ekn

Half-year report

Jan–June 2014

EKN IS DOING MORE FOR SMALL AND MEDIUM-SIZED ENTERPRISES

The period in brief

EKN guaranteed 365 export transactions for small and medium-sized enterprises with a value of SEK 1.7 billion, an increase in comparison to SEK 1.0 billion in the corresponding period in 2013.

In total, EKN issued new guarantees in the amount of SEK 15.4 billion, a decrease in comparison to SEK 22.7 billion in the corresponding period in 2013.

At SEK 25 billion, the volume of offers was 39 percent higher than in the corresponding period in 2013.

57 companies were added as new customers.

EKN upgraded Bangladesh, Nepal and Lithuania and downgraded Mongolia.

EKN and SEK (the Swedish Export Credit Corporation) hosted an OECD meeting on CSR issues.

Transactions for the period	**Jan–June 2014**	**Jan–June 2013**
Number of offers	851	864
Volume of offers, SEK million	25,264	18,138
Number of guaranteed transactions	761	811
Volume of guarantees, SEK million	15,414	22,709
Claims paid, SEK million	323	114
Profit for the period, SEK million	809	699
Outstanding exposure and accumulated earnings, SEK million	**30 June 2014**	**31 Dec 2013**
Outstanding offers	116,999	117,571
Outstanding guarantees	179,729	194,713
Provisions	5,733	5,945
Equity	24,061	23,262

Success for more SMEs

EKN intensified its efforts for SMEs in the first half of 2014. Simultaneously, EKN's enhanced cooperation with the large corporates remains significant. EKN is also carefully following developments in Russia and Argentina. Swedish exports to both countries may be affected by sudden changes.

EKN IS DOING MORE FOR SMALL AND MEDIUM-SIZED ENTERPRISES

We opened a new office in Malmö in May. Now it is even easier for exporting companies from southern Sweden to involve EKN early on in transactions. EKN now has offices in Malmö, Gothenburg, Stockholm, Umeå and Luleå. We have created local availability at all of the 36 locations in Sweden where Almi, and in some places Business Sweden, has offices.

We are beginning to see results from our local initiatives. The issuing of guarantees to small and medium-sized enterprises increased to SEK 1.7 billion, in comparison to SEK 1.0 billion in the first half of 2013.

The new generation of small businesses often have a global view of their business. For the fifth year in a row, EKN surveyed the view of small businesses on exports to emerging markets. Our survey showed that every fifth exporting company with under 250 employees wants to expand their efforts and start exporting to more emerging countries in the coming year. We are also seeing that small businesses are to a greater extent imitating the successful strategy of large corporates of including financing as part of their offering.

The number of small businesses exporting to emerging markets increased last year. However, the increased availability of financing has not been as noticeable for small businesses as for large corporates. Small businesses are interested in EKN's guarantees both to reduce their risks and to insure their claims, thus making them eligible as collateral.

WILLINGNESS TO TAKE RISKS AND CRISIS HOT SPOTS

The world economy's growth rate is increasing. There is a willingness to take risks and there is access to financing on the market. EKN's issuing of guarantees once again mainly covers risks in transactions to emerging countries. In addition, there are a few very large transactions to high-income countries.

At the same time, there is political turbulence and instability in parts of the world. At the moment, the situation in Ukraine is serious and the EU has expanded its sanctions against Russia. Swedish exporting companies must apply for authorisation from the Swedish National Board of Trade (Kommerskollegium) or ISP for certain exports to Russia. EKN is continuing to guarantee transactions to Russia that are not restricted by sanctions and we are carefully following developments there. There is turbulence of another kind in Argentina. In a legal dispute with creditors, the country is running the risk of ending up in an impossible situation and being closed off from the capital markets. Argentina is the fourth largest export country in Latin America for Swedish exports and this may affect Swedish exports negatively. Conflicts in the Middle East are additional crisis hot spots.

SUSTAINABLE EXPORT TRANSACTIONS ON EQUAL TERMS

In the spring, the OECD's CSR experts met in Stockholm. EKN hosted the meeting together with SEK (the Swedish Export Credit Corporation). Sustainable export transactions and competition on equal terms were discussed at the meeting. We have industry dialogues with exporting companies and banks on these issues to ensure responsible exports. Joint, comprehensive standards for the environment and human rights benefit Swedish exports and the local population in the buyer countries. EKN screens all transactions to ensure that risks of a negative impact on the people and the environment of the buyer are managed in a responsible manner. Our goal is for all exporting companies to have already done this audit when the transaction reaches EKN.

EKN IN ALMEDALEN: GOOD BUSINESS OPPORTUNITIES ON UNSTABLE MARKETS

In the beginning of July, EKN was present at Almedalen Week for the fifth year in a row. Our goal there was to strengthen the international perspective in the Swedish debate. Two exporting companies – Zound Industries and Boule Diagnostic – participated in the panel on stage. Their CEOs discussed their respective companies' growth and global export efforts. Pernilla Ekman, CEO of Zound Industries, described how her company launched their first headphones in the end of 2009, and since then has sold nearly ten million products to around 90 countries. "A large part of this success is due to the fact that we went out to several markets from the beginning," she said. Boule Diagnostics' CEO Ernst Westman pointed out that "There are good business opportunities in very difficult markets as well" and used his company's exports to Libya and Syria as an example.
Both companies are good examples of how success can be built in global trade. It is with pleasure that we follow the successes of Swedish SMEs on the world market. Together we create solutions for more export business.

Karin Apelman
Director General

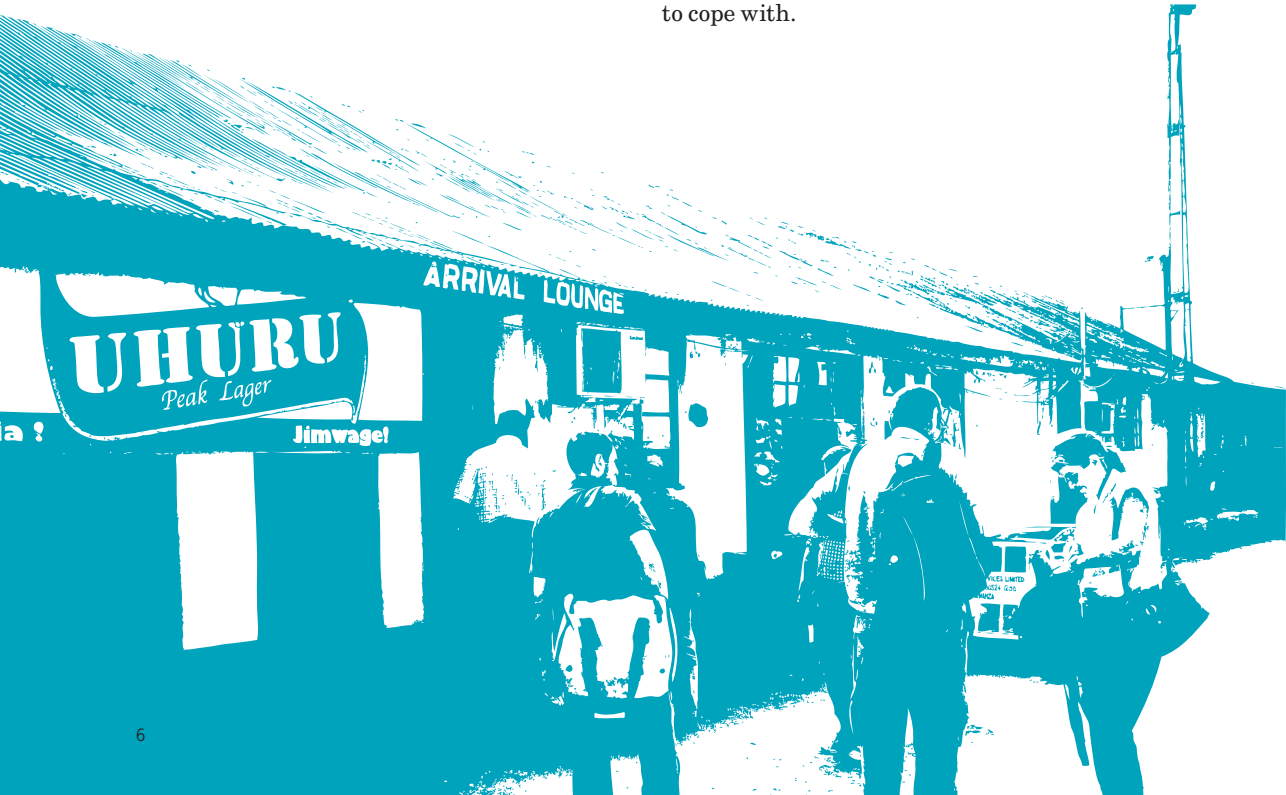
The world economy's growth rate is increasing

The recovery in the OECD is continuing and the strong growth in Asia is further increasing. There is a willingness in the market to take risk.

The world economy is expected to grow by 3.6 percent in 2014, after slightly weak growth of 3.0 percent in 2013, according to the International Monetary Fund (IMF). Above all, the continuing recovery in the OECD countries is contributing to the increased growth rate. The economic climate is getting even stronger in the US where growth for 2014 of around three percent is within reach. But overall, the recovery in several OECD countries will be drawn out due to the continuing high public debt, which limits the room for manoeuvre of fiscal policy.

GOOD GROWTH IN ASIA

Economic activity in emerging and developing countries has been high for several years in a row. In Asia, growth is once again getting stronger and is estimated to be around seven percent this year. The clear election results in India with the BJP party in the majority means that the growth-promoting policies the party has promised will by all indications now be implemented. China's economy will expand at a lower rate in the coming years than what was the case over the past decade. The structural deficiencies in the financial system, a sharp increase in corporate debt and oversupply in the property sector are some of the weaknesses China's leadership is now trying to cope with.



SOLID GROWTH SOUTH OF THE SAHARA

Many countries in Africa are dependent on the price trend on the commodities markets for export revenues and economic growth. World market prices for the most used metals have fallen over the past three years. But now forecasts indicate price stabilisation over the coming years. As a result of several years of economic reforms, growth is also good in countries where commodities have less significance for economic activity. Ethiopia, Kenya and Rwanda are examples of such countries. Growth of around 5.5 percent is expected for sub-Saharan Africa.

WEAK ECONOMY IN RUSSIA AND LATIN AMERICA

The economic trend in the CIS area is being negatively affected by the conflict between Ukraine and Russia. Growth in the area is estimated to remain at just over two percent in 2014. The Russian economy was weak already before the conflict with Ukraine and the forecast for 2014 was previously growth of just over one percent. Now the growth prospects for Russia are even more subdued. The economic trend is also forecast to be weak in Latin America, around 2.5 percent in 2014.

RISK AND UNCERTAINTY DOWN

Globally, macroeconomic risks such as credit risks and monetary risks have gone down. The FED's gradual reduction in bond purchases, which was a factor of uncertainty in the summer and autumn of 2013, is not anymore. In addition, the improved economic prospects in the large emerging economies, such as India and Mexico, have reduced the risk of capital outflows from these economies.

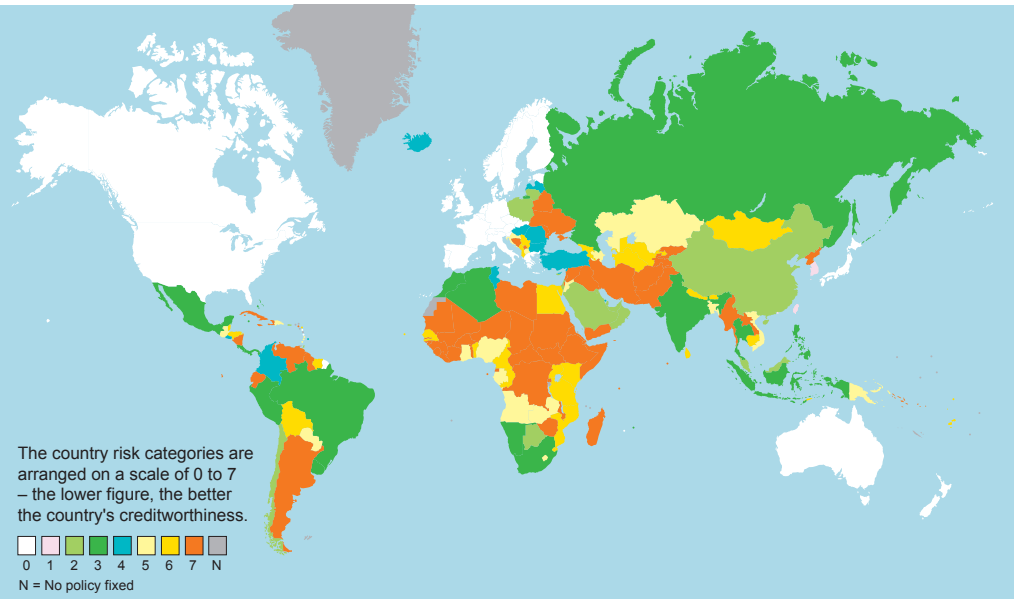
LOWER PRICE FOR RISK

The stronger global growth prospects, lower instability in the euro zone, exceptionally low key interest rates and continuing good liquidity on the financial markets have contributed to a reduction in risk premiums. The trend of falling risk premiums for bonds is irrespective of credit rating, industry or region. Increased interest in investing in bonds has improved companies' financing capabilities. The risk premiums for most credit ratings and regions have reached, or even gone lower than, the pre-financial crisis levels. The price for risk is now expected to stabilise.

7 percent

growth in Asia

EKN's view of the world



Reforms ongoing in Bangladesh

In spite of the polarised and frequently messy political situation in Bangladesh, the country's economy has grown well over the past decade. Growth is expected to come in at between six and seven percent per year. One key factor for the country's growth is the textile and clothing industry which accounts for 80 percent of export earnings. However, the economy needs to be broadened and the country's institutions are in need of strengthening. Such reform efforts are now ongoing within the scope of Bangladesh's agreement with the IMF. EKN upgraded Bangladesh to country risk category 5 (from 6). This is one country risk category better than the weighted assessment within the OECD, which means that EKN sets the premium on the basis of country risk category 5, but without going lower than the agreed minimum premium of OECD country risk category 6.

Positive trend in Nepal

Sushil Koirala was elected Prime Minister of Nepal in February 2014. There is hope that Koirala will succeed in forming a new constitution for the country. The many years of political instability in Nepal have left the economy suffering. The country's external debt is still limited, in large part thanks to the inflow of money from emigrant workers, which is equal to 25 percent of the country's GDP. The cautiously positive trend is the basis for upgrading Nepal to country risk category 6 (from 7).

Falling prices for Mongolian export commodities

Mongolia's balance of payments and debt situation have experienced a negative trend in the past two years. Falling prices for the country's most important raw material exports and the decline in direct investments are responsible for the weakening of the balance of payments. An expansive fiscal policy is being pursued to stimulate the economy, with large budget deficits as the result. The national debt has increased, and international reserves have decreased, which makes the country vulnerable. EKN downgraded Mongolia to country risk category 6 (from 5).

Lithuania is back

Lithuania is now back in the same country risk category as in 2008, before the financial crisis. Its public finances have been strengthened and the current account deficit has been reduced. Its growth prospects are looking significantly brighter and Lithuania will most likely join the euro area next year. Its economic growth is also more balanced and sustainable. The country was upgraded to country risk category 2 (from 3).

Local presence in Sweden having an impact

EKN's issuing of guarantees for small and medium-sized enterprises increased to SEK 1.7 billion. The issuing of guarantees for EKN as a whole fell in comparison to the same period the year prior.

EKN issued guarantees at a value of SEK 15.4 billion. This is a 7.3 billion drop year-on-year. The economic trend is good in many parts of the world. There is access to financing on the market and the price level for risk is lower than before the financial crisis. This slows down the demand for guarantees from EKN.

THE PROVISION OF GUARANTEES FOR THE EXPORT TRANSACTIONS OF SMALL AND MEDIUM-SIZED ENTERPRISES IS INCREASING

EKN continued to establish new local offices in the first half of 2014. EKN is now on site in Gothenburg, Malmö, Umeå and Luleå. All of these offices are on the same premises as Almi Företagspartner. Business Sweden is also on some of these premises. This local presence gives more exporting SMEs the ability to provide their customers with credit, hedge their payment risk with EKN and boost their exports. Both the issuing of guarantees and the volume of offers to small and medium-sized enterprises has increased year-on-year. The issuing of guarantees to these enterprises totalled SEK 1.7 billion in the first half of 2014, which is a substantial increase in comparison to last year, when the guarantee volume was SEK 1.0 billion. The number of offers to small and medium-sized companies increased by 35 percent and the volume of offers was equal to SEK 1.7 billion (SEK 1.0 billion).

HIGHER VOLUME OF OFFERS

The volume of offers increased by 39 percent year-on-year to a total of SEK 25.3 billion. Some large individual offers for transactions in the telecom sector mainly account for the higher level of offers. The number of offers has fallen marginally.

EMERGING COUNTRIES DOMINATING

The issuing of guarantees for transactions to emerging countries is once again becoming more dominant as a proportion of the total guarantee volume. Transactions to emerging countries accounted for 65 percent of the volume of guarantees in the first half of the year, in comparison to 35 percent last year. EKN guaranteed 761 transactions to 98 countries.

RESPONSIBLE EXPORTS

Of the 761 transactions that EKN guaranteed during the period, six were Class A transactions, and 232 Class B transactions. A implies a substantial risk of environmental and social impacts. EKN has specially audited the risk of negative impacts in these transactions and determined how the risk should be able to be managed, to ensure that EKN follows its corporate responsibility policy in the provision of guarantees. The volume of guarantees for the period was SEK 15.4 billion, with Class A and B transactions accounting for SEK 5.5 billion of that volume.

Profit and provisions

Profit for the period was SEK 809 million, in comparison to SEK 699 million for the same period in 2013. The difference can in large part be explained by lower claims incurred, in comparison to the first half of 2013.

Premium revenue came in at SEK 704 million, which is a decrease in comparison to SEK 870 billion the past year. Premium income totalled SEK 449 million, an SEK 688 million drop equivalent to the decline in the provision of guarantees. Earnings on guarantees issued in past years however is keeping the premium revenue from falling to a corresponding extent.
There have been few transactions that have resulted in new claim costs for EKN in the first half of 2014. Claims incurred totalled SEK 36 million. The corresponding figure in the first half of 2013 was SEK 288 million. The reason for the high figure in 2013 was in part due to provisions for risks in transactions to Iran, which were executed before the sanctions against the country. Claims paid increased in 2014 to SEK 323 million for the first half of the year, in comparison to SEK 114 million in the same period last year. Financial items made a positive contribution of SEK 252 million in comparison to SEK 216 million in 2013. This increase is mainly due to positive exchange earnings of SEK 43 million, which compensate for a decline in the return on managed assets.

FINANCIAL POSITION

Our financial position is strong. Equity totalled SEK 24.1 billion at the end of June, in comparison to SEK 22.2 billion at the same time in 2013. In addition, EKN has provisions for expected losses in its guaranteed transactions in the amount of SEK 5.7 billion. EKN had cash and cash equivalents worth SEK 26.6 billion at the end of June to be able to cover future obligations in the event of any claims. EKN's cash and cash equivalents are primarily invested in the National Debt.

GUARANTEE FRAMEWORK – EXPORT CREDIT – AND INVESTMENT GUARANTEES

At mid-year, EKN's outstanding export credit guarantees were SEK 179.7 billion, Outstanding offers were SEK 117.0 billion. The offers where EKN's guarantee holders have made an agreement with their counterparties are deemed committed, since it is likely that they will apply their offer and request that a guarantee be issued. When settling against the guarantee framework granted by the Riksdag, uncommitted offers are settled at half their value, while guarantees and committed offers are settled at their full value. Using this calculation, the framework utilisation was at SEK 250.6 billion at mid-year. The framework utilisation went down by SEK 9.2 billion since the beginning of the year when it was at SEK 259.8 billion. In total, the guarantee framework adopted by the Riksdag for export credit guarantees is SEK 500 billion.
Under the framework for investment guarantees, which is SEK 10 billion, the framework utilisation is at SEK 4.1 billion, a 0.2 billion drop since the start of the year.

Income statement in summary

Amounts in SEK million

	Jan–June 2014	Jan–June 2013
Premium revenue	704	870
Other revenue	1	7
Claims incurred (net of reinsurance)	-36	-288
Operating expenses	-111	-106
Operating profit	**558**	**483**
Financial items	252	216
PROFIT FOR THE PERIOD	**809**	**699**

Balance sheet in summary

Amounts in SEK million

	30 June 2014	31 Dec 2013
Cash and securities	26,581	26,048
+ Claims value	1,393	1,036
+ Premium receivables	1,820	2,124
– Provisions	-5,733	-5,945
EQUITY	**24,061**	**23,262**

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EKN – CREATING CONFIDENCE IN YOUR EXPORTS

EKN is a government agency that supports Swedish exports and the internationalisation of Swedish industry. This we do by offering exporting companies and banks guarantees for payment and financing, together with advice on business structure and risk management. Our services provide an extra level of confidence, increased competitiveness and more opportunities for successful export transactions.

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The Swedish Export Credits Guarantee Board

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