

ekn



Interim report

January–March 2016

CONTINUING DEMAND FOR EKN'S GUARANTEES FROM EXPORTING COMPANIES,
WITH MORE OFFERED AND GUARANTEED TRANSACTIONS

The period in brief

EKN guaranteed export transactions with a total value of SEK 6.4 (8.5) billion.

**The number of offers was 576 (445) in the first quarter of 2016.
The volume of offers was a little lower.**

The guarantee volume for small and medium-sized enterprises increased to SEK 733 million from SEK 582 million the previous year.

EKN has engaged financing advisors to assist Swedish exporters throughout Sweden.

EKN achieved a negative result of SEK -1,990 million, compared with a positive result of SEK 500 million in the first quarter of 2015. The difference is due to increased provisions for future losses.

Figures in brackets refer to the corresponding values for the same period the previous year.

Transactions for the period	Jan–Mar 2016	Jan–Mar 2015
Number of offers	576	445
Volume of offers, SEK million	17,815	20,674
Number of guaranteed transactions	466	235
Volume of guarantees, SEK million	6,447	8,531
Claims incurred (of which claims paid)	-2,355 -62	-19 -109
Profit/loss for the period, SEK million	-1,990	500
Outstanding exposure and accumulated earnings, SEK million	Jan–Mar 2016	Jan–Mar 2016
Outstanding offers	78,792	72,984
Outstanding guarantees	198,383	214,134
Provision for exposure risk	12,075	9,833
Equity	20,747	23,252

Global economic recovery still uncertain

Low commodity prices continue to hamper growth in the global economy and world trade. The US economy has progressed furthest in its recovery. The economies of China and India show strong growth, but question marks about China are creating uncertainty.

World economic growth is expected to be just over three percent in 2016 and three and a half percent in 2017. However, there is uncertainty about the strength of the recovery. Falling commodity prices are hampering the recovery in the global investment cycle and therefore world trade.

THE US AND EUROZONE

The US has made the most progress in its recovery and the US central bank was the first to increase interest rates. However, there is considerable uncertainty about the pace of the US central bank's interest rate policy.

Recovery in the Eurozone is progressing more slowly, and is impeded by a continuing high level of business and household debt and strained public finances in many countries. The recovery is still supported by a highly expansionary monetary policy. The threat of deflation appears to have been averted, apart from in Japan, which means that central banks can gradually normalise their monetary policy in the coming years.

CHINA AND INDIA

China and India show high growth rates, in line with or stronger than expected. There is uncertainty about how China will manage a shift from an investment and export-driven

economy to growth that is more consumption-led, leading to uncertainty about the strength of the growth.

LATIN AMERICA

Falling international commodity prices are putting pressure on the Latin American economies. The growth rate has fallen every year since the six percent peak in 2010, dropping below zero in 2015. The recession is expected to continue in 2016. Brazil, Venezuela and Argentina in particular are having an adverse effect on the growth figures for the region as a whole. Most other Latin American countries have shown a positive growth rate.

INCREASED RISK APPETITE IN THE MARKET

The trend of increasing risk premiums in the bond market was broken in the first quarter of 2016. Risk premiums for corporate bonds, regardless of credit rating, have now fallen. The declining price of risk is due to an increased risk appetite, which can be partly explained by the continuing expansionary monetary policy in the Eurozone. The increased risk appetite is also an effect of future interest rate increases in the US now being expected to have a longer time horizon. Lower risk premiums normally mean lower demand for EKN's guarantees.

Continuing demand for new guarantees

EKN has guaranteed twice as many transactions as in the corresponding period the previous year, but the guarantee volume has declined. Offers have also shown an increase in numbers and a decline in volume.

Demand for EKN's guarantees from exporting companies continues, with more offered and guaranteed transactions than in the first quarter of 2015. Large corporates are increasingly working with EKN as a strategic business partner, which is resulting in more guaranteed transactions. The increase in the number of offers and guaranteed transactions is evenly distributed across sectors. Some small and medium-sized enterprises have experienced strong expansion into emerging markets, which has also contributed to the increase in the number of guaranteed transactions.

The volumes have shown a slight decline as the period did not have any really large transactions, which dominate EKN's guarantee issuing at irregular intervals.

OECD INCREASE, CIS DECLINE

Most of EKN's guarantees are issued for exports to emerging countries. The guarantee volume for transactions with OECD's high-income countries increased during the quarter, mainly through guaranteed export transactions to France and Finland. The guarantee volume for exports to Africa was SEK 1.6 billion, which is the same level as in the corresponding period the previous year. In the first quarter of 2015, EKN had a high CIS guarantee volume, which was due to one large transaction. The CIS guarantee volume was significantly lower this year.

FINANCING ADVISORS TO REACH SWEDISH EXPORTERS

EKN's focus on reaching out to more small and medium-sized enterprises continued in the first quarter. EKN's offices in Gothenburg and Malmö have now been complemented by

financing advisors across the country. The financing advisors work on a consultancy basis, visiting exporting companies and explaining the opportunities offered by EKN's guarantees. In Skåne, Blekinge and Västra Götaland, the advisors are there to strengthen the local offices. The financing advisors in Umeå, Västerås and Jönköping service their own parts of Sweden to provide EKN with greater scope in reaching Swedish exporters. The number of new SME customers was 15, compared with 26 for the same period in 2015. The SME guarantee volume amounted to SEK 0.8 billion, an increase of 26 percent compared with the previous year.

INCREASED RISK OF CLAIM PAYMENTS

At the end of the previous year and the beginning of 2016, payment problems in a few large transactions increased. It is EKN's assessment that some of the problems will result in EKN having to pay claims. EKN has therefore made extensive provisions for claims.

TRANSACTIONS WITH A RISK OF ENVIRONMENTAL AND SOCIAL IMPACT

The 467 transactions that EKN guaranteed during the period included four category A transactions and 206 category B transactions. Category A transactions involve a significant risk of environmental and social impact. EKN has conducted an impact assessment for these transactions and determined how the risk should be managed in order to ensure compliance with the policies and guidelines for corporate responsibility in the issuing of guarantees. Category A and B transactions represented SEK 2.8 billion of the period's guarantee volume of SEK 6.4 billion.

Increased need for provisions

The period's earned premiums* amounted to SEK 266 million, a decline compared with the previous year's figure of SEK 331 million, which is an effect of the lower guarantee volume in the first quarter. The period's claims incurred** increased to SEK -2,355 million, mainly due to an increase in the provision for expected claims payments.

Operating costs were SEK 59 million, which is an increase of SEK 7 million compared with the previous year.

Financial items were SEK 158 million, compared with SEK 240 million the previous year. Interest rate levels meant that the return showed a decline. There were exchange losses of SEK 25 million for the period, compared with an exchange gain of SEK 83 million the previous year.

The period's result was negative at SEK - 1,990 million, compared with a profit of SEK 500 million for the same period in 2015. The result is due to an increased need for provisions for future claims payments.

*) Earned premiums consist of premium income, change in gross provisions for unearned premiums and unexpired risks as well as effects of reinsurance.

**) Claims incurred are EKN's estimated final cost, net of provisions, payments and recoveries.

Condensed income statement

Amounts in SEK million

	Jan–Mar 2016	Jan–Mar 2015
Earned premiums	266	331
Other income	0	0
Claims incurred (net of reinsurance)	-2,355	-19
Operating costs	-59	-52
Operating profit/loss	-2,148	260
Financial items	158	240
PROFIT/LOSS FOR THE PERIOD	-1,990	500

Condensed balance sheet

Amounts in SEK million

	Jan–Mar 2016	Jan–Mar 2015
Cash and securities	26,668	27,145
Claims value	1,965	2,055
Premium receivables	4,641	4,645
Other assets	202	207
Provisions	-12,075	-9,833
Deferred liability to treasury	-296	-364
Other liabilities	-358	-604
EQUITY	20,747	23,252

EKN – CREATING CONFIDENCE IN YOUR EXPORTS

EKN is a government agency that supports Swedish exports and the internationalisation of Swedish industry. We do this by offering guarantees for payment and financing, together with advice on business structure and risk management. Our services provide you with greater security, increased competitiveness and more opportunities for successful export transactions.

The logo for EKN, consisting of the lowercase letters 'ekn' in a bold, white, sans-serif font, centered on a dark blue background.

The Swedish Export Credits Guarantee Board

Kungsgatan 36, P.O. Box 3064, SE-103 61 Stockholm, Sweden | Tel +46 8-788 00 00 | www.ekn.se