

Swedish Export Credit Corp.

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Swedish Export Credit Corp.

Major Rating Factors

Strengths:

- Extremely high likelihood of government support.
- Very good loan asset quality.
- Robust capitalization.

Weaknesses:

- Concentration on large individual exposures.
- Low profitability.
- Total reliance on wholesale funding.

Counterparty Credit Rating

AA+/Stable/A-1+

Rationale

The ratings on state-owned Swedish Export Credit Corp. reflect our opinion that there is an extremely high likelihood of extraordinary support for the company from the Kingdom of Sweden (AAA/Stable/A-1+) which results in an uplift from the company's stand-alone credit profile of four notches. They are also underpinned by the company's very good loan asset quality and robust capitalization. Factors constraining the ratings include the company's significant large exposure risk, low profitability, and total dependence on wholesale funding.

With total assets of Swedish krona (SEK) 311 billion (€35 billion at SEK8.95 to €1) on March 31, 2011, Swedish Export Credit Corp. is a specialized provider of long-term financial solutions. Credit is extended to any area of Swedish economic life that is directly or indirectly linked to the export industry.

In line with our enhanced methodology for government-related entities, we assess the likelihood of timely and sufficient extraordinary government support to Swedish Export Credit Corp., in the event of financial distress, to be 'extremely high'.

We believe that Swedish Export Credit Corp. plays a 'very important' role for the government in providing financing to the export sector (which generates about 50% of Sweden's GDP), especially in times of scarce credit availability. We assign an 'integral' link as we note that Swedish Export Credit Corp. has been mandated to act as the country's sole provider of Commercial Interest Reference Rate (CIRR) export loans to the Swedish export sector and effectively function as an arm of government in supporting the sector. In addition, the government holds a 100% stake in Swedish Export Credit Corp. and has shown its support in a number of tangible ways such as a large capital injection in 2008 and a dedicated liquidity line.

We view Swedish Export Credit Corp.'s asset quality as very good. Nevertheless, in 2008 and subsequent years, the company has made substantial loan loss provisions (related to an Icelandic bank, an exposure that was sold off in 2010, and a collateralized debt obligation). In addition, sizeable exposures, both to corporates and banks, that arise as a result of the company's business model are material in relation to the company's capital, and could become a rating constraint. This risk is mitigated by good management and the balance of these large exposures against the use of guarantees and other credit risk derivative protection.

We assess Swedish Export Credit Corp.'s capital as robust after the company was significantly strengthened at year-end 2008 by a government equity injection of SEK5.4 billion. In 2010 and the first quarter of 2011, Swedish Export Credit Corp. actively reduced its liquidity portfolio and saw a decline in demand for loans which resulted in a decreasing balance sheet and improved capital ratios. The company's risk-adjusted capital ratio (RAC), which gives no equity credit to the company's hybrids, increased markedly to 13.1% as at Dec. 31, 2010 compared with 10.5% a year earlier. Although strong, the RAC ratio does not capture the concentration of the company's exposure to large financial institutions and we consider this when evaluating its capital position. Nevertheless, we believe Swedish Export Credit Corp.'s capital will remain robust and expect no extraordinary dividends in the near future.

We believe the company's earnings capacity is relatively low but commensurate with its low-risk business model. The company is almost wholly reliant on net interest income, which has been increasing over the last two years on the back of improving margins, but predominantly due to volume increases. We believe volume growth will moderate but remain above pre-crisis levels due to reluctance on the part of banks to extend loans with long maturities in view of future Basel III capital and match-funding requirements. Given the company's low revenue base, cost efficiency is of vital importance and Swedish Export Credit Corp.'s is tightly managing its cost base resulting in a fair-value-adjusted cost-income ratio of about 30% over the past two years.

As a result of its business model, Swedish Export Credit Corp. is entirely dependent on wholesale funding. We consider the company's funding strategy to be prudent although high levels of structured funding may create operational challenges. We believe that the company benefits from very strong name recognition in the international capital markets. In 2008 and 2009, Swedish Export Credit Corp. had good access and continues to have good access to both short-term and long-term funds and has not needed to use either a SEK100 billion facility or a guarantee offered by the government.

Outlook

The stable outlook reflects our view that there is an 'extremely high' likelihood of extraordinary support from the Swedish government if necessary. It also reflects the company's strong loan asset quality and robust capitalization.

A negative rating action could follow if there are indications of a substantial change in the company's CIRR loan mandate, a scenario we consider unlikely. This could lead to weakened government support that would result in a lowering of our assessment of the company's link with and role for the government.

A negative rating action could also follow if the company's stand-alone credit profile were to deteriorate significantly from its current levels.

A review for a positive rating action could be triggered by a formal guarantee provided by the Swedish government. However, we consider this unlikely for the time being.

Table 1

Swedish Export Credit Corp. Risk-Adjusted Capital Framework Data					
(Bil. SEK)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk					
Government and central banks	164	1	1	7	4

Table 1

Swedish Export Credit Corp. Risk-Adjusted Capital Framework Data (cont.)					
Institutions	114	29	26	23	20
Corporate	44	24	56	34	78
Retail	0	0	0	0	0
Of which mortgage	0	0	0	0	0
Securitization	24	4	18	7	29
Other assets	0	0	81	0	104
Total credit risk	347	59	17	71	20
Market risk					
Equity in the banking book¶	0	0	0	0	0
Trading book market risk	--	3	--	5	--
Total market risk	--	3	--	5	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	5	--	6	--
(Bil. SEK)	Basel II RWA		Standard & Poor's RWA	% of Standard & Poor's RWA	
Diversification adjustments					
RWA before diversification	68		81	100	
Total adjustments to RWA	--		12	14	
RWA after diversification	68		93	114	
(Bil. SEK)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	Standard & Poor's RAC ratio (%)	
Capital ratio					
Capital ratio before adjustments	14	21.3	12	15.0	
Capital ratio after adjustments§	14	22.4	12	13.1	

*Exposure at default. €Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. ¶Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. §Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. SEK--Sweden krona. Sources: Company data as of Dec. 31, 2010, Standard & Poor's.

Table 2

(%)	--Year-ended Dec. 31--				
	2011*	2010	2009	2008	2007
Gross nonperforming assets/customer loans plus other real estate owned	0.0	0.0	0.0	0.0	0.0
Net nonperforming assets/customer loans plus other real estate owned	(0.4)	(0.4)	(0.6)	(0.8)	N/A
Loan loss reserves/gross nonperforming assets	N.M.	N.M.	N.M.	N.M.	N/A
Loan loss reserves/customer loans	0.4	0.4	0.6	0.8	N/A
New loan loss provisions/average customer loans	(0.0)	(0.0)	0.1	0.1	N.M.
Net charge-offs/average customer loans	(0.0)	(0.0)	(0.0)	(0.0)	N.M.

Table 2

Swedish Export Credit Corp. Asset Quality, Funding, And Liquidity Ratios (cont.)					
Customer deposits/funding base	0.0	0.0	0.0	0.1	0.0
Total loans/customer deposits	909,332.5	943,045.1	N.M.	98,803.2	279,855.5
Total loans/customer deposits plus long-term funds	1,143.7	1,199.0	1,238.2	1,319.6	1,576.7
Customer loans (net)/assets (adjusted)	47.8	46.8	44.0	36.2	31.9

*Data as of March 31. N/A--Not applicable. N.M.--Not meaningful.

Table 3

Swedish Export Credit Corp. Profitability Ratios					
	--Year-ended Dec. 31--				
(%)	2011*	2010	2009	2008	2007
Net interest income/average earning assets	0.62	0.60	0.60	0.53	0.35
Net interest income/revenues	75.2	103.7	64.4	140.4	101.4
Fee income/revenues	0.2	(0.0)	(0.0)	1.2	1.5
Market-sensitive income/revenues	24.6	(3.7)	35.6	(41.6)	(3.0)
Personnel expense/revenues	12.2	14.2	10.1	20.8	23.9
Noninterest expenses/revenues	21.0	25.4	15.4	31.8	35.6
New loan loss provisions/revenues	(0.0)	(0.4)	7.9	50.2	0.0
Net operating income before loan loss provisions/loan loss provisions	N.M.	N.M.	1,063.7	135.7	N.M.
Net operating income after loan loss provisions/revenues	79.1	75.1	76.6	17.9	64.4
Pretax profit/revenues	79.1	215.2	76.5	16.8	61.7
Tax/pretax profit	27.0	26.6	27.1	22.3	30.4
Core earnings/revenues	59.2	59.3	53.6	6.5	45.6
Core earnings/average adjusted assets	0.42	0.31	0.45	0.02	0.14
Noninterest expenses/average adjusted assets	0.1	0.1	0.1	0.1	0.1
Core earnings/average risk-weighted assets	1.8	1.3	1.8	0.1	0.5
Core earnings/average adjusted common equity	11.0	9.2	15.3	1.0	8.6
Pretax profit/average common equity (%)	14.4	30.3	19.9	2.5	11.8

*Data as of March 31. N.M.--Not meaningful.

Table 4

Swedish Export Credit Corp. Capital Ratios					
	--Year-ended Dec. 31--				
(%)	2011*	2010	2009	2008	2007
Adjusted common equity/risk assets (%)	16.8	15.1	13.0	10.5	5.4
Tier 1 capital ratio	23.9	22.3	17.9	14.8	6.5
Adjusted total equity/adjusted assets	4.1	3.6	2.7	2.8	1.8
Adjusted total equity/managed assets	4.1	3.6	2.7	2.8	1.8
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	8.9	8.0	6.6	8.4	5.5
Common dividend payout ratio	0.0	65.4	30.0	0.0	0.0

*Data as of March 31.

Table 5

Swedish Export Credit Corp. Summary Balance Sheet					
(Mil. SEK)	--Year-ended Dec. 31--				
	2011*	2010	2009	2008	2007
Assets					
Cash and money market instruments	2,707.2	8,798.0	N/A	0.0	0.0
Securities	103,498.6	105,964.3	135,096.0	138,046.5	136,223.1
Trading securities (marked to market)	4,554.7	5,522.7	7,399.3	7,757.8	0.0
Nontrading securities	98,943.9	100,441.6	127,696.7	130,288.7	136,223.1
Loans to banks (net)	24,098.4	22,538.9	41,179.7	48,399.6	24,812.6
Customer loans (gross)	149,584.1	159,468.8	164,329.1	135,078.0	94,685.7
Loan loss reserves	562.3	561.1	939.9	1,028.5	0.0
Customer loans (net)	149,021.8	158,907.7	163,389.2	134,049.5	94,685.7
Earning assets	277,181.1	287,972.0	340,604.8	321,524.1	255,721.4
Investments in unconsolidated subsidiaries (financial companies)	N/A	N/A	2,710.0	N/A	N/A
Intangibles (nonservicing)	0.0	10.7	10.7	10.9	17.3
Fixed assets	157.8	159.3	120.0	125.5	126.7
Derivatives credit amount	27,178.7	37,659.8	22,654.1	38,929.0	33,812.1
Accrued receivables	3,300.9	3,955.5	4,465.3	6,111.5	5,292.0
All other assets	1,897.3	1,704.1	1,962.9	4,341.7	2,289.7
Total assets	311,860.7	339,687.6	371,588.0	370,014.2	297,259.2
Intangibles (nonservicing)	0.0	10.7	10.7	10.9	17.3
Adjusted assets	311,860.7	339,687.6	371,577.3	370,003.3	297,241.9
Liabilities					
Total deposits	9,111.5	14,362.1	4,049.9	3,495.7	2,106.8
Noncore deposits	9,092.4	14,342.8	4,049.9	3,310.0	2,064.1
Core/customer deposits	19.1	19.3	0.0	185.7	42.7
Other borrowings	264,205.2	288,899.8	323,888.1	309,295.6	267,819.3
Other other borrowings	261,852.4	286,309.5	320,745.3	305,971.8	267,345.6
Other liabilities	25,729.3	23,855.9	30,194.8	46,828.3	20,270.4
Total liabilities	299,046.0	327,117.8	358,132.8	359,619.6	290,196.5
Total equity	12,814.7	12,569.8	13,455.2	10,394.8	7,062.7
Limited life preferred and quasi equity	N/A	N/A	0.0	0.0	2,566.2
Common shareholders' equity	12,814.7	12,569.8	13,455.2	10,394.8	4,496.5
Share capital and surplus	3,990.0	3,990.0	3,990.0	3,990.0	990.0
Revaluation reserve	(94.6)	(4.3)	1,364.8	31.7	(168.5)
Retained profits	8,919.3	8,584.1	8,100.4	6,373.1	3,675.0
Total liabilities and equity	311,860.7	339,687.6	371,588.0	370,014.4	297,259.2

*Data as of March 31. SEK--Swedish krona. N/A--Not applicable.

Table 6

Swedish Export Credit Corp. Equity Reconciliation Table					
--Year-ended Dec. 31--					
(Mil. SEK)	2011*	2010	2009	2008	2007
Common shareholders' equity	12,814.7	12,569.8	13,455.2	10,394.8	4,496.5
Minus dividends (not yet distributed)	(83.6)	(301.0)	(518.0)	0.0	0.0
Minus revaluation reserves	94.6	4.3	(1,364.8)	(31.7)	168.5
Minus nonservicing intangibles	0.0	(10.7)	(10.7)	(10.9)	(17.3)
Minus other adjustments	70.2	78.8	155.3	84.5	0.0
Adjusted common equity	12,755.6	12,183.6	11,406.4	10,267.7	4,647.7
Plus admissible preferred and hybrids	0.0	0.0	0.0	0.0	557.7
Total Adjusted Capital	12,755.6	12,183.6	11,406.4	10,267.7	5,205.4
Plus unrealized gains	N/A	N/A	1,262.0	0.0	0.0
Minus equity in unconsolidated subsidiaries	N/A	N/A	(2,710.0)	N/A	N/A
Adjusted total equity	12,755.6	12,183.6	9,958.4	10,267.7	5,205.4

*Data as of March 31. SEK--Swedish krona. N/A--Not applicable.

Table 7

Swedish Export Credit Corp. Profit And Loss					
--Year-ended Dec. 31--					
(Mil. SEK)	2011*	2010	2009	2008	2007
Net interest income	435.5	1,898.5	1,994.3	1,543.3	833.1
Interest income	2,526.8	12,183.1	13,306.4	12,964.1	11,046.8
Interest expense	2,091.3	10,284.6	11,312.1	11,420.8	10,213.7
Operating noninterest income	143.8	(67.6)	1,102.9	(443.8)	(11.5)
Fees and commissions	1.2	(0.2)	(0.2)	13.0	12.5
Trading gains	N/A	N/A	N/A	0.0	(38.4)
Other market-sensitive income	142.6	(67.4)	1,103.1	(456.9)	14.1
Other noninterest income	N/A	N/A	N/A	0.1	0.3
Operating revenues	579.3	1,830.9	3,097.2	1,099.5	821.6
Noninterest expenses	121.4	464.4	478.4	350.0	292.8
Personnel expenses	70.5	259.4	312.2	228.5	196.3
Other general and administrative expense	47.2	191.9	159.0	112.5	88.2
Preprovision operating income	457.9	1,366.5	2,618.8	749.5	528.8
Credit loss provisions (net new)	(0.1)	(8.2)	246.2	552.3	0.0
Operating income after loss provisions	458.0	1,374.7	2,372.6	197.2	528.8
Nonrecurring/special income	N/A	2,565.0	N/A	0.0	0.0
Amortization of intangibles	N/A	N/A	3.9	12.2	21.9
Pretax profit	458.0	3,939.7	2,368.7	185.0	506.9
Tax expense/credit	123.7	1,048.0	641.3	41.3	153.9
Net income (before minority interest)	334.3	2,891.7	1,727.4	143.7	353.0
Net income before extraordinaries	334.3	2,891.7	1,727.4	143.9	353.0
Net income after extraordinaries	334.3	2,891.7	1,727.4	143.9	353.0

*Data as of March 31. SEK--Swedish krona. N/A--Not applicable.

Table 8

Swedish Export Credit Corp. Core Earnings Reconciliation Table					
(Mil. SEK)	--Year-ended Dec. 31--				
	2011*	2010	2009	2008	2007
Net income (before minority interest)	334.3	2,891.7	1,727.4	143.7	353.0
Minus nonrecurring/special income	0.0	(2,565.0)	0.0	0.0	0.0
Plus or minus tax impact of adjustments	N/A	682.3	0.0	0.0	0.0
Plus amortization/impairment of goodwill/intangibles	0.0	0.0	3.9	12.2	21.9
Plus or minus other earnings adjustments	8.6	75.8	(70.8)	(84.5)	0.0
Core earnings	342.9	1,084.8	1,660.5	71.4	374.9

*Data as of March 31. SEK--Swedish krona. N/A--Not applicable.

Related Criteria And Research

- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Bank Rating Analysis Methodology Profile, March 18, 2004

Ratings Detail (As Of June 30, 2011)*

Swedish Export Credit Corp.

Counterparty Credit Rating	AA+/Stable/A-1+
Commercial Paper	
<i>Foreign Currency</i>	A-1+
Junior Subordinated (3 Issues)	A+
Senior Unsecured (128 Issues)	AA+
Senior Unsecured (1 Issue)	AA+/A-1+
Senior Unsecured (1 Issue)	BB-
Short-Term Debt (3 Issues)	A-1+
Subordinated (2 Issues)	AA

Counterparty Credit Ratings History

04-Sep-2009	AA+/Stable/A-1+
06-Jul-2009	AA+/Watch Neg/A-1+
06-Jun-2003	AA+/Stable/A-1+

Sovereign Rating

Sweden (Kingdom of)	AAA/Stable/A-1+
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*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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