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## Landshypotek AB

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# Landshypotek AB

## Major Rating Factors

### Strengths:

- Leading market position in mortgage lending to owners of agricultural and forest properties in Sweden
- Very strong asset quality
- Robust capitalization

### Weaknesses:

- Monoline business and narrow core client base
- Weak earnings generation, partially due to cooperative model
- Total reliance on wholesale funding

### Counterparty Credit Rating

A-/Stable/A-2

*Nordic National Scale Rating*

--/--/K-1

## Rationale

The ratings on Landshypotek AB reflect its leading market position in first-mortgage lending to the owners of agricultural and forest properties in Sweden, along with its very strong asset quality and robust capitalization. The ratings are constrained, however, by Landshypotek's monoline business model and narrow core client base, its relatively weak ability to generate earnings, and the fact that it is entirely wholesale-funded.

With total assets of Swedish krona (SEK) 54.1 billion (€4.94 billion at SEK10.94 to €1) at March 31, 2009, Landshypotek is a small lender with a market share of just above 2% of total Swedish household lending. However, in its area of specialization, first-mortgage lending to owners of Swedish agricultural and forest properties, it has a market share of about 40%. This position is based on the company's mutual ownership and a refund offered to borrower-members, providing strong incentives for customer loyalty.

Landshypotek's loan asset quality is very strong. The average loan-to-value (LTV) ratio of the portfolio is low at about 41%. Nonperforming assets to gross loans amounted to 0.63% as at March 31, 2009, and we expect credit losses to remain low in the years ahead. We expect recent enhancements to systems and operations in credit risk management to support asset quality.

Landshypotek has robust capitalization, given its low risk profile. Its Tier 1 capital has remained stable at about the company's target of 8% in recent years. Under the full implementation of Basel II in 2010, we expect Landshypotek's risk-weighted assets to fall by a considerable 80%. Given the lack of owner pressure to release capital, we expect the company's future capitalization to be very strong.

We consider profitability to be rather weak. Underlying operating profit in 2008 was slightly lower than 2007, mainly due to lower net interest margins, a trend that was reinforced with the first quarter results for 2009. Bottom-line results for 2008 and the first quarter of 2009 were to a large extent affected by hedge accounting under IAS 39 and therefore less relevant. When assessing profitability, we take into account Landshypotek's cooperative business model, which implies little pressure on return on capital from member-owners. Focus on managing long-term funding costs and containing operating costs are key factors for easing pressure on future net operating income.

Landshypotek is entirely wholesale-funded. Given the current scarce liquidity in the capital markets, Landshypotek has increased its reliance on government-backed short-term financing. At year-end 2008, 25% of total funding was short term, compared with 15% at year-end 2007, and mainly carried out through repo facilities with the Swedish central bank. Landshypotek has so far chosen not to enter the government guarantee scheme that was recently extended until Oct. 31, 2009, but it could do so if necessary.

## Outlook

The stable outlook reflects our expectation that net operating income will be fairly resilient to continued pressure from funding costs and slower volume growth. We also expect that asset quality will remain very strong and that the company will keep on its balance sheet the bulk of the capital relief under Basel II.

A significant reduction in net interest income and an inability to adjust costs accordingly, a weakening franchise, or a sharp deterioration in asset quality could trigger a negative rating action.

A positive rating action, although currently unlikely, would require a significant improvement in profitability.

## Profile: Mortgage Lender To Agriculture And Forestry Sectors

Landshypotek is a Swedish credit market company that specializes in first-mortgage lending to the owners of Swedish agricultural and forest properties. Total loans outstanding amounted to SEK41.8 billion as at March 31, 2009. The company's main product is first-mortgage loans, secured by farms, farmland, or forests.

In recent years, Landshypotek has maintained a market share of about 40% of mortgage loans to farmers. The other main player, Swedbank AB (A/Negative/A-1), has about 40% of the market and the remainder is divided among other large and smaller Swedish banks. Landshypotek has been able to keep up with competition from banks through its in-depth knowledge of the farming and forestry industries, but it may see a slight reduction in market share due to a current aggressive attack by Länsförsäkringar Bank (LF Bank; A/Stable/A-1).

Landshypotek operates solely in the Swedish market, and sales and other activities rely primarily on 17 regional offices, although sales are supported by internet services. This regional organization provides Landshypotek with proximity to its customers and local knowledge in appraising collateral. Landshypotek, however, suffers from a lack of banking services, which usually entail more frequent client contact.

In 2007, cooperation with LF Bank came to an end. LF Bank had previously supplemented Landshypotek's first-lien mortgage business with banking and insurance services. To offer its customers a more comprehensive retail banking package, Landshypotek has established new partnerships, including one with Sparbanken Finn, Sweden's largest independent savings bank, which operates mainly in southern Sweden.

## Ownership And Support: Mutual Association

Landshypotek is wholly owned by Landshypotek Ekonomisk Förening, a Swedish mutual association. Customers of Landshypotek become members of the association, and are required to participate in the group's capitalization. At year-end 2008, the association had about 52,300 members. The number of members has declined over the past decade, reflecting continued consolidation in the Swedish agricultural sector. Landshypotek pays most of its annual

profit to Landshypotek Ekonomisk Förening. It uses the dividend mainly to pay member-owners, who, in turn, retain part of the refund to subscribe to new equity capital in Landshypotek.

We classify Sweden as "supportive," such that its successive governments rely on prudential policies to maintain a sound banking and mortgage sector. We consider Landshypotek to be of low systemic importance for the Swedish banking system and, as such, our ratings do not include any uplift for external support.

Landshypotek is a credit market company licensed and regulated by the Swedish financial supervisory authority, Finansinspektionen. It has three subsidiaries: Lantbrukskredit AB (not rated), Landshypotek Jordbrukskredit AB (not rated), and Sveriges Allmänna Hypoteksbank (A-/Stable/--). Both Lantbrukskredit and Sveriges Allmänna Hypoteksbank are being wound down as no new business is being done through them. Landshypotek Jordbrukskredit will store loans with LTV ratios higher than 70% (up to a maximum 85%) to facilitate compliance for the parent company in terms of asset eligibility in cover pools under Swedish covered bond legislation.

## Strategy: Price Leadership Based On Expertise And Low Required Return

We are concerned about the long-term viability of the narrow focus of Landshypotek's strategy. The company's aim is to provide first-mortgage lending to its borrower-members, Swedish farmers and agricultural land- and forest-owners, at the most competitive rates.

The company's revenue-generating capacity is almost entirely dependent on net interest income in a market characterized by increased competition. Both large banks and smaller players are showing interest in Landshypotek's core customers and have the competitive advantages of offering more complete retail banking solutions. Following the market turbulence in 2008, the pressure on margins has somewhat eased as aggressive pricing strategies have diminished and larger banking groups have turned their focus toward their own core operations. Consequently, it could well be the case that Landshypotek will consolidate its position as the main agricultural lender given its commitment to Swedish farmers in the recent tough times.

## Risk Profile And Management: Low-Risk Mortgage Lending

Landshypotek's risk profile has improved significantly over the past four years, following the winding down of high-risk subsidiary Lantbrukskredit. Lending solely comprises first-mortgage loans and LTV ratios remain very low. Funding is entirely reliant on wholesale sources, which has proved to be a weakness over the past 12 months.

### Enterprise risk management

We consider Landshypotek's enterprise risk management to be adequate given the company's low-risk and relatively simple business profile. We believe that extensive work in preparing for Basel II has helped to raise risk awareness among senior management and elsewhere in the company. Credit control and funding are centralized in Stockholm, while credit approval takes place in regional offices.

### Credit risk: First-mortgage lending against agricultural and forest property

Losses in Landshypotek's core business remain minimal and have traditionally been very small, even during the Swedish banking crisis of the early 1990s. The economic downturn did not have a large effect on the agricultural sector as farming was not particularly geared.

The average size of farms in Sweden remains small, which, combined with low leverage, has led to generally limited

exposure for Landshypotek. Landshypotek's loan portfolio amounted to SEK41.8 billion as of March 31, 2009. The company's loan portfolio is evenly distributed across the country and loan concentrations reflect the relative importance of agriculture in any particular region. Landshypotek estimates the weighted-average LTV ratio of its mortgage book to be about 41%.

Asset quality has improved significantly in the past three years, following the write-off of problem loans extended by Lantbrukskredit for bio-energy purposes. The ratio of nonperforming assets to gross loans amounted to 0.63% as at March 31, 2009. There are currently no signs indicating a deterioration in the loan book and we expect credit losses to remain minimal in the coming year.

### **Liquidity and funding risk: Increased reliance on government-backed short-term funding**

We consider Landshypotek's funding and liquidity policies to be appropriate for the type of business the group undertakes. However, we believe the 100% dependence on wholesale funds to be a relative weakness for the rating. The problems with this business model have become especially exposed during the past 12 months as capital market access has become both expensive and scarce.

Consequently, Landshypotek has increased its reliance on short-term financing. At year-end 2008, short-term funding, mainly carried out through repo facilities with the Swedish central bank, accounted for 25% of funding. Both the Swedish central bank and the government have communicated that they will continue to support the financial sector and ensure financial stability as long as needed. In our view, this will ensure Landshypotek's liquidity needs for near future are met. In addition, Landshypotek could also opt, if necessary, to enter the government guarantee scheme that recently was prolonged until Oct. 31, 2009.

After approval from Finansinspektionen, Landshypotek converted to covered bonds on Aug. 15, 2007. We assigned the program a 'AAA' rating on July 26, 2007 (see "Presale: Landshypotek AB Covered Bond Programme," published on RatingsDirect). Landshypotek plans to mainly rely on covered bonds for its long-term funding.

Landshypotek targets a liquidity reserve to cover maturities of six months although actual coverage is above 12 months. It manages liquidity risk through a portfolio of liquid bonds and agreements on SEK2.25 billion in bilateral backup facilities with major banks in Sweden and abroad. The bond portfolio amounted to SEK10.2 billion (19% of total assets) as of March 31, 2009, and mainly comprised Swedish mortgage bonds that can be used as collateral in a repo arrangement with the central bank. Since December 2007, Landshypotek has been a member of the Swedish central bank's clearing system and can enter repurchase agreements with the central bank.

### **Market risk: Very limited due to domestic profile and strict hedging policies**

Market risk is very limited. Currency risk is small as Landshypotek carries out lending primarily in Swedish krona, and always swaps foreign funding to domestic currency. It largely hedges interest risk, and the maximum interest risk is set at 2.5% of the group's equity capital.

## **Accounting: Hedge Accounting Under IFRS Has Introduced Volatility In The Profit And Loss Statement**

Landshypotek switched to IFRS (International Financial Reporting Standards) in the first quarter of 2007. This had a relatively limited effect on the balance sheet, but a significant one on the income statement. The main reason is that changes in the value of derivatives and own-issued securities due to repurchases must now be recognized in the income statement. This will increase the volatility of reported earnings. As a result of this change, direct comparison

between data for 2007 and data before that is not meaningful.

To minimize total market value fluctuations, Landshypotek opted to use hedge accounting under IAS 39. Although it lowered the volatility of the total revaluation effect in 2008 (SEK36 million compared with SEK514 million under non-hedge accounting), the bottom line profit was substantially affected as Landshypotek booked certain items directly through equity (see table 1).

**Table 1**

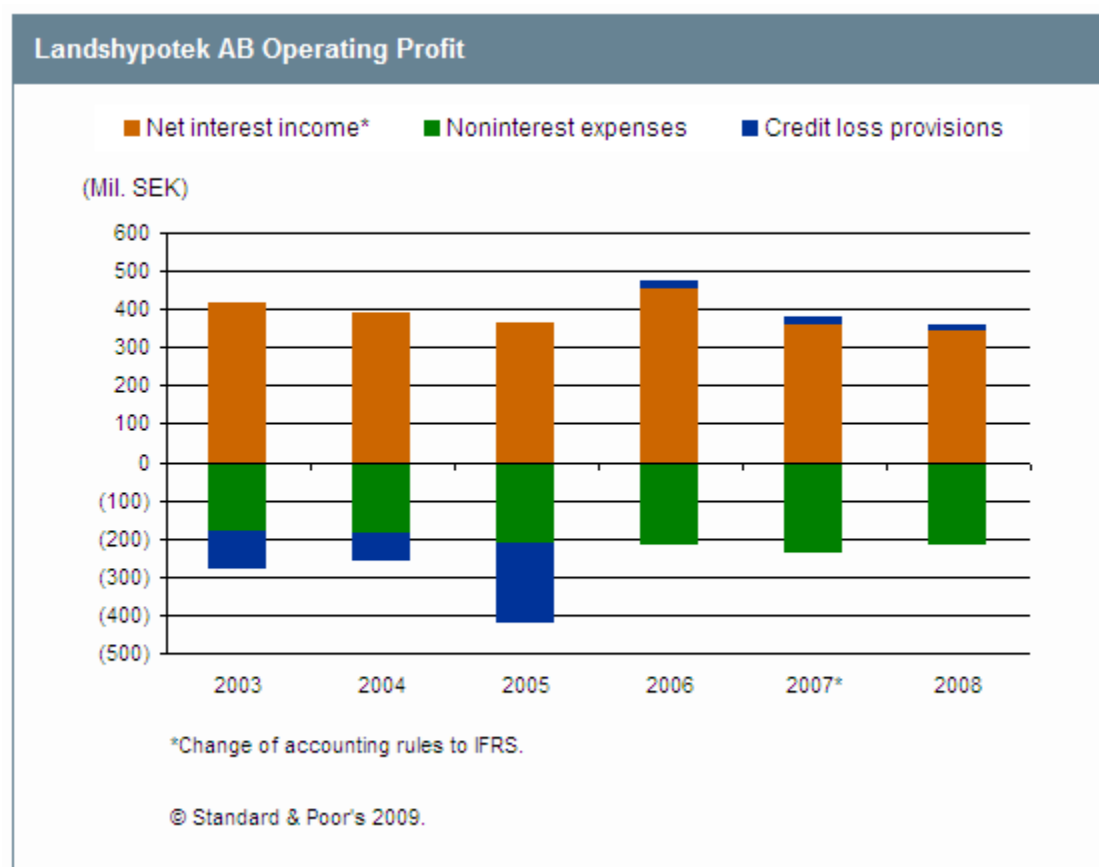
<b>Accounting Treatment Of Financial Assets And Liabilities For 2008</b>		
<b>Type of financial asset/liability</b>	<b>Revaluation effect (Mil. SEK)</b>	<b>Booked through</b>
Derivatives--non-hedging instruments	(85)	Profit and loss
Derivatives--fair value hedges	369	Profit and loss
Issued securities--fair value hedge	(375)	Profit and loss
Issued securities--fair value option	(104)	Profit and loss
Issued securities--repurchase	99	Profit and loss
Derivative--repurchase	(53)	Profit and loss
Liquidity reserve--sale of bonds	(20)	Profit and loss
Sum revaluation effect--profit and loss	(170)	—
Derivatives--cash flow hedge	(93)	Equity
Liquidity reserve	325	Equity
Taxes on transactions recorded in equity	(53)	Equity
Sum revaluation effects--equity	179	—
Net effect of interest risk management	9	—

## **Profitability: Weak But Partially Explained By Cooperative Business Model**

We expect Landshypotek's profitability to remain under some pressure given the lower volume growth. In addition, the low interest rate environment yields a lower return on the bank's equity invested in its lending business. We believe margins will stabilize following the repricing of risk that has taken place due to the global credit squeeze and we expect them to be supported by decreasing competition.

Landshypotek posted a SEK13 million profit for 2008 and a loss of SEK0.7 million for the first quarter in 2009. These numbers should be interpreted with caution as implemented accounting techniques distort the result in the profit and loss statement. Taking into account the net gain on hedging instruments and the liquidity portfolio booked directly in equity, the underlying result for 2008, which in our view reflects true performance, would have been a positive SEK192 million (SEK13 million and the SEK179 million booked in equity). The same annualized figure for the first quarter of 2009 would have been SEK116 million. The drop compared with 2008 is almost entirely explained by lower net interest income.

Chart 1



Net interest income is basically the only contributor to revenues. The positive trend in 2006 and 2007 (numbers adjusted for the effect of the switch to IFRS), is entirely due to volume growth, which slowed down in 2008 in line with the Swedish economy. Margin pressure has been increasing in recent years as some commercial banks (particularly Swedbank, Skandinaviska Enskilda Banken AB (A/Negative/A-1), and now LF Bank) have increased their activities in the agricultural lending segment. Landshypotek's net interest income to average earning assets fell to 0.74% in 2008. This continued in the first quarter of 2009 as the lower interest rate environment pushed down the return on the equity invested in the lending business, while margins on new lending were stable (see chart 2).

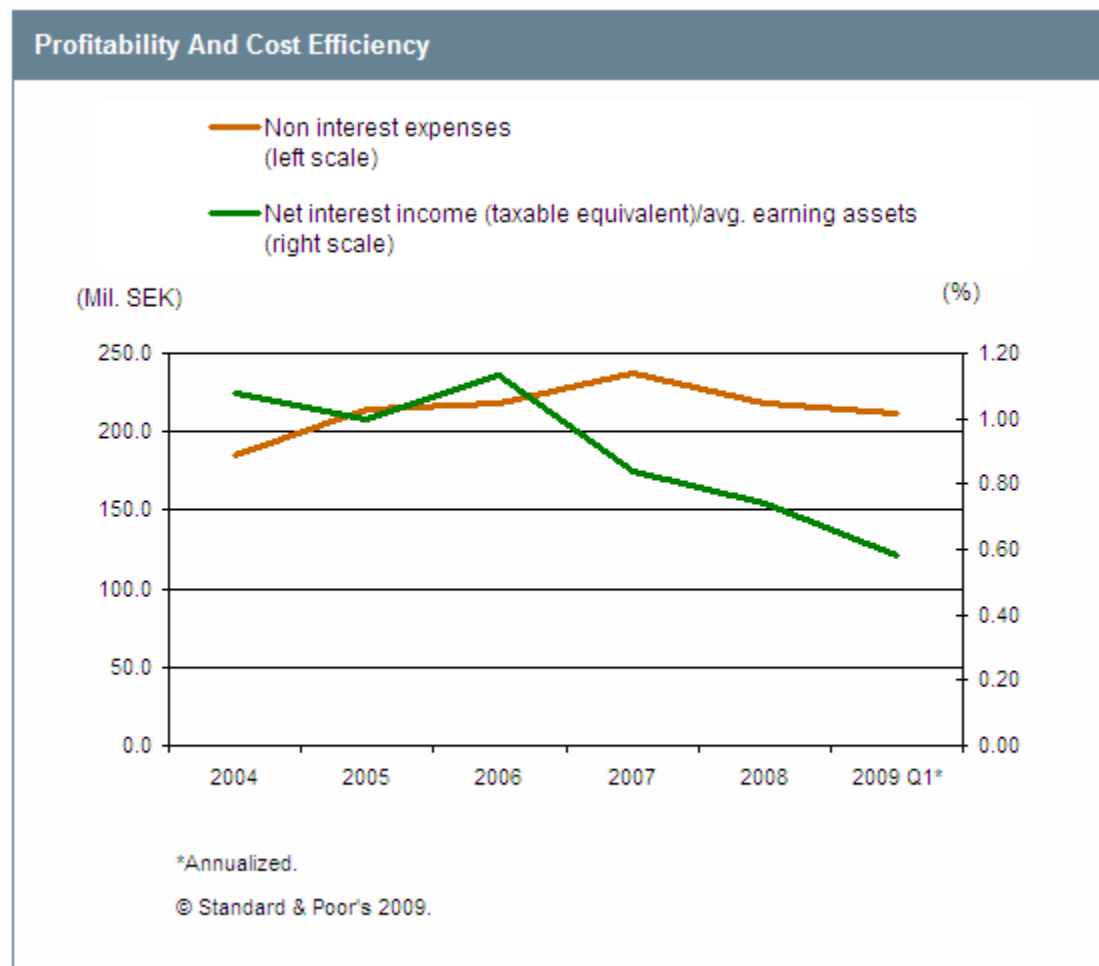
In response to this pressure, Landshypotek is increasingly focusing on tight cost control. A number of one-off expenses in recent years resulted in a temporary increase in expenses. These included large loan losses in 2003-2005, investments in its branch network (increasing the number of sales offices to 17 from 11), Basel II-related projects, IFRS, covered bonds, and the implementation of a new IT system. In 2008, costs declined by SEK20 million, mainly due to lower IT and staffing costs. The bank targets a further reduction of SEK15 million until 2013. Coupled with annual loan growth of 2.5% and stabilizing interest margins, it would result in a cost income ratio of 45%, which is the target set by management. We consider this ambition to be achievable.

Landshypotek's low profitability is partially explained by the fact that the cooperative business model primarily serves to offer its member-owners funding at attractive prices and not to maximize profits. In fact, as there is very little need to build capital, increasing dividend capacity by charging higher interest rates to the member-owners

would be tax ineffective and destroy value for the owners. Although the cooperative model limits the profitability, the low margins and monoline nature of the earnings don't provide a comfortable cushion against unforeseen events as demonstrated by the massive write-offs in 2003-2005 (although we do not expect Landshypotek to incur such write-offs again).

We believe that in coming years Landshypotek will generate stable profits commensurate with a ratio of pretax profit to average earning assets of about 0.6%, excluding revaluation effects. Such earnings, although relatively weak, would be more or less in line with those of other small Scandinavian mortgage institutions.

**Chart 2**



## Capital: Considerably Reduced Risk Weighting In 2010 Under Basel II Will Boost Regulatory Ratios

We consider Landshypotek's current capitalization, with a Tier 1 ratio of 8.7% as of March 31, 2009, to be robust given the company's low risk profile. It has remained stable and at about its Tier 1 target ratio of 8% in recent years.

Capital in Landshypotek builds up in two ways. First, as usual, by the nondistributed portion of the previous year's

earnings and, second, by retaining 30% of the dividend or "refund" paid out annually to members (until each member's individual capital account balance reaches 8% of the nominal loan amount). When a loan is fully repaid or the customer decides to leave, the retained contribution is paid out over three years.

The introduction of Basel II will dramatically reduce Landshypotek's risk-weighted assets. The loss history for agriculture mortgage lending is at about the same level as for residential mortgages but Basel I currently assigns a 100% risk-weighting, as opposed to 50% for residential mortgages. When Basel II is fully implemented, the company's risk-weighted assets will fall by a considerable 80%, resulting in a Tier 1 ratio of close to 35%. We believe there will not be any significant change to the SEK3.35 billion capital base following the sharp decline in risk-weighted assets. Our view is supported by statements from Landshypotek's management which said that there would not be any release of capital due to removal of the transitional rules in 2010.

Chart 3

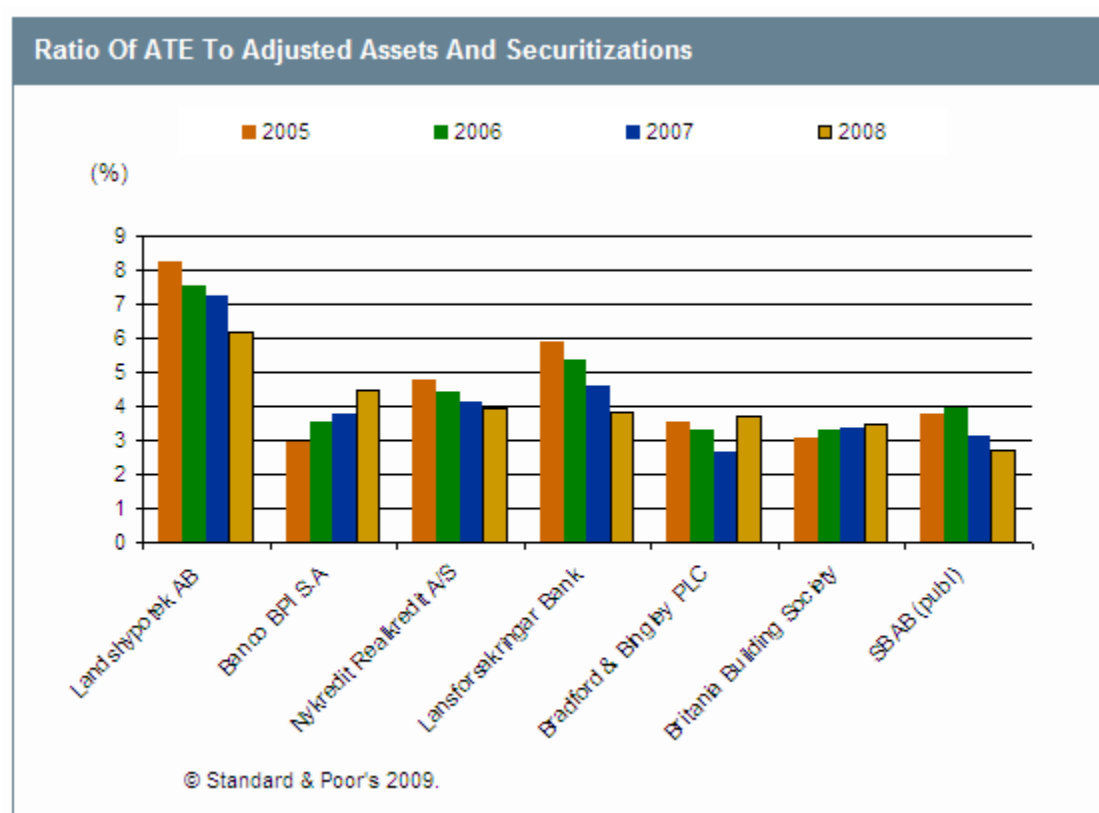


Table 2

Landshypotek AB--Balance Sheet Statistics													
(Mil. SEK)	--Year ended Dec. 31--						Breakdown as a % of assets (adj.)						
	2009*	2008	2007	2006	2005	2004	2009*	2008	2007	2006	2005	2004	
<b>Assets</b>													
Cash and money market instruments	131	62	66	119	92	128	0.24	0.12	0.15	0.28	0.24	0.35	
Securities	10,224	8,473	4,296	3,726	1,390	300	18.89	16.53	9.53	8.86	3.63	0.83	
Nontrading securities	10,224	8,473	4,296	3,726	1,390	300	18.89	16.53	9.53	8.86	3.63	0.83	

Table 2

Landshypotek AB--Balance Sheet Statistics (cont.)												
Mortgage-backed securities included above	0	8,393	4,296	0	0	0	0.00	16.37	9.53	0.00	0.00	0.00
Customer loans (gross)	41,881	41,301	39,726	37,342	36,182	34,921	77.37	80.58	88.14	88.83	94.37	96.38
Total real estate loans	41,881	41,301	39,726	37,342	36,182	N.A.	77.37	80.58	88.14	88.83	94.37	N.A.
All other loans	0	0	0	0	0	34,921	0.00	0.00	0.00	0.00	0.00	96.38
Loan loss reserves	0	0	2	29	228	131	0.00	0.00	0.00	0.07	0.60	0.36
Customer loans (net)	41,881	41,301	39,725	37,313	35,954	34,791	77.37	80.58	88.14	88.76	93.78	96.01
Earning assets	52,223	49,834	44,089	41,187	37,663	35,349	96.47	97.23	97.82	97.98	98.24	97.55
Intangibles (nonservicing)	0	0	0	22	13	0	0.00	0.00	0.00	0.05	0.03	0.00
Fixed assets	341	344	353	362	363	373	0.63	0.67	0.78	0.86	0.95	1.03
Derivatives credit amount	594	362	79	41	117	229	1.10	0.71	0.18	0.10	0.30	0.63
Accrued receivables	564	543	478	368	338	316	1.04	1.06	1.06	0.87	0.88	0.87
All other assets	400	167	72	108	86	97	0.74	0.33	0.16	0.26	0.22	0.27
Total reported assets	54,134	51,254	45,070	42,059	38,351	36,235	100.00	100.00	100.00	100.05	100.03	100.00
Less nonservicing intangibles+ I/O strips	0	0	(0)	(22)	(13)	0	0.00	0.00	0.00	(0.05)	(0.03)	0.00
Adjusted assets	54,134	51,254	45,070	42,037	38,339	36,235	100.00	100.00	100.00	100.00	100.00	100.00
	<b>2009*</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2009*</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Liabilities</b>												
Total deposits	8,133	7,542	820	709	785	1,585	15.02	14.71	1.82	1.69	2.05	4.37
Noncore deposits	8,123	7,510	760	458	481	1,094	15.00	14.65	1.69	1.09	1.26	3.02
Core/customer deposits	10	32	60	250	304	491	0.02	0.06	0.13	0.60	0.79	1.35
Other borrowings	41,285	38,837	39,870	37,162	33,733	30,809	76.26	75.77	88.46	88.36	87.96	85.03
Other liabilities	1,372	1,557	1,152	1,051	655	665	2.54	3.04	2.56	2.50	1.71	1.84
Total liabilities	50,790	47,936	41,843	38,921	35,173	33,059	93.82	93.53	92.84	92.54	91.71	91.24
Total shareholders' equity	3,344	3,318	3,227	3,138	3,179	3,176	6.18	6.47	7.16	7.46	8.29	8.76
Common shareholders' equity (reported)	3,344	3,318	3,227	3,138	3,179	3,176	6.18	6.47	7.16	7.46	8.29	8.76
Share capital and surplus	1,927	1,927	1,927	1,927	1,927	1,790	3.56	3.76	4.28	4.58	5.02	4.94
Revaluation reserve	175	149	(45)	(45)	N.A.	137	0.32	0.29	(0.10)	(0.11)	N.A.	0.38
Reserves (incl. inflation revaluations)	1,026	1,026	1,041	1,031	1,022	1,074	1.90	2.00	2.31	2.45	2.66	2.96
Retained profits	216	216	304	225	230	175	0.40	0.42	0.67	0.53	0.60	0.48
Total liabilities and equity	54,134	51,254	45,070	42,059	38,351	36,235	100.00	100.00	100.00	100.00	100.00	100.00
<b>Equity Reconciliation Table</b>												
Common shareholders' equity (reported)	3,344	3,318	3,227	3,138	3,179	3,176						
- Revaluation reserves	(175)	(149)	45	45	0	(137)						
- Nonservicing Intangibles	0	(0)	(0)	(22)	(13)	0						
Adjusted common equity	3,169	3,169	3,272	3,161	3,166	3,039						
Adjusted total equity	3,169	3,169	3,272	3,161	3,166	3,039						

\*Data as of March 31, 2009. Ratios annualized where appropriate. N.A.--Not available. SEK--Swedish krona.

Table 3

Landshypotek AB--Profit And Loss Statement Statistics													
(Mil. SEK)	--Year ended Dec. 31--						Adj. avg. assets (%)						
	2009*	2008	2007	2006	2005	2004	-	2009*	2008	2007	2006	2005	2004
<b>Profitability</b>													
Interest income	506	2,352	1,896	1,554	1,468	1,643		3.84	4.88	4.35	3.87	3.94	4.45
Interest expense	432	2,007	1,535	1,101	1,103	1,254		3.28	4.17	3.52	2.74	2.96	3.40
Net interest income	74	345	360	453	365	389		0.56	0.72	0.83	1.13	0.98	1.05
Operating noninterest income	(21)	(126)	91	35	35	37		(0.16)	(0.26)	0.21	0.09	0.09	0.10
Fees and commissions	2	8	12	8	8	5		0.01	0.02	0.03	0.02	0.02	0.01
Trading gains	0	0	0	0	0	4		0.00	0.00	0.00	0.00	0.00	0.01
Gains/(losses) on liquidity portfolio securities	N.A.	(499)	N.A.	N.A.	N.A.	N.A.		N.A.	(1.04)	N.A.	N.A.	N.A.	N.A.
Other market-sensitive income	(29)	329	19	N.A.	N.A.	0		(0.22)	0.68	0.04	N.A.	N.A.	0.00
Other noninterest income	7	36	60	27	27	28		0.05	0.07	0.14	0.07	0.07	0.08
Operating revenues	53	219	452	488	400	426		0.40	0.45	1.04	1.21	1.07	1.16
Noninterest expenses	53	218	237	218	214	185		0.40	0.45	0.55	0.54	0.58	0.50
Personnel expenses	0	81	90	94	82	80		0.00	0.17	0.21	0.23	0.22	0.22
Other general and administrative expense	49	126	130	115	122	95		0.37	0.26	0.30	0.29	0.33	0.26
Depreciation	4	11	17	9	10	10		0.03	0.02	0.04	0.02	0.03	0.03
Net operating income before loss provisions	0	1	214	270	186	241		0.00	0.00	0.49	0.67	0.50	0.65
Credit loss provisions (net new)	1	(13)	(19)	(21)	205	75		0.01	(0.03)	(0.04)	(0.05)	0.55	0.20
Net operating income after loss provisions	(1)	13	233	291	(19)	166		(0.01)	0.03	0.53	0.72	(0.05)	0.45
Nonrecurring/special income	0	0	71	25	26	0		0.00	0.00	0.16	0.06	0.07	0.00
Nonrecurring/special expense	0	0	70	0	0	0		0.00	0.00	0.16	0.00	0.00	0.00
Amortization of goodwill and intangibles	0	0	0	0	0	0		0.00	0.00	0.00	0.00	0.00	0.00
Pretax profit	(1)	13	212	316	8	166		(0.01)	0.03	0.49	0.79	0.02	0.45
Tax expense/credit	(1)	1	50	47	5	45		(0.01)	0.00	0.11	0.12	0.01	0.12
Net income before minority interest	0	12	162	268	3	121		0.00	0.03	0.37	0.67	0.01	0.33
Net income before extraordinary	0	12	162	124	3	121		0.00	0.03	0.37	0.31	0.01	0.33
Net income after extraordinary	0	12	162	124	3	121		0.00	0.03	0.37	0.31	0.01	0.33
<b>Core Earnings Reconciliation</b>													
Net Income (before Minority Interest)	0	12	162	268	3	121							
- Nonrecurring/Special Income	0	0	(71)	(25)	(26)	0							
+ Nonrecurring/Special Expense	0	0	70	0	0	0							
+/- Tax Impact of Adjustments	0	0	0	4	16	0							
+ Amortization/ Impairment of Goodwill/ Intangibles	0	0	22	0	0	0							
Core earnings	0	13	183	247	(7)	121		0.00	0.03	0.42	0.62	(0.02)	0.33
	<b>2009*</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>							
<b>Asset Quality</b>													
Nonperforming assets	264	258	295	354	727	982							

Table 3

Landshypotek AB--Profit And Loss Statement Statistics (cont.)							
Nonaccrual loans	7	0	15	39	387	526	
Loans in arrears but accruing	257	257	280	315	340	456	
Classified loans (substandard, doubtful, loss)	1	1	0	12	228	N.A.	
Net charge-offs	0	10	8	178	107	0	
<b>Average balance sheet</b>							
Average customer loans	41,591	40,513	38,519	36,633	35,372	34,758	
Average earning assets	51,028	46,961	42,638	39,425	36,506	36,047	
Average assets	52,694	48,162	43,564	40,205	37,293	36,882	
Average total deposits	7,837	4,181	765	747	1,185	1,801	
Average interest-bearing liabilities	47,898	43,535	39,281	36,194	33,456	33,024	
Average common equity	3,331	3,273	3,182	3,158	3,177	3,147	
Average adjusted assets	52,694	48,162	43,553	40,188	37,287	36,882	
<b>Other data</b>							
Number of employees (end of period, actual)	N.A.	98	97	99	101	105	N.A.
Number of branches	N.A.	19	19	20	17	N.A.	N.A.
Off-balance-sheet credit equivalents	0	328	185	182	80	39	

\*Data as of March 31, 2009. Ratios annualized where appropriate. N.A.--Not available. SEK--Swedish krona.

Table 4

Landshypotek AB--Ratio Analysis	--Year ended Dec. 31--					
	2009*	2008	2007	2006	2005	2004
<b>ANNUAL GROWTH (%)</b>						
Customer loans (gross)	5.62	3.96	6.39	3.21	3.61	0.26
Loss reserves	1,146.34	(95.26)	(94.07)	(87.24)	74.72	23.88
Adjusted assets	22.48	13.72	7.22	9.65	5.81	(3.45)
Customer deposits	(275.09)	(46.63)	(76.05)	(17.53)	(38.14)	6.24
Total equity	3.17	2.82	2.86	(1.30)	0.09	1.82
Operating revenues	(3.23)	(51.48)	(7.43)	21.82	(6.00)	(6.01)
Noninterest expense	(3.10)	(8.01)	8.92	1.65	15.91	1.28
Net operating income before provisions	(42.04)	(99.67)	(20.64)	45.08	(22.83)	(10.93)
Loan loss provisions	N.M.	N.M.	N.M.	(110.32)	173.09	(22.02)
Net operating income after provisions	(119.94)	(94.29)	(19.96)	N.M.	(111.35)	(4.82)
Pretax profit	(120.30)	(93.82)	(33.03)	4,110.16	(95.48)	(4.82)
Net income	(98.39)	(92.33)	(39.74)	9,244.43	(97.62)	(3.81)
	2009*	2008	2007	2006	2005	2004
<b>PROFITABILITY (%)</b>						
<b>Interest Margin Analysis</b>						
Net interest income (taxable equiv.)/avg. earning assets	0.58	0.74	0.85	1.15	1.00	1.08
Net interest spread	0.36	0.40	0.54	0.90	0.73	0.76

Table 4

<b>Landshypotek AB--Ratio Analysis (cont.)</b>						
Interest income (taxable equiv.)/avg. earning assets	3.97	5.01	4.45	3.94	4.02	4.56
Interest income on loans/avg. total loans	4.87	5.81	4.92	4.24	4.15	4.70
Interest expense/avg. interest-bearing liabilities	3.61	4.61	3.91	3.04	3.30	3.80
<b>Revenue Analysis</b>						
Net interest income/revenues	139.55	157.55	79.80	92.83	91.23	91.31
Fee income/revenues	3.41	3.73	2.72	1.54	1.97	1.17
Market-sensitive income/revenues	(55.63)	(77.54)	4.26	0.00	0.00	0.94
Noninterest income/revenues	(39.55)	(57.55)	20.20	7.17	8.77	8.69
Personnel expense/revenues	0.00	36.96	20.03	19.23	20.53	18.78
Noninterest expense/revenues	99.81	99.68	52.58	44.69	53.55	43.43
Noninterest expense/revenues less investment gains	64.13	56.15	54.92	44.69	53.55	43.43
Net operating income before provision/revenues	0.19	0.32	47.42	55.31	46.45	56.57
Net operating income after provisions/revenues	(1.25)	6.07	51.58	59.65	(4.70)	38.97
New loan loss provisions/revenues	1.44	(5.75)	(4.16)	(4.33)	51.15	17.61
Net nonrecurring/abnormal income/revenues	0.00	0.00	0.14	5.10	6.58	0.00
Pretax profit/revenues	(1.25)	5.96	46.84	64.75	1.87	38.97
Tax/pretax profit	107.54	5.02	23.54	15.03	61.72	27.34
Core Earnings/Revenues	0.09	5.77	40.58	50.68	(1.80)	28.31
	<b>2009*</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Other Returns</b>						
Pretax profit/avg. risk assets (%)	0.00	0.00	0.52	0.83	0.02	0.46
Revenues/avg. risk assets (%)	N.A.	N.A.	1.11	1.28	1.10	1.18
Net operating income before LLP/LLP	13.22	(5.53)	(1,141.13)	(1,276.24)	90.80	321.33
Net operating income before loss provisions/avg. risk assets (%)	N.A.	N.A.	0.52	0.71	0.51	0.67
Net operating income after loss provisions/avg. risk assets (%)	N.A.	N.A.	0.57	0.77	(0.05)	0.46
Net income before minority interest/avg. adjusted assets	0.00	0.03	0.37	0.67	0.01	0.33
Net income/employee (currency unit)	N.A.	125,323	1,667,289	2,657,149	27,883	1,136,852
Non-interest expenses/average adjusted assets	0.40	0.45	0.55	0.54	0.58	0.50
Personnel expense/employee (currency unit)	N.A.	817,848	932,598	928,505	798,155	754,006
Core earnings/average risk-weighted assets	N.A.	N.A.	0.45	0.65	(0.02)	0.33
Core earnings/average adjusted assets	0.00	0.03	0.42	0.62	(0.02)	0.33
Core earnings/ Average ACE (ROE)	0.01	0.39	5.70	7.82	(0.23)	4.01
	<b>2009*</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>FUNDING AND LIQUIDITY (%)</b>						
Customer deposits/funding base	0.02	0.07	0.15	0.66	0.88	1.52
Total loans/customer deposits	418,812.86	128,977.59	66,210.60	14,908.49	11,912.79	7,112.84
Total loans/customer deposits + long-term funds	1,130.59	100.73	93.78	95.08	113.08	102.81
Customer loans (net)/assets (adj.)	77.37	80.58	88.14	88.76	93.78	96.01

Table 4

Landshypotek AB--Ratio Analysis (cont.)						
Parent Only Analysis						
	2009*	2008	2007	2006	2005	2004
<b>CAPITALIZATION (%)</b>						
Adjusted common equity/risk assets	N.A.	N.A.	7.64	8.12	8.52	8.47
Internal capital generation/prior year's equity	0.01	0.38	5.15	3.90	0.09	3.87
Tier 1 capital ratio	8.70	8.23	8.36	8.23	8.48	8.79
Regulatory total capital ratio	9.60	9.29	9.42	9.39	9.80	10.27
Adjusted total equity/adjusted assets	5.85	6.18	7.26	7.52	8.26	8.39
Adjusted total equity/adjusted assets + securitizations	5.85	6.18	7.26	7.52	8.26	8.39
Adjusted total equity/risk assets	N.A.	N.A.	7.64	8.12	8.52	8.47
Adjusted total equity plus LLR (specific)/customer loans (gross)	7.57	7.67	8.24	8.54	9.38	9.08
	<b>2009*</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>ASSET QUALITY (%)</b>						
New loan loss provisions/avg. customer loans (net)	0.01	(0.03)	(0.05)	(0.06)	0.58	0.22
Net charge-offs/avg. customer loans (net)	0.00	0.03	0.02	0.49	0.30	0.00
Loan loss reserves/customer loans (gross)	0.00	0.00	0.00	0.08	0.63	0.37
Credit-loss reserves/risk assets	N.A.	N.A.	0.00	0.07	0.62	0.36
Nonperforming assets (NPA)/customer loans + ORE	0.63	0.62	0.74	0.95	2.01	2.81
NPA (excl. delinquencies)/customer loans + ORE	0.02	0.00	0.04	0.11	1.07	1.51
Net NPA/customer loans (net) + ORE	0.63	0.62	0.74	0.87	1.39	2.45
NPA (net specifics)/customer loans (net specifics)	0.63	0.62	0.74	0.87	1.39	2.45
Loan loss reserves/NPA (gross)	0.12	0.03	0.59	8.23	31.41	13.32

\*Data as of March 31, 2009. Ratios annualized where appropriate. N.A.--Not available. N.M.--Not meaningful.

### Ratings Detail (As Of June 17, 2009)\*

#### Landshypotek AB

Counterparty Credit Rating	A-/Stable/A-2
<i>Nordic National Scale Rating</i>	--/--/K-1
Certificate Of Deposit	A-/A-2
Commercial Paper	
<i>Nordic National Scale Rating</i>	K-1
Senior Secured (71 Issues)	AAA
Senior Unsecured (1 Issue)	A-
Short-Term Debt (1 Issue)	A-2
Short-Term Secured Debt (2 Issues)	A-1+

#### Counterparty Credit Ratings History

23-May-2008	A-/Stable/A-2
17-May-2006	BBB+/Positive/A-2
11-Jul-2003	BBB+/Stable/A-2
05-Feb-2004	<i>Nordic National Scale Rating</i> --/--/K-1

#### Sovereign Rating

Sweden (Kingdom of)	AAA/Stable/A-1+
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**Ratings Detail** (As Of June 17, 2009)\*(cont.)

**Related Entities**

**General Mortgage Bank of Sweden (Sveriges Allmänna Hypoteksbank)**

Issuer Credit Rating	A-/Stable/--
Certificate Of Deposit	A-

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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