at end of period	72,803	76,505	75,811	73,075	69,212
Costs during the period	25.1	32.5	27.4	19.8	25.7
Administrative costs as a percentage of the lending balance⁵	0.03%	0.04%	0.04%	0.03%	0.04%

⁴ The amounts have been converted into NOK based on Norges Bank's mid-rate on the last banking day of the month.

⁵ Balance at quarter-end.

Totals in tables and figures may vary due to rounding.