

EKSPORTKREDITT

Export Credit Norway

Report Q2 2018
Export Credit Norway

Q2 2018

Increased application inflow

In the second quarter of the year, Export Credit Norway received 75 financing applications representing a total application volume of NOK 62 billion. The positive trend in application numbers observed in Q1 continued in Q2. During the first half of 2018, the company received 174 applications with a combined volume of NOK 135.6 billion. This represents a substantial increase in the number of applications compared to the same period last year. Although the application inflow was boosted by the recently launched ship financing solution, the company has also registered a general increase in application numbers and value. Some 40% of applications received in Q2 came from small and medium-sized enterprises (SMEs*).

Marketing activity

In Norway, the company's export financing products and services were presented to potential customers at seminars in cities including Sandefjord, Trondheim and Ålesund. Export Credit Norway collaborated with GIEK and the OECD contact point to host a seminar on supply-chain due diligence assessment for Norwegian shipyards and shipping companies. The aim is to promote supply-chain sustainability through skills-building measures.

This year's Export Conference, which was held in April, gathered more than 500 attendees under the heading "Globalisation in reverse?". During the conference, the Oslo-based company Airthings was announced as the winner of the Export Award 2018.

New ship financing solution

The new ship financing solution is now formally in place, allowing Export Credit Norway to provide financing for ships intended for use in Norwegian waters. The application figures to date evidence strong market interest, and special marketing initiatives have been implemented to raise awareness of the new solution among existing and potential customers.

Positive developments

Macroeconomic forecasts predict continued positive growth in the Norwegian economy. Oil prices have risen more than 150% since bottoming out in January 2016, and cost efficiency has been improved throughout the oil and gas sector supply chain. Figures from Statistics Norway evidence positive growth in mainland exports in 2018.

216 Administered loans

41 Different jurisdictions in which Export Credit Norway has project and contractual experience



Q2 2018

Applications, portfolio and probability-adjusted order book

Applications

Export Credit Norway received 75 financing applications in Q2 2018, representing a total application volume of NOK 62.2 billion. The positive trend in application numbers observed in Q1 continued into Q2. In the first half of 2018, the total application inflow was significantly higher than in the same period last year. The increase in both numbers and volume was driven by the new ship financing solution and ongoing restructuring by maritime and offshore-related businesses. The application inflow from other onshore industry also made a positive contribution. The left-hand figure below shows the development of application volume over time.

Total number of applications	Q2 2018	Q2 2017	YTD 2018	2017	2016
Loan applications received (number)	75	62	174	241	278
Value of loan applications (NOK billion)	62.2	29.7	135.6	124.4	209.1

New loan agreements signed

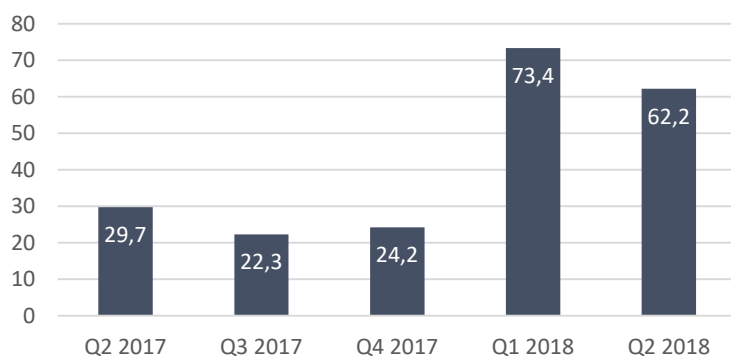
New loan agreements signed in the second quarter totalled NOK 1.4 billion, compared to NOK 3.4 billion in Q2 2017. Most of the new agreements relate to ocean industries.

Signed agreements	Q2 2018	Q2 2017	YTD 2018	2017	2016
Value (NOK billion)	1.4	3.4	2.5	9.8	11.3

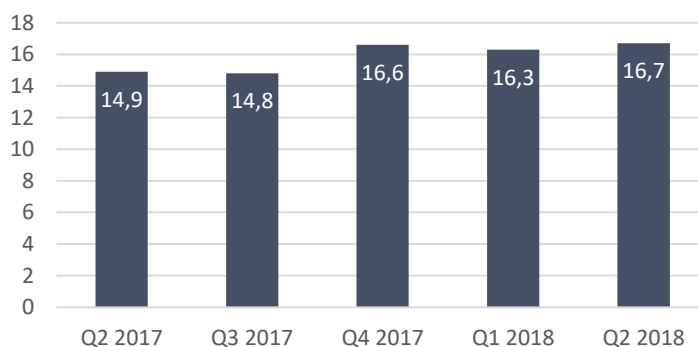
Probability-adjusted order book

Export Credit Norway calculates a best estimate of future loan disbursements based on the loan applications it has received. As at 30 June 2018, the company's probability-adjusted order book totalled NOK 16.7 billion, split between ocean industries (96%) and industry and renewable energy (4%). Further segment information is provided in the remainder of the report.

Application volume by quarter (NOK billion)



Probability-adjusted order book by quarter (NOK billion)

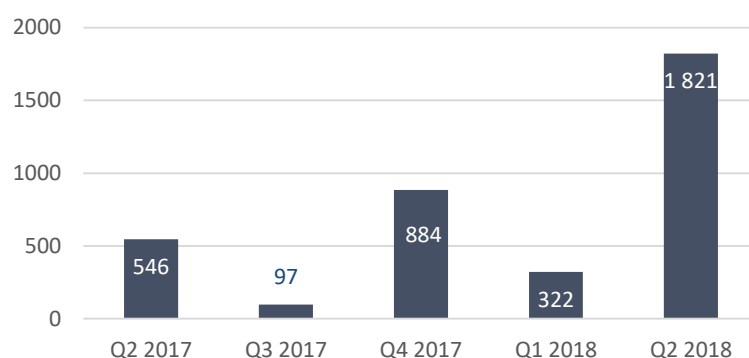


Q2 2018

New disbursements

In the second quarter, Export Credit Norway disbursed NOK 1.8 billion in new loans, compared to NOK 546 million in Q2 2017. Some 80% of disbursements in the second quarter went to ocean industry projects, including ship financings, oil and gas equipment and aquaculture facilities.

Disbursements over time (NOK million)



Lending balance

The lending balance amounted to NOK 68.1 billion as at 30 June 2018, compared to NOK 73.1 billion at the end of the corresponding period last year. The industry distribution of the lending balance, which has remained relatively stable over time, was as follows at the end of Q2: industry and renewable energy: 3%; ocean industries: 97%.

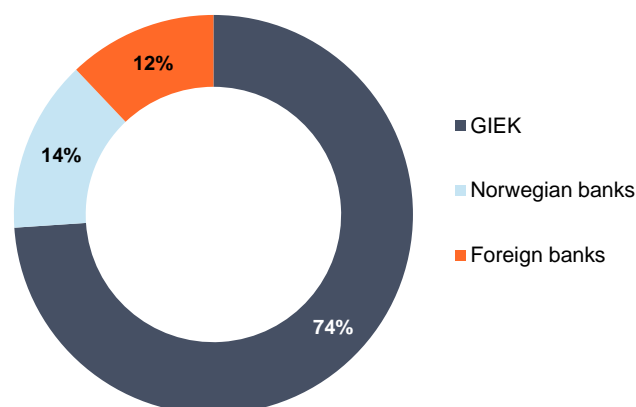
Lending balance by quarter (NOK billion)



Guarantors

As at 30 June 2018, 74% of Export Credit Norway's lending portfolio was guaranteed by GIEK. The remaining 26% of the portfolio was guaranteed by Norwegian banks (14%) and foreign banks (12%).

Guarantors as at 30 June 2018 (%)



Developments, activities and the portfolio

Ocean industries

The ocean industries portfolio comprises transactions involving *oil and gas equipment, offshore support vessels and ship equipment, passenger vessels, merchant shipping and fisheries and aquaculture.*

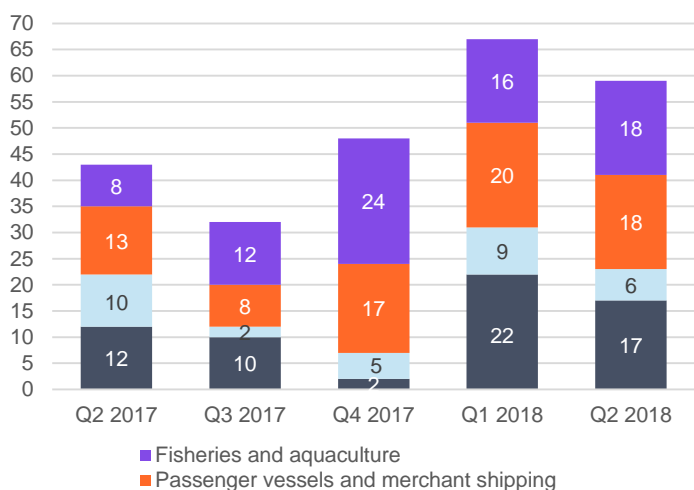
Applications

In the second quarter, Export Credit Norway received 59 applications* – representing a combined application volume of NOK 34 billion – linked to financing for ocean industries. Overall, the inflow of applications linked to ocean industries has been positive in the first half of 2018, in terms of both numbers and volume. The main driver of the increase in numbers compared to the corresponding period last year is an increase in applications related to passenger vessels, merchant shipping and vessels and equipment for fisheries and aquaculture. Application volume, on the other hand, has primarily been driven by applications linked to passenger vessels, merchant shipping and oil and gas equipment.

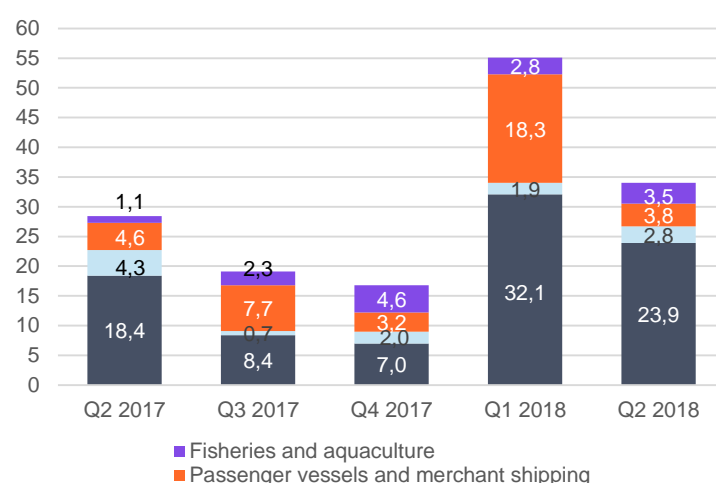
Portfolio

The ocean industries category accounted for 97% of Export Credit Norway's lending portfolio at quarter-end. The diagram on the next page provides a further breakdown of the portfolio by sub-segment. Financing for offshore ships and oil and gas equipment currently dominates the lending volume. NOK 1.46 billion in loans was disbursed to ocean industries in the second quarter. This equates to 80% of the company's second-quarter disbursement volume.

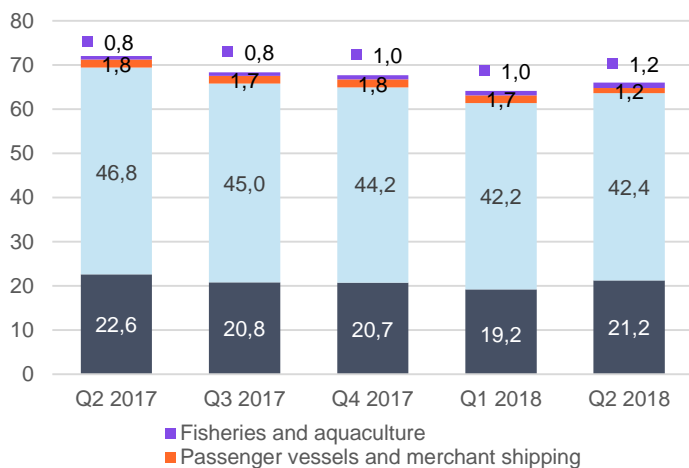
Number of applications by industry and quarter (NOK billion)



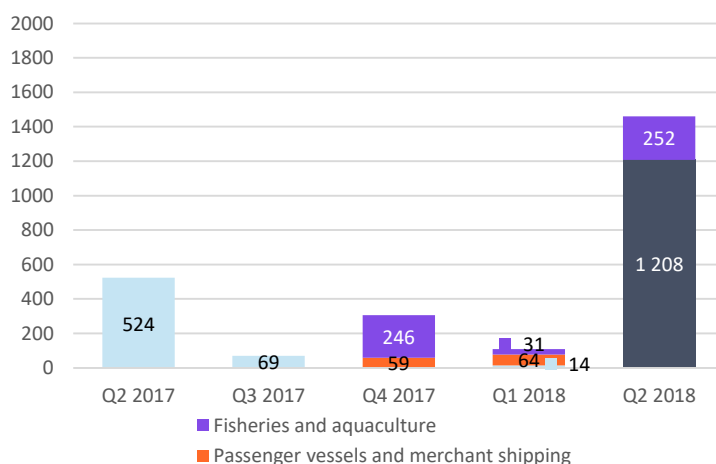
Application volume by industry and quarter (NOK billion)



Lending balance by segment and quarter (NOK billion)



Disbursements by segment and quarter (NOK million)



* Eight of the applications received in Q2 were linked to the new ship financing solution.

Developments, activities and the portfolio

Ocean industries cont.

Market developments

Order inflow Norwegian shipyards

In total, Norwegian shipyards secured 10 contracts valued at NOK 8.1 billion* in the second quarter of 2018. Order inflow continues to vary greatly from yard to yard. The contracts concluded in the second quarter related to vessels including fishing boats, service vessels and cable-laying units. The cruise market has become an important segment for Norwegian yards, which have secured multiple contracts to construct cruise/expedition vessels.

• Equipment for oil and gas

Export Credit Norway has registered high activity levels and several requests concerning equipment deliveries for the oil and gas production sector. In the second quarter, the company was involved in various early-stage discussions concerning Norwegian deliveries for major international field developments. Demand for Export Credit Norway's products has traditionally been linked to drilling unit equipment and production units like FPSOs and FSRUs, but now also includes field development equipment such as subsea installations and different platform/production solutions.

• Offshore support vessels

The market for offshore support vessels remains challenging. Many vessels are currently laid up, and Norwegian shipyards have concluded few new offshore/supply-related contracts since June 2015.

• Passenger vessels and merchant shipping

New official requirements relating to cleaning equipment ("scrubbers") and ballast water treatment are providing opportunities for Norwegian exporters of related equipment, and Export Credit Norway is supporting these equipment suppliers with various marketing initiatives. In the passenger vessel and merchant shipping market, Norwegian shipyards are reporting increased demand for smaller cruise ships and passenger vessels. Export Credit Norway's order book for ocean industries is currently dominated by smaller cruise ships, which accounted for approximately 40% of the order book volume as at 30 June 2018.

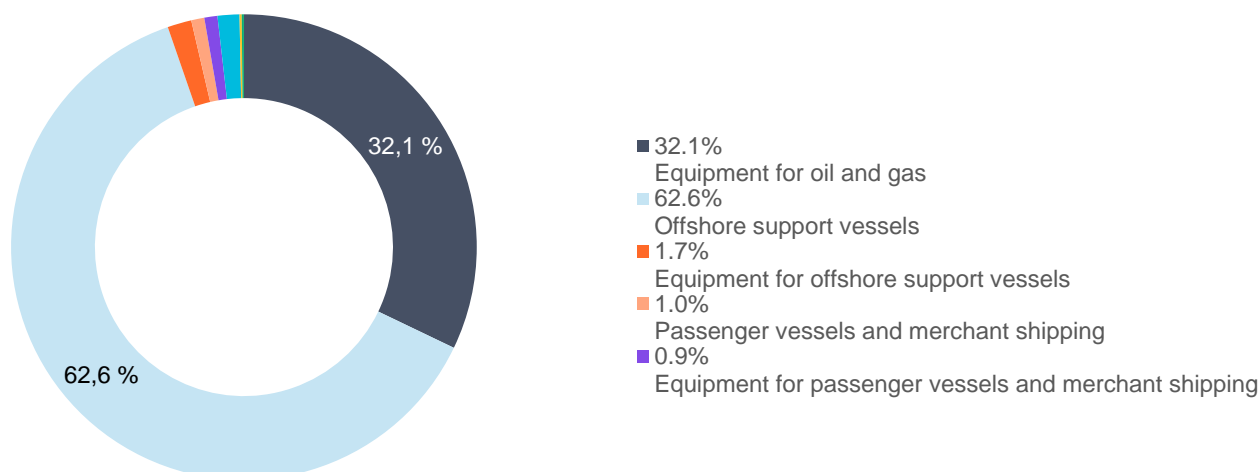
• Fisheries and aquaculture

Export Credit Norway has observed relatively strong activity levels in the fisheries and aquaculture segments, driven particularly by demand for fishing boats and wellboats. Going forward, the company expects to see more Norwegian suppliers achieve growth in this segment.

New ship financing solution now operational

The company's new ship financing solution, which was launched by the government in the autumn of 2017, was formally approved by the King in Council on 22 June. The solution is now fully operational, and enables the company to provide financing to Norwegian shipping companies wishing to purchase vessels built at Norwegian yards, even if the vessels will not be deployed offshore or in foreign trade. By 30 June 2018, the company had received 19 applications valued at more than NOK 6 billion under the new solution. Eight of these applications were received in Q2 2018. The majority of the applications involve financing for wellboats and fishing boats.

Ocean industries lending balance by sub-segment as at 30 June 2018 (%)



* Source: Norwegian shipyards/nssm.no

** <https://www.regjeringen.no/no/dokumenter/horing-eksportkredittlov-og-forskrift/id2578108/>

Developments, activities and the portfolio

Industry and renewable energy

Applications

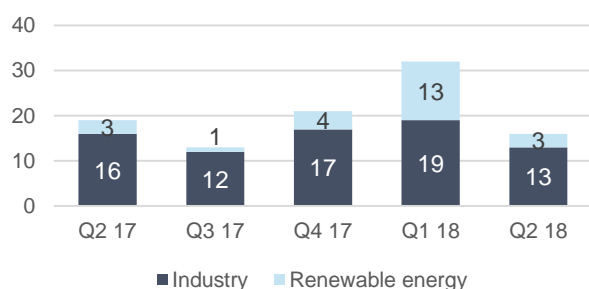
In the second quarter, Export Credit Norway received 16 applications linked to industry and renewable energy, representing a total application volume of NOK 28.2 billion. This total – the highest ever for the industry and renewable energy segment – is due to a number of major individual projects. The subject matter of received applications varies greatly in terms of industry sectors and geography.

Portfolio

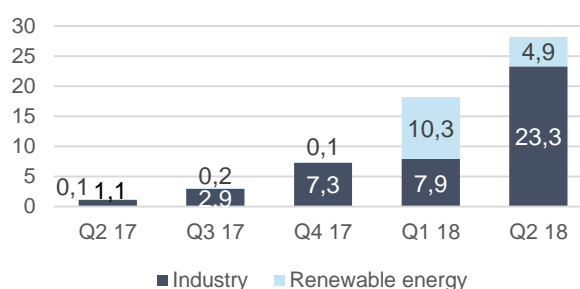
In volume terms, the industry and renewable energy segment accounted for 3% of Export Credit Norway's total lending portfolio at quarter-end. The portfolio is complex and diverse, and unlike the rest of the lending portfolio is dominated by small and medium-sized loans. The diagram at the bottom right of the page provides a further breakdown of the portfolio by sub-segment. Financing for equipment related to offshore wind energy, solar energy, the defence industry and water and sanitation makes up the majority of the lending volume.

In the second quarter of 2018, the company disbursed NOK 362 million in loans related to industry and renewable energy projects. This equates to 20% of the company's total Q2 2018 disbursement volume.

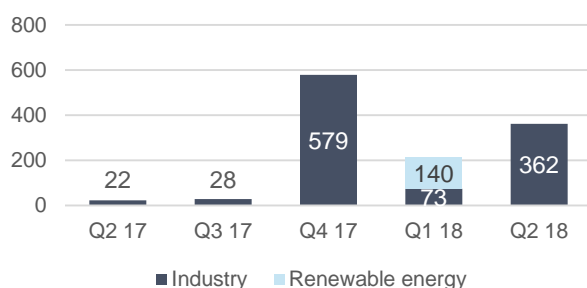
Number of applications by quarter



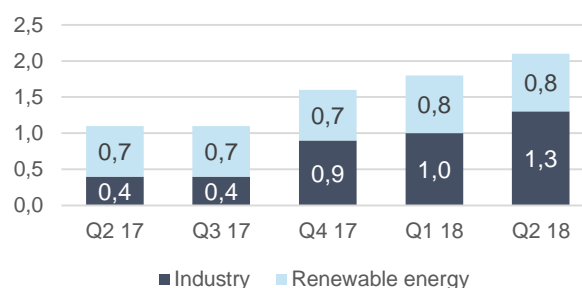
Application volume by quarter (NOK billion)



Disbursements by quarter (NOK million)



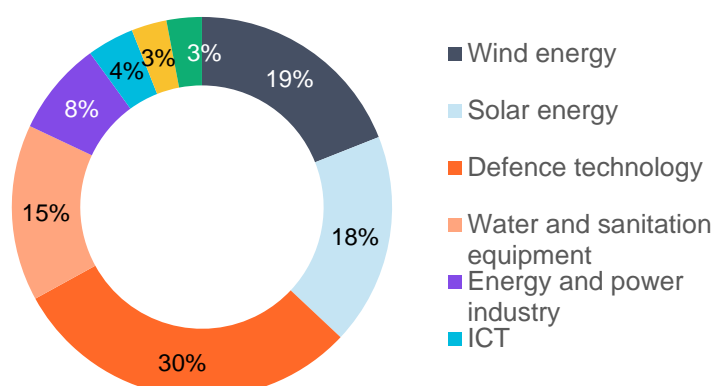
Lending balance by quarter (NOK billion)



Market developments

Mainland industry segments have generally achieved moderate export growth, driven not least by an ongoing low krone exchange rate. This trend is expected to continue, with some variation between the various industry segments.

Lending balance by sub-segment as at 30 June 2018 (%)



Small and medium-sized enterprises (SMEs)

40% of applications from SMEs

Most of the exporters who ask Export Credit Norway for sales support in their export-focused customer initiatives are SMEs. More than 99% of all Norwegian businesses and more than 90% of Norwegian exporters are SMEs. Helping these businesses to expand abroad is a high priority in the company's marketing strategy.

Applications

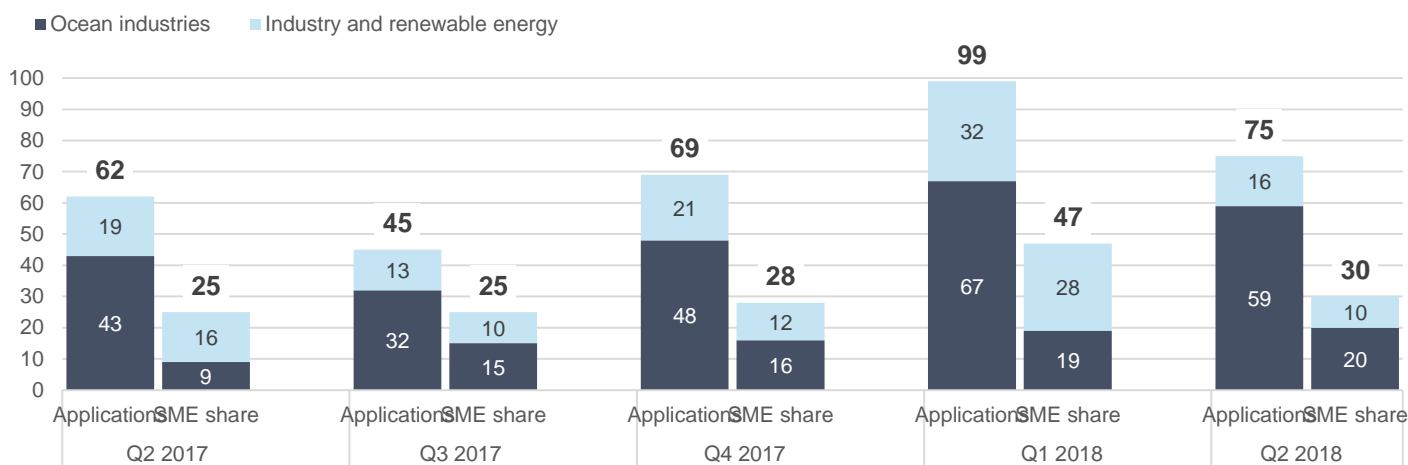
In the second quarter of 2018, some 40% of the 75 financing applications received by the company came from SME exporters. SMEs accounted for 6.1% of the second-quarter application volume.

Portfolio

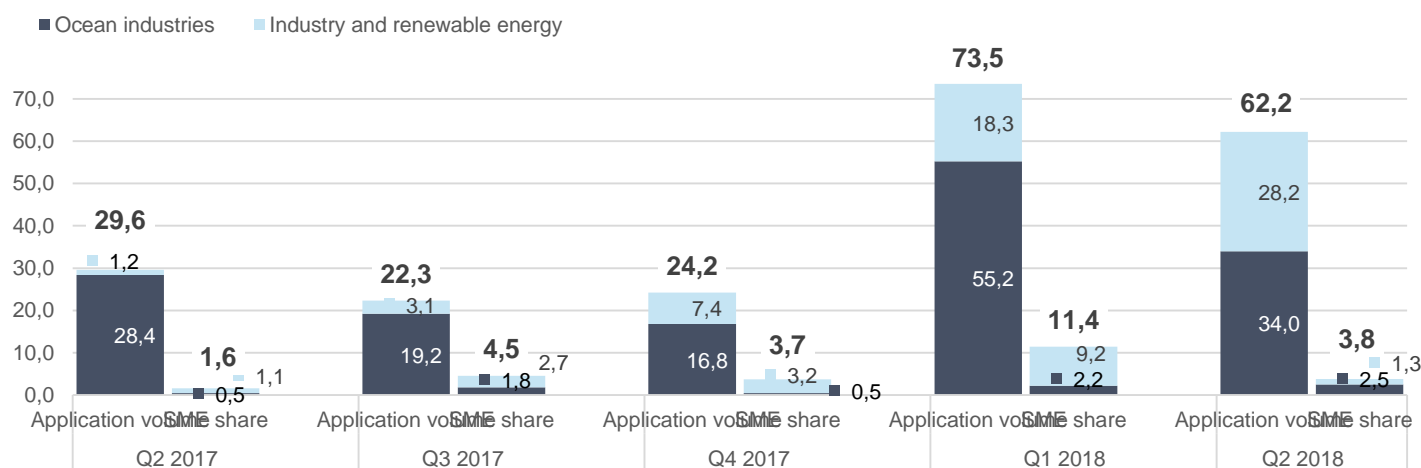
The customer segments in the SME category are fragmented, and developmental trends are less clear. Long-term contractual financing entails long-term financing for the export customer (the purchaser), and only end customers can qualify for long-term financing. In almost all major projects financed by Export Credit Norway, SMEs account for a large proportion of sub-deliveries, and therefore benefit from the export financing arrangement in their capacity as sub-contractors. To reduce transactional complexity for SMEs, Export Credit Norway and GIEK have made considerable investments in simplification and ongoing procedural improvement processes. The current SME portfolio is diverse, and includes suppliers operating in the ICT, maritime and aquaculture industries, as well other equipment suppliers.

SMEs accounted for 2.2% of the total lending portfolio as at 30 June 2018.

SME share (number) of applications by quarter



SME share of application volume by quarter (NOK billion)

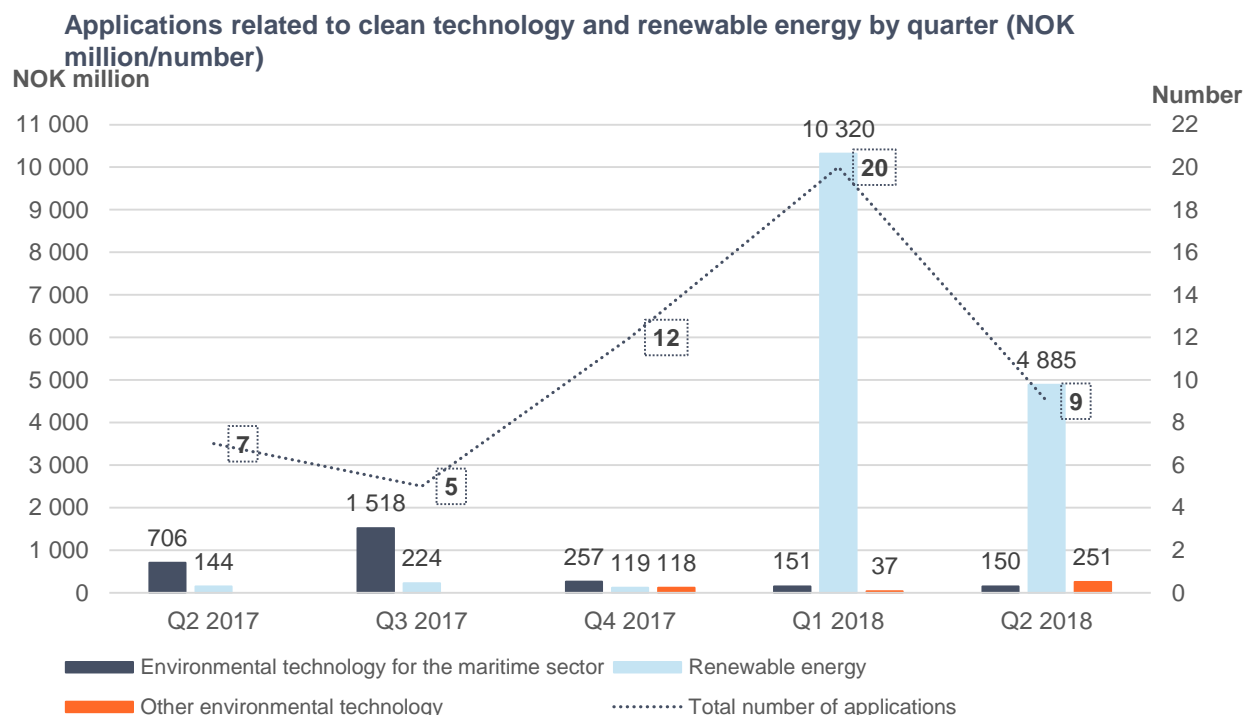


Environmental technology

Strong order inflow in the environmental technology segment

Applications

In the second quarter, Export Credit Norway received 9 financing applications linked to environmental technology and renewable energy, accounting for 8.5% of the total second-quarter application volume. In terms of both application numbers and value, application growth has been higher thus far in 2018 than in 2017. The main driver of the volume increase in 2018 is applications related to hydropower and solar energy projects.



Segment distribution

Environmental technology for the maritime sector

Environmental technology for the oil and gas industry
Environmental technology for offshore support vessels
Environmental technology for passenger vessels and merchant shipping
Environmental technology for fishing boats and wellboats

Renewable energy

Hydropower
Wind energy
Solar energy
Other renewable energy

Exports from Norway

Export destinations

From Norway

According to a survey conducted by Menon*, although Norway's exporters are spread across the entire country, three of Norway's five largest exporting counties are found in western Norway.

Exports from counties on Norway's west coast also make up a significant proportion of Export Credit Norway's portfolio (60% as at 30 June 2018). Møre og Romsdal, Hordaland and Vest-Agder are the three largest exporting counties in the portfolio, accounting for some 87% of the company's portfolio as at the end of Q2 2018.

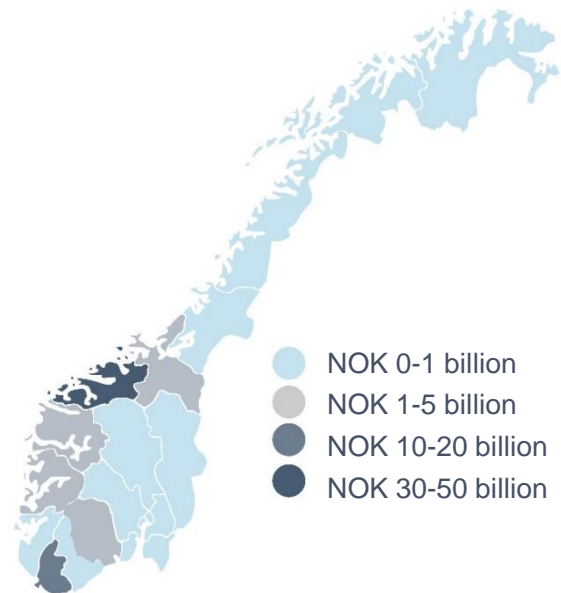
To the world

Although Export Credit Norway's portfolio includes loans linked to projects in numerous countries, the majority of transactions involve exports to Europe.

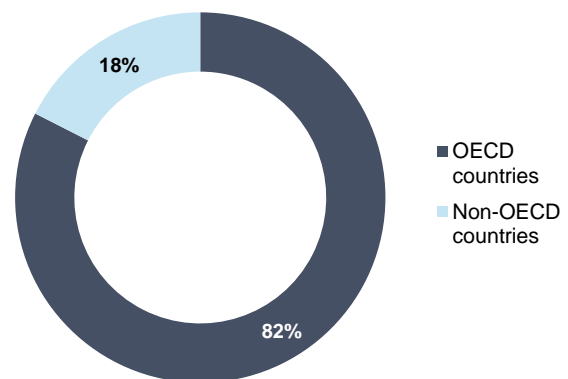
As at 30 June 2018, 82% of the lending balance related to exports to OECD countries, and the remaining 18% to exports to non-OECD countries. This profile has been relatively stable over preceding quarters.

In the SME part of the portfolio, the proportion of non-OECD export destinations is somewhat higher, and increasing, with a higher proportion of disbursements to non-OECD countries in the two previous quarters.

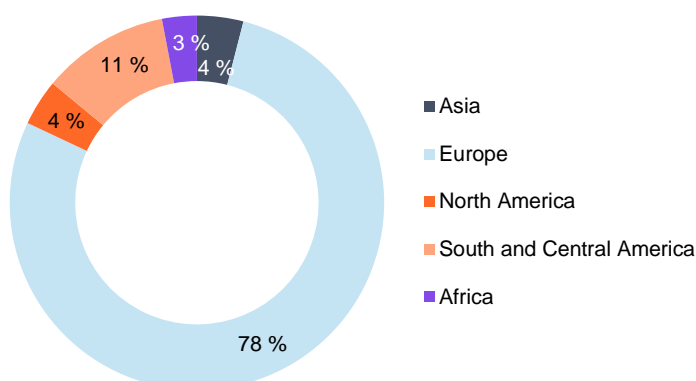
Exports financed by Export Credit Norway by county (NOK)



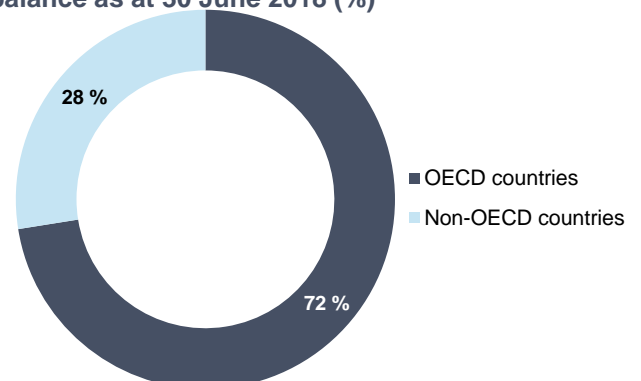
Distribution of project countries in the lending balance as at 30 June 2018 (%)



Exports by region, project countries* as at 30 June 2018 (%)



Distribution of SME project countries in the lending balance as at 30 June 2018 (%)



*Menon publication no. 9/2015: Exports from Norwegian regions

KEY PORTFOLIO FIGURES

	Q2 2018	Q2 2017	YTD 2018	2017	2016
Lending balance* (NOK million)	68,065	73,075	68,065	69,359	76,505
CIRR	42,035	45,477	42,035	43,503	46,749
Market loans	26,030	27,598	26,030	25,856	29,756
Disbursements (new loans, NOK million)	1,821	546	2,143	3,418	10,076
CIRR	588	447	725	2,677	6,138
Market loans	1,233	99	1,418	741	3,938
Probability-adjusted order book (NOK million)	16,740	14,899	16,740	16,674	17,198
Ocean industries	16,139	12,792	16,139	3,214	15,126
Industry and renewable energy	601	2,107	601	1,455	2,072
Gross interest income (NOK million)	471	525	839	1,744	1,711
Instalments (NOK million)	1,549	1,933	2,785	7,174	8,922
Early loan redemptions (NOK million)	55	159	68	1,174	1,981
Administrative costs*	0.03%	0.03%	0.07%	0.15%	0.14%
Applications					
<i>Number (total and by segment)</i>	75	62	174	241	278
Equipment for oil and gas	17	12	39	42	80
Offshore support vessels	6	10	15	27	22
Passenger vessels and merchant shipping	18	13	38	47	40
Fisheries and aquaculture	18	8	34	50	36
Industry and renewable energy	16	19	48	75	100
<i>Volume (total and by segment NOK million)</i>	62,154	29,666	135,562	124,418	209,143
Equipment for oil and gas	23,885	18,365	56,024	67,780	159,951
Offshore support vessels	2,822	4,279	4,728	8,103	4,529
Passenger vessels and merchant shipping	3,824	4,639	22,165	18,204	25,098
Fisheries and aquaculture	3,471	1,146	6,238	10,445	4,740
Industry and renewable energy	28,152	1,237	46,407	19,886	14,825
New contracts (NOK billion)	1.4	3.4	2.5	9.8	11.3
Guarantors (% of portfolio)					
GIEK	74%	73%	74%	73%	74%
Norwegian banks	14%	14%	14%	14%	13%
Foreign banks	12%	13%	12%	13%	12%

* Balance at quarter-end.

Totals in tables and figures may differ due to rounding. All figures in NOK are based on the exchange rate at the close of business at month-end/year-end, subject to two exceptions: interest income is stated according to the actual exchange rate and instalments are stated according to the historical exchange rate.

The industry and segment classification of the company's lending portfolio was revised in Q1 2018. Figures for 2017 and 2018 reflect the new classification, but earlier figures are not directly comparable.

The application volume for 2018 (both in numbers and values) includes the new ship financing solution.

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