

# KINGDOM OF SWEDEN

Rating Analysis - 6/15/17

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

\*EJR CP Rating: A1+

EJR's 3 yr. Default Probability: 0.5%

Sweden's economy is still one of the strongest among EU countries with GDP growth rate of 4.72% YOY in 2016. Surplus to GDP is 2.13% in 2016 as compared to 1.31% last year and Debt-to-GDP declined to 60.22% from 61.81% in prior year (using the market value of debt). In the early of 2017, Swedish Krona depreciated mainly due to the looser monetary policy and the stated intention to intervene in the FX market by Riksbank (central bank of Sweden). Unemployment rate and youth unemployment rate in Sweden has improved while the employment for foreign-born citizens is still a major concern for Swedish government.

Imports and exports will be affected by Brexit and Eurozone's uncertainty, since 68.98% of exports and 81.54% of imports are within Europe. Regarding politics, the Moderate Party and far-right Sweden Democrats (SD) expressed an intention to oust the minority center-left government, but the government is relying on support from the Left Party to survive. The decline in Debt/GDP and the continued government surplus is comforting. Affirming.

## CREDIT POSITION

	2014	2015	2016	P2017	P2018	P2019
Debt/ GDP (%)	63.2	61.8	60.2	58.3	57.0	56.0
Govt. Sur/Def to GDP (%)	-0.5	1.3	2.1	1.7	1.3	0.9
Adjusted Debt/GDP (%)	63.2	61.8	60.2	58.4	57.1	56.0
Interest Expense/ Taxes (%)	1.7	1.2	1.1	1.0	1.0	1.0
GDP Growth (%)	4.4	6.2	4.7	2.3	2.3	2.5
Foreign Reserves/Debt (%)	17.9	16.8	17.6	18.0	18.1	18.0
Implied Sen. Rating	AA+	AA+	AA+	AA+	AA+	AA+

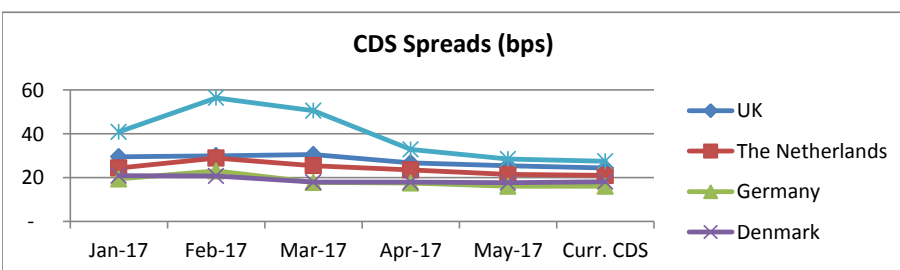
Annual Ratios (source for past results: IMF)

## 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	76.5	0.6	76.5	5.9	3.3	AA-
Kingdom Of Denmark	AAA	52.1	-0.2	52.1	2.9	1.9	AA-
United Kingdom	AAA	123.2	-2.1	123.2	9.0	4.1	A-
Kingdom Of The Netherlands	AA+	75.8	0.3	75.8	4.6	3.0	AA-
Republic Of Finland	AA+	75.9	-1.7	75.9	3.4	2.2	A+

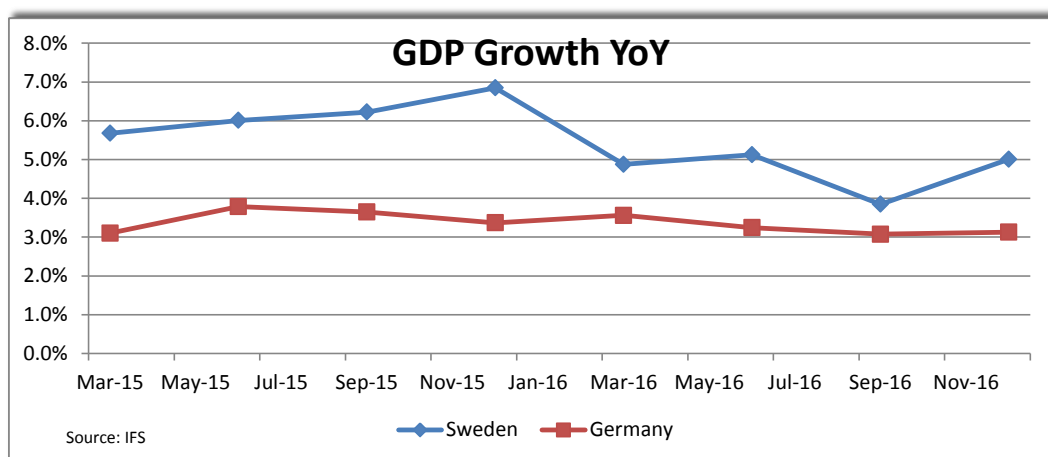


Country	CDS
UK	24
The Netherlands	21
Germany	16
Denmark	18
Finland	27

**Economic Growth**

Sweden's GDP has grown rapidly over the past few years, averaging 5.11%, far exceeding EU's average (approximately 2%). The recent GDP growth rate has declined from a high of 7.0% to approximately 5.0% at the 2016 year-end as shown in the graph below.

The strong GDP growth for Sweden is attributable to private consumption and investment, while exports are affected by limited demand from markets outside Europe (more than 65% of export is from market in Europe). The rising house price and household debt is another concern for Sweden. Watch for governmental measures to cool the market.



**Fiscal Policy**

As shown in the chart, Sweden's Surplus to GDP for 2016 is 2.13% (compared with 1.31% in prior year). Besides, the Debt to GDP declined to 60.22%, which is at a low level among the peers in EU, indicating a good credit position for Sweden. We expect the budget surplus in 2017 will be reduced due to the loose fiscal policy.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Sweden	2.13	60.22	41.43
Germany	0.65	76.47	16.07
Denmark	-0.16	52.10	27.96
UK	-2.06	123.25	25.47
The Netherland	0.26	75.84	21.53
Finland	-1.66	75.93	22.17

Sources: Thomson Reuters and IFS

**Unemployment**

Sweden's unemployment rate has continued declining to 6.9% which is still in a high level when compared to most of its peers. However, the number of young people registered as unemployed has decreased, to 61,000 from 70,000 last year. Nonetheless, the numbers for foreign-born citizens is rising and nearly half of all jobless in Sweden are foreigners, which is a potential concern.

	Unemployment (%)	
	2015	2016
Sweden	7.40	6.90
Germany	4.60	4.10
Denmark	6.20	6.20
UK	5.37	4.90
The Netherland	6.90	6.00
Finland	9.40	8.80

Source: Intl. Finance Statistics

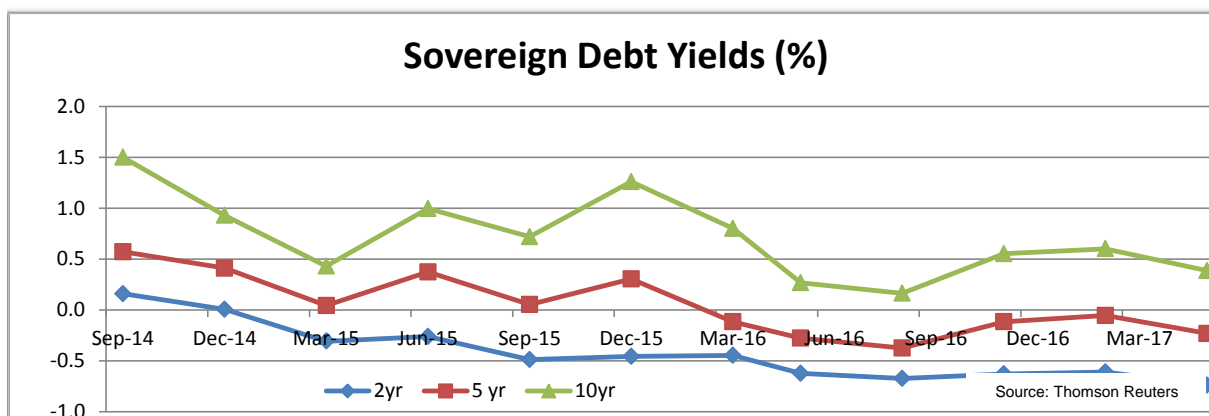
**Banking Sector**

The Big Four (Banking) total assets to GDP ratios is high in Sweden, at 306.7% compared to 102.5% in Germany. In the recent EU-wide stress test, Sweden is among the most resilient in the region with an average capital ratio far exceeding peers in Europe. Although the increasing household indebtedness and mortgage borrowing are the concerns, tighter regulation will limit the threat to financial stability.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
Nordea Bank AB	6027.30	7.48
Skandinaviska Enskilda Banken AB	2620.65	8.61
Svenska Handelsbanken AB	2627.58	8.92
Swedbank AB	2154.20	10.86
<b>Total</b>	<b>13,429.7</b>	
EJR's est. of cap shortfall at 10% of assets less market cap		198.3
Sweden's GDP		4,378.6

**Funding Costs**

Sweden's funding cost have a trend of decreasing over the last 3 years even though they fluctuated in most recent year. As the graph below shows, funding costs in Sweden are low with 2 years and 5 years yields are in the negative territory. Since ECB's expansionary monetary policy is still ongoing and Sweden is still in low inflation rate (0.98% in 2016, target at 2%), the low level funding costs is likely to remain in the next few years.



**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 9 (1 is best, 189 worst) is extremely strong.

The World Bank's Doing Business Survey*			
	2017	2016	Change in
	Rank	Rank	Rank
<b>Overall Country Rank:</b>	<b>9</b>	<b>8</b>	<b>-1</b>
<b>Scores:</b>			
Starting a Business	15	16	1
Construction Permits	25	19	-6
Getting Electricity	6	7	1
Registering Property	10	11	1
Getting Credit	75	70	-5
Protecting Investors	19	14	-5
Paying Taxes	28	37	9
Trading Across Borders	18	17	-1
Enforcing Contracts	22	24	2
Resolving Insolvency	19	19	0

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

**Economic Freedom**

As can be seen below, Sweden is above average in its overall rank of 74.9 for Economic Freedom with 100 being best.

<b>Heritage Foundation 2017 Index of Economic Freedom</b>				
<b>World Rank 74.9*</b>				
	<b>2017</b>	<b>2016</b>	<b>Change in</b>	<b>World</b>
	<b>Rank**</b>	<b>Rank</b>	<b>Rank</b>	<b>Avg.</b>
<b>Property Rights</b>	<b>88.6</b>	<b>90.0</b>	<b>-1.4</b>	<b>52.2</b>
<b>Government Integrity</b>	<b>87.4</b>	<b>87.0</b>	<b>0.4</b>	<b>42.4</b>
<b>Judicial Effectiveness</b>	<b>82.2</b>	<b>N/A</b>	<b>N/A</b>	<b>44.4</b>
<b>Tax Burden</b>	<b>44.4</b>	<b>44.4</b>	<b>0.0</b>	<b>77.3</b>
<b>Gov't Spending</b>	<b>21.7</b>	<b>14.9</b>	<b>6.8</b>	<b>63.0</b>
<b>Fiscal Health</b>	<b>93.4</b>	<b>N/A</b>	<b>N/A</b>	<b>66.3</b>
<b>Business Freedom</b>	<b>90.8</b>	<b>89.7</b>	<b>1.1</b>	<b>64.8</b>
<b>Labor Freedom</b>	<b>53.2</b>	<b>53.5</b>	<b>-0.3</b>	<b>59.4</b>
<b>Monetary Freedom</b>	<b>85.3</b>	<b>87.1</b>	<b>-1.8</b>	<b>76.3</b>
<b>Trade Freedom</b>	<b>87.0</b>	<b>88.0</b>	<b>-1.0</b>	<b>75.9</b>

\*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 6.3% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 4.0% per annum over the next couple of years and 4.0% 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 5.0% 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%	4.5	6.3	4.0	4.0
Social Contributions Growth %	4.5	4.2	4.0	4.0
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	2.9	2.5	2.5
Total Revenue Growth%	4.2	5.7	5.0	4.5
Compensation of Employees Growth%	2.7	5.4	6.5	6.5
Use of Goods & Services Growth%	1.5	3.7	4.0	4.0
Social Benefits Growth%	1.8	4.0	4.5	4.5
Subsidies Growth%	0.2	7.0	5.0	5.3
Other Expenses Growth%	0.0			
Interest Expense	1.8	0.7	0.8	
Currency and Deposits (asset) Growth%	0.0	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	2.8	3.8	3.8	3.8
Shares and Other Equity (asset) Growth%	4.3	6.1	6.1	6.1
Insurance Technical Reserves (asset) Growth%	(1.3)	0.0		
Financial Derivatives (asset) Growth%	0.0	(15.0)	(15.0)	(15.0)
Other Accounts Receivable LT Growth%	10.1	2.9	2.9	2.9
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%	0.0			
Currency & Deposits (liability) Growth%	11.6	43.7	4.0	4.0
Securities Other than Shares (liability) Growth%	0.3	(3.0)	3.5	3.5
Loans (liability) Growth%	(1.4)	7.3	7.3	7.3
Insurance Technical Reserves (liability) Growth%	0.0	4.9	2.0	2.0
Financial Derivatives (liability) Growth%	0.0	44.3	5.2	5.2
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)					
	2013	2014	2015	2016	P2017	P2018
Taxes	1,506	1,561	1,688	1,794	1,866	1,941
Social Contributions	142	147	155	161	168	175
Grant Revenue						
Other Revenue						
Other Operating Income	275	259	267	274	274	274
Total Revenue	1,924	1,967	2,110	2,230	2,308	2,390
Compensation of Employees	481	500	523	551	586	625
Use of Goods & Services	321	329	341	354	368	383
Social Benefits	671	686	715	743	777	811
Subsidies	63	67	67	71	75	79
Other Expenses				262	262	262
Grant Expense						
Depreciation	127	131	133	137	144	151
Total Expenses excluding interest	1,905	1,960	2,036	2,118	2,212	2,310
Operating Surplus/Shortfall	18	6	74	112	97	79
Interest Expense	<u>30</u>	<u>27</u>	<u>20</u>	<u>19</u>	<u>19</u>	<u>19</u>
Net Operating Balance	-12	-20	55	93	78	60

**ANNUAL BALANCE SHEETS**

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

	<b>ANNUAL BALANCE SHEETS (BILLIONS SEK)</b>					
<b>Base Case</b>						
<b>ASSETS</b>	2013	2014	2015	2016	P2017	P2018
Currency and Deposits (asset)					0	0
Securities other than Shares LT (asset)			450	491	491	491
Loans (asset)	665	730	781	811	841	873
Shares and Other Equity (asset)	1,474	1,587	1,544	1,638	1,738	1,844
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)	54	56	49	41	35	30
Other Accounts Receivable LT	316	327	427	440	452	465
Monetary Gold and SDR's						
<b>Other Assets</b>					169	169
<b>Additional Assets</b>	<u>432</u>	<u>613</u>	<u>156</u>	<u>169</u>		
<b>Total Financial Assets</b>	2,940	3,312	3,408	3,589	3,727	3,872
<b>LIABILITIES</b>						
<b>Other Accounts Payable</b>						
Currency & Deposits (liability)	51	53	38	55	55	55
Securities Other than Shares (liability)	1,215	1,427	1,489	1,445	1,495	1,548
Loans (liability)	329	434	423	454	376	316
Insurance Technical Reserves (liability)	323	339	355	373	380	388
Financial Derivatives (liability)	12	48	24	34	36	38
Other Liabilities	<u>227</u>	<u>235</u>	<u>278</u>	<u>310</u>	<u>310</u>	<u>310</u>
<b>Liabilities</b>	2,157	2,536	2,608	2,671	2,730	2,816
<b>Net Financial Worth</b>	<u>783</u>	<u>777</u>	<u>800</u>	<u>919</u>	<u>996</u>	<u>1,056</u>
<b>Total Liabilities &amp; Equity</b>	2,940	3,312	3,408	3,589	3,727	3,872

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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 available in our Form NRSRO Exhibit #2 dated May 10, 2015 available via [egan-jones.com](http://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%	4.0	8.0	-	AA+	AA+	AA+
Social Contributions Growth %	4.0	7.0	1.0	AA+	AA+	AA+
Other Revenue Growth %		3.0	(3.0)	AA+	AA+	AA+
Total Revenue Growth%	5.0	7.0	3.0	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**

*Chris Liao*

June 15, 2017

Chris Liao  
Rating Analyst

**Reviewer Signature:**

**Today's Date**

*Caroline Ding*

June 15, 2017

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.*