



# Interim report

January – September 2015

INCREASE IN BOTH VOLUME OF OFFERS AND VOLUME OF GUARANTEES FOR SMES.

# The period in brief

EKN guaranteed 1,186 export transactions to 106 countries, with a total value of SEK 78.0 (21.7) billion.

EKN guaranteed payments under the loan for Brazil's purchase of the Gripen fighter jet.

78 (65) companies became new EKN customers.

The number of guaranteed transactions for SMEs increased by 16 per cent to 429.

Claims paid showed a decline and amounted to SEK 260 (435) million.

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

<b>Transactions for the period</b>	<b>Jan–Sep 2015</b>	<b>Jan–Sep 2014</b>
Number of offers	1,441	1,209
Volume of offers, SEK million	48,016	29,923
Number of guaranteed transactions	1,186	1,048
Volume of guarantees, SEK million	78,029	21,716
Claims paid	-260	-435
<b>Profit for the period, SEK million</b>	<b>1,132</b>	<b>1,266</b>
<b>Outstanding exposure and accumulated earnings, SEK million</b>	<b>30/09/2015</b>	<b>31/12/2014</b>
Outstanding offers	66,161	110,415
Outstanding guarantees	219,421	177,647
Provision for exposure risk	9,091	5,412
Equity	23,919	25,075

# Emerging countries lose momentum

Low commodity prices continue to bring low growth for many countries in Africa and Latin America. China's slowdown is affecting the whole of Asia. The Eurozone's recovery is sluggish, while the US has made the most progress.

Growth in the global economy does not measure up to previous forecasts. Growth of just over three per cent for 2015 is half a percentage point lower than the International Monetary Fund's forecasts at the beginning of the year. In particular, growth in the emerging economies of Asia, Africa and Latin America has been surprisingly weak.

## **SLOWDOWN FOR CHINA'S GROWTH**

The weaker performance in Asia is largely due to the slowdown in the Chinese economy. The transition from an investment and export-driven economy to more consumption-led growth is creating uncertainty about the effects on other countries in the region and on global trade. Growth is also being subdued by reduced investments in the face of falling energy and commodity prices, which has also brought a slowdown in industrial production and foreign trade.

## **LOW COMMODITY PRICES CONTINUE**

There is nothing to indicate a rapid recovery in commodity prices. The low prices are contributing to continued low growth in many Latin American and African countries. This has placed pressure on the emerging economies' currencies. In Latin America, the fall in oil and commodity prices has been the main catalyst of weaker growth. Economic growth in Brazil is also hampered by a difficult political position, which has been instrumental in sending the country into recession.

## **US HAS MADE MOST PROGRESS – EUROZONE STILL SLOW**

The US has made the most progress in its recovery and the US central bank is expected to be the first to increase interest rates. However, there is uncertainty about the timing and pace of the US central bank's shift in its monetary policy and the impact on the real economy. Recovery in the Eurozone is progressing more slowly and is impeded by business and household debt remaining high and very strained public finances in many countries.

A trend of falling risk premiums in the bond markets began in 2011, but was broken in summer 2014. Risk premiums for corporate bonds, regardless of credit rating, have risen since then. The rising price of risk is attributable to a number of factors – increased risk aversion, an end to the US central bank's massive liquidity injections, interest rate hikes expected in the US and turmoil on the Chinese stock markets. A further increase in risk margins can be expected during autumn. This is expected to bring somewhat higher demand for EKN's guarantees, particularly for transactions involving borrowers with weak credit ratings.

# Largest-ever transaction and continuing increase for SMEs

EKN's largest-ever transaction, a guarantee for the sale of Gripen to Brazil, is the main reason for the sharp increase in the guarantee volume, although the volume is higher even without the transaction. Guarantees issued to small and medium-sized enterprises continue to increase.

The financing agreement for Saab's sale of Gripen to Brazil was signed in September and EKN issued a guarantee. EKN guarantees payments under the loan from SEK (Swedish Export Credit Corporation). This is a large transaction, which will be part of EKN's exposure for some decades. The sharp increase in guarantees issued in the period compared with the same period the previous year is largely attributable to this transaction. Even if the transaction is disregarded, the guarantee volume for the period showed an increase.

## LOCAL PRESENCE

EKN's focus on reaching out to more small and medium-sized enterprises continued successfully in the third quarter. Exporting SMEs around Sweden are never far from EKN's employees, as EKN has its own local offices and makes frequent visits to Almi's local offices. The focus on providing a local presence is strengthened by advertising, direct mail and telemarketing. The number of new SME customers was 68, compared with 58 for the same period in 2014. The SME guarantee volume amounted to SEK 1.7 billion, compared with SEK 1.1 billion the previous year. The SME offer volume increased by nine per cent during the period.

## GRIPEN TRANSACTION DOMINATES THE PERIOD

Emerging markets account for 95 per cent of the guarantee volume, which is an increase from 74 per cent the previous year. Although the large transaction with Brazil has contributed to the increase, the emerging market dominance has been a trend for a number of years. The large Brazilian transaction also means that the defence industry accounts for the largest proportion of the period's guarantee volume. There is also a significant proportion of export transactions in the telecom, transport and mining sectors. These sectors have shown an increased guarantee volume compared with the same period the previous year.

## TRANSACTIONS WITH A RISK OF ENVIRONMENTAL AND SOCIAL IMPACTS

Eight of the 1,186 transactions that EKN guaranteed during the period were category A transactions, while 458 were classified as category B. Category A involve a significant risk of environmental and social impacts. 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 14.4 billion of the period's guarantee volume of SEK 78.0 billion.

# Strong results

Earned premiums\* for the period amounted to SEK 1,062 million, a slight increase from the previous year's SEK 1,026 million. The sharp increase in premiums due to the large Brazilian transaction was offset by the need for provisions for the transaction, which means that the effect on earned premiums is limited. Claims incurred\*\* for the period increased, amounting to minus SEK 113 million. These remain at a low level, but are somewhat higher than the previous year's minus SEK 31 million.

Operating costs were SEK 167 million, which is an increase of SEK 4 million compared with the previous year.

Financial items were SEK 338 million, compared with SEK 434 million the previous year. Profit for the year includes exchange gains of SEK 20 million.

Profit for the period was SEK 1,132 million, which is SEK 134 million lower than the corresponding period in 2014. The result is due to a continuation of good earnings on outstanding guarantees and only slightly increased claims incurred and lower finance income.

*”The Gripen transaction will strengthen and develop the long-standing business relations between Brazil and Sweden well into the future.”*

*Director General, Karin Apelman*

\*) Earned premiums consist of premium income, the change in gross provisions for unearned premiums and the effects of reinsurance.

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

## Condensed income statement

Amounts in SEK millions	Jan–Sep 2015	Jan–Sep 2014
Earned premiums	1,062	1,026
Other income	11	1
Claims incurred (net of reinsurance)	-113	-31
Operating costs	-167	-163
<b>Operating profit</b>	<b>794</b>	<b>832</b>
Financial items	338	434
<b>PROFIT FOR THE PERIOD</b>	<b>1,132</b>	<b>1,266</b>

## Condensed balance sheet

Amounts in SEK millions	2015-09-30	2014-12-31
Cash and securities	26,896	27,859
Claims value	1,756	1,737
Premium receivables	4,817	1,613
Other assets	207	240
Provisions	-9,091	-5,412
Deferred liability to treasury	-425	-498
Other liabilities	-240	-464
<b>EQUITY</b>	<b>23,919</b>	<b>25,075</b>

## **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.

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](http://www.ekn.se)