

Svenska Skeppshypotekskassan

Full Rating Report

LONG-TERM RATING

AA-

OUTLOOK

Stable

SHORT-TERM RATING

N1

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RATING RATIONALE

Our 'AA-' long-term issuer rating on Sweden-based shipping finance provider Svenska Skeppshypotekskassan (Skeppshypotek) reflects its strong capital position, fully matched funding profile, and government-defined role in national shipping finance. The rating also reflects Skeppshypotek's strong track record of robust earnings and loss performance. Wholly owned by the Swedish government, Skeppshypotek was established in 1929 under the Act on Svenska Skeppshypotekskassan (1980:1097) (the Skeppshypotek law).

The rating is constrained by Skeppshypotek's high level of exposure to the shipping sector and specific customer groups. These concentrations are allowed only by regulatory exceptions to rules on large exposures set out in the EU's capital requirements directive. The rating is also constrained by the volatility of the shipping sector and the valuation of vessels used as loan collateral. Despite its concentrations, Skeppshypotek's risk appetite is minimised in other areas and clearly defined by the Skeppshypotek law.

We adjust our standalone credit assessment upward by one notch to reflect Skeppshypotek's unique role in supporting the Swedish shipping industry, which historically has enjoyed government-supported debt relief and guarantees for small ship owners. This adjustment also reflects a wider government guarantee and a legally defined mutual borrower commitment that improves recovery prospects for creditors in the event of liquidation. In addition, we add two notches to our standalone credit assessment to reflect the high likelihood of extraordinary support due to Skeppshypotek's controlling ownership by the Kingdom of Sweden and our view that it has an important, albeit replaceable, policy role as a provider of financing for Swedish-related shipping.

STABLE OUTLOOK

The outlook is stable, reflecting the current relationship between Skeppshypotek and the Swedish government. It also reflects our view that Skeppshypotek's selective underwriting and low loan-to-value (LTV) profile will prevent a material decline in credit quality despite the volatile nature of the shipping industry. In addition, we expect Skeppshypotek to maintain a strong capital position despite the likelihood of material growth in its loan book.

POTENTIAL POSITIVE RATING DRIVERS

- Increased strategic policy role or a greater commitment of timely support from the Swedish government.
- Reduced single-name concentrations.

POTENTIAL NEGATIVE RATING DRIVERS

- A change in the government's support and/or a reduction in the remit to finance Swedish-related shipping.
- A common equity Tier 1 (CET1) ratio below 18% on a continued basis.
- A material deterioration in asset quality.

Figure 1. Key credit metrics, 2020–2026e

%	2020	2021	2022	2023	2024e	2025e	2026e
Net interest margin	1.4	1.3	1.6	2.0	2.2	1.9	1.8
Loan losses/net loans	-0.03	0.30	0.04	-0.06	0.10	0.16	0.16
Pre-provision income/REA	1.2	1.1	1.3	1.9	2.1	1.7	1.7
Cost-to-income	19.1	19.5	15.8	11.3	11.3	11.7	11.4
Return on ordinary equity	4.7	3.0	5.1	7.6	7.2	6.5	6.5
Loan growth	-25.4	5.1	39.6	-19.6	27.0	12.0	10.0
CET1 ratio	28.5	28.9	21.9	27.7	23.7	22.7	22.2

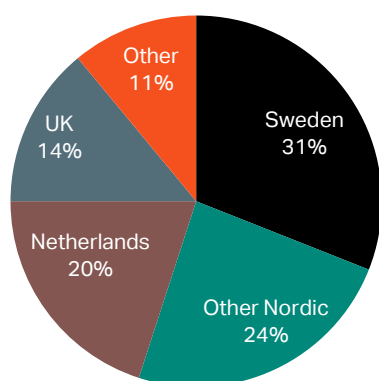
Source: company and NCR. e-estimate. REA=risk exposure amount. All metrics adjusted in line with NCR methodology.

ISSUER PROFILE

Skeppshypotek was founded in 1929 to facilitate ship financing for Swedish shipping companies and revive Sweden's merchant fleet. It is fully owned by the Swedish government and its operations are governed by the Skeppshypotek law, last revised in 1980. Skeppshypotek's role is to finance shipping activities conducted by Swedish shipping companies or by foreign legal entities in which Swedish individuals or legal entities have significant influence. It primarily provides long-term secured loans for the acquisition, reconstruction, or repair of existing shipping vessels. Skeppshypotek finances a significant portion of the Swedish-flagged merchant fleet, playing an important role in Sweden's military preparedness, as only Swedish-flagged ships can be commandeered for military purposes or protected by the Swedish navy. It also has a separate fund and government guarantee to support lending to small shipping companies.

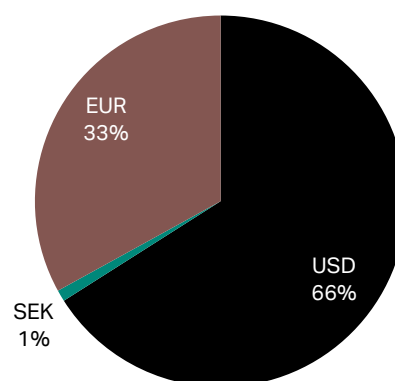
Skeppshypotek is based in Gothenburg and, as of 30 Sep. 2024, finances around 130 vessels with nearly SEK 9bn in secured loans across all Swedish shipping sectors.

Figure 2. Gross loans by vessel flag country, 30 Sep. 2024



Source: company. Sweden includes Swedish-flagged vessels only.

Figure 3. Gross loans by currency, 30 Sep. 2024



Source: company.

OPERATING ENVIRONMENT

Operating environment

Our assessment of the operating environment is largely driven by our view of the global shipping market and its correlation with global commodity prices and geopolitical developments. However, we view Skeppshypotek's operational and regulatory base in Sweden and the legally required association with Swedish-related shipping companies as supportive factors.

National factors

Lending to fund Swedish-flagged vessels and foreign vessels with material links to Sweden

Skeppshypotek provides loans to domestic and foreign shipping companies with a meaningful interest in Sweden. In practice, this includes Swedish-flagged vessels, or foreign-flagged vessels that operate in Swedish harbours or are chartered by Swedish shipping companies (see Figure 2). Accordingly, the operating environment has only a modest correlation with the Swedish economy given the global factors that drive freight rates and ship valuations.

While fluctuations in the Swedish krona and interest rates are reflected in Skeppshypotek's net interest income, the US dollar and euro exchange rates and associated interest rates, as well as the global economic cycle have a more substantial impact on demand for shipping services. Such external factors have more impact on the ability of Skeppshypotek's clients to meet their financial obligations than domestic ones. In addition, global commodity prices, geopolitical developments, and environmental policies can materially affect the financial stability of shipping companies.

Global and sectoral factors shape the operating environment

Regional, sectoral, and cross-border factors

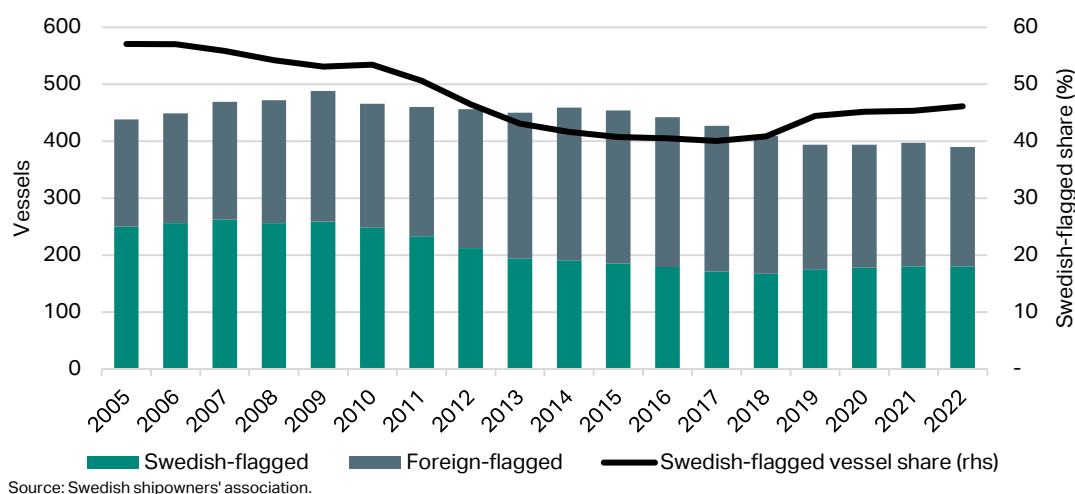
Given the nature of Skeppshypotek's loan exposures, our assessment of the operating environment reflects market fundamentals, weighted by segment. Tankers and dry bulk vessels constitute nearly two-thirds of Skeppshypotek's total exposure. Demand for such vessels and shipping rates are closely tied to global commodity prices, particularly oil, coal, and grain, which are affected by geopolitical

factors, environmental policies, and seasonal variations. Recently, oil prices have been influenced by the war in Ukraine, the Gaza conflict, and OPEC production limits. Market indicators suggest increased crude oil supply from the Americas and rising demand from Asia. In addition, freight prices have been affected by re-routes from the Panama and Suez canals due to adverse weather conditions and Houthi militant attacks.

RoRo and RoPax vessels account for about 15% of Skeppshypotek's loan exposure. Demand for RoRo ships is influenced by global automotive manufacturing, trade policies, and the broader economic cycle. RoPax vessels are impacted by tourism trends, fuel prices and regulations. Demand for both vessel types is more predictable than demand for other vessel types. The car carrier market is supported by sales patterns and the shift to electric vehicles, while passenger travel has largely recovered from the negative impact of COVID-19.

The UN expects maritime trade to grow by 2% annually through 2028. The age and environmental standards of vessels impact their collateral value, especially in the context of trade sanctions. The pipeline for new completions is a further factor affecting collateral value. The Baltic and International Maritime Council, a major shipping association, projects tanker supply growth will average 1.5% annually through 2025, while supply of dry bulk vessels is projected to grow by 2.7%. The world's dry bulk fleet has an average age of 12 years, while the tanker fleet averages 13 years, compared with a lifespan of 25-30 years. Average fleet age can increase due to a reduction in new deliveries. Trade sanctions on oil exporters such as Russia and Iran have raised the value of second-hand tankers, which are banned from Western trade. Environmental efforts to encourage fleet modernisation and decarbonisation are boosting demand for financing from institutions such as Skeppshypotek.

Figure 4. Swedish maritime fleet, Swedish- and foreign-flagged vessels, 2005-2022.



The average age of Swedish-flagged tankers was 18 years at end-2023, up from 16 years a year earlier, due to the sale of several vessels during the year. The relatively high average age indicates a growing need for renewal in the next decade, much of which will be financed by Skeppshypotek. The industry and the government agree that the number of Swedish-flagged vessels should increase, and proposed changes to a tonnage tax are likely to improve the international competitiveness and attractiveness of Swedish-flagged vessels, which comprise just under half of the Swedish maritime fleet.

RISK APPETITE

Risk appetite

Skeppshypotek's risk appetite is low, although it has some large single-name concentrations. The concentrations are managed with a long-term approach and mitigated by low legally defined LTV limits. LTV levels are currently below 50%. Skeppshypotek has strong capital ratios and extremely low financial leverage, given nearly a century of accumulated profits and restrictions on dividend payments. Given the lengthy process of ship building, Skeppshypotek has good oversight on future lending volumes, coming maturities, and its own financing needs. Funding is matched in terms of tenor and maturity, minimising currency and refinancing risk.

Risk governance

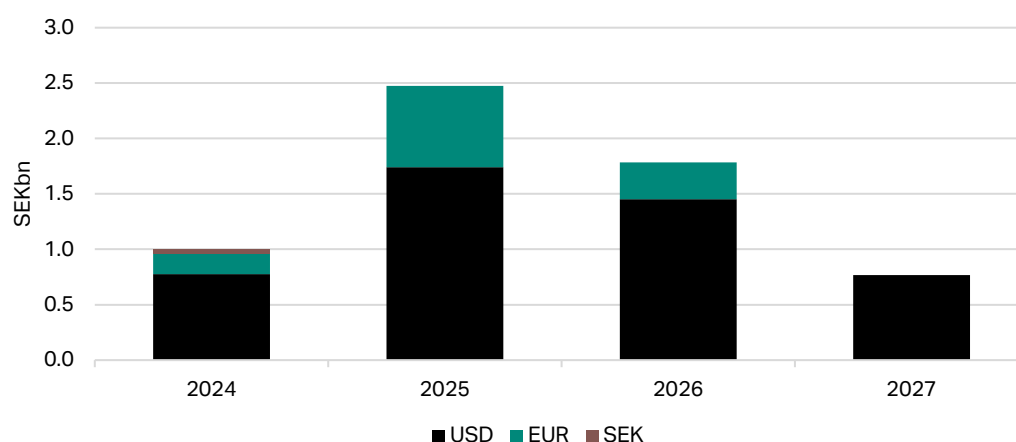
Low risk tolerance and long-term approach to policy role

Skeppshypotek's risk appetite is largely legally defined. In addition, Skeppshypotek has conservative internal limits and a modest long-term 5% return-on-equity target. The Swedish government appoints the board of directors, and the law clearly stipulates the board's role in ensuring vessel finance remains within lending limits and that all vessels are properly insured. The law also imposes restrictions on dividends and ensures that financing of all loans is matched in currency and duration. Skeppshypotek's modest risk appetite is also reflective of the long-term nature of its operations. The loan book is characterised by long-tail maturities through 2027 with loans fully matched in terms of currency and tenor.

Skeppshypotek has only eight employees, which creates material key-person risk. In addition, ship finance is a niche segment, and key roles can be difficult to fill. The board includes senior and experienced shipping company representatives and makes all credit decisions, thereby reducing our key-person concerns. According to a 2019 review of Skeppshypotek by the National Audit Office, conflicts of interests are mitigated by a requirement that board members absent themselves from credit decisions associated with employment, board assignments, significant business relationships, competing businesses, or close family relationships.

Skeppshypotek plays a key role in the environmental transformation of the shipping sector by financing new vessels and modifications that improve fuel efficiency and allow for alternatives to fossil fuel. Despite an exemption from sustainability reporting requirements, Skeppshypotek reports annually in line with Global Reporting Initiative standards. Skeppshypotek considers sustainability risk in all of its credit decisions, with the aim of financing projects that improve the overall sustainability of Sweden's shipping sector. In addition, working conditions, a vessel's flag country and other ethical considerations are taken into account in the underwriting process.

Figure 5. Loan commitments by currency, as of 30 Sep. 2024



Source: company.

Low leverage and regulatory requirements provide material capital buffers

Capital

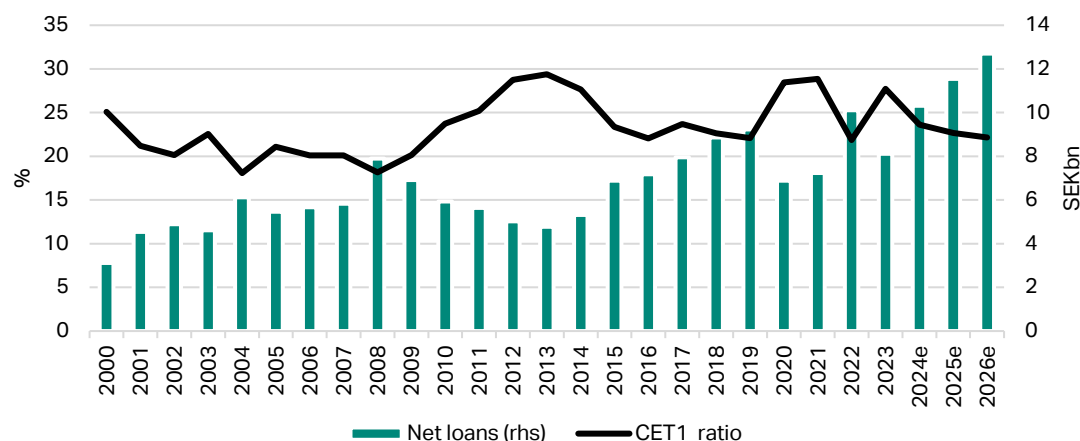
Skeppshypotek maintains extremely low leverage, thanks to nearly a century of accumulated profits, a lack of dividend payments, and a modest credit loss history. The CET1 ratio was 27.8% as of 30 Sep. 2024 (29.3% including year-to-date profit), and despite volatility due to lending volumes, the ratio has remained above 21.9% since 2010. Considering the current volume of loan commitments and the maturity profile of the loan book, we project the CET1 ratio will fall towards 22% by 2026 due to strong loan growth. We believe that our projection, including all current loan commitments and existing loan maturities, is somewhat conservative. Skeppshypotek takes a cautious approach to loan commitments for new vessels, which are subject to available financing and an updated review of the customer's creditworthiness. In addition, vessels currently under financing can be sold or the associated loans repaid prior to maturity.

Skeppshypotek has an internal total capital limit of only 12% and a regulatory capital requirement of only 8.9%. We believe that these limits are designed to provide significant capital flexibility for the absorption of credit losses, rather than to enable significant loan growth. Skeppshypotek is exempt

from large exposure limits under the EU's capital requirements directive and is not required to make public its internal assessments of capital adequacy and/or liquidity. We therefore see it as important that Skeppshypotek maintains capital ratios well above regulatory and internal limits.

Skeppshypotek has a leverage ratio of 24% as of 30 Sep. 2024 and has never issued additional Tier 1 or Tier 2 capital instruments, and we do not anticipate the use of such capital instruments under the current organisational structure.

Figure 6. CET1 ratio and net lending, 2000-2026e



Matched funding and strong liquidity reserves minimise funding and liquidity risks

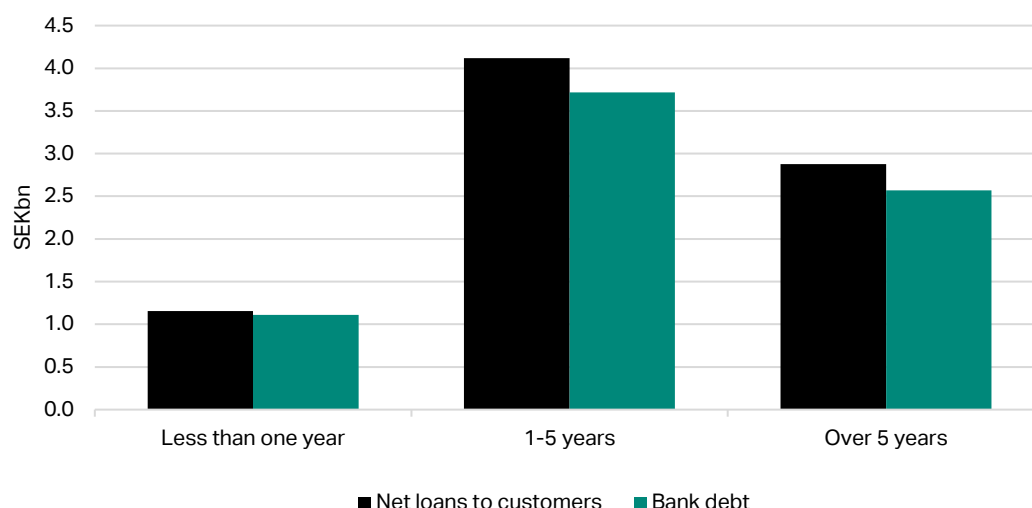
Skeppshypotek matches its financing to the underlying loans in terms of currency, tenor and interest, ensuring minimal refinancing risk. Given the length of its loan commitments, Skeppshypotek's bank financing requires regular updating of commitments. Financing is provided in the form of loans from large Nordic banks and credit institutions, creating some counterparty concentration. However, we believe that participating banks place material weight on Skeppshypotek's government ownership. If one or more banks were to reduce their exposure, the process of unwinding matched funding would take many years, and we believe that any such reduction would be managed through government credit lines (see Support analysis below) or increased financing from existing lenders.

Skeppshypotek is permitted to raise funds in the capital markets but has not done so since 1983. We expect any capital market financing to be matched to the underlying loans, in accordance with the Skeppshypotek law and that any increase in matching would be met by excess funding and increased liquidity buffers.

Skeppshypotek's average loan maturity was 5.1 years at end-2023, reflecting the funding profile, which is partly financed by own funds and a separate SEK 73m fund for small shipping operations as of 30 Sep. 2024. In addition, customer amortisation of Skeppshypotek loans is mirrored in Skeppshypotek's own bank loans.

Funding and liquidity

Figure 7. Net lending and bank debt maturity profile, as of 31 Dec. 2023



Source: company.

Skeppshypotek maintains solid regulatory and internal buffers. Its net stable funding ratio stood at 109% and its liquidity coverage ratio at 1,401% at 30 Sep. 2024. In our view, the benefits of matched funding are not well reflected by the net stable funding ratio, though we expect the ratio to remain well above the regulatory minimum of 100%. Skeppshypotek reported SEK 2.3 billion in liquid assets, including SEK 1.7bn in cash deposits held with highly rated Nordic credit institutions, that are not included in the already-high liquidity coverage ratio. The liquid assets compare favourably with the internal minimum of SEK 500m, or 12 months of amortisation.

Significant collateral and strong track record partly offset significant lending concentrations

Skeppshypotek grants secured loans to Swedish shipping companies for Swedish-flagged vessels as well as foreign shipping companies with significant Swedish influence or interest. Lending is primarily denominated in US dollars and euro (see Figure 3), reflecting the primary revenues of the borrowers. All credit decisions are made by the board, which consists of seven members and two deputies appointed by the Swedish government. The current board includes members with significant shipping industry experience and representatives from the government and the Swedish shipworkers union. The board is required to ensure that each vessel is insured to at least the board-approved value of the collateral, which may not exceed any claim against the borrower. In reality, the estimated value of ships used as collateral exceeds the respective claims against the borrower by a significant margin.

For large ship owners (99% of loans at end-2023), the maximum loan-to-value ratio is 70%, or in special cases 80%, of a vessel's value. The average LTV of this portfolio was around 45% as of 30 Sep. 2024. Loans from Skeppshypotek have a maximum duration of 15 years and must be repaid by the time the ship reaches 20 years of age, with few exceptions. The maturity is within the typical economic lifespan of 25-30 years for most freight ships, supporting residual collateral value even after the loan is repaid.

The loan book has significant concentrations on individual ships and shipping companies, which weighs on our overall assessment of credit risk. Skeppshypotek maintains an internal limit of 25% of total lending for any counterparty and, due to its high lending concentrations, is exempt from regulatory large-exposure restrictions, which limit credit exposure to a maximum 25% of CET1. We see these concentrations as a material weakness, despite significant mitigation associated with the LTV profile, a strong track record of low credit losses, and the long-term nature of the loan book. We note that Skeppshypotek has secured state-backed export guarantees for its largest customers from the Swedish Export Credit Agency (Exportkreditnämnden, EKN) through a loss-sharing arrangement.

In addition to ship collateral, Skeppshypotek imposes a mutual commitment of 5% of the outstanding amount on all borrowers. An annually renewable 20-year state guarantee of SEK 350m also exists. However, according to the Skeppshypotek law, the commitments and guarantee are only accessible after the government decides on liquidation and after the use of all of Skeppshypotek's available capital. The mutual commitment and the guarantee have never been used, and we do not expect them

Credit risk

to provide loss absorption on a going-concern basis or prior to default (as we define it), which could involve renegotiation of credit terms, non-payment of interest or amortisation, or other forms of distressed exchange. However, the commitment would improve recovery prospects in the event of liquidation.

For small shipping operations, the state provides a guarantee of SEK 55m and a separate fund of SEK 73m as of 30 Sep. 2024. Loans can be granted to small borrowers up to 90% of the ship's value, often supported by the fund as a first-loss financing source for higher LTV lending. The average LTV of the small-company portfolio was around 65% as of 30 Sep. 2024. The government guarantee was implemented in 2003, in exchange for the government removing SEK 55m from the fund for small shipping operations.

Small operational size creates key-person risk

Other risks

Market risk is negligible, in our view, given the low-risk nature of the liquidity portfolio and the fact that Skeppshypotek matches its financing in foreign currency and minimises currency and interest-rate risk associated with future financing. Key-person risk exists, however, due to Skeppshypotek's small size and the niche nature of ship financing. Positively, we note Skeppshypotek's ability to successfully fill key management positions in recent years. We also believe that the board's key role in credit decisions and the participation of industry leaders support Skeppshypotek's competence in loan allocation.

COMPETITIVE POSITION

Competitive position

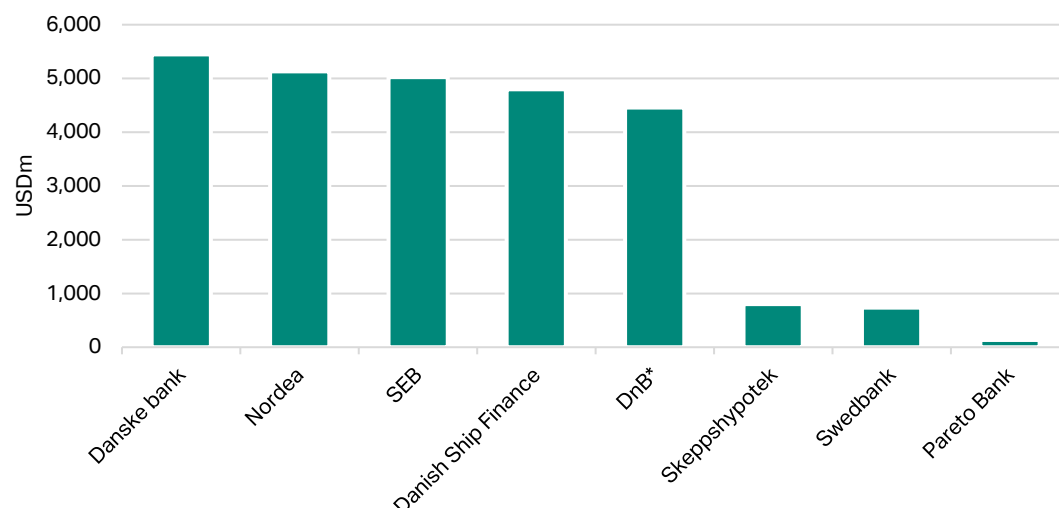
Since its establishment in 1929, Skeppshypotek has had a key role in the Swedish shipping industry. It has become increasingly valuable for the sector since the financial crisis of 2008-2009 and the subsequent introduction of more stringent capital regulations, particularly with regard to the size and maturity profile of shipping loans. Higher capital requirements and lower returns on capital have led many banks and credit institutions to reduce their exposure to the shipping sector or to exit it completely. In our view, Skeppshypotek's role in Swedish shipping finance has been secured by its exemption from regulatory rules governing large exposures, its willingness to extend long-term secured loans, the capital flexibility afforded by relatively low capital requirements, and its modest return on equity requirements.

Skeppshypotek has a dominant position in the market for Swedish-flagged ships, having financed more than 50% of existing financed vessels and nearly 90% of vessels currently on order. We expect its market share to continue to grow as long-term financing from other financial institutions matures. According to the National Audit Office, the availability of financing for ship acquisitions has diminished, as commercial banks are increasingly reluctant to lend to shipping companies, particularly to fund the small- and medium-sized vessels supported by Skeppshypotek's government guarantee and fund for small shipping operations. As a result, Skeppshypotek has become an increasingly vital source of finance for Sweden's maritime industry.

The Swedish-flagged fleet has a crucial role in Sweden's military preparedness given that only Swedish-flagged ships can be commandeered by the government or protected by the Swedish navy. In addition, the renewal and modernisation of the merchant fleet is important in meeting national environmental objectives and improving the international competitiveness of borrowers.

In addition, Skeppshypotek extends loans to fund the acquisition on non-Swedish-flagged ships and shipping companies with substantial Swedish influence or interest. However, the size of the Swedish fleet limits Skeppshypotek's finance volumes, which are modest in comparison with those of its Nordic peers, including those of its most comparable Nordic peer, Danish Ship Finance.

Figure 8. Nordic peer group shipping exposure, 2023



Source: bank reports. *Does not include offshore vessels that are part of the oil & gas portfolio.

PERFORMANCE INDICATORS

Performance indicators

We consider Skeppshypotek's earnings robust due to exceptional cost efficiency, improved interest rate levels, and an exemption from income tax. Loss performance has been volatile, with peak credit losses of 66bps in 2017, though Skeppshypotek has averaged only 16bps in loan losses since 2010 and has reported no Stage 2 impaired loans or Stage 3 non-performing loans (NPLs) since 2018 (as of 30 Sep. 2024).

Strong cost efficiency and tax exemption support capital generation

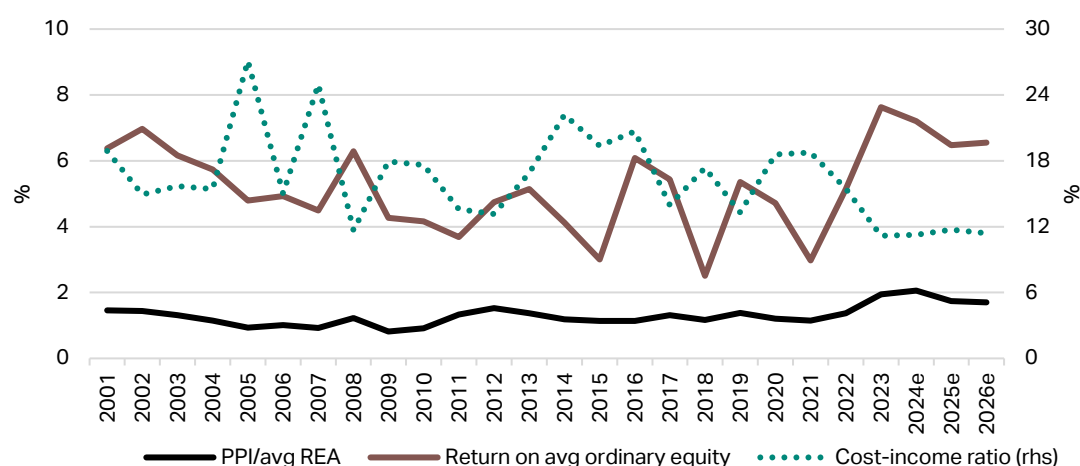
Earnings

Skeppshypotek's earnings are robust, primarily due to the cost efficiency of its small operations and the large nature of its loans. High net interest margins have improved returns and efficiency since 2022 due to rising Swedish krona, US dollar and euro interest rates. We project pre-provision income to REA will fall from 2023 levels of over 2.1% as net interest margins decline but remain above 1.8% through our forecast period. According to the Skeppshypotek law, Skeppshypotek is not required to pay income tax. This supports capital generation in comparison with other financial institutions, which we consider in our capital projections.

Skeppshypotek's earnings profile is supported by cost metrics at exceptionally low levels of 11-12%. In addition to staff costs, the other major component of the cost base is an annual fee for the government guarantee to the National Debt Office of between SEK 3-4m based on market values from the credit default swap market.

Skeppshypotek has a long-term return on equity target of 5%, which we expect it to achieve through our forecast period, even as we project credit losses to increase. We consider the 7% return on equity recorded in the first three quarters of 2024 to be strong given the 24% leverage ratio.

Figure 9. Earnings metrics, 2001-2026e



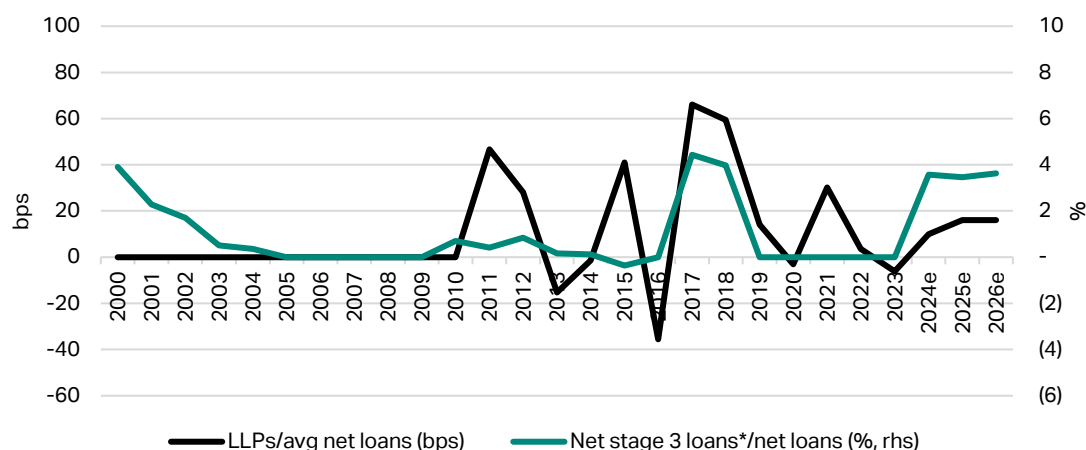
Source: company, NCR.

Projected losses and reserves reflect a return to multi-year loss performance history

Skeppshypotek has a history of moderate credit losses and few NPLs. It has not reported Stage 3 NPLs since 2018. However, the concentrated nature of its exposures has historically resulted in material loss reserves for individual loans. Many loss reserves have been followed by subsequent loss reversals and Skeppshypotek has reported net reversals over the past 3 years, since a SEK 16.5m provision in the third quarter of 2021.

We project Skeppshypotek will report loan losses of 10-16 bps through 2026. This would compare favourably with the average 16 bps recorded since 2010 amid the fallout of the 2008-2009 global financial crisis, low oil prices in the second half of the last decade and the negative impact of COVID-19 on commerce. From 1994 to 2010 Skeppshypotek reported no credit losses or loss reserves, resulting in an average annual loss provision of 8 bps over the past 30 years. Our projected losses and Stage 3 loans reflect an average of total expected provisions over the forecast, including Stage 1 provisions associated with projected loan growth.

Figure 10. Loan loss and NPL ratios, 2000-2026e



Source: company, NCR. * Reported NPLs, net of reserves until 2016 and IFRS Stage 3 loans since 2017 and in NCR's forecasted figures.

Loss performance

ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS

Environmental, social and governance (ESG) factors are considered throughout our analysis, where material to the credit assessment. In aggregate, we view Skeppshypotek's ESG profile as having a neutral impact on its creditworthiness.

Figure 11. Priority ESG factors

Issue/area	Risk/opportunity	Impacted subsections (impact on credit assessment*)
Modernisation of shipping assets	Changing environmental and regulatory requirements are increasing demand for modern vessels which in turn increases demand for ship finance but could shorten the economic life of the current fleet.	Competitive position (+) Credit risk (0)
Greenhouse gas emissions and regulation	Shipping vessels are significant contributors to greenhouse gas emissions. Regulatory changes could impact the future value of ship collateral.	Credit risk (0)
Control of sustainability issues	Credibility of the sustainability profile could depend on public reporting. Skeppshypotek is exempt from sustainability reporting requirements but reports annually according to Global Reporting Initiative standards.	Risk governance (0)
Physical climate risk to collateral	Climate-related damage to shipping collateral is neutralised by prescribed insurance requirements in the Skeppshypotek law.	Credit risk (0)

*Defined on a 5-step scale ranging from double minus (--) to double plus (++), with (--) representing the most negative impact and (++) the most positive. See [ESG factors in financial institution ratings](#).

ADJUSTMENT FACTORS

Peer calibration

We have raised our standalone credit assessment by one notch to reflect Skeppshypotek's unique role in supporting the Swedish shipping industry, which historically has enjoyed government-supported debt relief and guarantees for small ship owners. While Skeppshypotek has operated with relative autonomy over the past 40 years, it nonetheless received government credit from 1978 to 1982 that allowed it to offer forbearance to its customers without risking its own liquidity, and ensuring repayment on its own outstanding debt. In addition, we consider ongoing support provided via the government's guarantee and related fund for small shipping companies and the targeted use of direct guarantees from EKN supportive of Skeppshypotek's ability to provide loans to its largest customers.

Our adjustment of the standalone credit assessment also acknowledges the improved recovery prospects for bondholders provided by the SEK 350m government guarantee programme and mutual borrower commitments (currently around SEK 450m). We believe these programmes with their clear legal basis would provide legally binding support for bondholders in the event of liquidation. We view these measures as additional support beyond the going-concern assessment of capital and credit risk described throughout this report. As of 30 Sep. 2024, the fund for small ship owners (SEK 73m), borrower commitments (SEK 450m), and government guarantees (SEK 405m) amounted to over SEK 930m, or just over 11% of outstanding bank loans. We put less emphasis on the mutual borrower commitment given that the theoretical stress that would be required to trigger it would in any event imply a material reduction in its value for bondholders.

Support analysis

We add two notches of support to our standalone credit assessment to reflect our expectation of additional going-concern support from the Swedish government, beyond that outlined in the

Skeppshypotek law. Despite explicit government guarantees and government ownership, we do not align the rating, nor notch the rating down from our 'aaa' credit assessment of the Swedish government. This reflects our view that material reductions in asset quality or reductions in capital ratios could result in a lowering of the issuer rating in the absence of a public commitment to going-concern support.

Since Skeppshypotek's inception in 1929, the Swedish government has appointed board members and governed the institution via the Skeppshypotek law. However, Skeppshypotek does not have shareholders given its organisational structure. For the most part Skeppshypotek has operated independently within its legal confines. The government has had direct board participation since 2022 and parliament has made both large and small amendments to the Skeppshypotek law over the years. However, the National Audit Office has criticised Skeppshypotek's governance model as out of line with those of other government-owned entities due to the restrictions inherent in the legal structure. Discussions about a change in organisational structure are underway. We do not expect any attempts to convert Skeppshypotek into a limited company or corporation to change our view of government support, though we will evaluate any formal proposal if and when tabled.

Despite Skeppshypotek's importance to the shipping sector, we do not view its policy role as irreplaceable given the potential for alternative financing without material interruptions to Sweden's shipping industry. Our view of replaceability is supported by current financing credit institutions and Nordic banks, as well as the potential for guarantees from EKN to encourage commercial banks to finance the domestic shipping industry.

We believe that if Skeppshypotek were to face a financial crisis, any resolution would involve a legal take over by the Swedish Export Credit Corporation. In our view, this would likely follow the pattern of a 1977 takeover and eventual merger of financially troubled Skeppsfartens Sekundärlånekassa, a government-owned provider of second-lien ship mortgages, into Skeppshypotek. A similar takeover and merger occurred in the case of government-owned Lånenämnden, which led to Skeppshypotek taking over the government's support programme for small shipping companies.

ISSUE RATINGS

Although Skeppshypotek has not issued debt in the capital markets, we would expect to rate any senior unsecured debt instruments 'AA-', in line with the long-term issuer rating.

SHORT-TERM RATING

The short-term issuer rating is 'N1', in line with our definition for the 'AA-' long-term issuer rating level.

METHODOLOGIES USED

- (i) [Financial Institutions Rating Methodology](#), 14 Feb. 2024.
- (ii) [Rating Principles](#), 14 Feb. 2024.
- (iii) [Group and Government Support Rating Methodology](#), 14 Feb. 2024.

Figure 12. Skeppshypotek key financial data, 2020–Q3 2024 YTD

Key credit metrics (%)	FY 2020	FY 2021	FY 2022	FY 2023	Q3 2024 YTD
INCOME COMPOSITION					
Net interest income to op. revenue	100.2	99.8	103.5	98.3	101.0
Net fee income to op. revenue					-1.2
Net trading income to op. revenue	-0.2	0.2	-3.5	1.7	0.1
Net other income to op. revenue	0.0	0.0			0.2
EARNINGS					
Net interest income to financial assets	1.4	1.3	1.6	2.0	2.1
Net interest income to net loans	1.6	1.6	1.9	2.4	2.6
Pre-provision income to REA	1.2	1.2	1.4	1.9	2.0
Core pre-provision income to REA (NII & NF&C)	1.2	1.1	1.4	1.9	2.0
Return on ordinary equity	4.7	3.0	5.1	7.6	6.9
Return on assets	1.2	0.8	1.3	1.9	1.8
Cost-to-income ratio	18.6	18.8	15.5	11.2	11.7
Core cost-to-income ratio (NII & NF&C)	18.6	18.8	14.9	11.4	11.7
CAPITAL					
CET1 ratio	28.5	28.9	21.9	27.7	27.8
Tier 1 ratio	28.5	28.9	21.9	27.7	27.8
Capital ratio	28.5	28.9	21.9	27.7	27.8
REA to assets	92.2	91.4	97.7	90.8	88.2
Dividend payout ratio					
Leverage ratio	25.6	26.4	20.4	24.0	24.0
GROWTH					
Asset growth	-15.1	4.0	27.9	-10.4	10.7
Loan growth	-25.4	5.1	39.6	-19.6	10.8
Deposit growth					
LOSS PERFORMANCE					
Credit provisions to net loans	-0.03	0.30	0.04	-0.06	-0.03
Stage 3 coverage ratio				100.00	
Stage 3 loans to gross loans				0.00	
Net stage 3 loans to net loans					
Net stage 3 loans/ordinary equity					
FUNDING & LIQUIDITY					
Loan to deposit ratio					
Liquid assets to deposit ratio					
Net stable funding ratio	126.0	107.0	103.0	108.0	109.0
Liquidity coverage ratio	1671.0	1069.0	801.0	1203.0	0.0
Key financials (SEKm)					
BALANCE SHEET					
Total assets	8,637	8,979	11,486	10,295	11,397
Total tangible assets	8,637	8,979	11,486	10,295	11,397
Total financial assets	8,612	8,952	11,420	10,229	11,286
Net loans and advances to customers	6,883	7,235	10,101	8,117	8,995
Total securities	286	283	383	641	654
Customer deposits	–	–	–	–	–
Issued securities	–	–	–	0	–
of which other senior debt	–	–	–	0	–
of which subordinated debt	–	–	–	–	–
Total equity	2,371	2,453	2,594	2,801	2,953
of which ordinary equity	2,371	2,453	2,594	2,801	2,953
CAPITAL					
Common equity tier 1	2,266	2,370	2,454	2,594	2,798
Tier 1	2,266	2,370	2,454	2,594	2,798
Total capital	2,266	2,370	2,454	2,594	2,798
REA	7,963	8,208	11,216	9,352	10,049
INCOME STATEMENT					
Operating revenues	131	115	157	225	167
Pre-provision operating profit	107	93	133	200	147
Impairments	-2	21	3	-6	-2
Net Income	109	72	130	206	149

Source: company. FY–full year. YTD–year to date.

Figure 13. Skeppshypotek rating scorecard

Subfactors	Impact	Score
National factors	5.0%	a-
Regional, cross border, sector	15.0%	bb-
Operating environment	20.0%	bb
Risk governance	5.0%	a-
Capital	17.5%	aa-
Funding and liquidity	15.0%	aa-
Credit risk	10.0%	bb
Market risk	-	-
Other risks	2.5%	a-
Risk appetite	50.0%	a
Competitive position	15.0%	a-
Earnings	7.5%	a
Loss performance	7.5%	a
Performance indicators	15.0%	a
Indicative credit assessment		a-
Transitions		Neutral
Peer calibration		+1 notch
Borderline assessments		Neutral
Stand-alone credit assessment		a
Material credit enhancement		Neutral
Rating caps		Neutral
Support analysis		+2 notches
Issuer rating		AA-
Outlook		Stable
Short-term rating		N1

Figure 14. Capital structure ratings

Seniority	Rating
Senior unsecured	AA-

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