Sweden
Credit Analysis

Landshypotek AB

Ratings

	Current Ratings
Foreign Currency	
Landshypotek AB	
Long-Term IDR	A+
Short-Term IDR	F1
Individual	B
Support Rating	3
Support Rating Floor	BB+
General Mortgage Bank of Sweden	
Long-Term IDR	A+
Short-Term IDR	F1
Support Rating	1
Sovereign Risk	
Foreign Long-Term IDR	AAA
Local Long-Term IDR	AAA

Outlook

Foreign Long-Term IDRs	Stable
Sovereign Foreign Long-Term	Stable

Financial Data

Landshypotek AB (c.)

	30 Jun 08	31 Dec 07
Total assets (USDm)	8,213	7,027
Total assets (SEKm)	49,114	45,070
Total equity (SEKm)	3,240	3,213
Operating profit (SEKm)	121.6	198.5
Published net income (SEKm)	88.1	161.7
Comprehensive income (SEKm)	27.7	162.5
Operating ROAA (%)	0.52	0.46
Operating ROAE (%)	7.54	6.26
Internal capital generation (%)	1.72	5.12
Eligible capital ratio	10.87	8.37
Tier 1 ratio (%)*	8.66	8.36

*according to Basel II transitional rules

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Rating Rationale

- Landshypotek AB's (LH) ratings reflect its strong niche franchise, excellent asset quality and comfortable capital, while also reflecting its small size, monoline business model, below-average profitability and reliance on wholesale funding.
- The ratings of General Mortgage Bank of Sweden (GMB) are based on its integration within LH. LH started running down this subsidiary in 1997, and liquidation has been initiated. All outstanding bonds were repaid in 2006.
- LH primarily grants first mortgage loans to the agricultural and forestry sector in Sweden and is the largest lender to this sector, with a market share of more than 40%. In the early 2000s, LH began to lend outside its core business area, mainly to the energy sector. One group of exposures was the main source of provisioning costs during 2003-2005. In February 2006 this exposure was sold.
- LH operates as a mutual organisation, and its strategy is not to maximise profits but rather to grant low-cost loans to its borrowers (which also become its members and, in effect, owners). This structure helps explain its modest profitability. Lending margins are also tight as a result of the lending profile (mortgage-backed lending) and increasing competition from the larger Swedish banks. Low-cost lending is mainly achieved through the granting of discretionary "refunds" on interest paid at the end of a year, and this allows LH more operating flexibility than if it granted low rates initially.
- Loan performance on the bank's core business has historically been extremely strong, even during the economic recession of the early 1990s.The weighted average loan-to-value ratio (LTV) of the portfolio is low, at just under 40%.
- Funding is almost entirely wholesale. In August 2007 LH converted virtually all its medium- and long-term debt into covered bonds; any senior unsecured debt is now subordinated to the covered bonds. LH has managed to raise new funding in its domestic market since the beginning of the global financial turmoil in summer 2007, but funding costs have risen significantly, and more recently access to capital markets has virtually frozen. The bank's liquidity is now being shored up by facilities from the Swedish central bank; in effect LH can now use all assets in its cover pool (96% of total assets) as collateral for repo facilities.
- LH's capitalisation is comfortable. Significantly lower capital requirements under pillar I of Basel II reflect the quality of its mortgage book.

Support

- Given the importance of the agricultural and forestry sectors in Sweden, in Fitch Ratings' opinion there is a moderate probability that support for LH from the Swedish authorities would be forthcoming, if required.

Key Rating Drivers

- Upside potential is limited given the bank's small size. A material deterioration in its market position, asset quality or profitability would be rating negative.

Profile

LH was created in its present form on 1 January 1995 through the combination of 10 former county mortgage associations. It is owned by Landshypotek Ekonomisk Förening (LEF), an incorporated association (a type of co-operative).

- Provider of long-term agricultural loans, with a significant market share
- A mutual organisation, with a business model to provide low-cost financing rather than generate profitability

Profile

LH is a specialised borrower-owned credit institution and provides long-term credit to Sweden's agricultural and forestry sectors. Its membership structure implies that LH does not aim to maximise profits, but instead seeks to provide favourable lending rates for its members. It is the market leader in first mortgage loans to farm and forest owners in Sweden, with a dominant market share of more than 40%, although this has declined slightly in recent years as a result of increased competition. LH is organised into three main business segments (forestry, production farms and residential farms) and employed close to 100 people at end-June 2008 in about 20 locations in Sweden. In order to improve the bank's responsiveness to customer needs, and ultimately to achieve a higher growth rate than in the recent past, the bank restructured its organisation at the beginning of 2007 and now operates through 19 districts.

LH was formed in 1995, after a government-commissioned review of the Swedish county mortgage associations ("landshypoteks-föreningar"), which were originally set up to provide credit for agricultural, forestry and horticultural purposes. These 10 county mortgage associations were combined into an "incorporated association", LEF, and members of the former associations became members of the new organisation. Under Swedish law, an incorporated association must promote the interests of its members through the economic activity in which they participate, ie it must operate as a mutual organisation. LEF's business was then transferred to a newly established "credit market company", LH, while LEF remained as a non-operating holding company. All LH's borrowers (but not those of its subsidiaries) are members (in effect owners) of LEF; there are about 60,000 members. The by-laws of LH were expanded in 2005 to allow it to lend to single-family houses (although these must still be connected to the agricultural sector) in addition to the agricultural and forestry sectors. Lending outside the bank's historical area of focus is expected to be very limited in future.

LH has three subsidiaries, although the operations of two of these are being wound down, and they have not granted any new loans since 2003:

- Lantbrukskredit (LK) lent primarily to the agricultural and forestry processing industries, and the energy sector. LK's exposure to the energy sector has been a source of losses in recent years in areas not core to LH. However, this book has been run down and the main source of losses, the exposure to EnergiSystem I Sverige (ESS), has been disposed of.
- Landshypotek Jordbrukskredit undertakes much the same business as LH, although its current portfolio is very small in comparison with that of its parent. The main objective for this subsidiary now is to hold the portion of any new loans granted by LH that exceeds 70% LTV (ie the portion not eligible for LH's covered bond pool).
- GMB (Sveriges Allmänna Hypoteksbank) was formed in 1861 to provide funding for the regional county mortgage associations, which were merged in 1995 to create LEF. It continued to be a funding vehicle for LH until June 1997, when LH began to undertake funding in its own name. Since then, GMB has existed only to administer the run-off of existing debt. All outstanding loans were repaid in 2006, and total assets totalled SEK7m at end-2006. Liquidation has been initiated, but it is likely to be some time before this process is completed; the company's ratings will be withdrawn upon completion of the liquidation.

LH also co-operates with other organisations, including LRF Konsult, which provides advisory services to farmers through 130 offices. During 1998-2007 LH co-operated with the insurance group Länsförsäkringsgruppen in order to offer other financial products to its customers. This cooperation was, however, terminated in 2007.

Ownership

As an incorporated association, LEF has members rather than owners. Each of the members (borrowers of LH) is entitled to one vote at the association's regional meetings, as long as the member's loan is not past due on either principal or interest. Members must build and maintain a "capital contribution" in LEF equivalent to 8% of their loan principal. They receive their share of the annual surplus (net profit) of LEF in two ways: through a dividend, calculated as a partial rebate of loan interest paid during the past year, and through interest received on their capital contribution. Initially, only 30% of the loan dividend is paid in cash until the member's capital contribution reaches the 8% requirement. The dividend system means that members are often able to borrow at lower rates than from other banks. A period of notice is required for withdrawal of the capital contribution (for example, when a loan has been repaid), which means an average delay of two and a half years to refund paid-in capital. A condition of repayment of the contributions is that payments made must not result in the association's capital adequacy falling below regulatory requirements, in the opinion of the board. The group has obtained permission from the Swedish Financial Services Authority to include LEF's co-operative capital as core capital under IFRS.

Presentation of Accounts

LH reported its financial statements in accordance with IFRS for the first time in Q107. The implementation of IFRS had a limited impact on LH's equity, but has had a more significant impact on the income statement due to fluctuations in the values of derivatives and of own issued securities. Two spreadsheets are attached to this report: one with data to end-2006 under Swedish accounting standards; and one with interim data for H108 and full years 2007 and 2006 under IFRS.

Performance

- Bottom-line profitability not the main objective due to mutual status
- Continued pressure on margins
- Improved cost control key to maintaining current profitability levels

Reflecting its co-operative structure, LH has never focused on achieving high profitability, and its operating ROE has generally been lower than at many of the larger commercial banks in Sweden (7.5% in H108 after 6.3% for 2007). The bank's objective is not to maximise capital generation. However, as it provides low-cost financing through a discretionary annual refund and interest paid by LEF on capital (SEK100.4m for 2007 compared with SEK84.9m for 2006) rather than lower initial rates, this gives it more flexibility to deal with any deterioration in its performance.

The agricultural industry is important to Sweden, and forestry represents the country's largest export industry. The amount of timber that can be harvested from any particular area is regulated by the government, and although this reduces the operational flexibility of those in the industry, it also provides a degree of stability. As in much of Sweden, agricultural property prices have been supported by the low interest-rate environment, despite recent increases. The trend in Sweden has been for farms to become either residential, where farming is more a hobby than occupation, or production farms. Rural tourism also represents a growth area for the industry. This has the effect of supporting rural property prices, although for LH it has also resulted in greater competition as: residential farm loans increasingly resemble normal residential mortgages, encouraging the major retail banks to compete for them; and production farms require larger loans, making the market more attractive to competitors.

Consistent with LH's business model of granting loans and providing additional services only through co-operating institutions, revenue is dominated by net interest income (86.5% of total income for 2007). Margins have come under increasing pressure as a result of growing competition. Despite LH's dominant market share, the next largest competitor, Swedbank Mortgage, also has a strong franchise (about 35% of first mortgage forestry and agricultural lending), and other major Swedish banks are becoming increasingly active in this area. This has been compensated for to some extent in 2007 and H108 by volume growth but not sufficiently to prevent a fall in net interest income in both periods (down 20% and 2%, respectively). Margins in 2007 were also negatively affected by unrealised fair value changes on financial instruments, including interest rate swaps not qualifying for hedge accounting under IFRS. This trend was reversed in H108, with fair value changes making a positive contribution to net interest income.

Other operating income remains relatively insignificant for LH, although in 2007 it benefited from some realised gains on financial instruments at fair value. The bank's net income for both 2007 and 2006 was also boosted by capital gains of about SEK30m on the sale of properties (under other income and expenses in the spreadsheets). For H108, non-interest income was therefore down on the corresponding period in 2007.

As revenue has come under increasing pressure, cost control has become a key focal area for LH's management. LH has a lower cost base than the larger Swedish banks as it does not maintain a large branch network. However, taking this into account, its cost/income ratio is relatively high (56.9% for 2007), although this is influenced by its low pricing model. Operating costs have increased more rapidly than earnings since 2001, reflecting the costs of preparation for Basel II, IT development and consultancy costs, some branch expansion, and the recent reorganisation. LH has outsourced some of its IT functions, but further investments in IT systems are being made in 2008, and the upgrading of its lending IT platform will weigh on costs over the next few years. Nevertheless, operating expenses fell by about 20% in H108 (compared with the same period in 2007), with a resulting reduction in the cost/income ratio to a more respectable 48.2%.

Loan impairment charges remain extremely low and have been consistently so for the bank's core business (annual average loan losses of 0.001% of the portfolio for the past 10 years, according to the bank). This is because LH's loan portfolio is generally well diversified by individual exposure and borrowers typically have low debt, which is backed by a high level of collateral. The bank has also benefited from a low level of interest rates, despite recent increases, and the strong performance of the industry and economy as a whole. All these factors mean that bankruptcies have been rare and potential volatility in risk costs is limited.

LH sold most of its exposure to ESS in 2006. This exposure had been the source of most of LH's loan provisioning costs since 2003, and the sale resulted in a loss of SEK190m, booked in 2005. LH has guarantees outstanding of about SEK100m, although they relate to operational aspects of the sale rather than residual credit risk.

Prospects

The outlook for LH remains fairly stable. It has a well-established position in its niche market and a loyal customer base, which is encouraged by the structure of the bank. The main threat to LH is increasing competition from the larger Swedish banks, and as revenue is expected to come under increasing pressure, good cost control will be key to maintaining profitability. The restructuring implemented in early 2007 should result in a more sales-oriented organisation and help the bank meet its volume and market share targets.

Risk Management

- Strong loan performance in core business supported by low LTVs
- Now focusing on core business
- Low market risk

LH's policy is to minimise its exposure to interest-rate or exchange-rate movements. It is not involved in any significant trading activities, and most of the market risk arising from structural balance-sheet mismatches is hedged. Risk is dominated by the loan book. In 2007 LH adopted the internal ratings-based approach for most of its credit risk (about 86% of exposure) under Basel II (under which most of the loan portfolio is treated as retail) and the basic indicator approach for operational risk.

Credit risks absorb about 90% of LH's capital requirement under Pillar 1 of Basel II, with the rest taken by operational risk. Other risks are captured under Pillar 2 through LH's internal capital adequacy process (ICAAP; see "Capital" below).

Credit Risk

Credit risk absorbs most of LH's capital requirement. Lending continues to account for a large proportion of assets (83% at end-June 2008), although this has somewhat declined since 2004 as the bank has expanded its liquidity portfolio. Growth in the loan book has been steady but fairly moderate in recent years, growing at an annual rate of 3%-4% since 2004. Almost all lending originates from LH, as the loan books in the subsidiaries have been run down.

Credit control is centralised, and with only a small number of branches it is relatively easy to monitor activities. All lending is backed by collateral, although credit analysis is based on repayment capabilities. Collateral requirements are conservative, with no loan granted at more than 85% LTV. At end-July 2008 the weighted average LTV of LH's book was just 39.7% (down from 42% at end-2007). LH has a retail scoring model in place, which is used to measure the risk of 99% of lending to individuals and "non-legal" entities. It also has a corporate risk assessment model, which it uses to assess legal entities and those non-legal entities or private individuals with loans over a certain level.

With the changing structure of the agricultural sector in Sweden, an increasing proportion of the loan volume (57% at end-July 2008) is to what LH classifies as residential farmers. Agriculture or forestry is not the principal occupation of these borrowers, nor is it necessarily their main source of income, and loans are more like residential mortgages than business lending. The balance of the portfolio is to production farmers (whose principal activity is farming or forestry) and is split between legal entities and "non-legal" entities.

All lending is to Swedish customers and is well diversified by region and especially by individual obligor. The largest individual exposure accounted for 3.4% of LH's Fitch eligible capital at end-June 2008. The largest 20 loans accounted for less than 3% of the loan book and about a third of the bank's eligible capital.

The sale of the ESS exposure has altered the profile of the loan portfolio for the better. This exposure was the main source of losses until 2005, and the largest single exposure by some distance. Core loan performance is strong. NPLs, defined as principal repayments more than 90 days overdue, represented 0.6% of the portfolio at end-June 2008; loan impairment allowances accounted for just SEK1,067m, covering less than 1% of NPLs. This low coverage is attributable to the strong quality of collateral and the relatively low LTVs. At end-June 2008 the bank had no foreclosed property in its possession.

Other assets primarily comprise debt securities. These are predominantly covered bonds issued by Swedish financial institutions, including mortgage institutions. The bank took about SEK60m of write-downs through equity on its available-for-sale portfolio at end-June 2008 (SEK33m at end-2007), as a result of the widening of credit spreads. Derivative counterparties are well-rated Nordic banks.

Market Risk

LH's policy is to minimise interest-rate risk by match-funding its assets or hedging residual risks through derivative instruments. At end-June 2008 a 100bp shift in interest rates would have had a SEK30m impact on annualised operating profit. FX exposure is minimal. The policy is for all FX exposures to be swapped into Swedish kronor, matching cash flows.

Operational Risk

LH operates with a relatively small workforce with a strong knowledge of a reasonably specialised area. This makes it potentially vulnerable to loss of key staff. Staff turnover has been relatively low, however, and senior management is experienced. The bank began collecting internal loss data during 2006, and the development of an incident database should be completed by 2008. As mentioned above, LH has adopted the basic indicator approach to calculate operational risk and at end-June 2008 this accounted for just 2% of its capital coverage requirement.

Funding and Capital

Funding and Liquidity

- Funded on the domestic and international wholesale markets
- Conversion of medium and long-term funding to covered bonds
- Adequate liquidity
- Capital adequacy ratios significantly improved under Basel II

LH funds itself primarily through the Swedish wholesale market, although it also accesses the international markets according to market conditions. Although the Swedish capital market has been less affected than many others by the global financial turbulence since mid-2007, the cost of funding has nevertheless risen significantly. Furthermore, following the more severe problems experienced by the global banking markets in autumn 2008, access to capital markets and inter-bank funding has become considerably more difficult for all banks.

After the introduction in mid-2005 of a new law on covered bonds in Sweden, LH converted virtually all its outstanding medium- and long-term funding into mortgage-backed covered bonds in August 2007. About 96% of LH's loan book (mainly performing loans with LTV up to 70%) is included in the covered bond pool, and over-collateralisation at end-June 2008 was about 7.7%. Given the large volume of covered bonds, senior unsecured debt holders are subordinated to the covered bond holders. Outstanding senior unsecured debt is mainly short term. The bank intends in the future to issue predominantly covered bonds.

LH has been permitted to take retail deposits since the beginning of 2005, although it has not done so and has tapped the retail market only through retail bonds; at end-June 2008, only SEK355m had been raised this way.

On-balance-sheet liquidity has improved significantly since 2006, with bond and fixed-income securities (predominantly Swedish covered bonds) growing to 15% of total assets at end-June 2008 from 4% at end-2005. Liquidity also benefits from a longer average maturity for funding than lending, supporting the bank's liquidity gap profile, and Swedish banks' ability to repo covered bonds with Sveriges Riksbank, the country's central bank. Nevertheless, as LH is dependent on the wholesale markets for its funding, it has, like many other banks, been hit by the financial markets crisis. With access to the capital markets virtually frozen, it has made use of the liquidity facilities offered by Sveriges Riksbank in order to shore up its liquidity. As the latter has publicly stated that it will provide the necessary liquidity to safeguard financial stability and ensure the smooth functioning of the Swedish financial markets, LH will be able to continue relying on the central bank for all its liquidity needs for the foreseeable future. In effect it is now able to use all the assets in its cover pool, including its loan book and liquidity reserve, as collateral for repo transactions with the central bank. These assets account for 96% of LH's total assets and any remaining liquidity requirement would be covered by the bank's equity.

Capital

LH's profile means that capital can be withdrawn from the institution by individual members. However, the timescale for this (see "Profile", above) is relatively long, and LH's board of directors has the option to refuse the withdrawal if it believes that the bank's capitalisation would fall below regulatory minimums. Although capital could fall, the safeguards in place give some additional comfort.

Fitch regards capitalisation as very comfortable. In 2007 LH adopted the internal ratings-based approach for capital requirement calculation under Basel II for all its retail credit exposure. For other assets, including treasury assets, the bank used the standardised approach. Excluding transitional floors, capital requirements under pillar I would be about a fifth of Basel I requirements, resulting in a Tier 1 ratio of almost 40%. This reflects the low average LTV of LH's mainly retail mortgage book.

LH's Fitch eligible capital, which does not include any hybrid instruments, is also comfortable.

Like other Swedish banks, LH has developed an ICAAP as part of its risk and capital management. This is an important tool for assessing the group's overall risks and captures the main risks under Pillar 2 of the new Basel Accord, such as interest rate, liquidity, concentration, reputation and strategic risk.

Balance Sheet Analysis

LANDSHYPOTEK AB

	30 June 2008				31 Dec 2007		31 Dec 2006	
	6 Months - Interim USDm Original	6 Months - Interim SEKm Original	As % of Assets Original	Average SEKm Original	Year End SEKm Original	As % of Assets Original	Year End SEKm Original	As % of Assets Original
A. LOANS								
1. Loans and Advances < 3 months	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
2. Loans and Advances 3 - 12 months	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
3. Loans and Advances > 1 year	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
4. Loan Impairment (to deduct from above)	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
5. Loan Impairment (memo)	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
6. Less: Loans from the Insurance Business	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
TOTAL A	**6,780.8**	**40,548.9**	**82.56**	**40,136.8**	**39,724.6**	**88.14**	**37,312.6**	**88.72**
B. OTHER EARNING ASSETS								
1. Loans and Advances to Banks	13.8	82.4	0.17	74.3	66.2	0.15	73.2	0.17
2. Government Securities	n.a.	n.a.	-	n.a.	0.0	0.00	0.0	0.00
3. Trading Assets	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
4. Derivatives	16.0	95.5	0.19	87.3	79.0	0.18	40.8	0.10
5. Other Securities and Investments	1,241.4	7,423.7	15.12	5,860.0	4,296.2	9.53	3,701.6	8.80
6. Equity Investments	0.0	0.0	0.00	0.0	0.0	0.00	70.0	0.17
7. Insurance	n.a.	n.a.	-	n.a.	0.0	0.00	n.a.	-
TOTAL B	**1,271.2**	**7,601.6**	**15.48**	**6,021.5**	**4,441.4**	**9.85**	**3,885.6**	**9.24**
C. TOTAL EARNING ASSETS (A+B)	**8,051.9**	**48,150.5**	**98.04**	**46,158.3**	**44,166.0**	**97.99**	**41,198.2**	**97.95**
D. TANGIBLE FIXED ASSETS	**58.9**	**352.2**	**0.72**	**352.5**	**352.8**	**0.78**	**362.2**	**0.86**
E. NON-EARNING ASSETS								
1. Cash and Due from Banks	1.5	8.7	0.02	4.5	0.3	0.00	0.8	0.00
2. Other	100.7	602.1	1.23	576.4	550.7	1.22	497.6	1.18
F. TOTAL ASSETS	**8,213.0**	**49,113.5**	**100.00**	**47,091.7**	**45,069.8**	**100.00**	**42,058.8**	**100.00**
G. DEPOSITS & MONEY MARKET FUNDING								
1. Due to Customers < 1 year	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
2. Due to Customers > 1 year	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
3. Due to Customers, no breakdown	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
4. Deposits from Banks	278.0	1,662.3	3.38	1,211.4	760.4	1.69	458.3	1.09
5. Other Deposits and Short-term Borrowings	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
TOTAL G	**278.0**	**1,662.3**	**3.38**	**1,211.4**	**760.4**	**1.69**	**458.3**	**1.09**
H. OTHER LIABILITIES								
1. Derivatives	39.2	234.2	0.48	210.2	186.2	0.41	106.0	0.25
2. Trading Liabilities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
3. Fair Value Portion of Debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
4. Insurance	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
TOTAL H	**39.2**	**234.2**	**0.48**	**210.2**	**186.2**	**0.41**	**106.0**	**0.25**
I. OTHER FUNDING								
1. Long-term Borrowing	7,076.5	42,317.3	86.16	40,898.9	39,480.5	87.60	36,762.2	87.41
2. Subordinated Debt	75.3	450.0	0.92	450.0	450.0	1.00	650.0	1.55
3. Other Funding	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
TOTAL I	**7,151.7**	**42,767.3**	**87.08**	**41,348.9**	**39,930.5**	**88.60**	**37,412.2**	**88.95**
J. NON-INTEREST BEARING	**202.3**	**1,209.5**	**2.46**	**1,094.9**	**980.2**	**2.17**	**949.6**	**2.26**
K. HYBRID CAPITAL								
1. Hybrid capital accounted for as equity	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
2. Hybrid Capital accounted for as debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
L. TOTAL LIABILITIES	**7,671.1**	**45,873.3**	**93.40**	**43,865.3**	**41,857.3**	**92.87**	**38,926.1**	**92.55**
M. EQUITY								
1. Common Equity	559.4	3,345.2	6.81	3,301.1	3,257.1	7.23	3,178.1	7.56
2. Minority Interest	n.a.	n.a.	-	n.a.	0.0	0.00	0.0	0.00
3. Revaluation Reserves	-17.6	-105.0	-0.21	-74.8	-44.6	-0.10	-45.4	-0.11
TOTAL M	**541.8**	**3,240.2**	**6.60**	**3,226.4**	**3,212.5**	**7.13**	**3,132.7**	**7.45**
MEMO: CORE CAPITAL	**559.4**	**3,345.2**	**6.81**	**3,301.1**	**3,257.1**	**7.23**	**3,178.1**	**7.56**
MEMO: ELIGIBLE CAPITAL	**559.4**	**3,345.2**	**6.81**	**3,301.1**	**3,257.1**	**7.23**	**3,178.1**	**7.56**
N. TOTAL LIABILITIES & EQUITY	**8,213.0**	**49,113.5**	**100.00**	**47,091.7**	**45,069.8**	**100.00**	**42,058.8**	**100.00**
Exchange Rate		USD1 = SEK 5.9800			USD1 = SEK 6.4136		USD1 = SEK 6.8644	

Income Statement Analysis
LANDSHYPOTEK AB

	30 June 2008		31 Dec 2007		31 Dec 2006	
	Income Expenses SEKm Original	As % of Total AV Earning Assts Original	Income Expenses SEKm Original	As % of Total AV Earning Assts Original	Income Expenses SEKm Original	As % of Total AV Earning Assts Original
1. Interest Income	1,103.4	4.78	1,896.2	4.44	1,553.8	-
2. Interest Expense	942.9	4.09	1,535.2	3.60	1,101.0	-
3. NET INTEREST REVENUE	**160.5**	**0.70**	**361.0**	**0.85**	**452.8**	**-**
4. Net Fees & Commissions	3.7	0.02	12.3	0.03	7.5	-
5. Net Insurance Revenue	n.a.	-	0.0	0.00	0.0	-
6. Other Operating Income	48.0	0.21	44.0	0.10	-13.3	-
7. Personnel Expenses	n.a.	-	90.5	0.21	n.a.	-
8. Other Operating Expenses	102.3	0.44	147.1	0.34	219.1	-
9. PRE-IMPAIRMENT OPERATING PROFIT	**109.9**	**0.48**	**179.7**	**0.42**	**227.9**	**-**
10. Loan Impairment Charge	0.0	0.00	-18.8	-0.04	-21.1	-
11. Other Credit Impairment and Provisions	-11.7	-0.05	n.a.	-	n.a.	-
12. OPERATING PROFIT	**121.6**	**0.53**	**198.5**	**0.47**	**249.0**	**-**
13. Other Income and Expenses	n.a.	-	13.0	0.03	29.3	-
14. PUBLISHED PRE-TAX PROFIT	**121.6**	**0.53**	**211.5**	**0.50**	**278.3**	**-**
15. Taxes	33.5	0.15	49.8	0.12	77.4	-
16. Profit/(Loss) from Discontinued Operations	n.a.	-	n.a.	-	n.a.	-
17. Change in Value of AFS investments	-60.4	-0.26	0.8	0.00	-33.2	-
18. CurrencyTranslation Differences	n.a.	-	n.a.	-	n.a.	-
19. Other Gains/(Losses) not in Published Net Income	n.a.	-	n.a.	-	n.a.	-
20. FITCH COMPREHENSIVE INCOME	**27.7**	**0.12**	**162.5**	**0.38**	**167.7**	**-**
21. Total Gains/(Losses) not in Published Net Income	-60.4	-0.26	0.8	0.00	-33.2	-
22. IFRS Dividends included in Fitch Interest Expense	n.a.	-	n.a.	-	n.a.	-
23. PUBLISHED NET INCOME	**88.1**	**0.38**	**161.7**	**0.38**	**200.9**	**-**

Ratio Analysis
LANDSHYPOTEK AB

		30 June 2008	31 Dec 2007	31 Dec2006
		6 Months - Interim SEKm Original	Year End SEKm Original	Year End SEKm Original
I. PERFORMANCE				
1. Net Interest Margin	%	0.70	0.85	n.a.
2. Loan Yield	%	n.a.	4.96	n.a.
3. Cost of Funds	%	4.43	3.91	n.a.
4. Costs/Average Assets	%	0.43	0.55	n.a.
5. Costs/Income	%	48.21	56.94	49.02
6. Pre-Impairment Operating ROAA	%	0.47	0.41	n.a.
7. Operating ROAA	%	0.52	0.46	n.a.
8. Pre-impairment Operating ROAE	%	6.81	5.66	n.a.
9. Operating ROAE	%	7.54	6.26	n.a.
II. CAPITAL ADEQUACY				
1. Internal Capital Generation	%	1.72	5.12	n.a.
2. Core Capital/Total Assets	%	6.81	7.23	7.56
3. Eligible Capital/Regulatory Weighted Risks	%	10.87	8.37	8.16
4. Eligible Capital+Eligible Revaluation Reserves/Regulatory Weighted Risks	%	10.53	8.26	8.05
5. Tier 1 Regulatory Capital Ratio	%	8.66	8.36	8.23
6. Total Regulatory Capital Ratio	%	9.75	9.42	9.39
7. Free Capital/Equity	%	81.70	79.83	76.42
III. LIQUIDITY (year end)				
1. Liquid Assets/Deposits & Money Mkt Funding	%	380.13	488.99	686.70
2. Loans/Deposits	%	n.a.	n.a.	n.a.
IV. ASSET QUALITY				
1. Loan Impairment Charge/Gross Loans (av.)	%	0.00	-0.05	n.a.
2. Total Credit Impairment/Pre-impairment Operating Profit	%	-10.65	-10.46	-9.26
3. Loan Impairment/Gross Impaired Loans	%	n.a.	n.a.	n.a.
4. Individual Loan Impairment/Gross Impaired Loans	%	0.50	0.60	n.a.
5. Impaired Loans Gross / Loans Gross	%	0.59	0.74	0.95
6. Impaired Loans Net/Eligible Capital	%	7.20	9.06	11.15
7. Net Charge-offs/Gross Loans (av.)	%	n.a.	n.a.	n.a.

Balance Sheet Analysis

LANDSHYPOTEK AB

	31 Dec 2006				31 Dec 2005		31 Dec 2004		31 Dec 2003	
	Year End USDm Original	Year End SEKm Original	As % of Assets Original	Average SEKm Original	Year End SEKm Original	As % of Assets Original	Year End SEKm Original	As % of Assets Original	Year End SEKm Original	As % of Assets Original
A. LOANS										
1. Up to 1 Year	3,378.8	23,193.4	54.61	22,246.9	21,300.4	55.48	20,895.9	58.16	18,464.5	50.94
2. Over 1 Year (Total if no split)	2,003.5	13,752.6	32.38	13,749.8	13,747.0	35.81	12,486.0	34.75	14,180.2	39.12
3. Leased Assets	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
4. Memo: Loan Loss Reserves										
(including country risk)	0.2	1.3	0.00	1.5	1.6	0.00	1.5	0.00	1.2	0.00
TOTAL A	**5,382.3**	**36,946.0**	**86.99**	**35,996.7**	**35,047.4**	**91.29**	**33,381.9**	**92.91**	**32,644.7**	**90.06**
B. OTHER EARNING ASSETS										
1. Due from Credit Institutions	68.4	469.7	1.11	512.7	555.7	1.45	785.9	2.19	822.3	2.27
2. Government Securities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
3. Other Securities	539.2	3,701.6	8.72	2,545.9	1,390.1	3.62	299.7	0.83	1,448.4	4.00
4. Equity Investments	75.0	514.9	1.21	514.8	514.8	1.34	514.8	1.43	514.9	1.42
TOTAL B	**682.7**	**4,686.2**	**11.03**	**3,573.4**	**2,460.6**	**6.41**	**1,600.4**	**4.45**	**2,785.6**	**7.68**
C. TOTAL EARNING ASSETS (A+B)	**6,064.9**	**41,632.2**	**98.02**	**39,570.1**	**37,508.0**	**97.70**	**34,982.3**	**97.37**	**35,430.3**	**97.75**
D. FIXED ASSETS	**49.2**	**338.0**	**0.80**	**350.4**	**362.7**	**0.94**	**373.3**	**1.04**	**373.9**	**1.03**
E. NON-EARNING ASSETS										
1. Cash	0.1	0.7	0.00	0.6	0.6	0.00	0.6	0.00	0.9	0.00
2. Other	73.0	500.8	1.18	510.4	519.9	1.35	572.6	1.59	442.4	1.22
F. TOTAL ASSETS	**6,187.2**	**42,471.7**	**100.00**	**40,431.5**	**38,391.2**	**100.00**	**35,928.8**	**100.00**	**36,247.5**	**100.00**
G. DEPOSITS & MONEY MARKET FUNDING										
1. Demand Deposits	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Time Deposits	36.5	250.5	0.59	277.1	303.7	0.79	491.0	1.37	462.1	1.27
3. Interbank										
(a) Up to 1 Year	108.7	746.0	1.76	631.7	517.4	1.35	1,872.4	5.21	1,435.5	3.96
(b) Over 1 Year	13.2	90.3	0.21	282.3	474.3	1.24	518.8	1.44	1,856.7	5.12
4. Certificates of Deposit	186.0	1,276.9	3.01	3,248.3	5,219.6	13.60	508.4	1.42	3,291.4	9.08
TOTAL G	**344.3**	**2,363.7**	**5.57**	**4,439.4**	**6,515.0**	**16.97**	**3,390.6**	**9.44**	**7,045.7**	**19.44**
H. OTHER FUNDING										
1. Long-Term Debt	5,133.7	35,239.5	82.97	31,234.7	27,229.9	70.93	28,240.9	78.60	24,994.9	68.96
2. Subordinated Debt	94.7	650.0	1.53	650.0	650.0	1.69	750.0	2.09	700.0	1.93
3. Hybrid Capital	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
I. OTHER (non-int. bearing)	**150.0**	**1,029.5**	**2.42**	**941.0**	**852.5**	**2.22**	**610.5**	**1.70**	**653.5**	**1.80**
J. LOAN LOSS RESERVES (LDC)	**n.a.**	**n.a.**	**-**	**n.a.**	**n.a.**	**-**	**n.a.**	**-**	**n.a.**	**-**
K. UNTAXED RESERVES	**n.a.**	**n.a.**	**-**	**n.a.**	**0.0**	**0.00**	**65.0**	**0.18**	**71.7**	**0.20**
L. EQUITY	**464.6**	**3,189.0**	**7.51**	**3,166.4**	**3,143.8**	**8.19**	**2,871.8**	**7.99**	**2,781.7**	**7.67**
M. TOTAL LIABILITIES & EQUITY	**6,187.2**	**42,471.7**	**100.00**	**40,431.5**	**38,391.2**	**100.00**	**35,928.8**	**100.00**	**36,247.5**	**100.00**
Exchange Rate		USD1 = SEK 6.8644			USD1 = SEK 7.9584		USD1 = SEK 6.6146		USD1 = SEK 7.2750	

Income Statement Analysis
LANDSHYPOTEK AB

	31 Dec 2006		31 Dec 2005		31 Dec 2004		31 Dec 2003	
	Income Expenses SEKm Original	As % of Total AV Earning Assts Original	Income Expenses SEKm Original	As % of Total AV Earning Assts Original	Income Expenses SEKm Original	As % of Total AV Earning Assts Original	Income Expenses SEKm Original	As % of Total AV Earning Assts Original
1. Interest Income	1,541.7	3.90	1,449.9	4.00	1,614.5	4.59	1,759.1	5.13
2. Interest Expense	1,245.1	3.15	1,095.8	3.02	1,248.6	3.55	1,381.6	4.03
3. NET INTEREST REVENUE	**296.6**	**0.75**	**354.1**	**0.98**	**365.9**	**1.04**	**377.5**	**1.10**
4. Net Fees and Commissions	7.5	0.02	7.9	0.02	5.9	0.02	5.2	0.02
5. Net Trading Income	n.a.	-	0.0	0.00	2.9	0.01	0.0	0.00
6. Other Operating Income	53.5	0.14	53.5	0.15	28.2	0.08	27.2	0.08
7. Personnel Expenses	92.1	0.23	80.5	0.22	78.4	0.22	79.8	0.23
8. Other Operating Expenses	119.6	0.30	121.1	0.33	96.8	0.27	91.0	0.27
9. Loan Loss Provisions	0.1	0.00	-0.4	0.00	0.2	0.00	0.2	0.00
10. OPERATING PROFIT	**145.8**	**0.37**	**214.3**	**0.59**	**227.5**	**0.65**	**238.9**	**0.70**
11. IAS 39 Adjustments	n.a.	-	n.a.	-	n.a.	-	n.a.	-
12. Other Income and Expenses	n.a.	-	n.a.	-	n.a.	-	n.a.	-
13. PROFIT BEFORE EXCEPTIONAL ITEMS	**145.8**	**0.37**	**214.3**	**0.59**	**227.5**	**0.65**	**238.9**	**0.70**
14. Exceptional Items	n.a.	-	n.a.	-	n.a.	-	n.a.	-
15. PRE-TAX PROFIT	**145.8**	**0.37**	**214.3**	**0.59**	**227.5**	**0.65**	**238.9**	**0.70**
16. Transfer to/(from) Equity Reserves	31.4	0.08	-15.7	-0.04	55.3	0.16	48.8	0.14
17. Taxes	8.6	0.02	31.3	0.09	2.4	0.01	13.1	0.04
18. PUBLISHED NET INCOME INCLUDING MINORITIES	**105.8**	**0.27**	**198.7**	**0.55**	**169.8**	**0.48**	**177.0**	**0.52**
19. Memo: FITCH NET INCOME before appropriations	137.2	0.35	183.0	0.50	225.1	0.64	225.8	0.66

Ratio Analysis
LANDSHYPOTEK AB

		31 Dec 2006 Original	31 Dec 2005 Original	31 Dec 2004 Original	31 Ded 2003 Original
I. PROFITABILITY LEVEL					
1. Pre-prov Profit/Total Assets (av.)	%	0.36	0.58	0.63	0.68
2. Op Profit/Total Assets (av.)	%	0.36	0.58	0.63	0.68
3. Pre-tax Profit/Total Assets (av.)	%	0.36	0.58	0.63	0.68
4. Adj Net Income/Total Assets (av.)	%	0.34	0.49	0.62	0.64
5. Adj Net Income/Equity (av.)	%	4.33	6.08	7.96	8.52
6. Non-int. Expenses/Total Income	%	59.20	48.52	43.48	41.67
7. Net Interest Rev/Total Assets (av.)	%	0.73	0.95	1.01	1.07
II. CAPITAL ADEQUACY (year end)					
1. Internal Capital Generation	%	4.33	6.08	7.96	8.52
2. Equity/Total Assets	%	7.51	8.19	7.99	7.67
3. Equity/Loans	%	8.63	8.97	8.60	8.52
4. Capital/Risks - Tier 1	%	8.23	8.48	8.79	n.a.
5. Capital/Risks - Total	%	9.39	9.80	10.27	n.a.
III. LIQUIDITY (year end)					
1. Liquid Assets/Deposits & Money Mkt Funding	%	19.90	7.76	21.10	10.11
2. Liquid Assets & Marketable Debt Securities/Deposits & Money Mkt Funding	%	19.90	8.54	23.20	11.68
3. Loans/Deposits & Money Mkt Funding	%	1,563.06	537.95	984.54	463.33
IV. ASSET QUALITY					
1. Loan Loss Provisions/Net Loans (av.)	%	0.00	0.00	0.00	0.00
2. Loan Loss Provisions/Pre-Prov Profit	%	0.07	-0.19	0.09	0.08
3. Net Impaired Loans/Net Loans	%	0.85	0.94	1.05	1.08
4. Net Impaired Loans/Equity	%	9.81	10.47	12.16	12.66
5. Loan Loss Reserves/Impaired Loans	%	0.41	0.45	0.43	0.34
6. Loan Loss Reserves/Total Gross Loans	%	0.00	0.00	0.00	0.00