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Analysis

SWEDEN
Europe/M.East/Africa

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Landshypotek AB (publ)

Landshypotek's A2/Prime-1/C+ ratings reflect its role as a leading mortgage lender to the Swedish agriculture, forestry and horticulture sectors, its long established and well-entrenched customer franchise, high quality of primary loan book and a good track record as a low-cost producer. The ratings also incorporate the challenges of resolving its large problem exposure and maintaining a low cost profile.

Franchise and Market Position

STRONG Foothold AS A SPECIALISED LENDER TO THE SWEDISH FORESTRY AND AGRICULTURAL SECTORS

Landshypotek AB is a finance company specialised in mortgage finance to the Swedish agriculture, forestry and horticulture sectors. Its primary business is to extend to farmers and forest owners first mortgage loans on favourable terms. As such, Landshypotek fulfils an important role in supporting two key economic sectors for Sweden. Forest properties are typically viewed as long-term and secure investments, which has resulted in a growing proportion of "new" forest owners over recent years. The forestry sector is indeed of great importance to the Swedish economy with forest products accounting for 13% of total Swedish exports. Moreover, forestry accounts for 5% of the Swedish GDP. Swedish forestland represents about 20% of EU-15 aggregate acreage, out of which more than 50% is owned by 350,000 individuals. Swedish agricultural output is increasingly for internal consumption focusing on organic production, and only 1% of the Swedish GDP is generated from the agricultural sector.¹

LEADING MARKET POSITION IN CORE BUSINESS

In its core business, Landshypotek is the leading player with close to 50% market share. Its main competitor is AB Spintab (rated Aa3 for senior long-term debt, P-1) — in particular Spintab's subsidiary Jordbrukskredit AB, which finances the Swedish forestry and agricultural sectors.² The two groups share a focus on the country's rural areas where they both command long-standing customer relationships. Competition in mortgage lending has intensified, with independent and local savings banks showing greater interest in first mortgage lending to the agricultural and forestry sector. These local savings banks tend to focus mainly on credits secured against second mortgages, which Landshypotek itself cannot underwrite.

1. There are no EU subsidies for the forest sector while in agriculture they account for less than 20% of total farming revenue — a comparatively very low level. Hence, because neither forestry nor farming depends on EU subsidies, Swedish land values should remain relatively unaffected by the EU Common Agricultural Policy Medium-Term Review.

2. At year-end 2004, Jordbrukskredit's portfolio accounted for around 40% of the total market.

We view Landshypotek's market positioning as stable going forward, based on the company's historical position and solid ties to the local farming communities. Client relationships span generations, to the first county mortgage associations of the 19th century. In addition, the low margin level does represent a meaningful barrier to entry. Provided it remains a low-cost provider to its target customers, we consider Landshypotek's monoline status to be franchise strength rather than a competitive disadvantage. The company's non-core activities are limited to the offering of other banking and insurance products for which Landshypotek works in partnership with the Länsförsäkringar Insurance Group and its banking subsidiary. Through the subsidiary Lantbrukskredit AB, Landshypotek was also active in refinancing related industries such as food processing, but has now ceased these non-core lending activities. That said, we continue to view any significant departure of Landshypotek from its core role as inopportune. We take comfort from the fact that management reaffirmed its intention to concentrate lending activities on the offering of first mortgage loans to owners of properties in the segments of forest, residential farms and production-based farms.

EFFORTS TO INCREASE CUSTOMER CONTACTS SHOULD TRANSLATE INTO HIGHER MARKET VISIBILITY

In 2003, the group initiated a reorganisation of its activities into dedicated customer segments, aimed at better assessing the future business environment of its customers.³ In 2004, it was decided that this segmentation would serve as a platform for a customer-centric strategy that increases client penetration and more economically serves each customer segment.⁴ Going forward, the bank will focus on improving client services by increasing the time dedicated to its customers as well as on marketing Landshypotek more actively. At present, client coverage is carried out via 10 regional divisions. The bank counts about 62,000 clients, compared with 64,000 in 2003. This decrease is mainly the effect of the consolidation of agricultural properties as the sector rationalises. The size of the loan book has actually increased — albeit slightly — from SEK34.725 billion to SEK34.790 billion, as the value of the agricultural properties managed have increased substantially.

LANDSHYPOTEK HAS A UNIQUE OWNERSHIP STRUCTURE

Landshypotek is wholly owned by Landshypotek Ekonomisk Förening (Landshypotek Economic Association), a holding company incorporated as a membership association. Typical of a co-operative organisation, the Association's member-owners are also its clients: each loan from Landshypotek determines the size of its membership or shareholding in the Association on a pro-rata basis. Each loan requires a capital contribution from the member-client of 8% of the loan. However, this capital contribution is not constituted at the origination of the loan, but built up over time through part of the dividend Landshypotek pays the Association. As a result, the company must command a certain minimum level of commercial spread on new loans in order to generate the corresponding capital cushion.

The dividend which the Association pays annually to its members can be divided as follows:

- 30% of the dividend is paid in cash to cover the tax which will accrue on this earnings stream, and
- The rest is credited to each member-client's account with the association on a pro rata basis. Over time, these accumulating payments come to represent 8% of the loan granted to each individual member-client. This sum remains immobilised in the association until the loan has been repaid. Consequently, the member-client can only withdraw funds in excess of the 8% minimum contribution — but is not obliged to do so. The member-client cannot make voluntary deposits to its account with the Association. Importantly, if the loan is repaid early, the capital contribution remains for a minimum of two years.

In recent years, the funds paid into member-clients' accounts⁵ have translated into a 4% rate of return on average for the association's members, which represent a relatively low cost of capital. Landshypotek benefits from a high quality equity base and a comparatively low cost of capital. The "lock-in" feature of this capital accumulation mechanism is positive. However, there is no formal support mechanism among the members for the Association, or from the Association to Landshypotek itself. As a result, were Landshypotek to need recapitalising (in the event of a particularly large credit loss), injecting fresh equity would be at the discretion of the Association's members. In addition, the high dividend payout slows Landshypotek's loan growth compared to better-capitalised competitors. Financial distress of a member would not negatively impact Landshypotek, as no direct dividend upstreaming to an individual member is possible. Landshypotek also retains full control over its loan appetite and is able to refuse granting or renewing credit to any member at its own discretion.

3. Clients were classified into the three segments of forest, residential farms and production-based farms.

4. See Issuer Profile in addition to this Analysis for more information about Landshypotek's business, ownership and organisation.

5. For 2004, the refund was equivalent to 6.75% in terms of regular loan interest paid (2003: 6.75%).

Financial Fundamentals

LANDSHYPOTEK'S PROFITABILITY REFLECTS ITS STATUS AS A NON-PROFIT MAXIMISING ORGANISATION

Landshypotek's profitability indicators reflect its status as a non-profit maximising organisation whose key role has been to provide low-cost funding to forest and farm owners. This translates into relatively low interest margins and an administration that requires high levels of industry know-how. The bank posted a relatively low recurring earning power of 0.66% in 2004 (2003: 0.74%) and reported a net interest margin of 1.08% at year-end 2004, which is set to cover its staff, administrative, credit and funding costs, and equity build-up. Any excess return is given back to borrowers in the form of a dividend refund, which lowers the level of interest rate paid. Revenues are a function of loan growth and interest rate levels. Results in the year to June 2005 show that despite low net new loan growth (due to the phasing out of non-core activities in Lantbrukskredit), net interest income has slightly improved. This in return has helped core earning levels to be preserved at SEK107 million, almost similar to SEK105 million in 2004. However, bottom line profits were augmented by 224% to SEK73.4 million primarily due to lower loan loss provisions.

Comparing the institution's profitability indicators with those of the other Swedish mortgage lenders is of limited value as these companies focus on property finance with the advantage of lower regulatory capital requirements against these credits. Also, the bank-owned companies' operating structure reflects substantial outsourcing to their parent banks. To some extent, Landshypotek is comparable to the Danish mortgage lender DLR Kredit A/S or the state-owned Swedish Housing Finance Corporation (SBAB), which also pursues a strategy of providing low-cost funding. At year-end 2004, Landshypotek's profitability compared well with that of SBAB and DLR Kredit which each reported a recurring earning power of 0.5% and 0.3% and net interest margin of 0.92% and 0.64% respectively, compared to ratios of 0.7% and 1.08% for Landshypotek.

GOOD TRACK RECORD AS LOW-COST PRODUCER

Landshypotek's business model reflects the necessity to contain operating expenses as well as to lower the cost of risk. Given that it aims to provide low-cost funding to its borrowers, the bank must keep a tight rein on all types of outlays to continue offering the market's most favourable rates. During 2004, management reinforced its commitment to high operating efficiency by completing "Project Future", which reviewed work practices and processes.⁶ Investment-intensive elements of the project have been carried out in 2005 and we expect the benefits of this project to start filter through in 2007.

Overall, Landshypotek exhibits a good track record of cost management with an average cost-to-income ratio of around 39% in past five years (2004: 43%). This comparatively good operating efficiency also reflects its lack of a retail network. Going forward, company faces a number of important projects, mainly relating to Basel II and IAS, and requiring large-scale IT investments. As a result, the company's fixed cost base is expected to grow in absolute terms. Hence, we believe that maintaining its low cost profile by calibrating the level of investment spending in Basel II and IAS, securing low-cost refinancing and eschewing large-scale credit losses remain a medium-term challenge for the management of the company.

LOW CAPITAL CUSHION APPROPRIATE FOR RISKS ON CORE BUSINESS

Landshypotek had a Tier 1 capital ratio of 8.88% and a total capital ratio of 10.31% at the end of June 2005 (8.79% and 10.27%, respectively for year-end 2004). We would view this solvency level as solid, were it to pertain only to the very low risk profile of Landshypotek's primary business. Factoring in those credit risks at Lantbrukskredit, capitalisation is adequate. We view the bank's ownership structure as protective and stable over time but also believe that such a construction leaves little if any flexibility to raise capital at short notice. Landshypotek's internal capital generation is curbed by a high dividend policy. (See section entitled *Landshypotek Has a Unique Ownership Structure*).

That said, we note that application of the new capital adequacy requirement in Basel II should translate into a relatively low equity cost for Landshypotek due to its good level of asset quality and low risk profile. Landshypotek has developed an Internal Ratings-Based Approach — Advanced method for credit risk capital requirements and the Standardised approach for operational risk. The company expects to benefit substantially from more risk-based capital requirements given its history of very low loan losses on its primary book of first mortgages. At present, Landshypotek's loans are 100% risk-weighted. Given the small size of the company's loans to production farms, the notion of corporate exposures is irrelevant for Landshypotek. The company is currently developing a credit-scoring system for private borrowers (forest owners and residential farms) and an expert model for risks relating to production-based farms.

6. The "Future Project" led to the segmentation of the client base into three divisions, and recommendations for work flow improvements.

Risk Management

HIGH QUALITY OF PRIMARY LOAN BOOK

Landshypotek has a very low risk profile in its core business. The quality of Landshypotek's portfolio of agricultural loans secured on a first mortgage is high due to:

- Its history in the sector which translates into a deep knowledge of the local farming communities;
- Good geographical spread of lending;
- Strict valuation and origination criteria. Collateral for the loans consists mainly of forestry land, residential farm property and production-based farm property. Landshypotek's by-laws limit the loan-to-value (LTV) threshold to 75%. On average, the portfolio of loans amounts to about one third of the assessed value of the properties. We view positively the fact that the regional offices' local boards of directors handle the valuation of agricultural and forest properties since these board members are local farmers and forest owners. When lending to an incorporated farm, Landshypotek requires a personal or bank guarantee. Property value calculations are conservative either using the taxable value — which typically significantly understates the marketable value of the said property⁷ — or relying on the assessment of a qualified valuer;
- The fact that borrowers are mainly private individuals owning forest or farmland or both — in particular private owners of farmland are a growing customer group for Landshypotek. The Swedish agricultural sector is characterised by the predominance of small properties because half of the forest and almost all farmlands are owned by individuals. In contrast to other European countries, actual corporate concerns own only 25% of the forestland; the Swedish State and other public interests own the remaining 24%. As a result, the portfolio exhibits a high degree of borrower granularity and the loss content on that loan book is very similar to that associated with a book of residential mortgages;
- The good financial health of the Swedish agricultural sector as a whole.
- Only a few of those owning forest and/or farmland derive their livelihood thereof as the vast majority is otherwise employed. Farming represents only about 20% of the average taxable income of a farmer or forest owner.

SEVERE STORMS IN SOUTHERN SWEDEN HAD A LIMITED IMPACT ON ASSET QUALITY

In January 2005, a severe storm hit the forests of Southern Sweden wherein approximately 75 million cubic metres (or almost the average annual standing volume of all trees in Sweden) were estimated to have been felled. The impact was devastating for some forest owners. To mitigate the effects of devastation, the Swedish state granted financial aid, including tax subsidies, to local forest owners and instituted support measures to clean the forests as soon as possible by removing timber.

Regarding Landshypotek's loan book, the conservative loan-to-value levels applied to most affected properties (between 28% and 35%) and the existence of a diversified collateral base (forest is never sole collateral) provides a substantial cushion and protect the value of Landshypotek's claims. As such, loss for Landshypotek should be marginal and we do not foresee any material deterioration in its credit quality.

HIGH COLLATERAL VALUE LEVELS ON PRIMARY CREDIT BOOK ALLOWS FOR LOW LOAN LOSS RESERVES

A characteristic feature of Landshypotek's asset quality indicators is a comparatively low level of loan loss coverage on its book of first mortgages. Problem loans increased slightly to 2.18% of gross loans at year-end 2004 (2003: 2.02%), but the increase in provisions was higher with a coverage ratio reaching 17.2% at year-end 2004 (2003: 10.9%) because of additional provisioning for a very large problem loan at the subsidiary Lantbrukskredit. That said, this ratio remains comparatively low, although the company's practices are fully compliant with the Swedish regulator's prescriptions. Landshypotek's loan loss coverage level reflects its justified estimation that the value of the collateral backing its doubtful loans will in almost all cases cover the sums due by the borrower.

NON-PRIMARY LOAN BOOK, ALTHOUGH IMPROVING, STILL SHOWS HIGH CONCENTRATION AND BORROWER RISK

Landshypotek's subsidiary, Lantbrukskredit, continues to show a loan book with a high concentration risk in total contradiction with the high asset quality observed in Landshypotek's core book. We remain of the opinion that, although

7. The taxable value of privately-owned forest and agricultural properties in Sweden is estimated at SEK296 billion while their market value is estimated to be twice as high. Given total indebtedness of SEK114 billion, the sector's leverage is low even with respect to taxable value only. Value estimates focus solely on land and do not include the potential value of machinery, animals, inventory or working capital.

Lantbrukskredit's loans have never accounted for more than 10% of the consolidated credit exposures, any large-scale loss arising therein would put significant pressure on the whole given the lack of flexibility of Landshypotek's structure. In line with its plan of phasing out⁸ all non-core credits as well as risky exposures, Lantbrukskredit's portfolio has been heavily scaled back since mid-2003 with no new lending and only primary business-related loans remaining. Restructuring of risky exposures is progressing, albeit at a moderate pace, but their phase-out has dampened lending growth during the first half of 2005 and we expect this process to follow the same trend going forward.

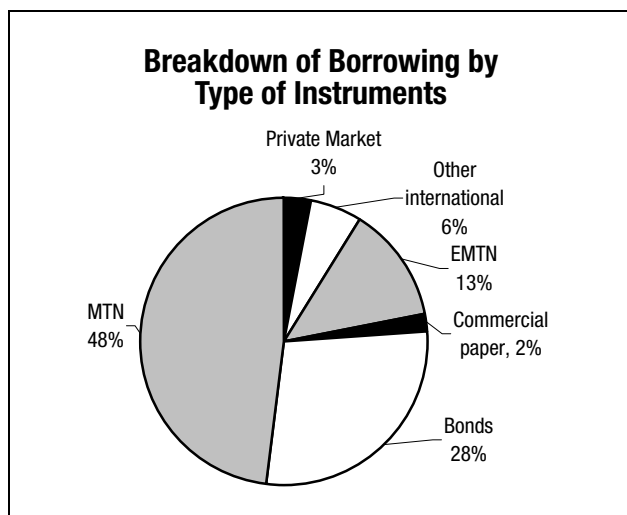
As a result of this restructuring process, the concentration risk, although still high, has come down over the past two years, with Lantbrukskredit reporting nine "large-scale exposures",⁹ compared to 13 in 2003 and 18 in 2002. This represented an aggregate amount before provisions of SEK1 billion at year-end 2004, or down 24% from SEK1.3 billion in 2003. The largest single exposure, which refers to a credit to EnergiSystem i Sverige AB, was also down 9% at the end of June 2005 from SEK676.8 million at year-end 2004.

LANTBRUKSKREDIT'S LARGEST PROBLEM LOAN IS STILL A BURDEN AND COULD MEAN FURTHER SUBSTANTIAL LOSSES

The main credit challenge for Lantbrukskredit remains its large-scale problem loan to the heating group EnergiSystem i Sverige AB (ESS) which failed to meet interest payments and thus prompted Lantbrukskredit to take unusually high provision charges in 2003 and 2004.¹⁰ At the end of June 2005, credit to ESS group amounted to SEK620 million. To safeguard its claim, Lantbrukskredit acquired in June 2004 100% of ESS. Management is now focused on restructuring the group, which principally entails renegotiating the heating plants' customer contracts to a pricing level more in line with industry practices. If that can be achieved, the group's worth should make it sellable under correct conditions within a twelve months period. At the end of June 2005, Landshypotek's exposure to ESS Group's credits was in a total amount of SEK620 million, for which a provision charge of SEK40 million has already been set aside. We continue to see further provision charges and/or losses as likely. If large enough to put the group in the red, and considering that Landshypotek's capital cushion is thin, we see property asset revaluation as a potential shock absorber, but not as substitute for adequate provisioning¹¹.

TOTAL DEPENDENCE ON MARKET FUNDING

As a finance company, Landshypotek is fully wholesale funded. The company funds itself predominantly in the Swedish mortgage bond market but has also developed an investor base outside Sweden. In addition to this, Landshypotek enjoys stable access to a broad range of funding alternatives globally, including regular securitisation, underpinned by a high degree of investor recognition.



We regard the new law governing the issuance of covered bonds in Sweden¹² as a good opportunity for Landshypotek to diversify its funding sources as well as to lower its financing cost.

If we look at the base requirement for a bond to be considered covered, we note that the overwhelming majority of Landshypotek's assets constitute eligible collateral. In 2004, Landshypotek's management decided to start the preparatory work required by the law to be able to issue covered bonds. Based on our preliminary analysis of the Swedish covered bond framework, which confirms that the assets in the cover pool will be segregated for the benefit of covered bondholders, we will rate Swedish covered bonds higher than the senior unsecured rating of the underlying issuers.

8. At year-end 2004, SEK537 million of loans had been eliminated over 12 months, equivalent to 28% of the portfolio at year-end 2003. All loans (which are rolled over) are rolled over into Landshypotek AB, the parent. As such, Lantbrukskredit will be gradually wound down.

9. According to the Swedish Financial Standards Authority, credit in excess of 10% of the lender's capital base is classified as "large exposure".

10. SEK90 million in 2003 and SEK75 million in 2004 (SEK50 million to cover the purchase price and SEK25 million to cover loan claims).

11. For example, Landshypotek revalued its headquarters to the tune of SEK140 million.

12. Legislation governing the issuance of säkerställda obligationer (covered bonds) became effective on 1 July 2004, and requires LTV limits of 60% for commercial mortgages, 75% for private mortgages and 70% for agricultural mortgages.

STRONG LIQUIDITY MANAGEMENT

Liquidity management is key for Landshypotek given its total dependence on market funding. The duration of the company's liabilities is longer relative to its assets, which mitigates liquidity risk in the absence of liquid assets. To strengthen its liquidity position, Landshypotek has contracted a number of credit facilities with Nordic banks and international bank syndicates. In addition, the bank has a number of bilateral 364-day limits in the Nordic market. While we observe that the vast majority of these facilities are in the form of committed backup lines, we also note that all of them feature 'Material Adverse Change' clauses, which could restrict access to funds.

Moody's sees external liquidity sources as mitigating factors for the on-balance sheet liquidity. In the context of the new "Banking and Financing Business Act" in force since 1 July 2004, the possibility for Swedish finance companies, such as Landshypotek, to take in deposits is a positive. For Landshypotek, this would entail further diversification of funding but also, in our opinion, an even greater stability of financing sources than is currently the case as well as an improved liquidity position and a reduced dependence on confidence-sensitive funding.

LIMITED INTEREST AND CURRENCY RISK

The institution seeks to minimize liquidity and interest rate risk through matching lending and funding. Landshypotek's residual interest rate and liquidity gap positions are both strictly limited. Foreign currency risk is almost eliminated through currency swap agreements.

Related Research

Analysis:

[Sweden, June 2005 \(93344\)](#)

Banking Statistical Supplement:

[Sweden, August 2005 \(94121\)](#)

Banking System Outlook:

[Banking System Outlook: Sweden, October 2004 \(89321\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Landshypotek AB (publ)

31/12/2004 31/12/2003 31/12/2002 31/12/2001 31/12/2000

Summary Balance Sheet (SEK million)

Cash & central bank	1	1	1	1	0
Due from banks	128	405	113	150	66
Securities	300	1,508	180	180	180
Gross loans	34,921	34,831	34,600	33,662	31,961
Loan loss reserves (LLR)	(131)	(106)	(11)	(11)	(10)
Insurance assets	0	0	0	0	0
Fixed assets	373	374	162	165	147
Other assets	643	515	874	1,534	1,250
Total assets	36,235	37,529	35,918	35,681	33,593
Total assets (USD million) [1]	5,479	5,184	4,109	3,377	3,568
Total assets (EUR million)	4,018	4,159	3,920	3,835	3,788
Demand deposits	0	0	0	0	0
Savings deposits [2]	491	462	538	380	315
Due to banks	1,094	1,556	1,566	2,000	1,826
Market funds	30,059	30,896	29,135	27,568	25,936
Insurance liabilities	0	0	0	0	0
Other liabilities	665	756	727	727	802
Total liabilities	32,309	33,670	31,966	30,676	28,879
Subordinated debt	750	740	1,042	2,239	2,112
Shareholders' equity	3,176	3,119	2,910	2,766	2,602
Total capital funds	3,926	3,859	3,952	5,005	4,714
Total liabilities & capital funds	36,235	37,529	35,918	35,681	33,593
Derivatives - notional amount	811	864	685	1,320	698
Derivatives - replacement value	512	397	460	1,158	615
Contingent liabilities	39	3	0	0	0
Risk weighted assets (RWA)	35,864	36,176	35,741	35,550	33,313
Assets under management (SEK million) [3]	-	-	-	-	-
Number of employees	105	105	105	107	107

Summary Income Statement

+Interest income	1,644	1,848	2,041	1,986	1,995
-Interest expense	1,255	1,428	1,646	1,610	1,623
=Net interest income	389	419	395	376	372
+Trading income	4	1	1	4	5
+Fee & commission income	6	5	6	(2)	3
+Insurance income (net)	0	0	0	0	0
+Dividend income and other operating income	28	27	33	26	23
=Operating income	427	453	436	404	402
-Personnel expenses	80	84	77	74	71
-Other operating expenses	95	92	79	71	65
= Operating funds flow	252	277	280	259	267
-Amortisation/depreciation	10	7	9	8	7
(Total operating expenses)	186	183	165	152	143
=Preprovision income (PPI)	242	271	270	252	259
-Loan loss provisions	76	96	9	18	(8)
+Impairment of goodwill, fixed assets and investments [4]	0	0	0	0	0
+Result of subsidiaries and associates	0	0	0	0	0
+Non-recurring items	0	0	0	0	0
=Pretax income	166	174	262	233	268
-Taxes	45	49	73	66	19
=Net income	121	125	188	168	249
-Minority interests	0	0	0	0	200
=Net income (group share)	120.89	125.40	188.05	167.84	48.74

Landshypotek AB (publ)

	31/12/2004	31/12/2003	31/12/2002	31/12/2001	31/12/2000
Growth Rates (%)					
Gross loans	0.26	0.67	2.79	5.32	5.56
Total assets	(3.45)	4.48	0.67	6.21	6.19
Customer deposits (demand and savings)	6.24	(14.02)	41.27	20.74	(1.41)
Net interest income	(7.23)	6.06	5.14	1.20	(1.01)
Fee and commission income	10.33	(18.17)	-	-	61.39
Operating expenses	1.60	10.41	8.60	6.60	(4.40)
Preprovision income	(10.65)	0.06	7.46	(3.01)	2.61
Net income	(3.60)	(33.32)	12.04	244.38	38.24
Income Statement in % Average Risk Weighted Assets					
Net interest income	1.08	1.17	1.11	1.09	1.15
Trading income	0.01	0.00	0.00	0.01	0.01
Fee and commission income	0.02	0.01	0.02	(0.00)	0.01
Insurance income	-	-	-	-	-
Operating income	1.19	1.26	1.22	1.17	1.25
Operating expenses	0.52	0.51	0.46	0.44	0.44
Preprovision income	0.67	0.75	0.76	0.73	0.80
Loan loss provisions	0.21	0.27	0.02	0.05	(0.03)
Extraordinary profit	-	-	-	-	-
Net income	0.34	0.35	0.53	0.49	0.77
Liquidity, Funding (including sub debt) & Balance Sheet Composition					
Avg. liquid assets % avg. total assets	3.18	3.01	0.87	0.83	1.10
Avg. gross loans % avg. total assets	94.56	94.53	95.34	94.73	95.41
Avg. customer deposits % avg. total funding	1.44	1.52	1.42	1.12	1.09
Avg. interbank funds % avg. total funding	4.01	4.73	5.53	6.13	3.95
Avg. market funds (excl. interbank) % avg. total funding	92.29	91.05	87.95	85.77	87.96
Avg. sub debt % avg. total funding	2.26	2.70	5.09	6.98	7.00
Avg. liquid assets % avg. customer deposits	245.75	220.83	67.97	82.95	113.32
Avg. gross loans % avg. customer deposits	7,318.44	6,945.43	7,435.94	9,434.02	9,805.24
Avg. market funds reliance [5]	84.03	83.28	82.14	80.65	81.55
Avg. RWA % avg. total assets	97.66	97.92	99.57	99.41	98.83
Breakdown of Operating Income in %					
Net interest income % operating income	91.03	92.52	90.72	93.09	92.35
Trading income % operating income	1.03	0.31	0.32	0.95	1.18
Fee & commission income % operating income	1.35	1.15	1.46	(0.38)	0.66
Insurance income % operating income	0.00	0.00	0.00	0.00	0.00
Other operating income % operating income	6.59	6.01	7.50	6.35	5.80

Landshypotek AB (publ)

31/12/2004 31/12/2003 31/12/2002 31/12/2001 31/12/2000

Profitability

Yield on avg. earning assets (%)	4.56	5.16	5.93	6.00	6.34
Cost of interest bearing liabilities (%)	3.80	4.33	5.11	5.16	5.55
Net interest margin (%) [6]	1.08	1.17	1.15	1.14	1.18
Recurring earning power (Pre-prov. inc. [PPI] % avg. assets)	0.66	0.74	0.76	0.73	0.80
Risk-weighted recurring earning power (PPI % avg. RWA)	0.67	0.75	0.76	0.73	0.80
Post-provision income % avg. assets	0.45	0.47	0.73	0.67	0.82
Post-provision income % avg. risk weighted assets	0.46	0.49	0.73	0.68	0.83
Return on average assets (%)	0.33	0.34	0.53	0.48	0.76
Return on avg. RWA (%)	0.34	0.35	0.53	0.49	0.77
Post-provision income % tier 1 capital	5.27	5.85	8.99	8.44	10.29
Return on equity (period end) (%)	3.81	4.02	6.46	6.07	1.87
Net interest income coverage of loan loss provisions	5.15	4.36	44.51	20.61	(45.08)
Loan loss provisions % preprovision income	31.23	35.54	3.28	7.25	(3.18)
Pre-tax income % operating income	38.91	38.48	60.01	57.78	66.53
Internal capital growth (%)	3.88	4.31	6.80	6.45	2.02
Dividend payout ratio (%)	0.00	0.00	0.00	0.00	0.00

Efficiency

Cost/income ratio (op. expenses % op. income) [7]	43.43	40.30	37.96	37.71	35.52
Adjusted cost/income ratio (incl. non-operating items)	43.43	40.30	37.96	37.71	35.52
Operating expenses % average assets	0.50	0.50	0.46	0.44	0.44
Operating income / employee (SEK thousand)	4,070.00	4,316.58	4,150.98	3,775.58	3,760.42
Operating expenses / employee (SEK thousand)	1,767.42	1,739.61	1,575.58	1,423.73	1,335.62
PPI / employee (SEK thousand)	2,302.58	2,576.97	2,575.40	2,351.85	2,424.80

Asset Quality and Risk Measurement

Problem loans % gross loans	2.18	2.02	0.12	0.12	0.18
LLR % problem loans	17.19	14.99	26.24	27.15	17.73
LLR % gross loans	0.37	0.30	0.03	0.03	0.03
Loan loss provisions % gross loans	0.22	0.28	0.03	0.05	(0.03)
Problem loans % (shareholders' equity + LLR)	23.00	21.84	1.45	1.40	2.22
Replacement value % shareholder's equity	16.11	12.73	15.80	41.88	23.64

Capital Adequacy (Period End)

Tier 1 ratio (%)	8.79	8.24	8.14	7.78	7.81
Total capital ratio (%)	10.27	9.69	10.54	12.47	12.83
Shareholders' equity % total assets	8.76	8.31	8.10	7.75	7.75
Equity participations % shareholders' equity	0.00	0.00	0.00	0.00	0.00

[1] Historical exchange rates are applied accordingly for USD and EUR figures.

[2] Full disclosure may not be available for all years. The amount is then included in "demand deposits".

[3] As reported by the bank

[4] Includes goodwill amortisation (pre-IFRS).

[5] Avg. [(market funds-liquid assets) % (earning assets-liquid assets)]

[6] Although not part of net interest income calculation, the NIM includes dividend income.

[7] Cost/income ratio excludes goodwill amortisation, which is included together with net non-operating income in the adjusted cost/income ratio.

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