MOODY'S
INVESTORS SERVICE

Credit Opinion: Swedish Export Credit Corporation

Global Credit Research - 07 Jun 2011

Stockholm, Sweden

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Aa1
Senior Unsecured -Fgn Curr	Aa1
Senior Unsecured -Dom Curr	Aa1
Subordinate MTN	(P)Aa2
Jr Subordinate MTN	(P)Aa3
Commercial Paper	P-1
Other Short Term	(P)P-1

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Key Indicators

Swedish Export Credit Corporation (Consolidated Financials)[1]

	[2]**3-11**	[2]**12-10**	[2]**12-09**	**2008**	[2]**12-07**	**Avg.**
Total Assets (SEK million)	**311,860.7**	**339,588.1**	**371,588.0**	**--**	**297,236.8**	[3]**1.2**
Total Assets (EUR million)	**34,835.9**	**37,652.5**	**36,273.0**	**--**	**31,455.2**	[3]**2.6**
Total Assets (USD million)	**49,435.8**	**50,512.5**	**52,042.4**	**--**	**45,989.1**	[3]**1.8**
Tangible Common Equity (SEK million)	**12,909.3**	**12,500.9**	**12,736.5**	**--**	**5,441.5**	[3]**24.1**
Tangible Common Equity (EUR million)	**1,442.0**	**1,386.1**	**1,243.3**	**--**	**575.8**	[3]**25.8**
Tangible Common Equity (USD million)	**2,046.4**	**1,859.5**	**1,783.8**	**--**	**841.9**	[3]**24.9**
PPI / Avg RWA (%)	**2.9**	**5.7**	**3.4**	**--**	**0.6**	[4]**3.2**
Net Income / Avg RWA (%)	**2.1**	**4.2**	**2.3**	**--**	**0.4**	[4]**2.3**
(Market Funds - Liquid Assets) / Total Assets (%)	**74.5**	**76.0**	**78.1**	**--**	**75.4**	[5]**76.0**
Tier 1 Ratio (%)	**23.9**	**22.3**	**17.9**	**--**	**6.5**	[4]**17.6**
Tangible Common Equity / RWA (%)	**21.3**	**19.4**	**18.1**	**--**	**6.6**	[4]**16.4**
Cost / Income Ratio (%)	**21.0**	**10.8**	**15.3**	**--**	**37.7**	[5]**21.2**

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Compound Annual Growth Rate based on IFRS reporting periods [4] Basel II & IFRS reporting periods have been used for average calculation [5] IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

In accordance with Moody's rating methodology for government-related issuers (GRIs), the Aa1/Prime-1 ratings of Swedish Export Credit Corporation (SEK) reflect the following inputs: a baseline credit assessment (BCA) of between 2 and 4 (on a scale of 1 to 21, where 1 represents the lowest credit risk), the Aaa local currency deposit ceiling of the Swedish government, high dependence and high support.

The BCA is underpinned by SEK's strong and long-established expertise in its niche segment of export financing, satisfactory financial fundamentals and a relatively low risk profile. SEK's lending activities have a low risk profile due to the credit enhancement of its export loan portfolio via sovereign and bank guarantees. SEK enjoys a unique role as the only financial institution authorised to grant export credits at subsidised and concessionary rates in Sweden (the so-called `S' system). It is also the only specialised export lender in the country.

Moody's views default dependence as high due to SEK's high correlation with the Swedish government. We also view the probability of support as high in light of SEK's strategic public role and its 100% ownership by the Kingdom of Sweden, which clearly reinforces the expectation of support in a distress scenario. The owner's support was clearly demonstrated through a direct capital injection and the creation of dedicated borrowing facilities to allow SEK to continue to fulfil its essential public policy role in 2009.

Credit Strengths

- 100% ownership by the Kingdom of Sweden

- Strong franchise protected by its important public role and well-established business relationships

- Satisfactory financial fundamentals

- Strong quality of lending book despite high loan concentration

Credit Challenges

- Maintenance of a low risk profile and solid asset quality while fulfilling its public policy role

- Full reliance on wholesale funding

- Significant degree of exposure to market risk and earnings volatility due to the large size of its securities portfolio

- Ability to maintain a diversified and conservative securities portfolio

Rating Outlook

The outlook is stable.

What Could Change the Rating - Up

A further strengthening of government support on top of the government ownership, such as a full guarantee of SEK's assets and liabilities, could create upward rating pressure.

What Could Change the Rating - Down

Although viewed as a remote possibility, any decrease in the government's commitment or support, together with a weaker public role, could weigh on the ratings. SEK's low risk profile and good asset quality also remain key rating drivers. Consequently, any material deterioration in these areas could result in negative rating actions.

Recent Results and Company Events

SEK reported a pre-tax profit for the first three months of 2011 of SEK 458 million, up 64% year-on-year. The higher profitability was mainly driven by positive valuation adjustments of SEK 124 million compared to negative SEK 40 million in 2009. Net interest income also increased 5% year-on-year due to lower year-on-year fees to the Swedish stability fund.

SEK reported a Tier 1 capital ratio, according to Basel II transitional rules, of 23.9%, up from 22.4% at year-end 2010.

DETAILED RATING CONSIDERATIONS

Detailed considerations for SEK's currently assigned ratings are as follows:

Qualitative Factors

Franchise Value

Trend: Neutral

SEK has a leading position as a provider of long-term export financing to large Swedish companies. This role is crucial to the Swedish government considering the importance of the export sector to the Swedish economy (exports accounted for around 50% of GDP in 2010).

SEK's public role, its niche franchise as a long-term specialised player in export finance and its close ties with the Kingdom of Sweden are important competitive advantages to the other commercial banks. SEK enjoys also a unique role as the only financial institution in Sweden that is authorised to grant export credits at subsidised and concessionary rates. The `S' system credits accounted for an 13% share of the total loans outstanding at end-2010.

To complement its core business, SEK has expanded into new business areas ranging from debt capital markets to advisory services and project financing, broadening its customer base to also include local and municipal authorities and smaller size corporates. Those activities, however, still account for a comparatively small proportion of SEK's overall profit. Moody's notes that overall export lending only accounts for around 50% of total assets. Going forward, a key challenge for SEK will be to successfully develop its position using new products while maintaining a stable and conservative risk profile.

Risk Positioning

Trend: Neutral

Due to its 100% government ownership, SEK departs from the requirements for corporate governance in a few areas, which are described below. That said, we have no concerns about SEK's corporate governance because (i) there are no minority shareholders that could suffer under the current ownership structure and (ii) we are comfortable with the level of management integrity.

SEK's risk-related management and control is directed towards credit, market, liquidity and operational risks. Risk control is carried out by the risk control function, which reports to the head of risk and to the president.

Although funding and lending are in a variety of currencies, SEK eschews residual net foreign currency risk by principally matching all assets and liabilities in all individual currencies. To this end, the institution utilises its assets and liabilities as well as derivatives. A limited currency exposure is allowed in relation to its investments or as part of locked-in arrangements. The maximum currency risk limit - set in relation to a ten-percentage-point change in the exchange rate for Swedish kronor - is SEK15 million. At end-2010 the actual currency risk amounted to SEK2 million (SEK4 million in 2009).

Interest rate risk for in debt-financed assets and debt excluding subordinated debt is calculated from a parallel shift in the yield curve of one percentage point and the company has set a maximum limit of SEK 70 million. The actual interest rate risk at end-2010 amounted to SEK 47 million (SEK 37 million in 2009). Interest rate risk for perpetual subordinated debt is measured as the highest of the risks from a parallel shift in the yield curve of one percentage point and the risk from a half-percentage-point rotation of the yield curve. At end-2010, the interest rate risk for subordinated debt was SEK 144 million and Moody's notes the company does not have an interest rate risk limit for its subordinated debt holdings.

Regulatory and Operating Environments

See Moody's latest Banking System Outlook on Sweden for a discussion of the regulatory and operating environments.

Quantitative Factors

Profitability

Trend: Neutral

In line with similar specialised lenders, SEK's core profitability is historically relatively modest, reflecting the lower margins of its traditional lending business coupled with a still limited contribution from its business expansion into new activities. However, over the past few years, SEK has been able to improve its profitability through higher volumes of export lending and more significantly increasing income from its large securities portfolio (total securities accounted for around half of its total assets as at end 2010). This last component has also resulted in SEK's earnings experiencing significant volatility due to the mark-to-market valuations of its financial assets. We note there is lack of transparency in relation to breakdown of earnings from its export lending activities and from its securities portfolio.

SEK's pre-tax profit for 2010 was boosted by a gain of SEK 2.6 billion the sale of its holdings in Swedbank AB. Excluding such non-recurring income, SEK reported a pre-tax profit for 2010 of SEK 1.3 billion, down from SEK 2.4 billion in 2009. Net interest income, which makes up the bulk of operating income, declined 5% year-on-year mainly as a result of fees related to the Swedish governments stability fund. Net interest margin remained largely unchanged year-on-year at around 0.5%. Net result from financial transactions for 2010 was a loss of SEK 0.2 billion (excluding the extraordinary gain from the sale of its holdings in Swedbank) compared to a gain of SEK 1.1 billion in 2009. As a result of the negative impact from net financial transactions, overall operating income was down close to 45% year-on-year.

Operating expenses declined 4% year-on-year and SEK recorded net recoveries of SEK 8.2 million versus impairments of SEK 246 million in 2009.

Liquidity

Trend: Neutral

SEK does not take customer deposits, but is wholly reliant on purchased funds. Its investor base is wide and comprises the US, Europe and Asia that the entity access offering a broad range of funding alternatives .

As a market-funded entity, SEK is dependent on unencumbered access to liquidity at all times, so that its operations can continue should there be any market interruptions. To offset this dependence, SEK's policy is that all credit commitments, including undisbursed credits, will be funded through maturity. SEK remains over-borrowed in all maturities so that normal lending operations could continue without access to additional market funding for approximately one year. Surplus borrowing is invested in assets with good credit quality and liquidity. SEK also has a strict policy for its liquidity risk in its short-term liquidity management. This policy includes requirements for back-up facilities.

In order to ensure that SEK had access to ample liquidity during the financial crisis, the Swedish government in late 2008 provided SEK with a borrowing facility of up to SEK100 billion and with the option of purchasing state guarantees for its new long-term borrowing up to a total amount of SEK450 billion (reduced to SEK 250 million in 2010). So far these facilities have remained unused by SEK as the company has been able to support its lending growth through domestic and international markets. In January 2011, the Swedish government extended both the borrowing facility and the option to purchase state guarantees for 2011.

Capital Adequacy

Trend: Neutral

At the end of December 2010, SEK reported Tier 1 and total capital ratios, according to transitional Basel II rules, of 22.3% and 22.3%, respectively, compared to 17.9% and 18.9%, respectively, at end-2009.

We expect SEK to continue to maintain its current satisfactory capital adequacy ratios going forward.

Efficiency

Trend: Neutral

In line with similar institutions, the absence of a branch network represents a cost advantage for SEK, allowing it to post better efficiency ratios than those of commercial banks. In comparison with similar institutions, SEK's efficiency ratios are good, despite deterioration over the past five years. The cost-to-income ratio (when excluding the gain from the sale of its holdings in Swedbank) deteriorated to 27% at end-2010 from 16% at end-2009, mainly as a result of the lower profitability from net financial transitions. Including the gain from the sale of the holding in Swedbank the cost-to-income improved to 11% at end-2010.

Efficiency remains important for SEK's long-term competitiveness and we expect it to continue focusing on cost control going forward.

Asset Quality

Trend: Neutral

SEK has maintained high asset quality over time with respect to its loan portfolio, which accounted for approximately 50% of total assets at end-December 2010. The bulk of SEK's credit exposure is either guaranteed or backed by highly rated sovereigns and financial institutions. At the end of December 2010, SEK's total net exposure included: states and local governments (48%), financial institutions and ABS (40%) and corporates (12%).

With regard to SEK's loan book, its lending mainly consists of large loans with long maturities, potentially exposing the institution to considerable risks. Nevertheless, as noted above, export credits normally have a guarantee from either an export credit agency, a bank or are covered by other risk-mitigant instruments; as a result, a bulk of the portfolio is guaranteed or backed by high-quality counterparties. Additionally, SEK uses derivatives and collateral agreements to mitigate risk.

SEK benefits from the good quality of its lending book. At end-December 2010, it had past-due loans (principal or interest that are more than 90 days overdue) amounting to 0.2% to gross loans.

SEK has a sizeable portfolio of interest-bearing securities, which accounts for close to 40% of its total assets. SEK's investment criteria are more flexible than those of most other government/local government-owned specialised lenders. According to its policies, SEK was able to invest in ABS, and has established fixed guidelines as to the type of assets and ratings.

At end-December 2009, SEK 23.5 billion was invested in ABS, down from SEK 33.6 billion year-end 2009. Within the ABS portfolio, around 80% is represented by residential mortgage-backed securities (RMBS), most of which are European with very limited exposure to the US market.

The ABS portfolio of SEK is included in the "loans and receivables" accounting category and has therefore not been subject to mark-to-market adjustments. According to Moody's internal stress tests, this portfolio would need to undergo a good degree of impairment if current mark-to-market were to be applied. We consider, however, the probability of these mark-to-market losses materialising as being relatively small for the time being given that SEK's liquidity position remains strong and that its policy is to hold ABS assets until natural maturity. Moody's will continue to monitor the performance of this portfolio to ensure that it remains in line with the credit and risk profile of the institution.