

## **FITCH AFFIRMS SWEDEN'S LANDSHYPOTEK AT 'A+'; OUTLOOK STABLE**

Fitch Ratings-London/Frankfurt-29 November 2007: Fitch Ratings has today affirmed Sweden-based Landshypotek AB's (LH) ratings at Long-term Issuer Default (IDR) 'A+', Short-term IDR 'F1', Individual 'B', Support '3' and Support Rating Floor 'BB+'. The Outlook for the Long-term IDR is Stable.

The ratings of General Mortgage Bank of Sweden are also affirmed at Long-term IDR 'A+' with a Stable Outlook, Short-term IDR 'F1' and Support '1', reflecting the integration with LH, its parent company. All outstanding loans were repaid in 2006. The liquidation of this subsidiary has been initiated and ratings will be withdrawn upon completion of the liquidation.

LH's ratings reflect its strong niche franchise, excellent asset quality and comfortable level of capital, while also taking into account its small size, below-average profitability and reliance on wholesale funding. LH is the largest lender to the agricultural and forestry sectors in Sweden, with a market share of more than 40%. As a mutual organisation, 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. Lending margins are also tight as a result of the low-risk profile of lending - all backed by collateral with a maximum loan-to-value of 75% - and increasing competition from the larger Swedish banks.

In August 2007, LH converted virtually all its medium- and long-term funding into covered bonds. LH has continued to raise new funding in its domestic market despite the turmoil in global wholesale markets since summer 2007, with little impact on funding costs. The conversion to covered bonds has entailed a subordination of senior unsecured debt holders, although senior unsecured debt is mainly short-term. In the future, the bank intends to mainly issue covered bonds. Capitalisation is comfortable. Excluding transitional floors, capital requirements under Pillar I would be around one-fifth of Basel I requirements, resulting in a Tier 1 ratio of around 40%.

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