

EKSPORTKREDITT
Export Credit Norway

Report Q1 2019
Export Credit Norway



Q1 2019

Increase in disbursements anticipated

In the first quarter of the year, Export Credit Norway received 61 financing applications representing a total application volume of NOK 23.8 billion. Some 46% of the applications received during the quarter came from small and medium-sized enterprises (SMEs)*. Both the number of applications and the application volume are lower than in Q1 2018, in which the application inflow was particularly high. The applications received during the quarter are consistent with the application profile observed in recent years: a diverse application inflow representing a broad range of projects and industries. The company's probability-adjusted order book totalled NOK 20.8 billion at the end of the first quarter of 2019 - an increase of 28% on the same period last year and the highest total in the past three years. This rise has been driven by a robust order inflow throughout 2018. Parts of the probability-adjusted order book are already expected to be disbursed in 2019. In Q1 2019, the company disbursed NOK 1.2 billion in new loans.

Simultaneous optimism and uncertainty

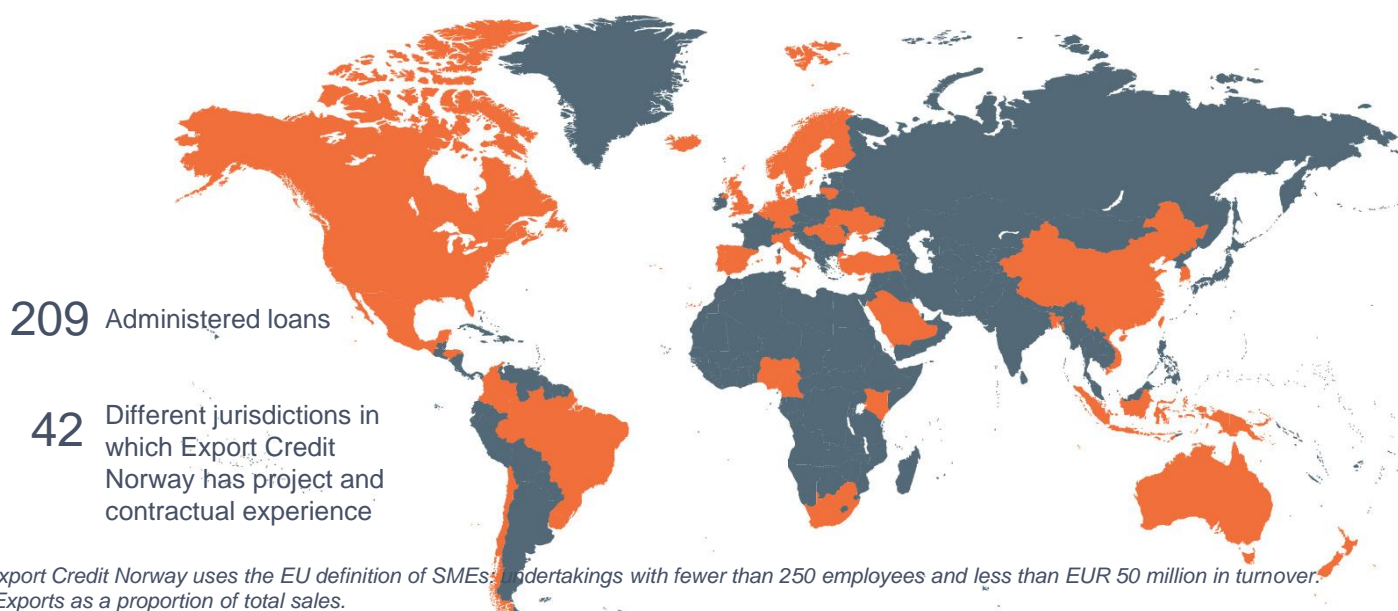
Growth estimates and forecasts for the Norwegian economy are characterised by optimism. However, the geopolitical situation remains the greatest uncertainty factor. Thus far, the company has noted few concrete examples of customers losing contracts due to political turmoil linked to trade conflicts and Brexit, but continues to monitor developments closely.

Norway is losing market share

Many of Norway's industries are export-dependent, and the oil and gas, maritime and offshore supply, processing and aquaculture industries account for more than 80% of Norwegian exports. Other industries have a far lower export ratio**. Norway is currently losing substantial export market share relative to comparable peers, and has experienced the strongest negative development over the past 20 years of all the OECD member states. Export Credit Norway has noted multiple new, national initiatives providing tailored export financing for SMEs. Ongoing restructuring in the Norwegian commercial sector and the need to boost Norwegian exports in the decades ahead both underline the need to reinforce the support provided to Norwegian businesses. Export Credit Norway is therefore very pleased that the Government has launched a comprehensive programme to improve conditions for Norwegian businesses both nationally and internationally.

Marketing activity

In the first quarter, marketing activities were undertaken in connection with a state visit to Chile, an International Working Group meeting in Oslo, the Norwegian Energy Day in Houston and a seminar on hydropower hosted jointly with Norwep (also in Oslo). In March, the company published a report on Norwegian solar energy in cooperation with, among others, the Norwegian Solar Energy Cluster.



* Export Credit Norway uses the EU definition of SMEs: undertakings with fewer than 250 employees and less than EUR 50 million in turnover.

** Exports as a proportion of total sales.

Q1 2019

Applications, portfolio and probability-adjusted order book

Applications

Export Credit Norway received 61 financing applications in Q1 2019, representing a total application volume of NOK 23.8 billion. This represents a decrease in the number of applications and in volume compared to Q1 2018, in which the application inflow was unusually large.

The inflow of new applications received in Q1 2019 was spread across all market segments, but was particularly high in the industry and renewable energy segment. The passenger vessels and merchant shipping segment accounted for the highest application volume in Q1. All segments registered a decline in application numbers and volumes compared to Q1 2018, except the offshore ship segment, for which the company noted an increase in both variables. The company received four applications related to offshore wind energy vessels in the first quarter of the year, representing a substantial increase on previous quarters.

Total number of applications	Q1 2019	Q1 2018	YTD 2019	2018	2017
Loan applications received (number)	61	99	61	304	241
Value of loan applications (NOK billion)	23.8	73.4	23.8	175.6	124.4

New loan agreements signed

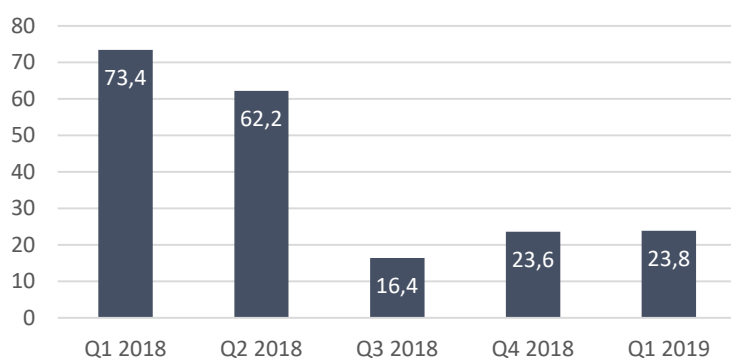
New loan agreements signed in the first quarter totalled NOK 0.9 billion, down from NOK 1.1 billion in Q1 2018.

Signed agreements*	Q1 2019	Q1 2018	YTD 2019	2018	2017
Value (NOK billion)	0.9	1.1	0.9	4.9	9.8

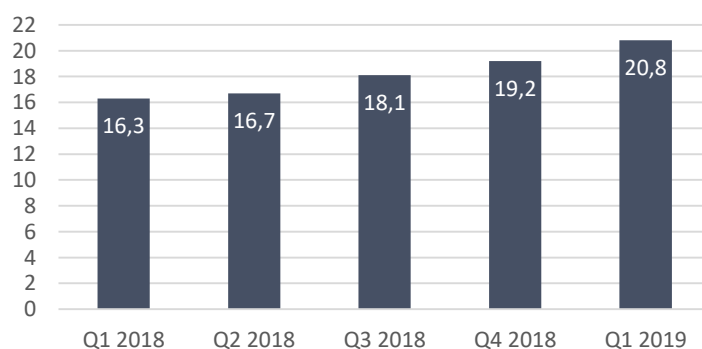
Probability-adjusted order book

Export Credit Norway calculates a best estimate of future loan disbursements based on the loan applications it has received. As at 31 March 2019, the company's probability-adjusted order book totalled NOK 20.8 billion, 28% or NOK 4.5 billion higher than at the end of Q1 2018.

Application volume by quarter (NOK billion)



Probability-adjusted order book by quarter (NOK billion)



* Signed agreements denominated in other currencies have been converted into NOK based on the exchange rate at the close of business at month-end.

Totals in tables and figures may differ due to rounding. This applies throughout the report. The portfolio figures also include applications linked to the new ship financing solution.

Q1 2019

New disbursements

Export Credit Norway disbursed NOK 1,249 million in the first quarter. This represents an increase in the disbursement volume compared to the same period last year, when a total of NOK 322 million was disbursed. The first-quarter disbursements included a loan related to the vessel *Antarctic Endurance*, which has been designed specifically for krill harvesting in the Southern Ocean, around the South Pole. This cutting-edge vessel, which was christened in Ålesund on 18 January, was built by the Vard Brattvaag yard in Haram municipality, Møre og Romsdal county. The company also disbursed loans in the cruise segment in Q1, including part-financing of vessels being constructed for harvesting of Patagonian toothfish in the Antarctic.

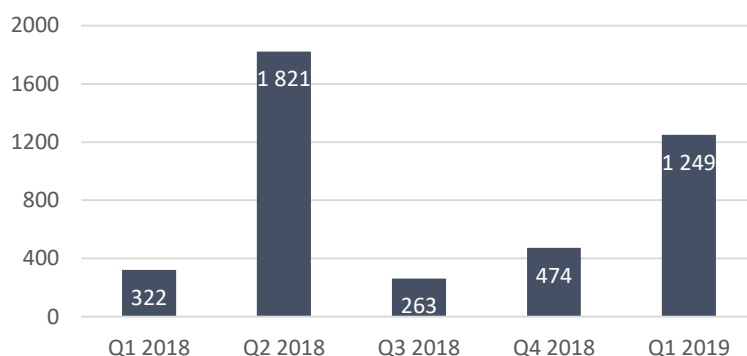
Lending balance

The lending balance amounted to NOK 59.9 billion as at 31 March 2019, compared to NOK 65.9 billion at the end of the corresponding period last year. The decline in the company's lending balance is primarily due to large early loan redemptions in several individual projects during the year. The early loan redemptions are primarily linked to restructurings under which loan guarantors have taken over loan liability. As at quarter-end, 96% of the company's lending balance related to ocean industries, with the remaining 4% relating to industry and renewable energy projects

Guarantors

As at 31 March 2019, 71% of Export Credit Norway's lending portfolio was guaranteed by GIEK. The remainder of the portfolio was guaranteed by Norwegian banks (15%) and foreign banks (14%). In other words, approximately NOK 17 billion is guaranteed by banks. Export Credit Norway has around 25 loans totaling NOK 5 billion which are only guaranteed by banks.

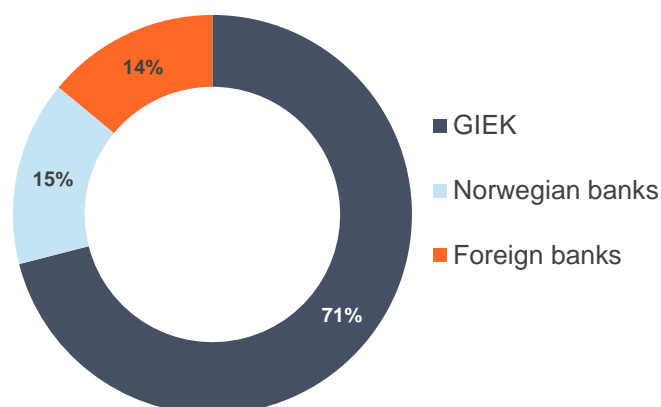
Disbursements over time (NOK million)



Lending balance by quarter (NOK billion)



Guarantors as at 31 March 2019 (%)



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 and merchant shipping, and fisheries and aquaculture.

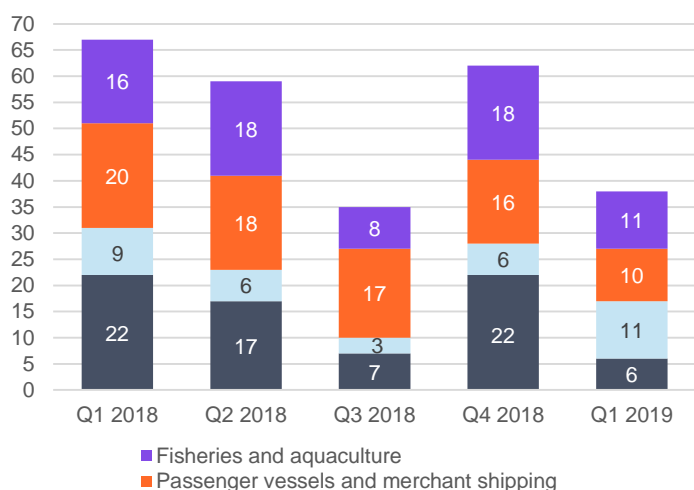
Applications

In the first quarter, Export Credit Norway received 38 applications* – representing a combined application volume of NOK 21.1 billion – linked to financing for ocean industries. The company registered a decrease in application numbers and application volume during the quarter, compared to the same period last year. Q1 2018 was notable for an unusually high application inflow, in terms of both numbers and volume. The Q1 2019 application inflow is approximately on a par with the second half of 2018.

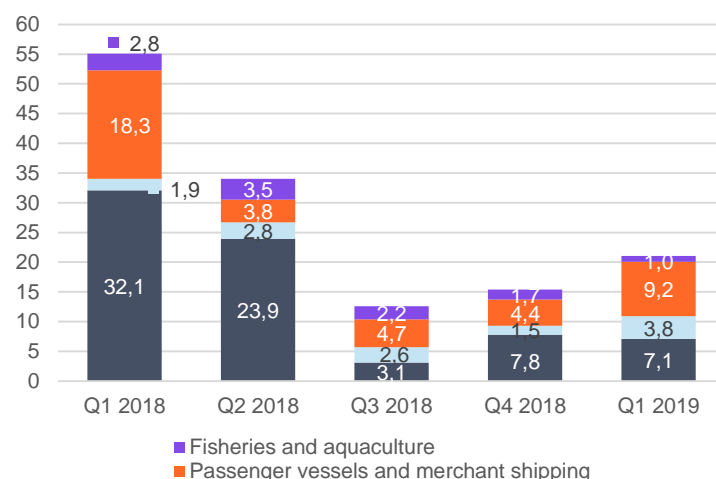
Portfolio

The ocean industries category accounted for 96% 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 dominated the lending volume as at 31 March 2019. Loans totalling NOK 1,200 million were disbursed to ocean industries in the first quarter. This represents a marked increase in the disbursement volume compared to the same period last year. The increase is attributable, not least, to a large disbursement in the fisheries and aquaculture segment linked to the vessel *Antarctic Endurance*.

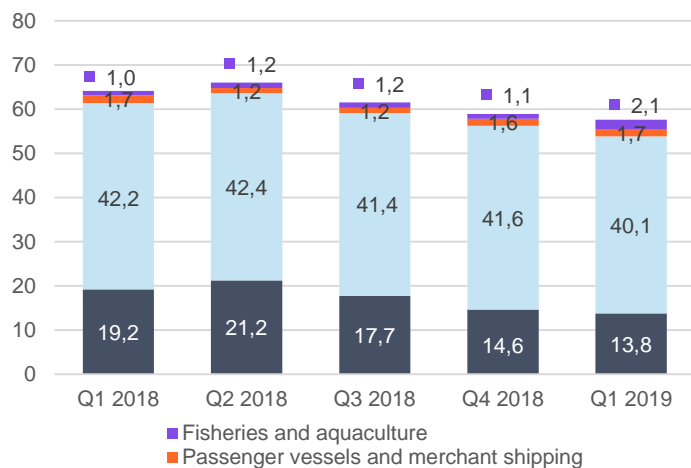
Application numbers by segment and quarter



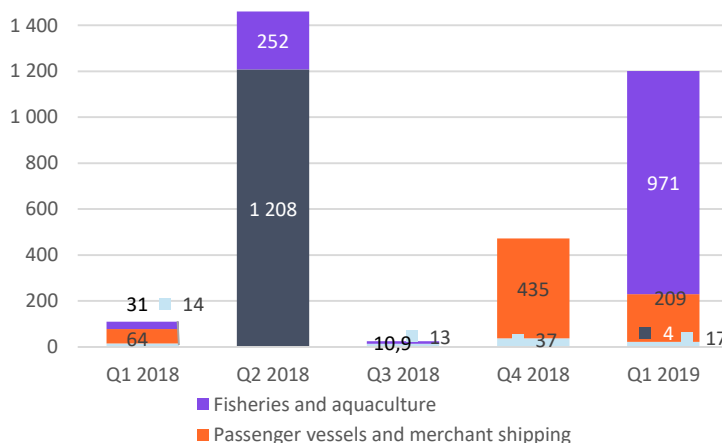
Application volume by segment and quarter (NOK billion)



Lending balance by segment and quarter (NOK billion)



Disbursements by segment and quarter (NOK million)



* One of the applications in the first quarter related 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 five contracts valued at NOK 2.1 billion* in the first quarter of 2019. This represents a drop compared to the order inflow during the corresponding quarters of the years 2016-2018 when, on average, 10 contracts valued at NOK 3.2 billion were concluded. One reason for the reduction is the strong order inflow experienced by several yards in preceding quarters, allowing them to build up an order reserve of approximately two years' work.

• Passenger vessels and merchant shipping

The passenger vessel and merchant shipping segment is dominated by financing for cruise ships, and the company continues to receive new applications relating to these. Export Credit Norway has also noted a positive trend in orders for ferries from Norwegian shipping companies, and expects new projects to materialise in this category going forward.

• Fisheries and aquaculture

The aquaculture industry continues to grow and generate excellent profits, driven not least by high salmon prices. Export Credit Norway has observed strong activity levels in the fisheries and aquaculture segments, particularly among SMEs. Moreover, many SME exporters and purchasers are requesting advice on the financing process. The first-quarter application inflow was highly diverse.

• Domestic ship financing solution

The domestic ship financing solution is fully operational. The solution allows Export Credit Norway to finance vessels constructed at Norwegian yards and purchased by Norwegian shipping companies for operation in Norwegian waters. In Q1 2019, the company received one application under the solution, bringing the total number of applications received to 28, and the total application value to NOK 8.0 billion.

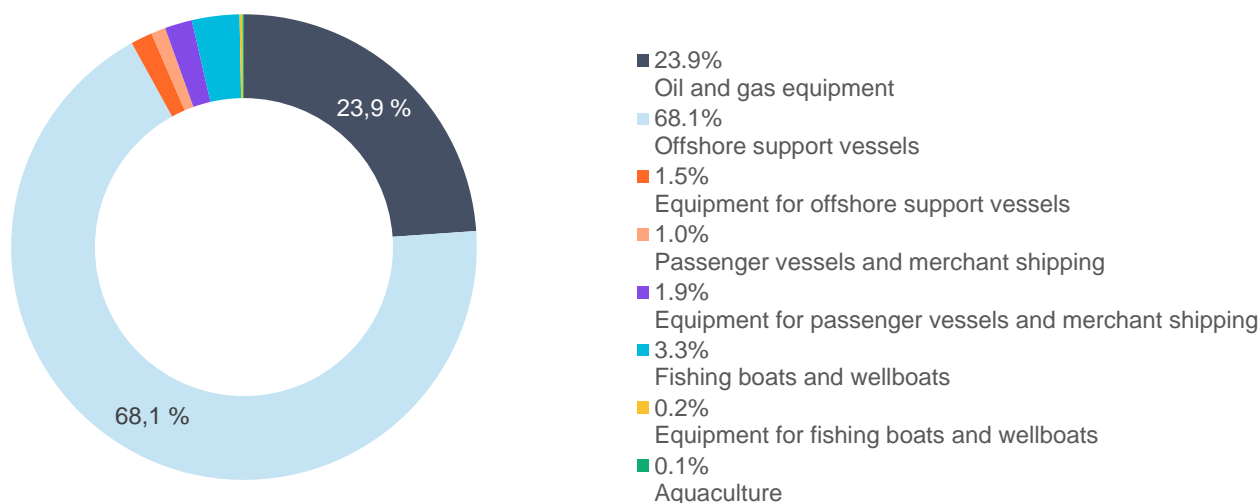
• Offshore support vessels

The market for offshore support vessels remains challenging, albeit with some improvement since Q4 2018. In Q1 2019, the company registered an increase in the application inflow - in terms of both numbers and volume - compared to the same period last year. Moreover, the receipt of four applications in the offshore wind energy vessels category was a further positive development in Q1.

• Oil and gas equipment

Export Credit Norway sees strong prospects for the oil and gas market in the longer term. Energy forecasts show an ongoing rise in oil and gas consumption over the next ten years, and investment in the sector in recent years has proven insufficient in terms of securing adequate oil and gas reserves to meet future demand.** As a result, more exploration is required to maintain production. This will benefit the seismology and exploratory drilling categories in the medium term. Higher oil prices should result in final investment approval for more projects in 2019, which in the longer term should result in additional Norwegian export contracts and new disbursements in this sector.

Ocean industries lending balance by sub-segment as at 31 March 2019 (%)



* Source: Norwegian shipyards/nssm.no.

** Source: International Energy Agency - World Energy Outlook 2018 / iea.org/weo.

Developments, activities and the portfolio

Industry and renewable energy

Applications

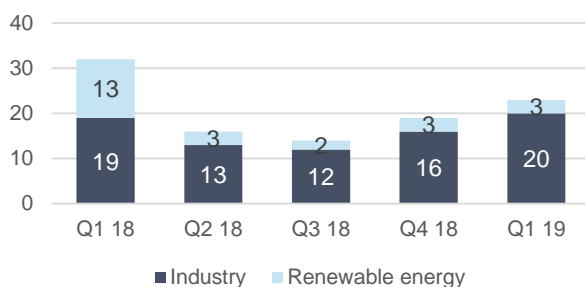
In the first quarter, Export Credit Norway received 23 applications linked to industry and renewable energy, representing a total application volume of NOK 2.7 billion. This figure is lower than the total for Q1 2018, but approximately on a par with the second half of 2018. The subject matter of the received applications varies greatly in terms of industry sectors and geography.

Portfolio

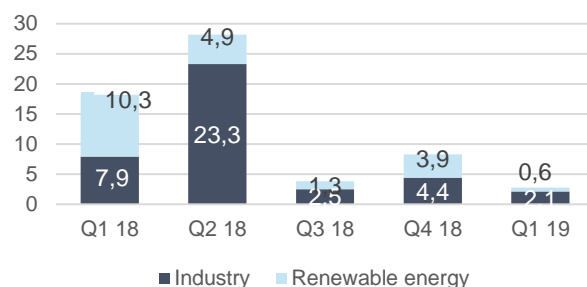
The industry and renewable energy segment accounted for 4% of Export Credit Norway's total lending portfolio at quarter-end. The portfolio is complex and diverse and, unlike the rest of the lending portfolio, is dominated by small and medium-sized loans. The diagram at the bottom right of the page provides a further breakdown of the portfolio by sub-segment. The majority of the lending volume comprises financing for projects involving defense technology, wind energy, water and sanitation equipment, and solar energy.

In the first quarter, the company disbursed NOK 49 million in loans related to industry and renewable energy projects.

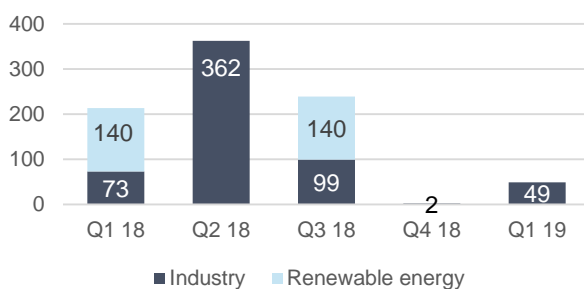
Number of applications by quarter



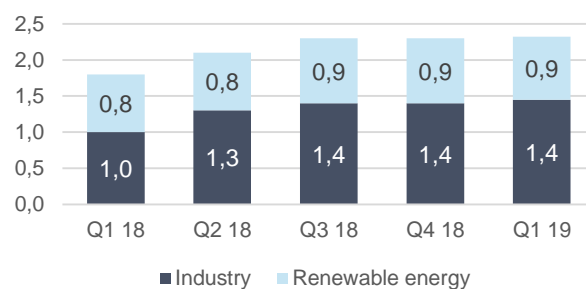
Application volume by quarter (NOK billion)



Disbursements by quarter (NOK million)



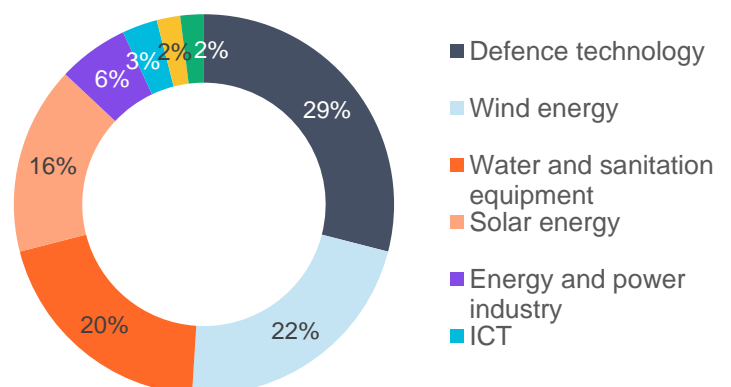
Lending balance by quarter (NOK billion)



Market developments

Export Credit Norway sees positive market prospects for the industry and renewable energy sector, especially in the medium to long term. The company expects this positive trend to continue, albeit with some variation among the different industry segments.

Lending balance by sub-segment as at 31 March 2019 (%)



Small and medium-sized enterprises (SMEs)

46% of applications from 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. Moreover, SME exporters account for most of the requests received by Export Credit Norway for sales support and general advice on the financing of export activities, including CSR and anti-corruption measures.

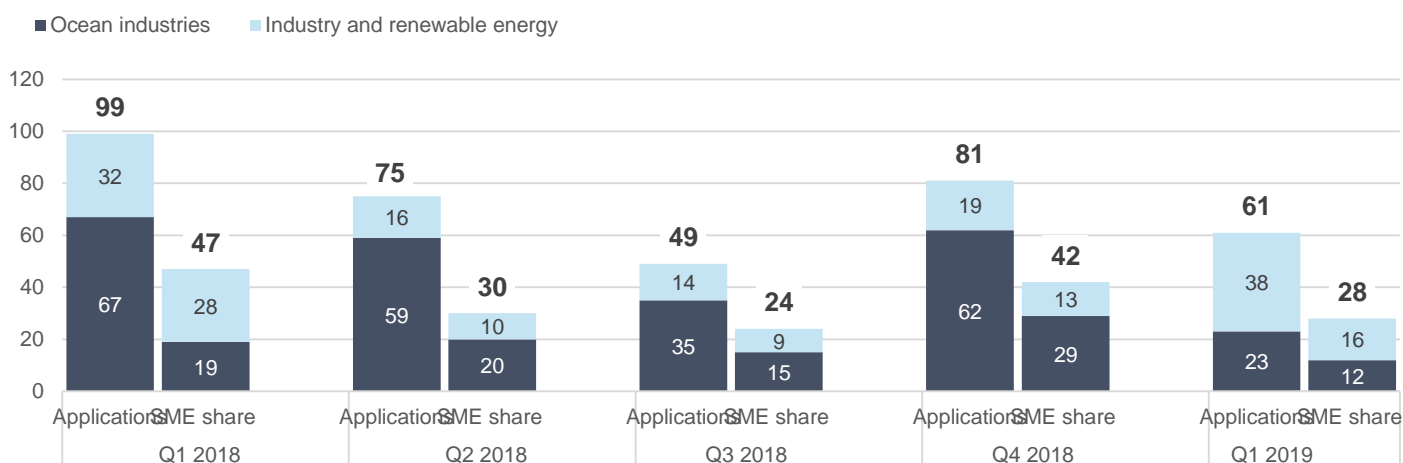
Applications

In the first quarter of 2019, some 46% of the 61 financing applications received by the company came from SME exporters. In total, SMEs accounted for 8.0% of the total first-quarter application volume. While the proportion of SME applications was on par with Q1 2018, the volume was lower. A comparison with non-SME applications shows that SME applications have a significantly lower volume on average.

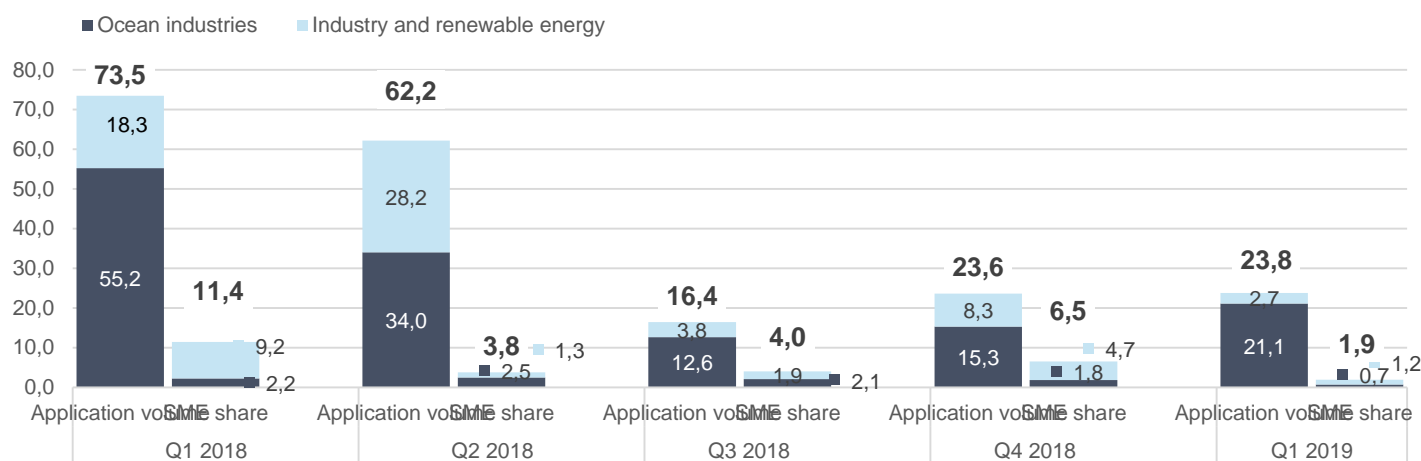
Portfolio

SME exporters accounted for 2.5% of the total lending portfolio as at 31 March 2019. The current SME portfolio is diverse, and includes suppliers operating in the ICT, maritime and aquaculture industries, as well other suppliers of capital goods and services.

SME share (number) of applications by quarter



SME share of application volume by quarter (NOK billion)



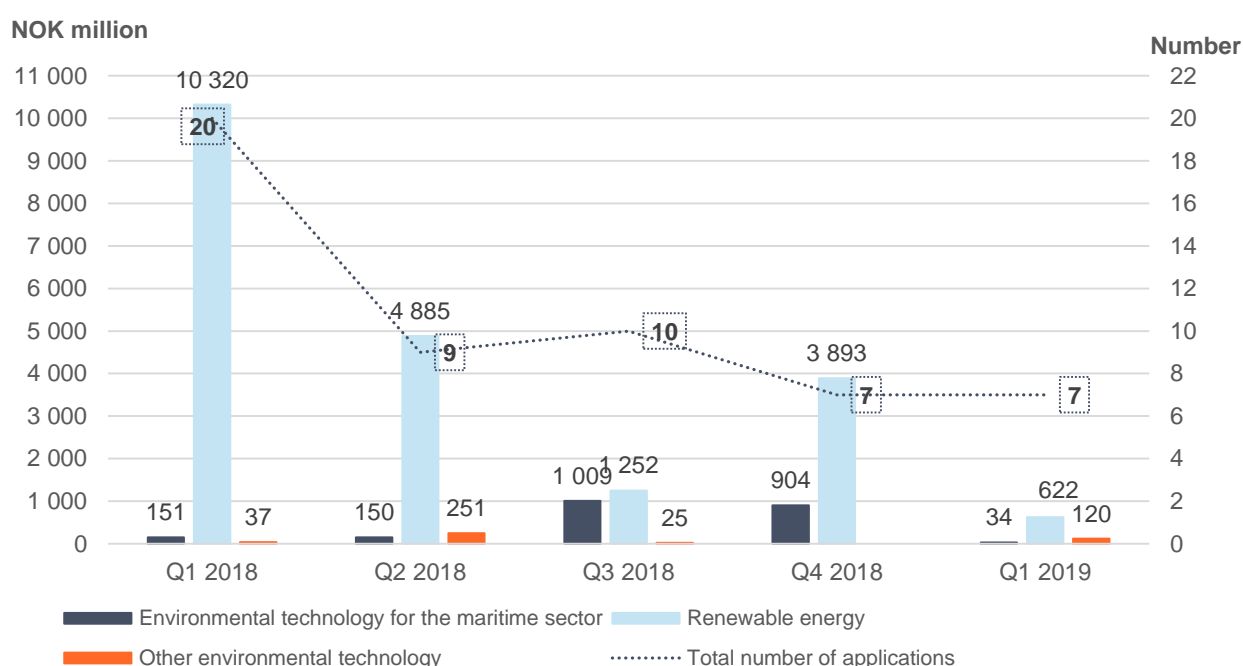
* Export Credit Norway uses the EU definition of SMEs: undertakings with fewer than 250 employees and less than EUR 50 million in turnover.

Environmental technology

Inflow of environmental technology applications

In the first quarter of 2019, Export Credit Norway received seven financing applications linked to environmental technology and renewable energy, accounting for 3.3% of the total first-quarter application volume. In terms of both application numbers and volume, application growth was lower in Q1 2019 than in the same period last year.

Applications related to environmental technology and renewable energy by quarter (NOK million/number)



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 lending portfolio**. Møre og Romsdal is clearly the largest exporting county in the portfolio, followed by Vest-Agder. Together, the two counties accounted for some 81% of the company's lending balance as at the end of Q1 2019.

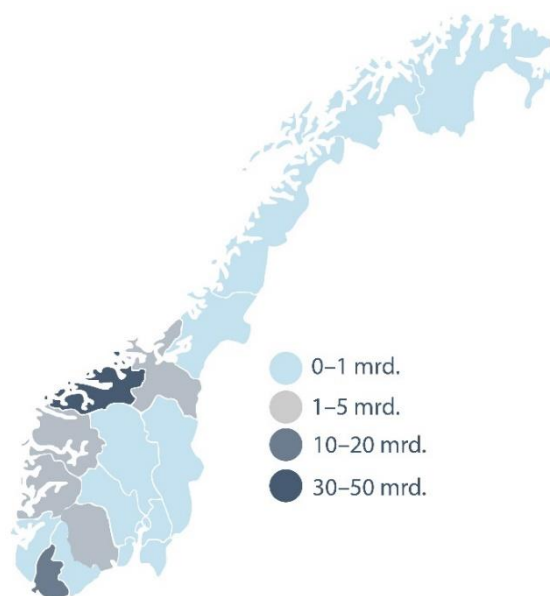
To the world

Although Export Credit Norway provides financing for projects in numerous countries, the majority of transactions currently involve exports to Europe.

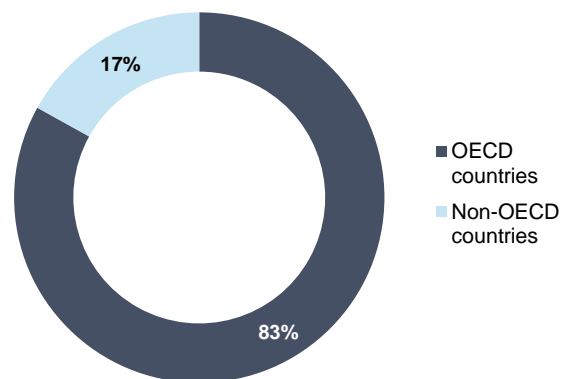
As at 31 March 2019, 83% of the lending balance related to exports to OECD countries, and the remaining 17% to exports to non-OECD countries. This distribution has been relatively stable in recent quarters.

In the SME part of the portfolio, the proportion of non-OECD export destinations is higher, and increasing, with a higher proportion of disbursements to non-OECD countries in recent quarters. This development has contributed to an increase in the number of SMEs seeking Export Credit Norway's advice and guidance, in particular related to CSR, money laundering and anticorruption efforts.

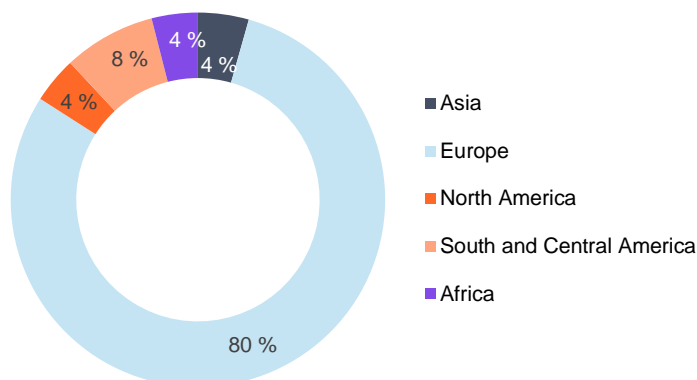
Exports financed by Export Credit Norway by county (NOK)



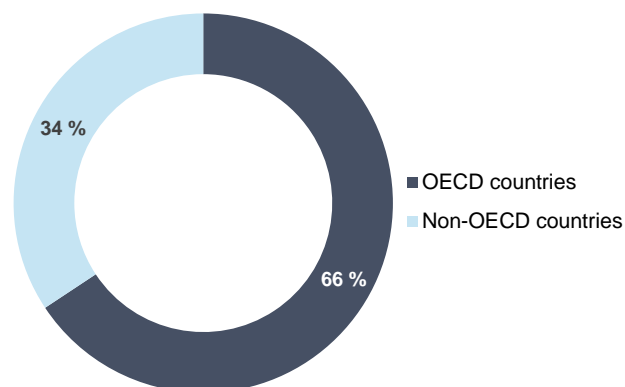
Distribution of project countries in the lending balance as at 31 March 2019 (%)



Exports by region, project countries as at 31 March 2019 (%)



Distribution of SME project countries in the lending balance as at 31 March 2019 (%)



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

** More than 70% of the lending balance as at 31 December 2018.

Key portfolio figures

	Q1 2019	Q1 2018	YTD 2019	2018	2017
Lending balance* (NOK million)	59,927	65,918	59,927	61,220	69,359
CIRR	39,597	41,386	39,597	39,507	43,503
Market loans	20,330	24,532	20,330	21,713	25,856
Disbursements (new loans, NOK million)	1,249	322	1,249	2,880	3,418
CIRR	1,216	137	1,216	1,268	2,677
Market loans	33	185	33	1,612	741
Probability-adjusted order book (NOK million)	20,770	16,271	20,770	19,213	16,674
Ocean industries	20,474	15,244	20,474	18,865	15,330
Industry and renewable energy	296	1 027	296	348	1,344
Gross interest income (NOK million)	325	368	325	1,727	1,744
Instalments (NOK million)	1,785	1,236	1,785	11,687	7,174
Early loan redemptions (NOK million)	596	14	596	7,538	1,174
Administrative costs*	0.05%	0.04%	0.05%	0.18%	0.15%
Applications					
Number (total and by segment)	61	99	61	304	241
Oil and gas equipment	6	22	6	68	42
Offshore support vessels	11	9	11	24	27
Passenger vessels and merchant shipping	10	20	10	71	47
Fisheries and aquaculture	11	16	11	60	50
Industry and renewable energy	23	32	23	81	75
				(rounded)	
Volume (total and by segment, NOK million)	23,791	73,408	23,791	175,571	124,418
Oil and gas equipment	7,094	32,139	7,094	66,913	67,780
Offshore support vessels	3,835	1,906	3,835	8,778	8,103
Passenger vessels and merchant shipping	9,164	18,341	9,164	31,240	18,204
Fisheries and aquaculture	970	2,767	970	10,158	10,445
Industry and renewable energy	2,728	18,255	2,728	58,482	19,886
SME applications (total number)	28	47	28	143	105
SME application volume (NOK million)	1,944	11,411	1,944	25,651	16,172
New contracts (NOK billion)	0.9	1.1	0.9	4.9	9.8
Guarantors (% of portfolio)					
GIEK	71%	73%	71%	72%	73%
Norwegian banks	15%	14%	15%	14%	14%
Foreign banks	14%	13%	14%	14%	13%

EKSPORTKREDITT

Eksportkreditt.no

kontakt@eksportkreditt.no

Tel: (+47) 22 31 35 00

Cort Adellers gate 30

P.O. Box 1315 Vika, NO-0112 Oslo, Norway

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