

Interim Report

January–September

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Demand is at the same level as last year. Continued growth for small and medium-sized companies. Some large problem transactions gave negative results.

The period in brief

EKN guaranteed export transactions to a value of SEK 26.1 billion (78.0).

The number of guaranteed transactions was 1,317 (1,186).

The volume of offers fell from SEK 48.0 billion to SEK 35.2 billion. The number of offers was 1,741 (1,441).

The guarantee volume relating to small and medium-sized companies was SEK 2.1 billion, an increase from SEK 1.7 billion in the same period last year.

EKN had a negative result of minus SEK 1.9 billion, compared with a positive result of SEK 1.1 billion the previous year. The difference is due to increased provisions for future claims.

The figures in brackets refer to the corresponding values for the same period last year.

Transactions for the period	Jan-Sep 2016	Jan-Sep 2015
Number of offers	1,741	1,441
Volume of offers, million SEK	35,226	48,016
Number of guaranteed transactions	1,317	1,186
Guarantee volume, million SEK	26,117	-78,029
Claim expenses, million SEK	-3,403	-113
(of which claims paid)	-967	-260
Profit/loss for the period, million SEK	-1,947	1,132
Outstanding exposure and accumulated earnings, million SEK	30/09/2016	31/12/2015
Offers outstanding	72,390	72,984
Guarantees outstanding	193,148	214 134
Provision for risk exposure	12,800	9,833
Equity	20,832	23,252

Weak growth except in Asia

Lower investment and consumption are holding back growth in large parts of the world. This affects Swedish exports. Asia continues its strong growth and the domestic capital markets are developing.

Growth in the global economy is expected to remain unchanged this year, compared with 2015. It has been at three per cent in recent years. Among the high-income countries, it has primarily been the IMF's forecasts for the USA and the United Kingdom that have been revised downwards during the year. The UK's decision to leave the EU in a couple of years has caused investors to review their investment plans for the United Kingdom. Impact on the global economy is insignificant, but the effects for the United Kingdom will be much greater.

Growth in the USA is lower than expected. One explanation is the strong dollar, which is having a negative effect on exports.

WEAKENED POUND CAUSES FALL IN SWEDISH EXPORTS

Sweden will notice the effects of the UK's exit from the EU. More than seven per cent of exports in 2015 went to the UK. The British decision can already be seen in the export statistics. During the first eight months of the year, exports to the country fell by 20 per cent. It is the weakened pound that is behind this development. There is a risk that a weakened pound will be a long-term consequence of the likely EU exit, which may mean that Swedish export losses are also long-term.

LOW COMMODITY PRICES

Commodity prices, having stabilised at a considerably lower level than was the case four or five years ago, have had dramatic consequences for a number of countries in Latin America and the CIS.

The effects of the low commodity prices have been even more dramatic in many African countries. In January, the forecast for Africa's growth this year was 4.0 per cent. It has now been written down to 1.4 per cent. The fall in commodity prices, the lack of economic reforms and political

unrest have all contributed to this reduction. From the Swedish point of view, this had led to reduced exports to the region. During the first eight months, Swedish exports to Africa fell by 15 per cent.

As a consequence of the region's difficulties, the general risk level has increased, which explains why the volume of offers for EKN guarantees for business to Africa is at the same level as in the corresponding period last year.

CONTINUED GROWTH IN ASIA,

Asia continues to show healthy growth figures of around 6.5 per cent on an annual basis, with India on top among the larger countries at 7.5 per cent. China's transition from massive investment in industry and exports to a more service-based economy is occurring in a way that has reduced the pace of growth to levels more normal for emerging economies. The present rate of around six per cent is more sustainable in the long term than the previous double-digit growth. The healthy economic growth in Asia has contributed to the development of the domestic equity markets in many countries. Where companies were previously referred only to bank loans for their financing needs, there are now alternatives such as issuing bonds. This financing solution is also an alternative to export credits.

THE PRICE OF RISK HAS STABILISED

The trend from the end of last year, with falling risk premiums for corporate bonds, has continued during the year. Expansionary monetary policy in many OECD countries is contributing to good liquidity in the financial system. The low return on government bonds leads to investors turning to interest-bearing assets with a higher risk and thereby higher returns, which in turn leads to lower risk premiums.

More guaranteed transactions

Demand for EKN's guarantees is at the same level as last year. Guarantees issued to small and medium-sized companies continue to increase. In some of the larger transactions in EKN's exposure, the guarantee holders have not been paid. EKN makes provision for future claims in these transactions.

The issuing of guarantees amounted to SEK 26.1 billion. For the corresponding period in 2015, the guarantee issuing amounted to SEK 78.0 billion. The majority of this large difference relates to a very large transaction that EKN guaranteed in 2015. The number of guaranteed transactions increased to 1,317 from 1,186. The volume of offers fell to SEK 35.2 billion, compared with SEK 42.0 billion. This too is mainly explained by a very large offer last year, which was not realised.

The number of companies that use EKN's guarantees, either themselves guaranteeing their payment risk or through a financing bank guaranteeing the risk amounted to 382 at the end of the period. Of these, 256 were small and medium sized companies.

The volume of guarantees for small and medium-sized companies continued to increase and amounted to SEK 2.1 billion for the period, compared with SEK 1.7 billion last year. The volume of offers for small and medium sized companies also increased and amounted to SEK 2.4 billion, compared with SEK 1.8 billion.

The number of new customers in this segment was 64, compared with 68 in the same period in 2014.

INCREASE TO OECD AND DECREASE TO THE MIDDLE EAST

The majority of EKN's guarantees are for exports to emerging economies. During the period the volume of guarantees for transactions to OECD high-income countries increased, with guaranteed transactions to Spain, Italy, the Netherlands and France. During the year the weaker oil prices have meant a decrease in guarantees for transactions with the Middle East.

REGIONAL EXPORT CENTRES

During the last three years, EKN has increased its presence throughout Sweden. EKN opened local offices, first in Gothenburg and then in Malmö and Umeå. During 2016, the office in Gothenburg has been developed into a regional export centre, with Almi, Business Sweden, SEK and EKN

located in the same premises. In other cities, EKN works closely with Almi and Business Sweden by means of frequent visits to their regional offices. During the year EKN also increased its regional presence by engaging financing advisers, who are tasked by EKN with contacting companies for discussions on how financing can be facilitated with the help of EKN.

To further increase companies' awareness of EKN, EKN has increased advertising, direct mail, and participation in fairs and local activities.

TRANSACTIONS WITH A RISK OF ENVIRONMENTAL AND SOCIAL IMPACT

Of the 1,317 transactions that EKN guaranteed during the first three quarters of the year, eight were category A and 563 were category B. Category A means 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 13.2 billion of the period's guarantee volume of SEK 26.1 billion.

PROVISIONS FOR CLAIMS AND CLAIM PAYMENTS INCREASE

At the end of the previous year and at the beginning of 2016, payment problems in certain large transactions increased. In EKN's assessment, some of these problems will lead to EKN's paying claim compensation. EKN has therefore made substantial provisions for claims.

Claim payments also increased during the three first quarters to SEK 967 million, compared with SEK 260 million during the same period last year. Most of the period's claims payments have been in the transactions for which EKN made substantial provisions during the year. During the period, EKN recovered SEK 956 million of previous claims payments. The majority is for transactions to Iran, which were conducted before the sanctions.

Increasing need for provisions

The period's earned premiums¹ amounted to SEK 816 million, a reduction compared to last year's SEK 1,062 million. This reduction is because the guarantees issued during the period referred to credit with a shorter term. A shorter term to maturity means a lower premium.

Claims incurred² during the period increased to SEK -3,402 million, which was mainly due to an increase in provisions for anticipated claims payments.

Operating expenses amounted to SEK 170 million an increase of SEK 3 million over the previous year.

Financial results amounted to SEK 808 million, compared with SEK 338 million last year.

During the period, EKN increased its assets in foreign currencies, so as to handle claim provisions and payments. To finance the purchase of foreign currency, EKN liquidated assets in SEK and realised the gains. Currency results for the period gave exchange rate losses amounting to SEK 3 million, compared with exchange rate gains of SEK 20 million last year.

Profit/loss for the period amounted to SEK - 1,947 million, compared with a profit of SEK 1,132 million for the corresponding period in 2015. The loss is due to the increased provisions for future claim compensation in a couple of transactions conducted previous years. EKN still has a strong financial position after many years with positive results.

¹) Earned premiums consist of premium income, changes in provisions for unearned premiums and unexpired risks and the effects of reinsurance.

²) Claims incurred is the estimated final cost to EKN after taking into account provisions, payments and recoveries.

Condensed income statement

Amounts in SEK million

	Jan-Sep 2016	Jan-Sep 2015
Earned premiums	817	1,063
Other income	1	11
Claims incurred (net of reinsurance)	-3,403	-113
Operating costs	-170	-167
Operating profit/loss	-2,755	794
Financial items	808	338
PROFIT/LOSS FOR THE PERIOD	-1,947	1,132

Condensed balance sheet

Amounts in SEK million

	30/09/2016	31/12/2015
Cash and securities	27,767	27,145
Net value of outstanding claims	1,396	2,055
Premium receivables	4,865	4,645
Other assets	37	207
Provisions	-12,800	-9,833
Deferred liability to treasury	-263	-363
Other liabilities	-170	-604
EQUITY	20,832	23,252

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.

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

The Swedish Export Credits Guarantee Board

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