

KINGDOM OF SWEDEN

Rating Analysis - 11/27/19

*EJR Sen Rating(Curr/Prj) AA+/ NR

*EJR CP Rating: A1+

Sweden's economy is facing a marked slowdown, with unemployment set to rise above seven percent as companies cut back on investment. Since the beginning of the year, domestic demand and investment have been weak, but exports were holding up - which has become the economy's engine of growth.

Economic activity in Sweden slowed down markedly in H1 2019 after several years of relatively brisk growth. A significant fall in housing investment accounts for a large part of the deceleration in domestic demand in 2019, which combined with high levels of unemployment are cause of concern. Private consumption growth is forecast to decrease in 2019, reflecting a deterioration in the labour market, falling consumer confidence and the associated rise in precautionary savings. In spite of sizeable spending needs for schools, health care and welfare services linked to demographic developments, general government consumption is set to moderate in 2019 and 2020. We are affirming with a devlp. watch.

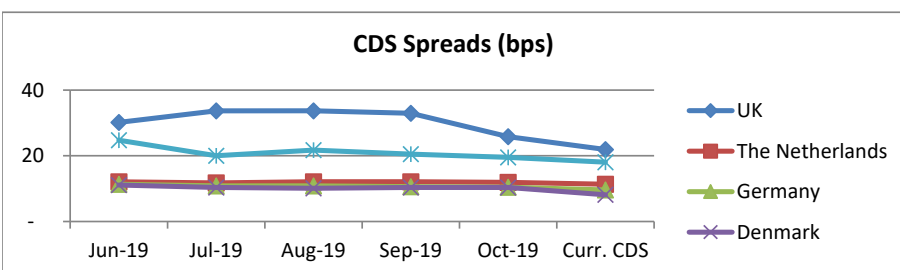
Annual Ratios (source for past results: IMF)

CREDIT POSITION	2016	2017	2018	P2019	P2020	P2021
Debt/ GDP (%)	59.9	58.0	56.7	52.3	47.7	42.9
Govt. Sur/Def to GDP (%)	2.1	2.7	2.4	2.7	3.0	3.2
Adjusted Debt/GDP (%)	59.9	58.0	56.7	52.4	47.8	43.0
Interest Expense/ Taxes (%)	1.3	1.1	1.2	1.2	1.1	1.1
GDP Growth (%)	3.9	4.6	4.6	2.3	2.3	2.5
Foreign Reserves/Debt (%)	17.7	16.4	16.8	18.1	19.4	21.0
Implied Sen. Rating	AA+	AA+	AA+	AA+	AA+	AA+

INDICATIVE CREDIT RATIOS

	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

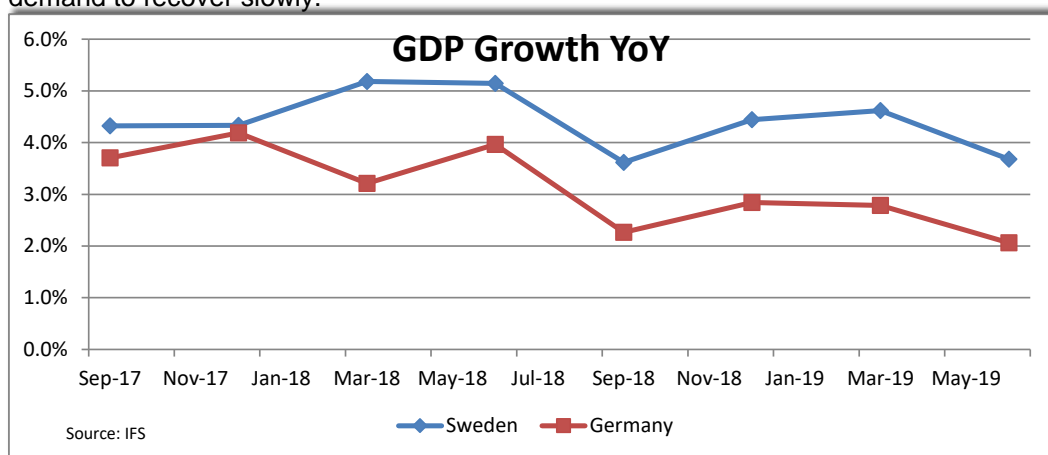
PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	69.2	1.8	69.2	3.9	3.1	AA-
Kingdom Of Denmark	AAA	48.0	1.2	48.0	2.4	2.1	AA
United Kingdom	AAA	113.2	-0.4	113.2	9.0	3.3	A-
Kingdom Of The Netherlands	AA+	65.6	1.4	65.6	3.7	4.9	AA
Republic Of Finland	AA+	69.5	0.0	69.5	2.9	3.7	AA-



Country	CDS
UK	22
The Netherlands	11
Germany	10
Denmark	8
Finland	18

Economic Growth

Sweden has enjoyed years of strong growth, but the effects of the trade spat between the U.S. and China and worries over Brexit are having an adverse impact and recent data points to a relatively rapid slowdown. GDP fell by 0.1% YOY during Q2'19 - a surprise contraction, with the annual growth at just 1.4% compared to the Riksbank's prediction of 1.8% growth. Riksbank Governor Stefan Ingves has issued warnings of financial stability risks which EJR considers will be a key factor in Riksbank policymaking, adding to their determination to move out of negative rates at the margin. Real GDP growth is forecast to fall to 1.1% in 2019 as domestic demand growth turns slightly negative. Economic growth is expected to stabilise in 2020 and pick up modestly to 1.4% in 2021, as exports are set to weaken and domestic demand to recover slowly.



Fiscal Policy

Sweden's public finances are strong. Today, the central government debt-to-GDP ratio in Sweden is the lowest since 1977, and public debt is low in an international perspective. Next year, the structural balance is estimated to amount to 0.2% of GDP.

EJR expects Sweden's fiscal policy to be expansive in 2019 – in combination with the macroeconomic developments, is expected to lead to a smaller surplus of 0.3% of GDP in 2019, and 0.1% in 2020-2021.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Sweden	2.45	56.68	9.73
Germany	1.77	69.18	9.61
Denmark	1.24	48.01	8.13
UK	-0.39	113.24	21.92
The Netherla	1.44	65.57	11.35
Finland	-0.01	69.54	18.06

Sources: Thomson Reuters and IFS

Unemployment

Sweden's unemployment rate rose unexpectedly in Q2'19 - deepening concerns that the economy's slowdown has worsened. Sweden's unemployment rate increased to 6.0% in October of 2019 from 5.5% in the same month of the previous year. Unemployment Rate in Sweden averaged 5.97% from 1980 until 2019, reaching an all-time high of 10.5% in June of 1997 and a record low of 1.3% in July of 1989.

Unemployment (%)	Unemployment (%)	
	2017	2018
Sweden	6.68	6.28
Germany	3.76	3.40
Denmark	5.72	4.97
UK	4.40	4.09
The Netherla	4.86	3.84
Finland	8.63	7.36

Source: Intl. Finance Statistics

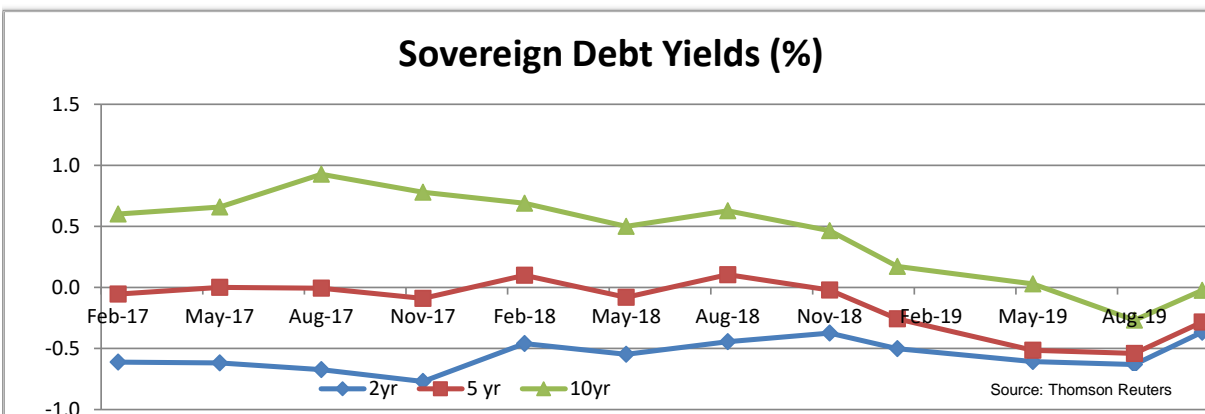
Banking Sector

The Swedish credit market is dominated by four big banks: Handelsbanken, Nordea, SEB and Swedbank. Together, they make up just below 70% of the Swedish credit market. Since 2010, three out of the four largest banks have lost market shares, with Nordea experiencing the biggest decline, losing around 3 percentage points. Small banks have collectively gained market shares since 2010. A cause of concern is the rising Household debt which has increased faster than household disposable income.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
Nordea Bank AB	551.4	50.61
Skandinaviska Enskilda Banken AB	2,567.5	6.76
Svenska Handelsbanken AB	2,978.2	6.11
Swedbank AB	2,246.1	6.27
Total	8,343.2	
EJR's est. of cap shortfall at 10% of assets less market cap		58.7
Sweden's GDP		4,833.7

Funding Costs

The Riksbank left the repo rate unchanged at -0.25% and has changed its guidance to signal more clearly that the repo rate will be raised again in December. The Riksbank lifted its policy rate only once in this cycle in Dec-18 by 25bp from -0.5%. Riksbank acknowledges the clear slowdown in the Swedish economic activity, but considers it as the normalisation of an economic situation that has been strong for many years. The 10Y Government Bond has a -0.030% yield and the current 5-Years Credit Default Swap quotation is 20.40 and implied probability of default is 0.34%.



Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 10 (1 is best, 189 worst) is extremely strong.

The World Bank's Doing Business Survey*			
	2019	2018	Change in
	Rank	Rank	Rank
Overall Country Rank:	10	10	0
Scores:			
Starting a Business	39	13	-26
Construction Permits	31	27	-4
Getting Electricity	10	6	-4
Registering Property	9	9	0
Getting Credit	80	77	-3
Protecting Investors	28	29	1
Paying Taxes	31	27	-4
Trading Across Borders	18	18	0
Enforcing Contracts	39	36	-3
Resolving Insolvency	17	16	-1

* Based on a scale of 1 to 189 with 1 being the highest ranking.

Economic Freedom

As can be seen below, Sweden is strong in its overall rank of 75.2 for Economic Freedom with 100 being best.

Heritage Foundation 2019 Index of Economic Freedom				
World Rank 75.2*				
	2019 Rank**	2018 Rank	Change in Rank	World Avg.
Property Rights	89.5	92.6	-3.1	52.3
Government Integrity	84.0	92.9	-8.9	44.9
Judicial Effectiveness	88.0	88.2	-0.2	41.5
Tax Burden	43.2	43.9	-0.7	77.2
Gov't Spending	26.7	23.2	3.5	64.2
Fiscal Health	96.6	96.1	0.5	66.0
Business Freedom	88.0	89.3	-1.3	63.5
Labor Freedom	53.9	53.7	0.2	59.4
Monetary Freedom	82.0	83.8	-1.8	75.1
Trade Freedom	86.0	86.9	-0.9	74.3

*Based on a scale of 1-100 with 100 being the highest ranking.
**The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).
Source: The Heritage Foundation

Credit Quality Driver: Taxes Growth:

KINGDOM OF SWEDEN has grown its taxes of 3.9% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 3.9% per annum over the next couple of years and 3.9% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:

KINGDOM OF SWEDEN's total revenue growth has been more than its peers and we assumed a 4.9% growth in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Taxes Growth%	3.9	3.9	3.9	3.9
Social Contributions Growth %	3.5	5.3	5.0	5.0
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	7.0	7.8	7.8
Total Revenue Growth%	3.8	4.4	4.9	4.4
Compensation of Employees Growth%	3.0	4.6	4.6	4.6
Use of Goods & Services Growth%	4.1	5.9	5.9	5.9
Social Benefits Growth%	2.4	2.3	2.3	2.3
Subsidies Growth%	3.4	8.2		
Other Expenses Growth%	0.0			
Interest Expense	1.8	0.9	0.9	0.9
Currency and Deposits (asset) Growth%	(10.6)	0.0		
Securities other than Shares LT (asset) Growth%	8.5	0.0		
Loans (asset) Growth%	2.7	6.3	3.9	3.9
Shares and Other Equity (asset) Growth%	(1.2)	1.8	1.8	1.8
Insurance Technical Reserves (asset) Growth%	0.8	0.0		
Financial Derivatives (asset) Growth%	(8.7)	(9.2)	(9.2)	(9.2)
Other Accounts Receivable LT Growth%	(1.2)	19.5	3.9	3.9
Monetary Gold and SDR's Growth %	0.0	0.0	5.0	5.0
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	(0.4)	17.8	3.9	3.9
Currency & Deposits (liability) Growth%	(0.9)	8.4	8.4	8.4
Securities Other than Shares (liability) Growth%	(1.8)	(2.6)	(1.8)	(1.8)
Loans (liability) Growth%	3.1	1.2	1.2	1.2
Insurance Technical Reserves (liability) Growth%	0.0	7.5	2.0	2.0
Financial Derivatives (liability) Growth%	0.0	(13.0)	(13.0)	(13.0)
Additional ST debt (1st year)(billions SEK)	0.0	0.0		

ANNUAL INCOME STATEMENTS

Below are KINGDOM OF SWEDEN's annual income statements with the projected years based on the assumptions listed on page 5.

	ANNUAL REVENUE AND EXPENSE STATEMENT					
	(BILLIONS SEK)					
	2015	2016	2017	2018	P2019	P2020
Taxes	1,687	1,812	1,898	1,973	2,050	2,130
Social Contributions	139	146	153	161	169	178
Grant Revenue						
Other Revenue						
Other Operating Income	266	270	277	297	297	297
Total Revenue	2,092	2,228	2,329	2,431	2,516	2,604
Compensation of Employees	522	552	580	607	634	663
Use of Goods & Services	341	353	361	382	405	429
Social Benefits	715	750	763	781	800	818
Subsidies	66	70	72	78	78	78
Other Expenses				288	288	288
Grant Expense						
Depreciation	134	138	144	153	153	153
Total Expenses excluding interest	2,023	2,112	2,182	2,289	2,358	2,429
Operating Surplus/Shortfall	69	116	146	142	158	175
Interest Expense	<u>24</u>	<u>23</u>	<u>21</u>	<u>24</u>	<u>24</u>	<u>24</u>
Net Operating Balance	45	93	125	118	134	151

ANNUAL BALANCE SHEETS

Below are KINGDOM OF SWEDEN's balance sheets with the projected years based on the assumptions listed on page 5.

Base Case	ANNUAL BALANCE SHEETS (BILLIONS SEK)					
	2015	2016	2017	2018	P2019	P2020
ASSETS						
Currency and Deposits (asset)	158	167	185	173	217	217
Securities other than Shares LT (asset)	449	488	593	555	555	555
Loans (asset)	778	813	809	860	894	929
Shares and Other Equity (asset)	1,564	1,725	1,827	1,860	1,894	1,928
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)	49	41	32	29	26	24
Other Accounts Receivable LT	408	430	447	534	555	577
Monetary Gold and SDR's						
Other Assets						
Additional Assets	<u>0</u>					
Total Financial Assets	3,404	3,664	3,893	4,011	4,141	4,229
LIABILITIES						
Other Accounts Payable	276	297	299	352	366	380
Currency & Deposits (liability)	45	68	62	67	67	67
Securities Other than Shares (liability)	1,490	1,448	1,369	1,333	1,308	1,284
Loans (liability)	436	478	548	555	421	270
Insurance Technical Reserves (liability)	340	354	402	432	441	450
Financial Derivatives (liability)	24	29	24	21	18	16
Other Liabilities						
Liabilities	2,610	2,674	2,705	2,761	2,756	2,693
Net Financial Worth	<u>794</u>	<u>990</u>	<u>1,188</u>	<u>1,250</u>	<u>1,385</u>	<u>1,536</u>
Total Liabilities & Equity	3,404	3,664	3,893	4,011	4,141	4,229

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Comments on the Difference between the Model and Assigned Rating

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "AA+" whereas the ratio-implied rating for the most recent period is "AA+"; we expect results to remain approximately the same.

Changes in Indicative Ratios

We have not made any adjustment in the indicative ratios at this time.

SEC Rule 17g-7(a) Disclosure

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:

For the issuer KINGDOM OF SWEDEN with the ticker of 1179Z SS we have assigned the senior unsecured rating of AA+. There are three notches in our rating categories (e.g., A-, A, and A+) other than those deep into speculative grade; for CC, C, and D there are no notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:

We are using the methodology version #13 available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to page 3 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:

Our rating is dependant on numerous factors including the reliability, accuracy, and quality of the data relied upon in determining the credit rating. The data is sourced from publicly-available 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:

EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:

EJR uses 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, governmental filings and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.**10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:**

This rating is unsolicited.

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	3.9	7.9	(0.1)	AA+	AA+	AA+
Social Contributions Growth %	5.0	8.0	2.0	AA+	AA+	AA+
Other Revenue Growth %		3.0	(3.0)	AA+	AA+	AA+
Total Revenue Growth%	4.9	6.9	2.9	AA+	AA+	AA+
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	AA+	AA+	AA+

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:

This credit rating is not assigned to an asset-backed security.

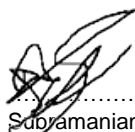
ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

- 1) No part of the credit rating was influenced by any other business activities,
- 2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
- 3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature:

Today's Date

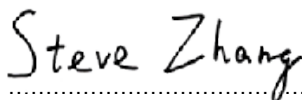


Subramanian NG
Senior Rating Analyst

November 27, 2019

Reviewer Signature:

Today's Date



Steve Zhang
Senior Rating Analyst

November 27, 2019

Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.