

KINGDOM OF SWEDEN

Rating Analysis - 6/30/16

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

*EJR CP Rating: A1+

EJR's 3 yr. Default Probability: 0.5%

Sweden's economy remains strong. GDP increased 6.04% YoY in 2015. Govt. Surplus to GDP was 1.01% (in 2015) as compared to -0.32% (in 2013). Outcome of recent wage negotiation between Swedish Industrial Union and employers will moderately increase household income and private consumption. Financing cost in Sweden is low: the yield on 10 year note is around 0.26%. Swedish Krona is expected to strengthen this year due to quantitative easing of European Central Bank. On account of declining unemployment, increasing investments and rising consumption, demand for Swedish Krona ("Safe-Haven" Currency in EU) is bound to increase.

Trade will be affected because of the UK leaving the EU and low economic momentum in Germany, which are major export markets in Europe for Sweden. The Swedish economy is robust but could face potential headwinds because of systemic Eurozone crisis. Upgrading to "AA+". Note, to reflect the propensity of central banks to support sovereign obligors, we have eased our indicative credit ratios, resulting in some upgrades.

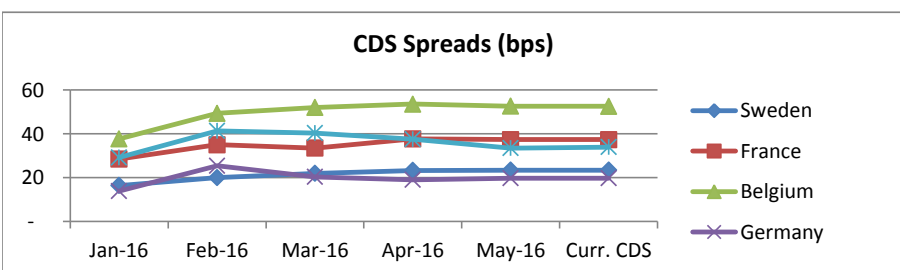
Annual Ratios (source for past results: IMF)

CREDIT POSITION	2013	2014	2015	P2016	P2017	P2018
Debt/ GDP (%)	39.8	44.8	43.4	42.4	41.0	39.3
Govt. Sur/Def to GDP (%)	-0.3	-0.5	1.0	1.4	1.8	2.1
Adjusted Debt/GDP (%)	39.8	44.8	43.4	42.5	41.1	39.4
Interest Expense/ Taxes (%)	2.0	1.7	1.2	1.2	1.1	1.1
GDP Growth (%)	2.3	3.9	6.0	2.5	2.5	2.5
Foreign Reserves/Debt (%)	27.6	24.1	22.9	23.1	23.3	23.7
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

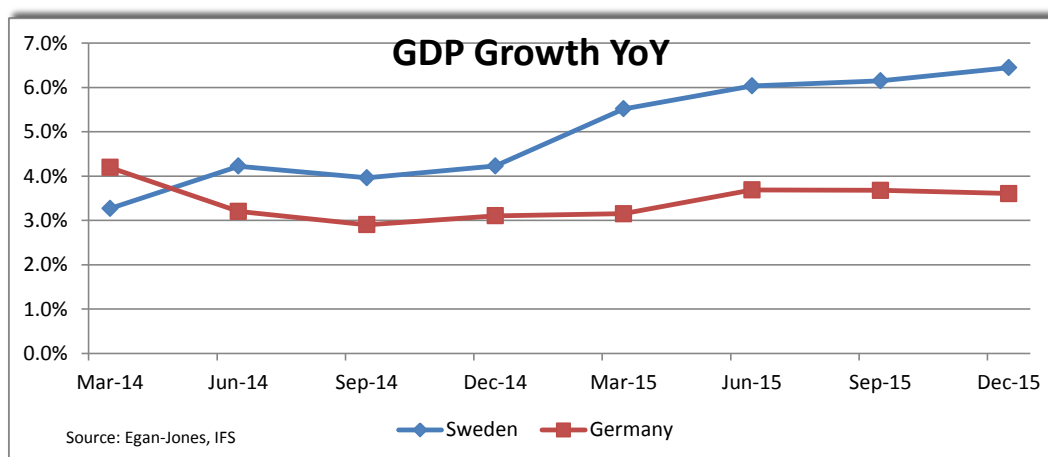
PEER RATIOS	Other NRSRO Sen.	Debt as a % of GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	71.2	0.6	71.2	7.0	4.1	AA+
French Republic	AA	96.0	-3.4	96.0	7.0	2.4	AA-
Kingdom Of Belgium	AA	106.0	-2.6	106.0	9.6	1.9	A+
Republic Of Finland	AA+	63.1	-2.3	63.1	3.9	1.0	AA
United Kingdom	AAA	89.2	-3.5	89.2	8.7	4.0	AA+



Country	CDS
Sweden	23
France	37
Belgium	53
Germany	20
United Kingdom	34

Economic Growth

Robust exports and investments contribute to strong GDP growth. Residential investments are on a rise due to rising housing demand. Public consumption has increased due to inflow of immigrants, at the same time taxes have increased commensurately to balance public finances. GDP growth in Sweden is better than the EU average. The loose monetary policy and rising labor market are expected to bolster inflation towards the targeted 2%.



Fiscal Policy

As seen from the chart to the right, Sweden has a surplus to GDP of about 1.02%. Also, debt to GDP is among the lowest in the EU, signaling a strong credit position. Taxes and public spending are bound to rise in the near term. Govt. spending increased by 0.5% in Q1 2016 (QoQ) to SEK 275,114 million, which is an all-time high.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Sweden	1.02	43.43	23.43
Germany	0.59	71.22	19.79
France	-3.40	95.96	37.35
Belgium	-2.62	105.96	52.56
Finland	-2.31	63.10	26.04
U.K	-3.46	89.22	33.96

Sources: Thomson Reuters and IFS

Unemployment

Sweden's labor market has highly skilled workers that contribute to productivity, strong integration in global value chains and robust economic growth. There are however some challenges for Sweden such as low skill and education levels of immigrants, and efforts to integrate them into the workforce, which are somewhat problematic.

	Unemployment (%)	
	2014	2015
Sweden	7.93	7.40
Germany	6.70	6.01
France	10.30	10.40
Belgium	8.50	8.50
Finland	8.70	9.40
U.K	6.19	5.37

Source: Intl. Finance Statistics

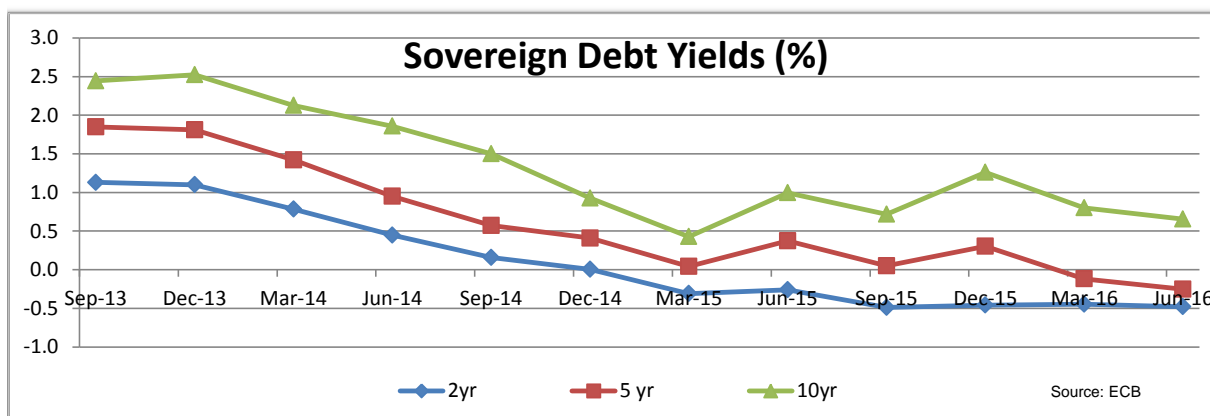
Banking Sector

The top bank assets to GDP ratio is about 316.17%, which is high compared to other countries. The rise in banking risk stems from increasing housing price inflation. The growing number and amount of mortgage borrowing in banks' loan portfolios is a point of concern, since looser monetary policy encourages demand in property market. Sweden's banking sector is well capitalized as compared to other EU peers.

Bank Assets (billions of local currency)		
	Assets	Cap/ Assets %
NORDEA BANK AB	5970.59	5.39
SEB AB-A	2495.96	6.79
SVENSKA HAN-A	2522.13	7.65
SWEDBANK AB-A	2148.86	9.32
Total	13,137.5	
EJR's est. of cap shortfall at 10% of assets less market cap		429.1
Sweden's GDP		4,155.2

Funding Costs

Funding costs in Sweden are low. The repo rate was cut to -0.5% in Feb 2016. Currently 2 year and 5 year yields are in the negative territory. Such loose monetary conditions are likely to be present until inflation target is reached. Current 5 Year CDS spread, which is around 23 bps is one of the lowest in EU.



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 8 (1 is best, 189 worst) is extremely strong.

The World Bank's Doing Business Survey*			
	2015	2014	Change in
	Rank	Rank	Rank
Overall Country Rank:	8	9	1
Scores:			
Starting a Business	16	32	16
Construction Permits	19	19	0
Getting Electricity	7	7	0
Registering Property	11	11	0
Getting Credit	70	61	-9
Protecting Investors	14	12	-2
Paying Taxes	37	37	0
Trading Across Borders	17	17	0
Enforcing Contracts	24	24	0
Resolving Insolvency	19	18	-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 72.7 for Economic Freedom with 100 being best.

Heritage Foundation 2015 Index of Economic Freedom				
World Rank 72.7*				
	2015	2014	Change in	World
	Rank**	Rank	Rank	Avg.
Property Rights	90	90	0	42.2
Freedom from Corruption	89	92.3	-3.3	41.9
Fiscal Freedom	43	42.9	0.1	77.4
Government Spending	19.2	21.4	-2.2	61.7
Business Freedom	87.9	91.1	-3.2	64.1
Labor Freedom	54	52.9	1.1	61.3
Monetary Freedom	85.5	82.5	3	75.0
Trade Freedom	88	87.8	0.2	75.4
Investment Freedom	90	90	0	54.8
Financial Freedom	80	80	0	48.6

*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

Valuation Driver: Taxes Growth:

KINGDOM OF SWEDEN has grown its taxes of 7.3% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 4.5% per annum over the next couple of years and 4.5% per annum for the next couple of years thereafter.

Valuation Driver: Total Revenue Growth:

KINGDOM OF SWEDEN's total revenue growth has been more than its peers and we assumed no growth in total revenue growth over the next two years.

Income Statement	Peer Median	Co. Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Taxes Growth%	2.7	7.3	4.5	4.5
Social Contributions Growth %	2.7	5.2	4.5	4.5
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	3.6	3.6	3.6
Total Revenue Growth%	2.1	6.6	6.6	6.0
Compensation of Employees Growth%	1.0	4.5	4.5	4.5
Use of Goods & Services Growth%	1.0	4.6	4.6	4.6
Social Benefits Growth%	2.6	3.7	3.7	3.7
Subsidies Growth%	5.4	3.2		
Other Expenses Growth%	0.0			
Interest Expense	0.0	1.1	1.1	
Currency and Deposits (asset) Growth%	(51.9)	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	(1.5)	6.6	6.6	6.6
Shares and Other Equity (asset) Growth%	(0.2)	(2.2)	2.0	2.0
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	0.0	(12.7)	(12.7)	(12.7)
Other Accounts Receivable LT Growth%	(1.3)	12.2	7.3	7.3
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%	0.0			
Currency & Deposits (liability) Growth%	7.8	(15.1)	0.5	0.5
Securities Other than Shares (liability) Growth%	1.1	5.2	3.7	3.7
Loans (liability) Growth%	0.6	(5.5)	0.5	0.5
Insurance Technical Reserves (liability) Growth%	0.0	4.4	4.4	4.4
Financial Derivatives (liability) Growth%	0.0	(44.5)	(10.0)	(10.0)
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 3.

	ANNUAL REVENUE AND EXPENSE STATEMENT					
	(BILLIONS SEK)					
	2012	2013	2014	2015	P2016	P2017
Taxes	1,459	1,506	1,563	1,676	1,752	1,830
Social Contributions	138	142	147	155	161	169
Grant Revenue						
Other Revenue						
Other Operating Income	272	274	256	265	265	265
Total Revenue	1,870	1,922	1,966	2,096	2,178	2,264
Compensation of Employees	461	476	494	517	540	564
Use of Goods & Services	311	321	328	343	359	376
Social Benefits	640	671	686	711	738	765
Subsidies	62	63	67	69	69	69
Other Expenses				258	258	258
Grant Expense						
Depreciation	125	127	131	136	136	136
Total Expenses excluding interest	1,830	1,904	1,959	2,033	2,099	2,167
Operating Surplus/Shortfall	40	18	7	63	79	97
Interest Expense	<u>34</u>	<u>31</u>	<u>27</u>	<u>20</u>	<u>20</u>	<u>21</u>
Net Operating Balance	6	-12	-20	42	59	77

ANNUAL BALANCE SHEETS

Below are KINGDOM OF SWEDEN's balance sheets with the projected years based on the assumptions listed on page 3.

	ANNUAL BALANCE SHEETS (BILLIONS SEK)					
Base Case						
ASSETS	2012	2013	2014	2015	P2016	P2017
Currency and Deposits (asset)					24	24
Securities other than Shares LT (asset)				455	455	455
Loans (asset)	546	670	734	782	834	888
Shares and Other Equity (asset)	1,409	1,447	1,559	1,526	1,556	1,587
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)	75	54	54	47	41	36
Other Accounts Receivable LT	293	316	330	370	397	426
Monetary Gold and SDR's						
Other Assets					160	160
Additional Assets	<u>448</u>	<u>440</u>	<u>623</u>	<u>160</u>		
Total Financial Assets	2,771	2,927	3,300	3,339	3,466	3,576
LIABILITIES						
Other Accounts Payable						
Currency & Deposits (liability)	71	51	53	45	45	45
Securities Other than Shares (liability)	1,117	1,215	1,425	1,500	1,555	1,612
Loans (liability)	278	305	407	385	326	249
Insurance Technical Reserves (liability)	299	325	340	355	370	386
Financial Derivatives (liability)	7	11	44	24	22	20
Other Liabilities	<u>212</u>	<u>225</u>	<u>226</u>	<u>218</u>	<u>218</u>	<u>218</u>
Liabilities	1,985	2,133	2,495	2,527	2,595	2,628
Net Financial Worth	<u>786</u>	<u>794</u>	<u>804</u>	<u>812</u>	<u>871</u>	<u>947</u>
Total Liabilities & Equity	2,771	2,927	3,300	3,339	3,466	3,576

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Comments on the Difference between the Model and Assigned Rating

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 available in our Form NRSRO Exhibit #2 dated May 10, 2015 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, 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%	4.5	8.5	0.5	AA+	AA+	AA+
Social Contributions Growth %	4.5	1.5	7.5	AA+	AA+	AA+
Other Revenue Growth %		(3.0)	3.0	AA+	AA+	AA+
Total Revenue Growth%	6.6	4.6	8.6	AA+	AA+	AA+
Monetary Gold and SDR's Growth %	5.0	3.0	7.0	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.

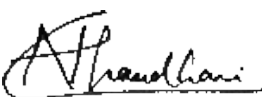
ATTESTATION FORM

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



June 30, 2016

Nikhil Chaudhari
Rating Analyst

Reviewer Signature:

Today's Date



June 30, 2016

Caroline Ding
Rating Analyst

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.