



Landshypotek Bank

# Annual Report 2014

For a richer life in the country

# Contents

2014 in brief	3
Landshypotek Bank at a glance	4
Managing Director's statement	6
Our operating environment	8
Landshypotek Bank 2014 in figures	10
Our assignment and our values	11
Administration Report	12
Corporate governance Landshypotek AB	20
Board of Directors and auditors	26
Senior management	28
Income statement	31
Balance sheet	33
Statement of changes in equity	34
Cash-flow statement	36
Five-year summary	37
Risk and capital management	38
Notes	46
Appropriation of earnings	78
Audit report	79
Addresses	80

# Reporting calendar

Interim Report Q1	29 April 2015
General Meeting	15 April 2015
Interim Report Q2	31 July 2015
Interim Report Q3	23 October 2015

# For a richer life in the country

A third of Sweden's population lives in the countryside and, for many, life in the country means quality of life. The possibilities for living and working in the countryside are decisive for Sweden's future. Active farmers and foresters in combination with entrepreneurship in the countryside result in quality food, forest products, tourism, a healthy environment and open landscapes.

Landshypotek Bank finances initiatives for a richer life in the country. It all started in 1836 with the very first building society. By that time, we were already contributing to the development of a living countryside by offering favourable loan terms to enterprising families in the country. We understood the value of being able to realise dreams that develop agriculture and forestry in an optimal manner, in the long-term and over generations. For almost two centuries, we have actively assisted members of Landshypotek to develop a beautiful landscape, well-tended forests and food produced in Sweden.

The countryside develops together with the private agriculture and forestry sectors. There is considerable innovative energy in the agriculture and forestry sectors. Entrepreneurship is increasing and new businesses are being developed. Some business leaders develop their operations through expansion and by identifying economies of scale. Others widen their operations into areas, such as construction, tourism and adding value to their own products.

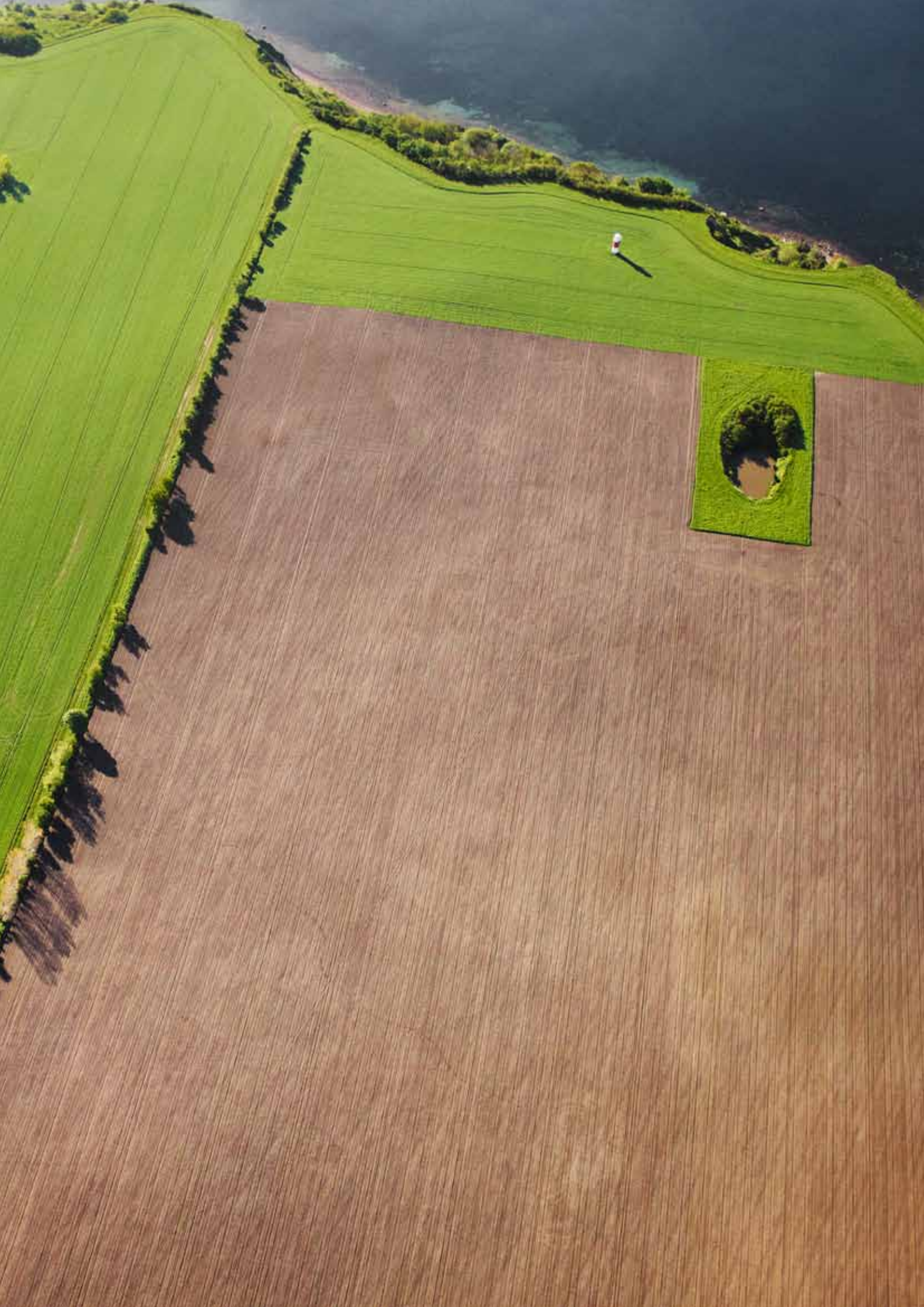
The international market for food and forest products is growing. Commerce, populations and global prosperity are on the rise and increased demand is creating new opportunities. Landshypotek Bank helps in enabling these opportunities to be utilised.

When farmers joined together in 1836 and founded the organisation that has now become Landshypotek Bank, it was because the banking system could neither comprehend nor cope with meeting the particular challenge of financing the changes in Swedish agriculture. The task remains the same as it has always been. Landshypotek Bank must understand opportunities and challenges when others don't.

Landshypotek AB became a bank in April 2013 and is now Sweden's tenth largest bank. We are a profiled niche bank and put downward pressure on prices for financing agriculture and forestry. Our clear focus on operating in one particular niche and our form of ownership, whereby we are owned by our loan customers, sets us apart from other banks. Our surplus is distributed back to the loan customers, who are organised as members of a cooperative society and, thereby, back to the agriculture and forestry sectors.

Landshypotek Bank is also the bank for everyone who wants favourable terms for savings and who holds the countryside dear to their heart. Together with our loan customers, we have been developing the countryside since 1836. Saving with Landshypotek Bank helps promote a living countryside.





# 2014 in brief

Landshypotek Bank is developing vigorously into an even better bank for our members and our customers. This high-paced development continued in 2014. In addition to expanding lending operations and excellent results, Landshypotek Bank is building its strength for the future. The aim, as the farmers' and foresters' own bank, is to continue to be the market leader for lending to the agriculture and forestry sectors.

## A new digital savings bank

An entirely new digital bank was launched in February. The solution is both simple and secure. In just a few minutes, customers can open accounts and start saving directly. Landshypotek Bank thus took a key first step into the Swedish household savings market.

## Changed brand for stronger communication

In conjunction with the presentation of the digital bank, Landshypotek changed its brand and logo, and took the name Landshypotek Bank. A completely new website was presented. Communication is collected under the promise: For a richer life in the country.

## Healthy dividend based on strong bank earnings

Based on the bank's earnings in 2013 and Group contributions, the owners in Landshypotek Ekonomisk Förening were able to receive a dividend of SEK 142 million in April 2014 following the General Meeting.

## Continued solid rating

During the year, the rating agency Fitch confirmed Landshypotek Bank's rating as A+ with a stable outlook. On the other hand, Standard & Poor's lowered Landshypotek Bank's rating to A-. The motivation was that the quality of Landshypotek Bank's loan portfolio was approaching the quality of those of other banks and, accordingly, Standard & Poor's lowered its previously very strong credit-quality rating.

## Heroes of the countryside and values-based saving

The bank is showcasing active rural entrepreneurs under the Heroes of the countryside banner. This was included in marketing activities throughout the year and at fairs such as Elmia and Borgeby. At the Almedalen political week in Gotland, the bank arranged events focused on values-based saving. At year-end, through its Chief Credit Officer Helena Silvander, the bank was once again part of the television show "Sveriges Skönaste Gårdar" (Sweden's Most Beautiful Farms) on TV4.

## Liza Nyberg became the new Managing Director

Liza Nyberg was presented as the new Managing Director in the spring. Kjell Hedman, who was Managing Director for almost five years, retired and took his farewell in the late autumn. Liza Nyberg took up her position in December.

## Rapid growth in the savings market

Statistics from Statistics Sweden (SCB) showed that Landshypotek Bank was one of the banks that had grown most rapidly in the savings market in 2014. The terms were favourable, the digital solution customer-friendly and many people wanted to save for the countryside. At year-end, savings accounts at the bank amounted to almost SEK 6 billion.

## New and improved business partnerships

The partnership with Gjensidige was extended to provide improved insurance solutions for customers. At year-end, a partnership was initiated with Sparbanken Syd to offer payment services to all customers and strengthen the market presence for loans to farmers and foresters in Skåne.

## A year of customer-friendly interest rates

During the autumn, Landshypotek Bank continued to lower lending interest rates and offer high saving rates to increase its market presence. The bank's online services were developed substantially over the year. A new office was opened in Jönköping.

## Member commitment strengthens equity

Landshypotek's equity was strengthened by, among other items, increased investment by its owners. The individual members in Landshypotek Ekonomisk Förening, together, invested a further SEK 80 million during the year. The bank's relationship to the owners was clearly defined through organisational changes and development of the owner directives.

A new share issue took place during the year that raised SEK 56 million.

# Landshypotek Bank at a glance

Landshypotek Bank's assignment is to provide competitive financing and offer financial services to Sweden's farmers and foresters. In addition, Landshypotek Bank has introduced savings accounts that offer competitive interest rates for the general public in Sweden.

- Landshypotek Bank finances investments and entrepreneurship for a richer life in the country. We specialise in the agricultural and forestry industries and develop financial solutions for farmers and foresters. The core assignment remains unchanged since 1836.
- With nearly SEK 62 billion in loans outstanding, Landshypotek Bank is Sweden's tenth largest bank. We are a profiled niche bank, owned by our loan customers and put downward pressure on prices for financing agriculture and forestry.
- Landshypotek Bank is owned by Landshypotek Ekonomisk Förening, in which all of the Bank's loan customers are members. Our surpluses are reinvested in operations and distributed to loan customers.
- Landshypotek Bank is the farmers' and foresters' own bank. For us, the development of agriculture and forestry is crucial for Sweden's future.
- Landshypotek Bank operates in the countryside. Landshypotek Bank has strong local networks maintained by elected representatives who act as ambassadors for our operations. Many of our account managers understand financing and have backgrounds in agronomy, forestry or agrology. We understand the people behind the multitude of family businesses in the countryside.
- Landshypotek Bank has opened a digital savings bank for the general public in Sweden. Accordingly, we are the bank for anyone who wants favourable terms for saving and who holds the countryside dear to their heart. Together with our loan customers, we have been developing the countryside since 1836. Saving with Landshypotek Bank contributes to the continued development of the Swedish countryside.

## Group Parent Association

### Landshypotek Ekonomisk Förening

Group Parent Company

### Landshypotek Bank AB

### Landshypotek Jordbrukskredit AB

## Landshypotek Bank is close to its customers

Landshypotek Bank has organised its customer operations into eight districts and has 19 sales offices throughout Sweden to promote active and close dialogue with customers. To increase possibilities for dialogues with more customers a central organisation is in place that, among other things, includes customer service. The sales organisation has access to a network of elected representatives who carry out property valuations. The company's local presence and expertise in agriculture and forestry are prerequisites and success factors for operations. Functions for risk, compliance, legal affairs, accounting, finance, loan and savings administration, HR, marketing and development, IT, communication and credit are located at the head office. Landshypotek Bank has about 150 employees.

## Landshypotek Bank is owned by its members

All borrowers from Landshypotek Bank also become members of Landshypotek Ekonomisk Förening (incorporated association). Accordingly, Landshypotek Bank is owned by some 43,000 members. All business operations are conducted in Landshypotek Bank and its subsidiary Landshypotek Jordbrukskredit. The co-operative society is responsible for member relations. Landshypotek Ekonomisk Förening consists of ten regions. The Board of each region comprises up to eight elected representatives who represent the members, act as ambassadors for Landshypotek Bank and carry out valuations on its behalf. Any surpluses in Landshypotek Bank are reinvested in operations and distributed to loan customers.



# A few historical milestones

**1836** The first rural building society was started in Skåne. Its aim was to provide farmers with loans secured by mortgages in agricultural properties.

**1861** Sveriges Allmänna Hypoteksbank was founded to facilitate borrowing by the building societies.

**1995** The ten rural building societies merged into a single owner association and the subsidiary Landshypotek AB was formed. Every year, part of the operating profit is paid back to the members.

**2013** Landshypotek formally became a bank and the name Landshypotek Bank AB (publ) was registered.

**2014** The new brand Landshypotek Bank was launched and a digital bank opened for savers.

## Managing Director's Statement

# The trend favours us niche banks

After closing the books for 2014, Landshypotek Bank can look back on an extremely successful year. We posted stronger results and the business has taken historic steps in its development. In 2014, we started to present ourselves as a bank and our savings from the general public in Sweden have grown vigorously.

Landshypotek Bank stands out in the Swedish banking market. Our lending is niched toward one segment, farmers and foresters. Everything we do is for a richer life in the country. Our customers own us through their association and our mission comes direct from the customers. The mission concerns the countryside and, in reality, all of Sweden: to finance investments in agriculture and forestry.

Being a profiled niche bank is a strength in the banking market, partly because niche players are needed in the banking market and partly because the trend favours us as niche banks.

The fact that customers are more likely to compare and want more from the services offered speaks in favour of us as niche banks. More and more people want to choose and select the best when making that choice. We niche banks can deliver customer value in ways that others cannot. Specialisation makes us better at what we do. Being a smaller player means we are more agile and remain closer to our customers' needs. We will not be able to supply a full range of financial services on our own, but our aim is to develop the financial services our customers need most for their operations. We will also continue to develop business partnerships to provide the best customer offering. Accordingly, we welcome the trend of banking customers becoming increasingly active and setting higher demands.

Another factor favouring niche banks is that competition is important for improving confidence in the banks. Confidence is at a low for the banking sector in general. Landshypotek Bank is owned by its loan customers, organised as a cooperative society. We are tasked with contributing to the provision of efficient financing for farmers and foresters. The profits go back to the industry. We are confident that we play a key public role as a bank. Our customer focussed assignments and public role comprise an excellent foundation for confidence. Accordingly, we can comprise a positive alternative in the banking market.

Over recent years, we have developed and strengthened our customer dialogue. We have built an organisation able to operate a safe bank. We have replaced our entire IT support. We are now taking the next step in widening our offering to more loan customers in the countryside and continuing to establish ourselves as the bank for all savers.

We have boosted our strength in various ways over the year:

- We have presented an entirely new digital savings bank for savers. The customer-friendly solution is at the market's cutting edge and has been extremely well received by customers.
- We have established ourselves in the savings market and, at the end of the year, recorded faster growth than any other bank in the segment.
- We have developed our partnerships for an even better customer offering. Our partnership continues with DNB for funding services and we have extended our collaboration with Gjensidige for insurance services. At the end of the year, we presented our new collaboration with Sparbanken Syd.
- Our lending continues to grow, though at a slightly slower pace than in previous years. We continue to have a steady influx but market growth has eased off and loan amortisation has increased. Amortisation requirements are a natural step for a bank with sound credit granting procedures.
- We have changed logotype and communication, and included bank in our name. The change in communication is the basis for reaching a wider audience and growth. We are firmly rooted in the countryside and work actively to strengthen our role as the countryside's bank.

We have received positive responses to the changes from our customers and owners. The rating agencies assess the bank's capital base as very strong and earnings generation as healthy. We have a strong loan portfolio even if we are recognising higher loan losses





than previously. Our loan losses are clearly linked to a few individual commitments that have defaulted.

However, it is clear that increasing demands are being placed on farmers and foresters as entrepreneurs, including a developed market strategy, strong liquidity to cope with market fluctuations and good financial order. We continuously develop our customer dialogue and can thus identify cash-flow problems at increasingly early stages.

At the end of the year, I took over as Managing Director of Landshypotek Bank from my predecessor Kjell Hedman who stepped down after almost five years. The extensive changes at the bank have taken place in conjunction with improved earnings and maintaining a stable C/I ratio. The next step in our development is increased customer focus and more intense marketing. We have strengthened the number of employees and improved our digital services and, accordingly, are ready to meet increasing numbers of farmers and foresters on a daily basis.

Our type of organisation means we have close customer relationships. Customers' interest in our development is greater than at other banks. Our development, in everything from net interest income to loan losses, ratings and savings, impacts our possibilities to finance investments in the countryside and the association's dividends to members. All companies look for commitment. The close customer ties inherent in its organisational form means Landshypotek Bank already has strength. I look forward to leading a bank with such a strong customer commitment.

Our earnings create the conditions that enable our development and are given back to our loan customers. The bank's contribution to the owner association has enabled the cooperative society to propose a dividend to members of SEK 164 million.

Liza Nyberg  
Managing Director Landshypotek Bank

# Our operating environment

Landshypotek Bank and our customers are impacted by the financial market's trends and conditions in the agriculture and forestry sectors. Farmers have faced challenges including the Russian embargo on agricultural products and the weak economic trend in Europe, but have benefitted from continued low market interest rates. Increasing demands are placed on agricultural businesses in terms of managing market fluctuations and other risks.

## Trend in agriculture and forestry for 2014

For the agriculture and forestry sectors, the year was dominated by the continued weak trend for the European economy. The central banks' expansive monetary policy resulted in continued low interest rates. This has great significance since large parts of the industry are highly dependent on borrowed capital for investment and growth.

The low interest rates also impacted property prices. Low interest rates and expectations of continued low interest rates provide stability to the property market. However, the property price trend was inconsistent in 2014. Generally, it was easier to find buyers for properties, but differences increased between objects, sectors and geographical locations. Properties comprised solely of arable land or forest were easily sold in the market. However, properties with extensive farm buildings were more difficult to sell. Accordingly, market values remained stable but differences increased.

The security situation impacted the profitability trend for large sections of agriculture. The Russian import restrictions had major impact since several European countries normally have substantial exports to Russia. The restrictions had greatest impact on the dairy industry with a consequential fall in milk prices for dairy companies. Exports of pork were also hit hard on occasion but increased exports, primarily to Asia, meant the effects were less dramatic.

In Sweden, the market for pork strengthened throughout 2014 with positive deviations in domestic prices. A clear trend in 2014 was that both consumers and the retail sector demanded meat originating in Sweden and produced pursuant to Swedish legislation.

For cereal crops, 2014 was marked by large harvests and significant swings in prices and quality. Prices, which were dependent on harvests in the significant export regions, varied strongly throughout the season and meant that the financial outcome was strongly impacted

by choice of sales strategy. Interest increased in price hedging and other instruments for minimizing risk. The situation is here to stay. Prices will continue to fluctuate depending on developments in the significant export regions. This will increase interest in hedging prices and the need for liquidity.

The year was characterised for forest owners by a cautiously positive outlook. In general, the market trended positively in most areas with stable prices as a consequence. Announcements by the industry of investments in new and increased production capacity were taken as a positive sign.

The proposed changes in European agricultural policy discussed in 2014 have been decided and will result in changes. However, it remains difficult to provide a general answer as to how Swedish agriculture will be affected. The most important thing is that individual entrepreneurs make their own analysis of the effects on their respective companies.

In 2014, profitability and competitiveness continued to be discussed. Several analyses indicated low profitability for agriculture in general. In parallel, it became increasingly clear that there were significant differences in profitability between individual companies in the same sector. Measures implemented by individual entrepreneurs to strengthen their companies have major significance for competitiveness. Continued discussion and consideration of the findings of the competitiveness assessment will be important for the industry and politics.

A living countryside is dependent on viable companies. Many of these companies are in the agricultural sector and are the key to sustainable social development. Farmers and foresters create the living countryside, shape cultural environments, provide jobs and provide food of the highest quality.

A viable agriculture and forestry sector depends on more entrepreneurs developing their companies into sound and sustainable enterprises. In the long run, low

interest rates will not help against poor profitability. The challenges are increasing for individual entrepreneurs. Complexity is growing and competition is international. Agricultural businesses, which were previously part of a clear production chain, now face clear requirements as entrepreneurs, including everything from hedging prices to sales strategies.

Many agricultural businesses are concurrently facing a change in ownership. About 60 percent of agricultural businesses are run by individuals over 60. In many ways, successful changes in ownership are the key to tomorrow's living countryside.

More attention needs to be devoted to business management and development. Planning for a change in ownership could be a good opportunity for renewal and new strategic initiatives that can contribute to increased profitability and competitiveness.

Landshypotek Bank is gradually developing customer dialogues to provide the right financing at the right time for entrepreneurs in the agriculture and forestry sectors.

## Financial market trends

2014 was a disappointment for those who thought the economic recovery would gain momentum. Growth forecasts were not met and global growth potential subdued as a consequence of the crisis in Ukraine and turbulence in the Middle East. Central banks were concerned about the risk of disinflation, or even deflation, and both short and long-term interest rates fell to new record lows.

The differences in economic trends in the US and Europe became increasingly clear during the year. The US is on the road to a self-sustaining recovery and, in October, the central bank was able to end its extraordinary monetary policy and, once again, start to focus on interest-rate levels. The first rise in interest rates is forecast for summer 2015. GDP growth slightly exceeded 3 percent for 2014, supported by an increasingly strong labour market, household finances and private consumption. The inflation rate remains low and, accordingly, the central bank is retaining a stimulative monetary policy.

However, as the dollar strengthens and exports slow, conditions regarding monetary policy are becoming increasingly restrictive. On the other hand, the European recovery failed to happen. Inflation continued to decline

and there is considerable pressure on the ECB to deliver further stimulative measures. The ECB lowered the key interest rate to 0.05 percent and the deposit rate to -0.20 percent. However, the measures were unable to reverse the inflation trend and, with surplus liquidity in the bank system, the actual key interest rate was negative. The market expected additional measures and the failure of these to appear had a subduing effect on the economy.

Southern Europe was already in deflation and, with increasingly weak global demand, the previously strong counterbalance, Germany was no longer able to maintain growth. Major problems and a need for structural reforms existed in Italy and France. Toward the end of the year, the European debt crisis flared up again when Greece called a new election. As a consequence, uncertainty fell on the savings package, debt reduction and the future of Greece in the EMU.

The economy in Sweden trended relatively healthily with growth of almost 2 percent. Employment increased but unemployment remained the same since the labour force grew at the same pace as employment. The financial position of households was strengthened by healthy real-salary growth, rising property prices and a strong stock market. This supported private consumption which drove growth. The export industry faced greater challenges and the trade surplus weakened to become almost non-existent.

During the year, the future outlook was highly positive but published statistics were consistently disappointing. Companies expected rising production but the outcome was a decline of 5.0 percent at an annual rate. The service sector balanced the weak industrial sector and, in particular, the construction sector posted a strong year.

An exciting year for politics saw a change in government, a government crisis and then an agreement to avoid a new election. The financial markets weathered the turbulent political situation with calm.

With favourable conditions for funding, Landshypotek Bank had scope to continue lowering lending interest rates, while strengthening margins. Stronger margins are a prerequisite for the bank's continued growth and to manage new resource-intensive regulatory requirements.



# Landshypotek Bank 2014 in figures

Summary Landshypotek Bank	2014	2013
Net interest income, MSEK	764.9	656.5
Operating profit, MSEK	384.9	266.8
Profit after tax, MSEK	301.4	208
Loans to the public, MSEK	61,743	60,859
Increase in lending, %	1.5 %	3.0 %
Interest margin, %	1.2 %	1.1 %
Deposits from the public	5,829	2,147
Increase in deposits, %	171.5 %	36.0 %
C/I ratio	0.47	0.44
Loan loss level, %	0.13 %	0.09 %
Total capital ratio, %	24.5 %	32.0 %
Rating, long-term		
Standard & Poor's, Covered bonds	AAA	AAA
Standard & Poor's	A-	A
Fitch	A+	A+
Average number of employees	144	122

## Operating profit amounted to MSEK 384.9 (266.8)

Earnings posted a year-on-year increase of MSEK 118.1. Underlying earnings, operating profit excluding the net result of financial transactions, were MSEK 321.6 (302.0). Net interest income increased year-on-year but was offset by higher costs and loan losses.

## Net interest income amounted to MSEK 764.9 (656.5)

Net interest income was up MSEK 108.4 compared with the year-earlier period. The improvement was attributable to items including higher lending and lower borrowing costs. Net interest income was also positively impacted in an amount of MSEK 82.8 by the periodization of terminated hedging relationships.

## Costs totalled MSEK 351.1 (283.1)

The increase in costs was in line with expectations and was linked to the development of the bank. Additional new services have been developed, among other things, related to the digital savings bank. The bank continued to strengthen its resources with additional employees, which meant increased personnel costs.

## In 2014, lending increased 1.5 percent (3.0)

Growth in the market has eased off and loan amortisation has increased.

## Deposits amounted to MSEK 5,829 (2,147)

In February, Landshypotek Bank opened a new digital savings bank. Deposits increased MSEK 3,682 in 2014.

## Net loan losses totalled MSEK 79.6 (loss: 54.4)

Realised loan losses were MSEK 56.3 (loss: 27.4). The provision for probable loan losses increased to MSEK 104.5 (82.4). Landshypotek Bank has developed its work on the credit portfolio, thereby enabling earlier identification of companies with weak profitability and low liquidity. Provisions pertain to a few individual commitments.

## The total capital ratio amounted to 24.5 percent without taking into account the transitional rules linked to Basel I

Own funds totalled MSEK 4,936 and the own funds requirement was MSEK 1,612. The total capital ratio<sup>1</sup> including the transitional rules was 10.0 percent (the regulatory requirement is 8 percent).

<sup>1</sup> Corresponds to the term capital adequacy ratio, which has been used in previous financial statements.

# Our assignment and values

## **Competitive financing of agriculture and forestry**

Landshypotek Bank is Sweden's farmers and foresters' own bank. Our existence is justified by our niche, our competence, our favourable terms and our form of ownership.

## **The first choice for all financing for agriculture and forestry**

Our offering is expanding to include an increasing number of products and services.

## **Long-Term • Considerate • Competent**

We support our loan customers throughout their lives and across generations. Our customers are of paramount importance; we see them and prioritise them.

We are open and honest.

We are clear and intuitive.

We are welcoming, while remaining professional and setting requirements.

We possess financing expertise and understand our customers' business activities.

# Administration Report

On 12 March 2015, the Board of Directors of Landshypotek Bank AB (publ.), corporate registration number 556500-2762, approved the financial statements. These will be presented for final adoption by the Annual General Meeting on 15 April 2015.

## Business

Landshypotek Bank AB is a member-owned bank specialised in lending to Swedish agriculture and forestry. Landshypotek Bank is owned by Landshypotek Ekonomisk Förening. All borrowers at Landshypotek Bank automatically become members of Landshypotek Ekonomisk Förening. At the end of 2014, the society had approximately 43,000 members.

During 2014, operations were conducted by the following corporate entities:

- Landshypotek Bank AB
- Landshypotek Jordbrukskredit AB

Landshypotek Bank is the Parent Company of the Landshypotek Bank Group. The vast majority of the Group's business operations are conducted in Landshypotek Bank. Landshypotek Bank offers farmers and

foresters first lien mortgage loans up to 75 percent of the appraised market value against real property as collateral. Now, Landshypotek Bank can also offer savings products to the general public. The subsidiary Landshypotek Jordbrukskredit AB offers other loans to farmers and foresters. The Group uses the capital market as its primary source of funding but deposits have taken an increasingly significant role. Funding is allocated over a number of loan programmes, adapted to various types of investors, thus achieving the desired level of flexibility. All funding in the Group takes place in Landshypotek Bank.

## Organisation

Landshypotek Bank has 152 employees based in eight districts with 19 offices throughout Sweden. Local presence is an important success factor for the company. Staff all have a good level of local knowledge and expertise of agricultural and forestry criteria, as well as entrepreneur-driven enterprise.

The representatives that sit on Landshypotek Ekonomisk Förening's regional boards of directors are tasked with appraising customers' properties. The members of these boards are themselves owners of agricultural properties and have good local knowledge and industry expertise. Board members with the greatest possible geographic and industrial breadth are appointed in each region. Members are also active advocates of the company that represent Landshypotek Bank in a variety of contexts.

## Market overview

### Market trends

The cereal harvest in 2014 was extremely good in Sweden.

Cereals prices varied widely due to an unsettled business environment. Signing contracts for the sale of cereals and the fact that costs for input materials decreased mitigated the decline in earnings for cereal growers.

Milk prices were high in the first quarter of 2014, but declined later in the year and ended the year with expectations of further price reductions. Turnover has increased in the dairy market, a state of affairs which is

**Local presence is an important success factor for Landshypotek**



*Landshypotek Bank currently has offices throughout Sweden. Having a local presence is highly important in offering the market personal service provided by employees who have intimate knowledge of local conditions.*



expected to continue. This places increased demands on companies in the dairy industry to manage their liquidity.

The debate about animal husbandry in other countries has strengthened the position of Swedish pork and positively impacted the sales and price in relation to the operating environment in 2014. Demand has also increased for beef produced in Sweden.

The general situation for forestry is that exports have continued to recover during the year and expected investments are increasing, which is viewed as positive. However, the picture is mixed and business conditions for sawmills weakened toward the end of the year.

#### Price trends for agricultural and forest properties

Prices for forest properties stabilised in 2014 and, with current low interest rates, forest land has become an interesting investment alternative. However, regional differences are increasing.

Prices rose slightly for agricultural properties during the year but for properties outside of main agricultural areas sales have been more difficult. Prices have also varied depending on the type of production.

#### Landshypotek Bank's development

Landshypotek Bank's assignment is to provide competitive financing and offer financial services to Sweden's farmers and foresters. Landshypotek Bank also offers savings accounts that offer competitive interest rates for the general public in Sweden.

In 2014, Landshypotek Bank increased lending by SEK 0.9 billion. The increase corresponded to lending

growth of 1.5 percent, compared with 3.0 percent in 2013. Demand for credit from Sweden's farmers and foresters eased off noticeably. The annualised market growth for 2014 is estimated at about 5.9 percent, considerably lower than the record levels until 2010. The primary driver for demand is property transactions occurring in the agriculture and forestry sectors. In addition, amortisation requirements increased and the rate of amortisation was raised.

Deposits amounted to SEK 5.8 billion at 31 December 2014, up 171.5 percent year-on-year.

#### Success factors

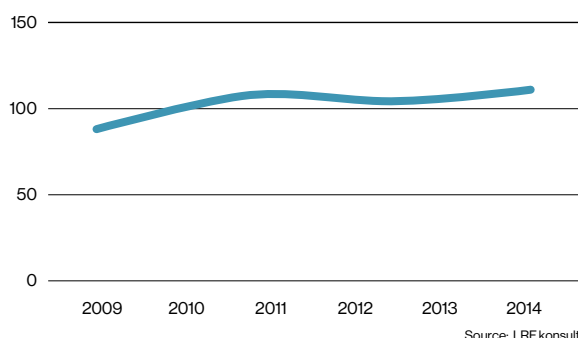
Crucial factors to ensure that Landshypotek Bank continues to experience favourable development in the market and defend its position as a leading player in its business area are:

- good knowledge of customers' business,
- products that satisfy customers' requirements,
- elected appraisers who can accurately value the collateral,
- good credit assessment which, together with accurately appraised collateral, guarantees continued low loan losses, and
- low borrowing costs.

Consolidated operating profit in 2014 amounted to MSEK 384.9, up MSEK 118.1 compared with 2013 (MSEK 266.8). The increase in earnings was primarily attributable to a year-on-year improvement of MSEK 108.4 in net interest income and an increase in the net result of financial transactions and other income of MSEK 102.9. The earnings improvement was offset by an increase in costs of MSEK 68.0 and a rise in net

#### Arable land prices in real terms

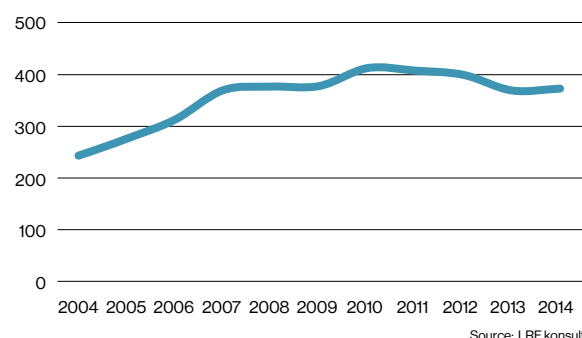
SEK thousand/hectare



Average prices for arable land were unchanged in 2014 compared with 2013.

#### Price trend for forest in real terms 2004-2014

SEK/m<sup>3</sup>fo



The average price of forest properties was SEK 372/m<sup>3</sup> in Sweden as a whole in 2014.

## Profit and profitability

Group key ratios, SEK thousand	2014	2013
Net interest income	764,863	656,464
Interest margin, %	1.2 %	1.1 %
Other operating income	50,840	-52,110
Costs	-351,144	-283,138
C/I ratio	0.47	0.44
Loan losses	-79,612	-54,378
Loan loss level, %	0.13 %	0.09 %
Operating profit	384,947	266,839
Operating profit excluding the net result of financial transactions	321,626	302,024

recognised loan losses of MSEK 25.2 compared with the year-earlier period.

Excluding the net result of financial transactions, operating profit amounted to MSEK 321.6 (302.0), up MSEK 19.6 year-on-year. Net interest income positively impacted earnings, while increased costs and an increase in recognised net loan losses had a negative effect. The Parent Company's operating profit accounted for the majority of the consolidated operating profit and therefore the following comments apply equally to the Parent Company.

### Net interest income

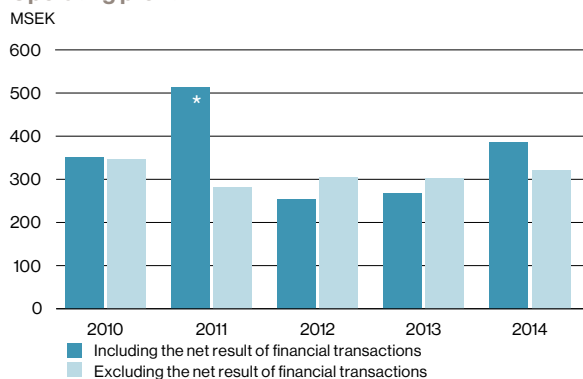
Net interest income in 2014 amounted to MSEK 764.9, up MSEK 108.4 or about 16.5 percent, compared with 2013 (MSEK 656.5). The improvement was attributable to increased lending and lower borrowing costs. Net interest income was also positively impacted by the periodization of terminated hedging relationships of MSEK 82.8. Refer to Note 2.

### Other operating income

Operating income, excluding net interest income, amounted to MSEK 50.8, up MSEK 102.9 compared with 2013. Other operating income includes fees of MSEK 28.0 for the stabilisation fund and deposit insurance, the profit of MSEK 63.3 from the net result of financial transactions, net commission income (excluding the stabilisation fund and deposit insurance) of MSEK 14.3 and income from property of MSEK 1.2.

Other operating income was up MSEK 102.9 compared with 2013 (loss: 52.1). The increase was primarily due to an improvement of MSEK 98.5 in the net result of financial transactions to a profit of MSEK 63.3 (loss: 35.2). The profit of MSEK 63.3 comprised an unrealised profit of MSEK 87.2 and a realised loss of MSEK 23.9. The net result of financial transactions comprised realised results from the purchase and sale of financial instruments, including the result from the buyback of bonds. In addition, this item includes the result from the revaluation of financial instruments. Realised result comprises

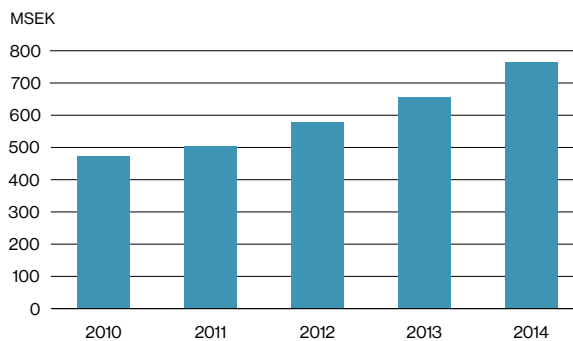
### Operating profit



\* Includes a capital gain from the sale of an operating property of MSEK 235.0.

Operating profit for 2014 totalled MSEK 384.9. Operating profit excluding the net result of financial transactions was MSEK 321.6.

### Net interest income



Net interest income for 2014 amounted to MSEK 764.9. Total net interest income is determined by the volume of loans outstanding, the margin between the interest rates on borrowing and lending and the return obtained on the equity invested in lending operations.

the early redemption of bonds issued, premature closure of derivatives and sales from the liquidity portfolio. Early redemption of own bonds is carried out to extend the maturity of Landshypotek Bank's liabilities, whereby bonds with a short remaining time to maturity are prematurely redeemed and replaced by bonds with a considerably longer maturity. The early redemption further strengthens Landshypotek Bank's balance sheet and reduces the average borrowing cost.

To gain an understanding of the total effect of market valuations, the revaluations recognised directly in equity via other comprehensive income must also be taken into account. Remeasurements of financial instruments in equity amounted to a loss of MSEK 2.8 (gain: 24.1) in 2014.

In addition, net profit for the year was charged with fees to the Swedish National Debt Office's stabilisation fund of MSEK 26.3 (32.6) and deposit insurance of MSEK 1.6 (1.1)

### Costs

Costs in 2014 amounted to MSEK 351.1 (283.1). The increase in costs of MSEK 68.0 was as planned and was primarily linked to the opening of the digital savings bank as well as the continued strengthening of personnel in the customer support and sales organisations, which meant increased personnel costs.

### Loan losses and doubtful credits

Net recognised loan losses amounted to MSEK 79.6 (loss: 54.4), corresponding to 0.13 percent of Landshypotek Bank's total loans outstanding. Realised loan losses were MSEK 56.3 (loss: 27.4). Provisions for probable loan losses amounted to MSEK 104.5 (82.4).

Reversals of previous provisions for realised losses in the annual accounts totalled MSEK 56.5 (23.9). Recoveries of previously realised losses and reversals of previous provisions for probable loan losses that are no longer required, amounted to MSEK 24.7 (31.9).

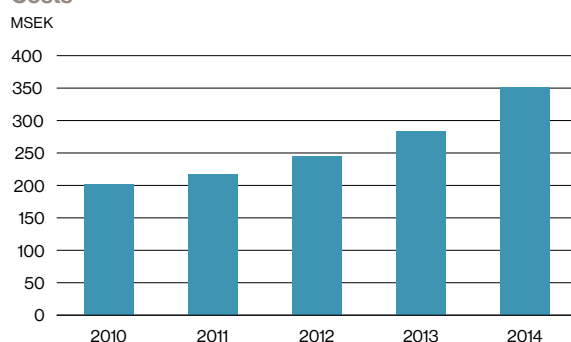
At 31 December 2014, doubtful credits after provisions amounted to MSEK 274.9 (174.3), corresponding to 0.45 percent (0.29) of total loans outstanding.

Realised loan losses were somewhat higher year-on-year and the provision for probable loan losses increased. The bank has developed its work on the credit portfolio, which has resulted in earlier identification of companies with weak profitability and low liquidity. The provision for probable loan losses is attributable to a limited number of individual commitments. Customers with financial difficulties cannot be connected to specific industries or sectors but largely pertain to the prerequisites of the individual entrepreneur.

### Assets

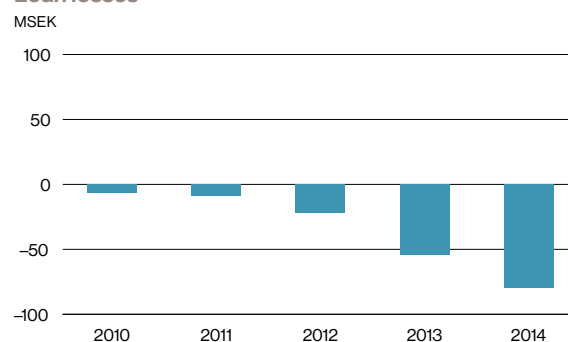
The largest asset item in the balance sheet is "Loans to the public", which amounted to MSEK 61,743 (60,859). More information about Landshypotek Bank's lending to the public can be found in the Risk and capital management section. At the end of 2014, Landshypotek Bank's holding of interest-bearing securities amounted to MSEK 16,798 (15,072). The portfolio primarily comprises Swedish covered bonds with the highest credit rating and, to a certain degree, bonds issued by Swedish municipalities. The holding of interest-bearing securities functions as a liquidity portfolio. If necessary, the securities can be sold or borrowed against to manage the financing of liabilities falling due.

### Costs



Costs for 2014 amounted to MSEK 351.1, an increase of MSEK 68.0 or approximately 24 percent year-on-year. The increase was mainly attributable to the opening of the digital savings bank and costs for strengthening personnel.

### Loan losses



At 31 December, loan losses totalled MSEK 79.6, which corresponded to 0.13 percent of lending.



## Financial structure

### Consolidated Balance Sheet

Assets, MSEK	2014
Loans to credit institutions	720
Loans to the public	61,743
Bonds and other interest-bearing securities	16,798
Derivatives	2,048
Non-current assets	68
Other assets	728
<b>Total assets</b>	<b>82,106</b>

Liabilities, MSEK	2014
Liabilities to credit institutions	447
Borrowing/deposits from the public	5,829
Debt securities in issue	68,594
Derivatives	1,193
Other liabilities	1,713
Equity	4,330
<b>Total liabilities</b>	<b>82,106</b>

Landshypotek Bank uses derivatives for the purpose of managing the difference in terms of fixed interest and currency risks between assets and liabilities. At the end of 2014, the Group's holding of derivatives contracts with positive market values amounted to MSEK 2,048 (581). This corresponded to a nominal value of MSEK 21,119 (16,307). Additional detail about derivative contracts can be found in Note 15.

At 31 December 2014, tangible and intangible non-current assets amounted to MSEK 68 (64). The increase was primarily attributable to the investment in business systems.

At the end of the year, other assets amounted to MSEK 728 (897). This item is comprised primarily of accrued interest.

#### Liabilities

Landshypotek Bank's funding consists primarily of bond loans and money market instruments issued on the Swedish and European markets in the form of MTN, EMTN and commercial paper programmes. Furthermore, funding is also obtained via borrowings from credit institutions and the public. At the end of 2014,

bond and money market instruments in issue amounted to MSEK 68,594 (68,422). Borrowing from the public amounted to MSEK 5,829 (2,147) and borrowing from credit institutions to MSEK 447 (257).

At 31 December 2014, the Group's holdings of derivative contracts with a negative market value totalled MSEK 1,193 (1,222). This corresponded to a nominal value of MSEK 22,152 (32,774). Additional detail about derivative contracts can be found in Note 26.

At the end of 2014, other liabilities amounted to MSEK 1,713 (1,804). This item mainly includes accrued interest, subordinated liabilities and liabilities to Group companies.

#### Equity

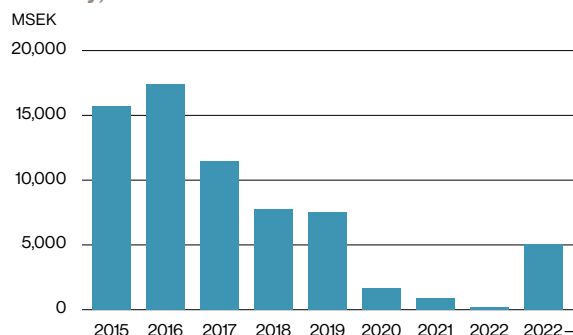
At year-end 2014, Landshypotek Bank had equity of MSEK 4,330 (4,121). During the year, equity grew by MSEK 315, of which MSEK 56 pertained to contributed capital from a new issue. No dividend payment is reported in Landshypotek Bank; a transfer is instead made to the Parent Association, Landshypotek Ekonomisk Förening in the form of a Group contribution.

## Funding

Landshypotek Bank aims to borrow funds on the best possible terms, given a low risk profile. By adopting an extremely flexible approach to markets and instruments, funding is obtained efficiently and where the best terms are offered. Landshypotek Bank utilises several borrowing programmes, both domestic and international. This allows the company to meet most investors' needs for investments in interest-bearing securities. Landshypotek Bank's primary source of funding during the year was covered bonds.

In 2014, covered bonds were issued in an amount of approximately SEK 8.8 billion. In addition, senior bonds

#### Maturity, financial liabilities



## Funding

### Borrowing programmes

Program, MSEK	Utilised nominal amount, 31 Dec. 2014	Limit	Utilised nominal amount, 31 Dec. 2013
Swedish commercial paper	3,274	10,000	3,020
MTN programme	44,950	60,000	45,872
EMTN programme	14,947	33,016*	15,244
Registered Covered Bonds (RCB)	3,302		3,306
Subordinated loans	700		700

\*3,500 MEUR.

were issued to a value of approximately SEK 5.4 billion. Bonds have matured or been repurchased to a value of approximately SEK 16.0 billion, of which about SEK 11.0 billion pertained to covered bonds.

In general, the financial market for Nordic banks functioned smoothly in 2014. Landshypotek Bank has been very successful in its funding activities and demand for Landshypotek's bonds has been favourable.

### Rating

Landshypotek Bank has credit ratings from two different rating agencies, Standard & Poor's and Fitch. During the year, the rating agency Standard & Poor's confirmed the credit ratings AAA for covered bonds but changed the ratings to A-, A-2 for the company. The motivation was that the quality of Landshypotek Bank's loan portfolio was starting to approach the quality of those of other banks and, accordingly, Standard & Poor's lowered their previously very strong credit-quality rating. In 2014, Fitch confirmed the company's credit rating of A+, F1 with a stable outlook for the company.

Rating	Long	Short
S&P, covered bonds	AAA	
S&P	A-	A-2, K1
Fitch	A+	F1

## Capital situation

The total capital ratio amounted to 24.5 percent without taking into account the transitional rules linked to Basel I. Own funds amounted to MSEK 4,936 and the capital requirement was MSEK 1,612. The total capital ratio<sup>1</sup> including the transitional rules was 10.0 percent. The regulatory requirement is 8 percent.

<sup>1</sup> Corresponds to the term capital adequacy ratio, which has been used in previous financial statements.

On 1 January 2014, the EU's Capital Requirements Directive (new European capital adequacy rules), based on parts of the Basel III rules, entered force in Sweden.

The new regulations entailed a raised capital requirement for Landshypotek Bank as a consequence of new capital requirements for counterparty risk (CVA) and LGD floors for IRB exposures. In August 2014, the EU's Capital Requirements Directive (CRD IV) was implemented in Sweden and, for Landshypotek Bank, an additional requirement was implemented for a capital conservation buffer of 2.5 percent of the total risk-weighted exposure amount, over and above previous Basel III capital requirements. The capital conservation buffer must be covered by common equity tier 1 capital. The Bank's remaining common equity tier 1 capital to cover the buffer requirements, corresponds to 15.02 percent of the total risk-weighted exposure amount at 31 December 2014.

However, the actual capital requirement for the bank has not changed because of the new Basel III rules since the transitional rule under Basel I continues to set the highest capital requirement for Landshypotek Bank.

Additional information can be found in the Risk and capital management section and in Note 33.

## Group contributions

A Group contribution will be paid by Landshypotek Bank AB, contingent upon the approval of the General Meeting, in the amount of MSEK 177 (156) to Landshypotek Ekonomisk Förening.

## Events after year-end

No significant events occurred after the end of the reporting period.

# Landshypotek Bank's covered bonds

Covered bonds are bonds that carry a preferential right in a defined cover pool. At 31 December 2014, Landshypotek Bank had covered bonds in issue at a value of SEK 56.1 billion. Assets in the cover pool corresponding to SEK 71.1 billion are in place as collateral for these bonds.

## Cover pool and covered bonds

### Cover pool

Loans	SEK 58.3 billion
Supplemental collateral	SEK 12.8 billion
<b>Total Cover pool</b>	<b>SEK 71.1 billion</b>

### Covered bonds

Issued in SEK	SEK 45.0 billion
Issued in foreign currency	SEK 11.1 billion
<b>Total covered bonds</b>	<b>SEK 56.1 billion</b>

**Excess collateral**      26.8%      SEK 15.0 billion

Landshypotek Bank has two programmes for issuing covered bonds, a Swedish MTN programme with a limit of SEK 60.0 billion and an international EMTN programme with a limit corresponding to SEK 33.0 billion. Covered bonds are Landshypotek's most important source of funding and in 2014, covered bonds were issued in an amount of SEK 8.8 billion. Landshypotek Bank's covered bonds have an AAA credit rating from the rating agency Standard & Poor's.

The cover pool comprises loans with Swedish agricultural and forest properties as collateral, and supplemental collateral. The supplemental collateral comprises covered bonds issued by other credit institutions, and bonds issued by Swedish municipalities.

## Key ratios, cover pool

### LTV – Loan-to-value ratio

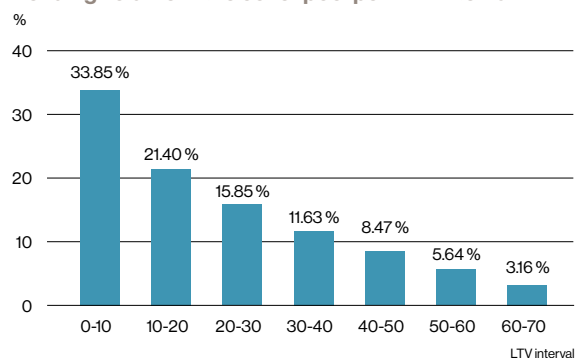
Average volume-weighted LTV	43.5 %
<b>Number of pledged properties</b>	<b>32,768</b>
<b>Number of borrowers</b>	<b>42,630</b>
<b>Number of loans</b>	<b>121,914</b>

### Supplemental collateral

Swedish covered bonds	SEK 8.5 billion
Swedish municipalities	SEK 4.3 billion

The table above shows some important key ratios for the cover pool. LTV or loan-to-value ratio shows loan amounts in relation to the value of the collateral. Accordingly, an LTV of 43.5 percent entails that Landshypotek's customers' loans amount to an average value of 43.5 percent of the value of their farms. Landshypotek has 42,630 borrowers and 32,768 pledged properties. In many cases, the difference is attributable to more than one individual jointly pledging their shared property. The number of loans amounts to 121,914. This means that many customers have more than one loan.

## Lending volume in the cover pool per LTV interval

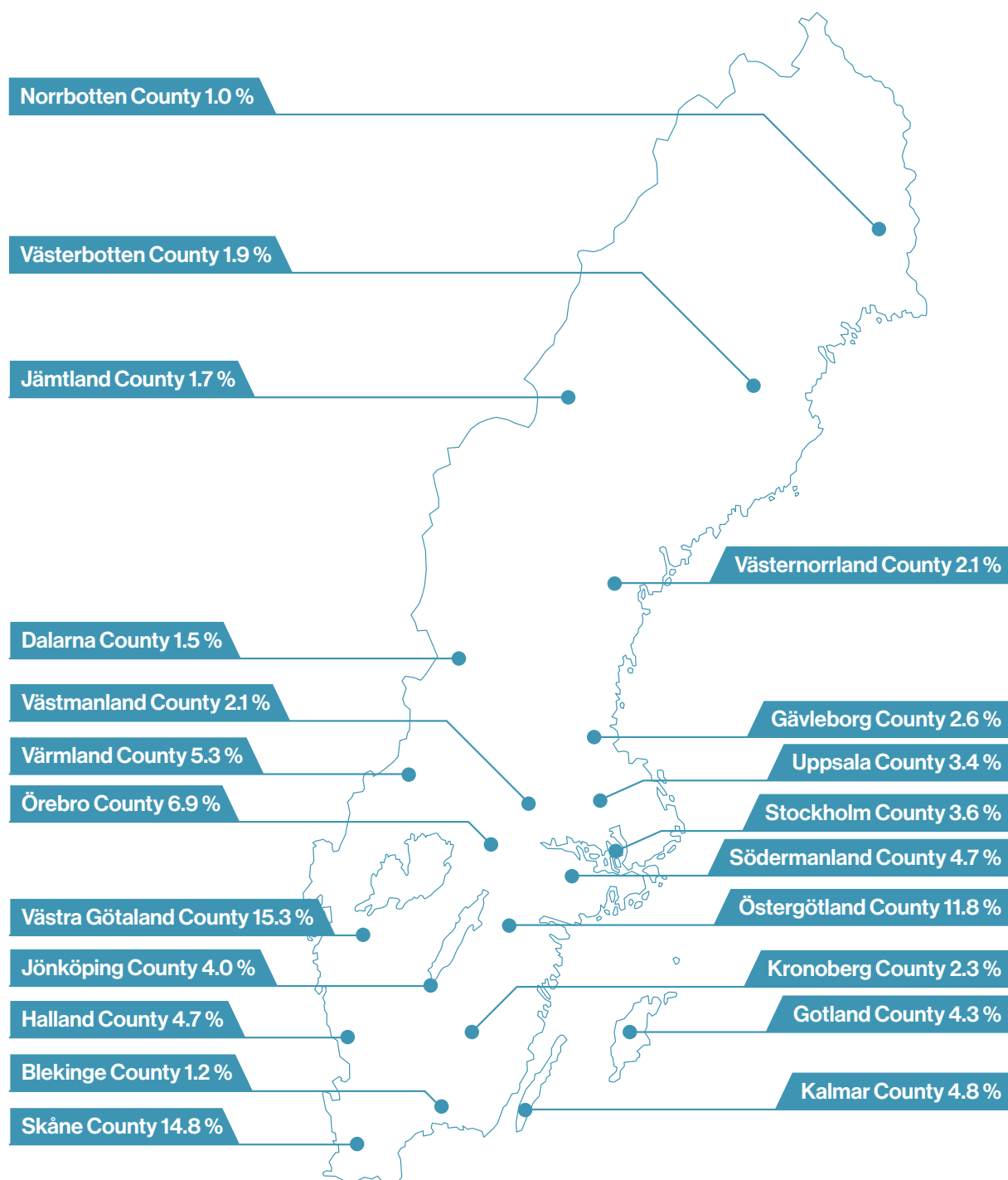


Of Landshypotek's lending, 55 percent takes place against collateral where the loan amount is less than 20 percent of the value of the collateral. Only 3 percent of lending is against collateral where the loan amount is 70 percent of the value of the collateral.



# Geographic distribution of lending

Landshypotek Bank's lending has a favourable geographic distribution. Most lending is to farms in the traditional agricultural counties.



# Corporate Governance Report

## Landshypotek Bank 2014

Landshypotek Bank's vision is to be the preferred choice for financing agriculture and forestry. Corporate governance is a key support in Landshypotek Bank's efforts to create value for its stakeholders.

Lack of internal controls in the financial sector were considered a contributive factor in the last financial crisis. Accordingly, an array of new regulations have been prepared in the EU and Sweden over the past few years to strengthen corporate governance. In 2014, Landshypotek Bank has worked in an organised fashion to implement these regulations in its operations. Particular regard has been given to the Swedish Financial Supervisory Authority's *Regulations and General Guidelines Regarding Governance, Risk Management and Control at Credit Institutions*. During the year, the bank's Board has focused on corporate governance issues and revised and established a number of new governance documents and procedures. This is to ensure the bank's Board has effective control and governance of the bank.

In addition, Landshypotek Ekonomisk Förening's Board established an owner directive that controls the bank's operations through a number of targets for market shares, earnings and risk levels.

The corporate governance report was prepared in accordance with the provisions on corporate governance reports contained in the Swedish Annual Accounts Act and the Swedish Corporate Governance Code (the Code), with the deviations stated below.

### Owners' control

Landshypotek Bank is a wholly owned subsidiary of Landshypotek Ekonomisk Förening. The bank is domiciled in Stockholm. Owners' control of the bank is exercised through general meetings of shareholders, the Board of Directors and the Managing Director in accordance with the Swedish Companies Act, Articles of Association, owner directives, adopted policies and instructions. The bank has adopted the Code.

### Deviations from the Code

Certain parts of the Code are not appropriate for the bank. This is due to the ownership structure with just one shareholder and the fact that the bank is not a listed

company. The following deviations from the Code are made in this corporate governance report:

#### General Meeting

##### Code rules 1.1 and 1.7

There is no publication on the website of information pertaining to general meetings of shareholders and shareholders' right to propose business at the general meetings as well as publication on the website of minutes, the register of voters and appendices. The aim of these rules is to provide shareholders with the opportunity to prepare themselves in a timely fashion ahead of the Annual General Meeting and to have business taken up in the notification thereof as well as enable shareholders to partake of the information. *This deviation is due to the company's status as a wholly owned company and, accordingly, the lack of any reason to follow this rule.*

#### Election and remuneration of the Board and auditor

##### Code rules 2.3–2.6

Instead of following the Code's rules governing Board appointments, nomination issues are prepared pursuant to an instruction for the Election Committee adopted by the General Meeting. The aim of these rules is to provide all shareholders with, among other things, insight into the nomination process and to prevent major shareholders gaining undue influence over nominations. *A deviation is made as the Bank has only one shareholder.*

#### Board procedures

##### Code rule 7.4

This rule means that the Board must ensure that the company's financial reporting meets other requirements of listed companies. *A deviation is made as the Bank is not a listed company.*

#### Tasks of the Remuneration Committee

##### Code rule 9.1

The Code's rules covering the Remuneration Committee's evaluation of remuneration guidelines for senior executives established by the General Meeting are not appropriate. *A deviation is made as the Bank is not a listed company.*



#### Disclosures

##### Code rule 10.2

Disclosures should be made in the Corporate Governance Report regarding which member of the Election Committee was appointed by which owner as well as the owner's name, and any breaches of stock exchange rules. No such reporting is performed. *The aim of the rule is to protect minority shareholders in companies with diverse ownership. This deviation is due to the company's status as a wholly owned company and, accordingly, the lack of any reason to report this. A deviation is made as the Bank is not a listed company.*

#### Articles of Association

The bank adopted a new Articles of Association in conjunction with being granted a licence to conduct banking operations by the Swedish Financial Supervisory Authority. The Articles of Association govern items including the purpose of the bank's operations. The company's Articles of Association contain no provisions governing the appointment or removal of Board members with the exception of the provision on the minimum

and maximum number of Board members and that the Chairman of the Board be appointed by the General Meeting. With regard to amendment of the Articles of Association, notification must be issued at the earliest six weeks and at the latest four weeks before the meeting that will examine the proposed amendment. Landshypotek Bank has only one shareholder and no limitations apply to the number of votes the shareholder may cast at the General Meeting.

#### Annual General Meeting

The Annual General Meeting of Landshypotek Bank AB was held on 10 April 2014. Henrik Toll, Chairman of the bank was the Annual General Meeting's Chairman. The General Meeting re-elected Henrik Toll (Chairman), Hans Heuman, Catharina Lagerstam, Johan Löwen, Nils-Fredrik Nyblæus and Charlotte Önnestedt as Board members. Anna-Karin Celsing and Synnöve Trygg were elected to the Board for the first time. At the AGM, Hans Broberg, with Petra Nilsson as deputy, was designated as the employee representative for the Financial Sector Union of Sweden and Helena

Andersson, with Ingrid Nordqvist as deputy, as the employee representative for the Swedish Confederation of Professional Associations (SACO). In addition, Christina Asséus Sylvén and Ulf Westerberg were elected as the bank's auditors until the end of the 2015 AGM.

The AGM resolved in favour of discharge from liability for the Board of Directors and Managing Director. Furthermore, resolutions were passed on fees, appropriation of profits and adoption of the annual accounts for 2013. The Managing Director and Board of Directors presented the work performed in the company and on the company's Board in 2013. The General Meeting did not authorise the Board of Directors to issue new shares or buyback the company's shares.

#### **Extraordinary General Meeting**

An extraordinary general meeting was held on 12 March 2014, whereby the Meeting resolved to issue 56,000 new shares. Landshypotek Ekonomisk Förening subscribed for all of the shares.

## **Composition of the Board of Directors and the nomination procedure**

The Annual General Meeting 2014 resolved that there should be an Election Committee in Landshypotek Bank tasked with preparing elections and remuneration issues prior to the 2015 AGM. The Election Committee follows the instruction established for the Committee and the policy for assessing the appropriateness of Board members and senior executives as adopted by the General Meeting. The Election Committee comprises three members. The following were appointed as members of the Election Committee: Lars Öhman, Anders Johansson and Richard Montgomery. Lars Öhman and Anders Johansson represent the owner in their respective capacities as Chairman and Vice Chairman of Landshypotek Ekonomisk Förening, while Richard Montgomery contributes broad financial expertise as a Board member of Landshypotek Bank.

## **Diversity and eligibility policies**

The Board has adopted a policy pertaining to Board diversity and a policy for assessing the eligibility of Board members and senior executives. More detailed descriptions of the eligibility assessment and the diversity policy are published on the bank's website. Among other items, the diversity policy states that the background of Board members as well as the Board's gender balance

and ages should be considered to obtain sufficient diversity on the Board. The eligibility policy states that the eligibility assessment of Board members and senior executives, including the Managing Director, should take into consideration the individual's skills, experience and reputation among other attributes.

## **The Board of Directors and the Board's work**

### **Composition of the Board**

According to the Articles of Association, the Board comprises a minimum of four and maximum of eight members who are elected each year at the Annual General Meeting until the Annual General Meeting the following year. The Board comprises ten individuals, of which eight were elected at the AGM and two employee representatives – five women and five men. Seven of the Board members are independent in relation to the company and the management of the company. One member is also a Board member of the cooperative society. All of the Board members have extensive experience from trade and industry or/and agriculture and forestry. The composition of the Board ensures that the Board understands the overall picture of the bank's operations and the associated risks.

The names, ages, main qualifications, work experience and other assignments of the Board members and their attendance at Board meetings its committees are detailed on pages 23 and 26-27. None of the Board members or the Managing Director hold shares or financial instruments issued by the bank. Through their membership of Landshypotek Ekonomisk Förening, four of the Board members have an investment in the cooperative society.

### **Chairman of the Board**

The Chairman of the Board appointed by the Annual General Meeting. The Chairman leads the Board's work and ensures that the work is performed efficiently and that the Board fulfils its duties. Among other duties, the Chairman is tasked with accepting directives from the owner association, ensuring that the Board members are provided with satisfactory information and decision data for their work by the Managing Director on an ongoing basis and that Board members receiving the required training to conduct Board work efficiently and check that the Board's decisions are applied efficiently.

### **The Board's work and its procedures**

The Board is responsible for the organisation and administration of the bank. Among other tasks, the Board should also decide issues regarding the bank's overriding goals



and strategies, its risk appetite and risk strategy, take responsibility for the bank's financial reporting and internal capital adequacy assessment process (ICAAP), and decide other matters of greater strategic and financial significance as well as issues that are not part of day-to-day operations. The Board also decides over the bank's business plan and budget, and follows up the bank's performance in relation to these on an ongoing basis.

The Board is also tasked with ensuring that internal rules are in place for effective governance and control of the bank, and that a framework for risk management exists that ensures the bank's management and follow up of risks is satisfactory. The Board is also to perform regular evaluations of whether the bank controls and manages its risks in an efficient and appropriate manner, and ensure the bank complies with the rules applicable for licensable operations.

The Board's work follows the formal work plan adopted at the statutory meeting. An evaluation of the Board's and the Managing Director's work, and an eligibility assessment of Board members are performed at the end of each year.

In 2014, the Board had ten scheduled Board meetings.

## The Board's committees

The Board has three committees: The Board's Credit Committee (SKU), the Board's Risk and Capital Committee (RKU) and, in 2014, the Board established the Board's Audit Committee. Minutes are taken of the committees' meetings and submitted to the Board.

### Board's Credit Committee

The Committee's primary task is to make decisions regarding loans pursuant to the established credit policy.

In addition, the Committee is tasked with preparing amendments to and/or annual confirmation of items including credit policy, decision mandates for granting credit and valuation instructions prior to the Board's decision. Following the statutory meeting in 2014 and until the next statutory meeting, the members of the Committee were as follows: Henrik Toll (Chairman), Nils-Fredrik Nyblæus, Kjell Hedman and Helena Silvander – the latter two being the Managing Director of Landshypotek Bank and Landshypotek Jordbrukskredit, respectively. In conjunction with Liza Nyberg taking up her position as Managing Director on 1 December 2014, she joined as a member of the Committee and Kjell Hedman stepped down. The Chief Credit Officer or another specially appointed executive submits a report.

The Credit Committee makes credit decisions on an ongoing basis and, in addition, has had six meetings in 2014.

### Board's Risk and Capital Committee

The principal task of the Risk and Capital Committee is to prepare items for the Board and, through liaison with internal functions provide the Board with information about and prepare internal rules, monitor, analyse and prioritise risk and capital-related issues. The Committee held seven meetings in 2014. Following the statutory meeting in 2014 and until the next statutory meeting, the members of the Committee were as follows: Henrik Toll (Chairman), Anna-Karin Celsing, Hans Heuman, Catharina Lagerstam and Kjell Hedman in his capacity as Managing Director of Landshypotek Bank. In conjunction with Liza Nyberg taking up her position as Managing Director on 1 December 2014, she joined as a member of the Committee and Kjell Hedman stepped down. The Chief Risk Control Officer or another specially appointed executive submits a report. The Risk

### Board attendance

Board member	Board meetings	Credit Committee	Risk and Capital Committee	Audit Committee
Henrik Toll	10/10	7/7	6/6	-
Anna-Karin Celsing <sup>1)</sup>	7/10	-	3/6	-
Hans Heuman	10/10	-	6/6	-
Catharina Lagerstam <sup>2)</sup>	9/10	-	6/6	3/7
Johan Löwen	10/10	-	-	7/7
Nils Fredrik Nyblæus	10/10	7/7	-	-
Synnöve Trygg <sup>1)</sup>	7/10	-	-	7/7
Charlotte Önnestedt	10/10	-	-	7/7
Helena Andersson <sup>1)</sup>	6/10	-	-	-
Hans Broberg <sup>1)</sup>	7/10	-	-	-

<sup>1)</sup> Attendance pertains to the part of the year after joining as a Board member in April 2014.

<sup>2)</sup> The Board member joined the Audit Committee in September 2014.



and Capital Committee comprises the bank's statutory risk committee.

The Risk and Capital Committee held six meetings in 2014.

#### **The Board's Audit Committee**

The Committee's primary tasks are to be responsible for preparing the Board's work with quality assurance of the financial reporting and to receive the reports from the auditors. In addition, the Committee monitors and reviews the work of internal and external auditors. The Committee meets in conjunction with external financial reports and, otherwise, whenever necessary. Following the Board meeting on 24 April in 2014 and until the next statutory Board meeting, the members of the Committee were as follows: Synnöve Trygg (Chairman), Johan Löwen and Charlotte Önnestedt. At the Committee meeting on 3 September 2014, Catharina Lagerstam was appointed as a member until the next statutory meeting.

The Committee held seven meetings in 2014.

## **Board attendance**

The following table details the total number of meetings of the Board and its committees in 2014 for those members on the Board as of 31 December 2014.

## **Managing Director and Bank Management**

The Managing Director bears responsibility for day-to-day operations pursuant to the Board's guidelines and instruction. The Board has adopted a written instruction governing the role and work of the Managing Director. The Managing Director bears responsibility for day-to-day operations pursuant to the Board's instruction and reports regularly to the Board. The Bank Management acts as support for the Managing Director in exercising operational leadership of the bank. The Managing Director and other senior executives are presented on page 28.

The Managing Director has also appointed a number of councils and committees to support operational leadership. These have been tasked with preparing issues for the Managing Director and Board, and with making decisions on certain issues. The councils and advisory committees that have been established are: the Business Support Advisory Committee, Finance Advisory Committee, Credit Advisory Committee, New Product Approval Advisory Committee, Insolvency Advisory Committee and the Business Council.

## **Information about the remuneration system**

The Board of Landshypotek Bank has adopted a remuneration policy that specifies the principles behind the company's remuneration system. Information regarding the remuneration policy is available on the bank's website. Employees are entitled to remuneration, which may consist of a combination of basic salary, benefits, profit sharing, other gratification, retirement pension and severance pay. Profit sharing is determined by the General Meeting and when payable, comprises an equal amount for all employees. The maximum amount payable corresponds to the average monthly salary for a bank employee. A provision for this remuneration is made to Landshypotek's profit-sharing foundation and is paid out three years in arrears with the aim of countering any short-term actions in operations. No profit-sharing or other variable remuneration agreement applies for the Managing Director. Remuneration in Landshypotek Bank is reviewed annually through the employees' salary appraisals. Internal audit is tasked with reviewing how remuneration paid by Landshypotek Bank complies with the remuneration policy. See Note 7 to the Balance Sheet and Income Statement for more information about the remuneration of the Board, Managing Director and senior executives.

## **Auditors**

The AGM appoints external auditors to Landshypotek Bank. These auditors must be authorised public accountants. The mandate period of the auditors appointed by the General Meeting is one year. The 2014 AGM appointed authorised public accountants Ulf Westerberg and Christina Asséus Sylvén as auditors until the 2015 AGM. Christina Asséus Sylvén acted as auditor until 31 August 2014, when her assignment ended prematurely due to her ending her employment at PwC. At this point, the deputy Helena Kaiser de Carolis stepped in.

The auditors are responsible for examining the Annual Report, consolidated financial statements and accounts and also the Board's and Managing Director's administration of the bank. The auditors report the results of their examination in the audit report, which is submitted at the AGM. Furthermore, the auditors examine some of the bank's interim reports and the year-end report, and submit their findings in their notes to the Board.

## Internal governance and control

The basis for the internal control at Landshypotek Bank consists of the bank's control environment in the form of the organisational structure, decision and reporting pathways, authorities and responsibility. The framework for conducting operations is established through internal policies, guidelines and instructions. Day-to-day operations are tasked with complying with these policies, guidelines and instructions. The business operations are also responsible for their own risk management. The Board is tasked with monitoring the financial reporting as well as the effectiveness of internal governance and control, internal audit and risk management pertaining to the financial reporting. The Board has the assistance of the independent control functions Risk Control, Compliance and Internal Audit in following up the conduct of operations. In addition, other functions, such as the Accounts Department, Credit Department and the Legal Department also support the Board and Managing Director on issues pertaining to good internal governance and control. All managers in their respective areas of responsibility are responsible for ensuring that good internal governance and control is applied in their operations.

### Risk Control

A separate unit for risk control is responsible for measurement, control, analysis and continuous reporting on all risks in the Landshypotek Group. The work of the Risk Unit is conducted pursuant to a policy decided by the Board that describes the responsibilities of Risk Control. The Risk Control Unit is independent from operations and directly subordinate to the Managing Director. The Chief Risk Control Officer reports directly to the Managing Director and Board.

### Compliance

Compliance is tasked primarily with advising and supporting the Managing Director and employees with ensuring that the operations of the Landshypotek Group are conducted pursuant to the applicable laws and regulations for the licensable activities and identify and report compliance risks. The Compliance Unit is independent from operations and directly subordinate to the Managing Director. The Chief Compliance Officer reports directly to the Managing Director and Board.

### Internal Audit

Internal Audit aims to examine and evaluate internal governance and controls as well as provide an image of how well processes and procedures contribute to the

operational goals. This includes, not least, the evaluation of the effectiveness of the risk management efforts and the work of the control function. The examinations performed by the Internal Audit occur in line with an audit plan determined annually by the Board. Since 2014, the Landshypotek Group's internal audit has been carried out by KPMG.

### Internal control over financial reporting

The bank's financial department is responsible for managing internal control over financial reporting to ensure that accurate information reaches external stakeholders. This includes work, such as, ongoing financial accounting, the annual accounts, external reporting and income tax returns. Furthermore, the Accounts Department makes a proactive contribution to decision making and corporate governance through financial follow-ups and impact analyses. The Board receives monthly financial reports in addition to the reporting submitted at each Board meeting. In addition, the operation's Middle Office has a role in the internal control of financial reporting due to its responsibility for administrating the financial system and measuring financial instruments. Middle Office is tasked with continuously evaluating the bank's valuation methods and ensuring that they comply with established market practices, internal guidelines, internal policy documents and external regulations for reporting and capital adequacy. Furthermore, Internal Audit is tasked with examining and evaluating the reliability of the financial reporting.

# Board members

As of 12 March 2015



**Henrik Toll**

Born: 1954, Sorunda, Chairman  
Director since: 2003  
Agrologist, Chairman of Tham Invest AB  
and Fallda AB. Director of Stora Sundby  
Lantbruks och Fritids AB, Vidbynäs  
Förvaltnings AB, Harry Cullbergs Fond  
and Norra Djurgårdsstadens Holding.



**Helena Andersson**

Born: 1986, Helsingborg, Director  
Employee Representative for SACO.  
Director since 2013.  
MSc. Agronomy and Economics, and officer  
of Landshypotek Bank.



**Hans Broberg**

Born: 1962, Ystad, Director.  
Employee Representative for the  
Financial Sector Union of Sweden.  
Director since 2012.  
MSc. in Business and Economics,  
officer of Landshypotek Bank.



**Anna-Karin Celsing**

Born: 1962, Stockholm, Director  
Director since 2014.  
MSc. in Business and Economics, Chairman  
of Sveriges Television AB, Director of Kung-  
liga Operan AB, Lannebo Fonder, Seven Day  
Finance AB, OX2 Vind AB, Tengbomgruppen  
and the St Petersburg Property Company.



**Hans Heuman**

Born: 1952, Tågarp, Director  
Director since: 2013  
Farmer, Reg. Physician, Chairman of AB  
Marsvinsholms Gärd and Vice Chairman of  
Lantmännens Forskningsstiftelse.  
Director of Lantmännen Maskin AB and  
Landshypotek Ekonomisk Förening.



**Catharina Lagerstam**

Born: 1962, Stockholm, Director  
Director since: 2010  
PhD (Econ.), MSc. in Business and Economics,  
graduate engineer, Director of ICA Banken AB,  
ICA Försäkrings AB, Kommuninvest i Sverige  
AB, Erik Penser Bank AB, StyrelseAkad-  
emien i Stockholm and Retail Finance AB.  
Vice Chairman of Stiftelsen Franska skolan.  
Director of Franska skolans Fastighetsstiftelse,  
Fastighetsaktiebolaget Fattighuset AB and  
Quaestus AB. Member of the Swedish Armed  
Forces Supervisory Council.



**Johan Löwen**

Born: 1959, Nyköping, Director  
Director since: 2011  
Graduate engineer, Director of Firefly AB, Hargs Bruk AB, Boo Egendom AB, Limmersvik AB, Sjösa Förvaltnings AB and Sjösa Gård AB. Deputy Director of HäradsKog i Örebro AB. Managing Director Sjösa Förvaltnings AB.



**Nils-Fredrik Nyblæus**

Born: 1951, Nyköping, Director  
Director since: 2011  
MSc. in Business and Economics, Bank Director, Chairman of Bankgirot, Upplysningssentralen (UC) AB, Skandinaviska Enskilda Bankens Kollektivavtalsstiftelse and Skandinaviska Enskilda Bankens Rekreativstiftelse. Director of SEB Trygg Liv Gamla AB, Fondförsäkringsaktiebolaget SEB Trygg Liv, Euroclear SA/Plc and the Austin-Healey Club of Sweden.



**Synnöve Trygg**

Born: 1959, Stockholm, Director  
Director since: 2014  
MSc. in Business and Economics, Director of Intrum Justitia AB, Volvo Finans Bank AB and Trygg Hansa AB.



**Charlotte Önnestedt**

Born: 1963, Ödeshög, Director  
Director since: 2009  
Agrologist, owner and manager of Åby Storgård and Hässleby Gård, member of the Election Committee for LRF Östergötland.

**Auditors**

**Helena Kaiser de Carolis**, PwC, Järfälla, Authorised Public Accountant.  
**Ulf Westerberg**, PwC, Stockholm, Authorised Public Accountant.

**Deputy Auditor**

**Martin By**, PwC, Nacka, Authorised Public Accountant.

**Changes in the bank's Board during the year**

Anna-Karin Celsing, Synnöve Trygg, Hans Broberg and Helena Andersson were elected to the Board during the year. Hans Broberg and Helena Andersson were elected as employee representatives.

# Senior Management

As of 12 March 2015



**Liza Nyberg**

Managing Director  
Born: 1963  
Employed in: 2014  
Education: MSc. in Business and Economics  
Previous experience: Head of Personal Banking Danske Bank SE, CEO Skandi-  
aMäklarna, CEO Emric, CEO Bokredit and  
managerial positions at Swedbank.  
Other assignments: Chairman of Lands-  
hypotek Jordbrukskredit AB.



**Johanna Bentzer**

Chief Risk Control Officer  
Born: 1974  
Employed in: 2012  
Education: MSc. Economics specialising in  
Mathematics  
Previous experience: Senior Risk Analyst at  
the Swedish Financial Supervisory Authority,  
Bank Specialist at McKinsey



**Maria Brattström**

Chef Compliance Officer  
Born: 1962  
Employed in: 2014  
Education: BSc. in Legal Science  
Previous experience: Compliance officer at  
Skandinaviska Enskilda Banken AB.



**Annelie von Dahn**

HR Manager  
Born: 1968  
Employed in: 2010  
Education: BSc. in Behavioural Science  
Previous experience: HR Manager at HQ  
Bank, HR Representative at Accenture



**Fredrik Enhörning**

Chief Sales Officer  
Born: 1952  
Assignment since: 2012  
Education: Economist  
Previous experience: Managing Director  
Swedbank Finans



**Björn Ordell**

Chief Financial Officer  
Born: 1973  
Employed in: 2007  
Education: MSc. in Business and Economics  
Previous experience: Financial Consultant at  
PwC, Treasury Controller at Holmen AB  
Other assignments: Director of Lands-  
hypotek Jordbrukskredit AB.





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**Per-Olof Sandberg**

Chief Information Officer  
Born: 1960  
Employed in: 2014  
Education: MSc. Engineering  
Previous experience: Program/Project Manager and Head of Development area: Digital Mammography at Siemens Medical, Project/Program Manager at Swedbank, Group Program Manager at SEB.  
Other assignments: Director of Svenskt Projektforum



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**Helena Silvander**

Chief Credit Officer  
Born: 1963  
Employed in: 2013  
Education: MSc. in Agriculture  
Previous experience: Various management positions at Swedbank, including Managing Director of Swedbank Hypotek AB and Head of Swedbank Lån & Finansiering.  
Other assignments: Managing Director and Board Member of Landshypotek Jordbrukskredit AB.



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**Tomas Uddin**

Chief Communications Officer  
Born: 1971  
Employed in: 2012  
Education: BSc. Political Science  
Previous experience: Chief of Staff at the Ministry of the Environment



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**Annika Vangstad**

Marketing and Development Manager  
Born: 1973  
Employed in: 2012  
Education: MSc. Marketing and Communication Studies  
Previous experience: Head of Brand & Communications at Entercard, Internal Communication Manager at SPP Liv.



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**Catharina Åbjörnsson Lindgren**

Chief Legal Officer  
Born: 1971  
Employed in: 2010  
Education: BSc. of Legal Science  
Previous experience: Bank Lawyer at Nordea Bank AB Group Legal  
Other assignments: Director of Landshypotek Jordbrukskredit AB.

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**Changes in the Bank Management during the year**

During the year, Kjell Hedman stepped down and Liza Nyberg took over as Managing Director.







# Income Statement

SEK thousand	Note	Group		Parent Company	
		2014	2013	2014	2013
Interest income		2,027,831	2,293,800	2,009,104	2,274,821
Interest expense		-1,262,968	-1,637,336	-1,262,699	-1,636,725
<b>Net interest income</b>	<b>2</b>	<b>764,863</b>	<b>656,464</b>	<b>746,405</b>	<b>638,096</b>
Group dividends received	16				
Commission income	3	14,082	14,708	13,223	12,841
Commission expense	4	-28,037	-34,533	-28,037	-34,533
Net result of financial transactions	5	63,321	-35,186	63,321	-35,186
Other operating income	6	1,474	2,901	1,466	2,897
<b>Total operating income</b>		<b>815,704</b>	<b>604,355</b>	<b>796,378</b>	<b>584,115</b>
General administrative expenses	7	-310,799	-251,599	-312,947	-260,839
Depreciation, amortisation and impairment of tangible and intangible non-current assets	8	-16,491	-10,531	-16,491	-10,531
Other operating expenses	9	-23,854	-21,009	-23,845	-20,997
<b>Total expenses before loan losses</b>		<b>-351,144</b>	<b>-283,138</b>	<b>-353,283</b>	<b>-292,366</b>
<b>Profit before loan losses</b>		<b>464,559</b>	<b>321,216</b>	<b>443,095</b>	<b>291,749</b>
Net loan losses	10	-79,612	-54,378	-66,278	-40,136
Impairment of shares in subsidiaries	16				
<b>Operating profit</b>		<b>384,947</b>	<b>266,839</b>	<b>376,817</b>	<b>251,612</b>
Tax on profit for the year	11	-83,535	-58,802	-81,750	-55,458
<b>Net profit for the year</b>	<b>38</b>	<b>301,413</b>	<b>208,037</b>	<b>295,067</b>	<b>196,154</b>
Earnings per share		138.7	98.3	135.8	92.7
Parent Company's portion of net profit for the year		100 %	100 %	100 %	100 %

# Statement of Comprehensive Income

SEK thousand	Note	Group		Parent Company	
		2014	2013	2014	2013
<b>Net profit for the year</b>		<b>301,413</b>	<b>208,037</b>	<b>295,067</b>	<b>196,154</b>
<b>Other comprehensive income</b>					
<i>Items to be reclassified to profit or loss</i>					
Cash-flow hedges		-9,167	47,783	-9,167	47,783
<i>of which change in fair value</i>		-16,790	14,081	-16,790	14,081
of which transfers to the income statement		7,623	33,702	7,623	33,702
Available-for-sale financial assets		6,346	-23,675	6,346	-23,675
<i>of which change in fair value</i>		13,790	-15,130	13,790	-15,130
of which transfers to the income statement		-7,444	-8,545	-7,444	-8,545
Tax on items to be reclassified		621	-5,304	621	-5,304
<i>Total, items to be reclassified</i>		<i>-2,201</i>	<i>18,804</i>	<i>-2,201</i>	<i>18,805</i>
<i>Items that are not reclassified</i>	38				
Actuarial differences for defined-benefit pensions		-10,124	24,550		
Tax items that are not reclassified		2,227	-5,401		
<i>Total, items that are not reclassified</i>		<i>-7,897</i>	<i>19,149</i>		
<b>Total other comprehensive income</b>		<b>-10,098</b>	<b>37,953</b>	<b>-2,201</b>	<b>18,805</b>
<b>Comprehensive income for the year</b>		<b>291,315</b>	<b>245,990</b>	<b>292,866</b>	<b>214,958</b>
Parent Company's portion of comprehensive income for the year		100 %	100 %	100 %	100 %

# Balance Sheet

SEK thousand		Note	Group		Parent Company	
			2014	2013	2014	2013
ASSETS						
Cash and balances with central banks			242,001	431,893	242,001	431,893
Loans to credit institutions		12	478,332	261,877	571,557	300,960
Loans to the public		13	61,742,595	60,858,912	61,432,397	60,556,555
Value changes of interest-rate-risk hedged items in macro hedges			115,422	23,535	115,422	23,535
Bonds and other interest-bearing securities		14	16,798,258	15,071,982	16,798,258	15,071,982
Derivatives		15	2,047,922	581,226	2,047,922	581,226
Shares in Group companies		16			280,753	280,753
Intangible non-current assets		17	36,517	44,590	36,517	44,590
Tangible assets						
Furniture, fixtures and equipment		18	10,596	6,124	10,596	6,124
Buildings and land		18	21,288	12,949	21,288	12,949
Other assets		19	19,169	8,928	18,942	8,717
Current tax assets			2,960	32,145		29,605
Deferred tax assets		20	13,911	10,351	11,177	9,112
Prepaid expenses and accrued income		21	576,901	628,517	572,334	625,273
TOTAL ASSETS		32, 33, 34, 35, 36, 38, 39	82,105,872	77,973,028	82,159,164	77,983,273
LIABILITIES AND EQUITY						
Liabilities						
Liabilities to credit institutions		22	447,322	256,890	495,983	256,890
Borrowing from the public		23	5,828,821	2,147,007	5,828,821	2,147,007
Debt securities in issue, etc.		24	68,593,547	68,421,543	68,593,547	68,421,543
Derivatives		25	1,192,720	1,222,034	1,192,720	1,222,034
Other liabilities		26	306,383	193,002	305,564	192,641
Accrued expenses and deferred income		27	693,045	904,347	693,046	904,346
Provisions		28	14,094	7,755	2,020	2,389
Subordinated liabilities		29	699,921	699,921	699,921	699,921
Total liabilities			77,775,854	73,852,499	77,811,622	73,846,771
Equity						
Share capital, number of shares outstanding: 2,117,000 (2,117,000)			2,173,000	2,117,000	2,173,000	2,117,000
Other contributed capital			1,026,254	1,026,254	1,016,694	1,016,694
Reserves		30	-29,660	-27,459	-29,660	-27,459
Actuarial differences			-18,058	-10,161		
Retained earnings			1,014,895	928,342	1,030,267	955,599
Net profit for the year			301,413	208,037	295,067	196,154
Group contributions paid			-137,826	-121,485	-137,826	-121,485
Total equity			4,330,018	4,120,529	4,347,542	4,136,502
TOTAL LIABILITIES AND EQUITY		32, 33, 34, 35, 36, 38, 39	82,105,872	77,973,028	82,159,164	77,983,273
Memorandum items		31				
- Pledged assets			None	None	None	None
- Contingent liabilities and obligations			680,248	540,155	680,248	540,155
- Guarantees and other commitments			133,272	139,022	None	None



# Statement of Changes in Equity

GROUP, SEK thousand	Share capital	Other contribut- ed capital	Hedging reserve <sup>1</sup>	Fair value reserve <sup>1</sup>	Actuarial differ- ences <sup>1</sup>	Retained earnings	Total
<b>Equity as of 31 December 2012</b>	<b>1,927,000</b>	<b>1,026,254</b>	<b>-69,008</b>	<b>22,745</b>	<b>-29,310</b>	<b>928,342</b>	<b>3,806,024</b>
Comprehensive income for the year			37,271	-18,467	19,149	208,037	245,990
<b>Total change before transactions with owners</b>			<b>37,271</b>	<b>-18,467</b>	<b>19,149</b>	<b>208,037</b>	<b>245,990</b>
New share issue	190,000						190,000
Group contributions paid, Lands- hypotek Ekonomisk Förening						-155,750	-155,750
Tax on Group contributions paid						34,265	34,265
<b>Equity as of 31 December 2013</b>	<b>2,117,000</b>	<b>1,026,254</b>	<b>-31,737</b>	<b>4,278</b>	<b>-10,161</b>	<b>1,014,894</b>	<b>4,120,529</b>
<b>Equity as of 31 December 2013</b>	<b>2,117,000</b>	<b>1,026,254</b>	<b>-31,737</b>	<b>4,278</b>	<b>-10,161</b>	<b>1,014,894</b>	<b>4,120,529</b>
Comprehensive income for the year			-7,151	4,950	-7,897	301,413	291,315
<b>Total change before transactions with owners</b>			<b>-7,151</b>	<b>4,950</b>	<b>-7,897</b>	<b>301,413</b>	<b>291,315</b>
New share issue	56,000						56,000
Group contributions paid						-176,700	-176,700
Tax on Group contributions paid						38,874	38,874
<b>Equity as of 31 December 2014</b>	<b>2,173,000</b>	<b>1,026,254</b>	<b>-38,888</b>	<b>9,228</b>	<b>-18,057</b>	<b>1,178,481</b>	<b>4,330,018</b>

<sup>1</sup>For more information see Note 31.

# Statement of Changes in Equity

Parent Company, SEK thousand	Share capital	Other contribut- ed capital	Hedging reserve <sup>1</sup>	Fair value reserve <sup>1</sup>	Actuarial differ- ences	Retained earnings	Total
<b>Equity as of 31 December 2012</b>	<b>1,927,000</b>	<b>1,016,694</b>	<b>-69,008</b>	<b>22,745</b>		<b>955,599</b>	<b>3,853,029</b>
Merger of subsidiary							
Comprehensive income for the year			37,271	-18,467		196,154	214,958
<b>Total change before transactions with owners</b>			<b>37,271</b>	<b>-18,467</b>		<b>196,154</b>	<b>214,958</b>
New share issue	190,000						190,000
Group contributions paid						-155,750	-155,750
Tax on Group contributions paid						34,265	34,265
<b>Equity as of 31 December 2013</b>	<b>2,117,000</b>	<b>1,016,694</b>	<b>-31,737</b>	<b>4,278</b>		<b>1,030,268</b>	<b>4,136,502</b>
<b>Equity as of 31 December 2013</b>	<b>2,117,000</b>	<b>1,016,694</b>	<b>-31,737</b>	<b>4,278</b>		<b>1,030,268</b>	<b>4,136,502</b>
Comprehensive income for the year			-7,151	4,950		295,067	292,866
<b>Total change before transactions with owners</b>			<b>-7,151</b>	<b>4,950</b>		<b>295,067</b>	<b>292,866</b>
New share issue	56,000						56,000
Group contributions paid						-176,700	-176,700
Tax on Group contributions paid						38,874	38,874
<b>Equity as of 31 December 2014</b>	<b>2,173,000</b>	<b>1,016,694</b>	<b>-38,888</b>	<b>9,228</b>		<b>1,187,510</b>	<b>4,347,542</b>

<sup>1</sup> For more information see Note 31.

# Cash-flow Statement

		Group		Parent Company	
SEK thousand	Note	2014	2013	2014	2013
Cash flow from income statement					
Interest received	2	2,079,449	2,636,239	2,062,043	2,617,548
Interest paid	2	-1,473,976	-1,828,445	-1,474,000	-1,827,904
Commission received	3	14,082	14,708	13,223	12,841
Commission paid	4	-28,037	-34,533	-28,037	-34,533
Net receipts of financial transactions	5	-23,888	-3,743	-23,888	-3,743
Other operating cash receipts		1,474	1,985	1,466	1,981
Administrative expenses paid		-338,733	-282,458	-337,161	-282,924
Recovery of previously realised losses		1,004	1,378	950	1,378
Income tax paid					
Total cash flow from income statement		231,375	505,131	214,596	484,644
Cash flow from balance sheet					
Increase (-)/decrease (+) Loans to credit institutions			562,461		562,461
Increase (-)/decrease (+) Loans to the public		-964,299	-1,835,925	-943,070	-1,795,767
Increase (-)/decrease (+) Bonds and other interest-bearing securities		-1,994,883	815,110	-1,994,883	815,110
Increase (+)/decrease (-) Liabilities to credit institutions		190,432	-363,529	239,093	-363,529
Increase (+)/decrease (-) Borrowing from the public		3,681,814	567,699	3,681,814	567,699
Increase (+)/decrease (-) Debt securities in issue, etc.		-1,062,898	589,877	-1,062,898	589,877
Change in other balance-sheet items					
Increase (-) /decrease (+) Other assets		-26,422	-130,271	-24,942	-102,651
Increase (+)/decrease (-) Other liabilities		92,427	-165,210	91,974	-165,552
Total cash flow from balance sheet		-83,829	40,212	-12,912	107,648
Cash flow from operating activities					
		147,546	545,343	201,684	592,292
Investment activities					
Dividends and Group contributions received					
Group contributions paid					
Change in intangible and tangible non-current assets					
Purchase of intangible non-current assets		-6,087	-17,648	-6,087	-17,648
Purchase of tangible non-current assets		-15,142	-2,576	-15,142	-2,576
Sale of tangible non-current assets			2,800		2,800
Total cash flow from investment activities		-21,229	-17,424	-21,229	-17,424
Cash flow from financing activities					
New share issue		56,000	190,000	56,000	190,000
Subordinated liabilities					
Dividends and Group contributions paid		-155,750	-149,282	-155,750	-149,282
Total cash flow from financing activities		-99,750	40,718	-99,750	40,718
Cash flow for the period					
		26,567	568,636	80,705	615,586
Change in cash and cash equivalents	38	26,567	568,636	80,705	615,585
Cash and cash equivalents at beginning of year		693,766	125,130	732,853	117,268
Cash and cash equivalents at year end		720,333	693,766	813,558	732,853

# Five-year Summary

## EARNINGS TREND LANDSHYPOTEK BANK AB – GROUP

MSEK	2014	2013	2012	2011	2010
<b>INCOME STATEMENT</b>					
Net interest income	764.9	656.5	577.8	505.0	471.8
Operating income excl. net interest income*	50.8	-52.1	-56.2	234.5	86.5
Operating expenses	-334.7	-272.6	-242.3	-211.4	-190.4
Depreciation and amortisation	-16.5	-10.5	-2.2	-5.4	-10.7
Loan losses	-79.6	-54.4	-22.1	-8.9	-6.7
<b>Operating profit</b>	<b>384.9</b>	<b>266.8</b>	<b>254.9</b>	<b>513.9</b>	<b>350.6</b>
<b>BALANCE SHEET</b>					
<b>Assets</b>					
Loans to the public, net	61,743	60,859	58,885	55,580	51,773
Other assets	20,363	17,114	18,592	15,224	12,388
<b>Total assets</b>	<b>82,106</b>	<b>77,973</b>	<b>77,477</b>	<b>70,804</b>	<b>64,160</b>
<b>Liabilities</b>					
Borrowing	75,570	71,525	71,103	65,330	59,152
Other liabilities	2,206	2,327	2,568	1,606	1,654
Untaxed reserves	-	-	-	-	-1
Equity	4,330	4,121	3,806	3,868	3,355
<b>Total liabilities and equity</b>	<b>82,106</b>	<b>77,973</b>	<b>77,477</b>	<b>70,804</b>	<b>64,160</b>
<b>Key financial ratios</b>					
Interest margin	1.2 %	1.1 %	1.0 %	0.9 %	1.0 %
Return on equity	7.0 %	5.1 %	4.6 %	13.4 %	8.2 %
Loan loss level	0.13 %	0.09 %	0.04 %	0.02 %	0.01 %

\* Other operating income includes net result of financial transactions. For 2014, this item amounted to MSEK 63.3 (neg: 35.2).  
See the explanation in the Administration Report under the heading "Profit and profitability".

In 2010 and 2011, sales of operating properties took place, whereby Landshypotek Bank recognised capital gains of MSEK 68 and MSEK 230 respectively.

# Risk and Capital Management

To provide its members with financing, Landshypotek Bank undertakes various risks that must be managed. The bank strives to achieve a high degree of risk awareness and low degree of risk undertaking in its operations.

## Risk awareness and risk undertaking

Landshypotek Bank's operations strive to achieve a high degree of risk awareness and a low degree of risk undertaking. A high degree of risk awareness means that each employee understands the risks implied for the company by the individual's work duties, the degree of risk undertaking that is acceptable and how the individual needs to behave so as to avoid exceeding the acceptable level of risk. Low risk undertaking is achieved through a combination of a high degree of risk awareness and a low acceptance level for risk undertaking, a distinct decision-making structure, shared definitions and assessment principles, as well as sophisticated tools for risk assessment. The Board specifies the acceptance level for risk undertaking and the Managing Director ensures that this level of acceptance is implemented in business activities.

## Risk organisation and responsibility

The Board of Directors has the ultimate responsibility for risk management and ensuring that operations are conducted with a satisfactory level of internal control. The Board decides the policies that determine the manner in which the various business risks should be managed and the acceptable level of risk undertaking. Three Board Committees are in place to support this work; the Risk and Capital Committee, the Credit Committee and the Audit Committee. Their primary tasks are detailed in the corporate governance section on page 23.

Subordinated to the Board, its committees and the Managing Director are advisory committees with different mandates. The Credit Advisory Committee is responsible for regularly reviewing credit-granting rules, submitting proposals for changes to the Credit Committee and taking credit decisions, while the Finance Advisory Committee takes decisions about regarding base interest rates on borrowing and lending.

In line operations, the Chief Credit Officer is responsible for administering and managing the credit approval

process. It is also responsible for analysing the credits and managing insolvency matters. Its work is governed by the credit policy as established by the Board. The Chief Credit Officer reports to the Managing Director and, usually, presents reports on credit matters to the Board's Credit Committee.

The Chief Financial Officer is responsible for Landshypotek Bank's borrowing, management of equity, liabilities and liquidity as well as risk management related to these areas. Operations are regulated by the finance policy established by the Board. The Chief Financial Officer reports to the Managing Director of Landshypotek Bank.

The Group has three control functions that are independent of business operations: Risk Control, Compliance and Internal Audit. The Risk Control unit is responsible for conducting independent control, analysis and reporting on all material risks to which Landshypotek Bank is exposed. The overriding task of the Compliance Function is to identify, measure, evaluate and report compliance risks. Risk Control and Compliance comprise Landshypotek Bank's second line of defence and report to the Managing Director and Board. Internal Audit (the third line of defence) aims to examine and evaluate internal governance and controls. This includes the evaluation of the effectiveness of the risk management efforts, including the work of the second line of defence. Internal Audit reports to the Board of Directors and also informs the Managing Director.

## Credit risk

Landshypotek Bank has defined credit risk as follows:

*The risk that Landshypotek Bank does not receive payment as agreed and the risk that the value of the collateral is not adequate and therefore will not cover the outstanding claim.*

Landshypotek Bank divides its customers into two categories: Rural Living (RL) and Rural Enterprise (RE). This categorisation aims to distinguish between those borrowers whose income is mostly derived from business activity (RE) and those who earn most of their living from employment (RL). RE customers can be divided into private individuals and legal entities.



## Own funds requirement by risk, approach, exposure class and consolidated situation<sup>1</sup>

SEK thousand	Exposure value*	Own funds requirements	Risk-weighted exposure amount	Average risk weight
<b>Credit risk – IRB approach</b>	<b>59,842,400</b>	<b>883,302</b>	<b>11,041,269</b>	<b>18 %</b>
Retail – real estate collateral	59,755,565	876,355	10,954,434	18 %
Other non-credit-obligation assets	86,835	6,947	86,835	100 %
<b>Credit risk – Standardised approach</b>	<b>24,182,822</b>	<b>450,987</b>	<b>5,637,343</b>	<b>23 %</b>
National governments or central banks	246,301	-	-	0 %
Regional governments or local authorities or agencies	4,768,236	-	-	0 %
Institutions	3,838,012	109,626	1,370,322	36 %
Corporates	259,547	20,372	254,650	98 %
Retail	180,408	8,674	108,428	60 %
Secured through liens on real property	2,943,326	213,201	2,665,018	91 %
Non-performing exposures	35,964	3,826	47,822	133 %
Covered bonds	11,911,027	95,288	1,191,103	10 %
<b>Operational risk – Basic indicator approach</b>		<b>96,994</b>	<b>1,212,430</b>	
<b>Credit valuation adjustment risk – Standardised approach</b>	<b>2,492,341</b>	<b>180,763</b>	<b>2,259,540</b>	<b>91 %</b>
<b>Total</b>		<b>1,612,047</b>	<b>20,150,582</b>	

\* Exposure value pursuant to EU regulation 575/2013

For almost all customers categorised as retail exposure (RL and RE private individuals), statistical internal risk-classification models (IRB models) are used where information from UC, (the business and credit information provider), and internal payment history statistics are used as variables to calculate the likelihood of default and where the loan-to-value ratio is used to assess loss in case of default. These models are not only used in the credit process but also for capital adequacy purposes. Capital adequacy is set according to the simplified standardised approach for credit-risk exposures not subjected to risk classification under the IRB models.

Customers categorised as RE legal entities are also risk classified, but the bank is not permitted to use this model for capital adequacy purposes. This risk-classification model for risk of default weighs up the company's annual accounts together with internal payment history statistics, area of operations and the company's and company owner's financial position and competence.

## Risk estimate for the retail portfolio

Landshypotek Bank applies its own risk estimates for Probability of Default (PD), exposure at default (EAD) and Loss Given Default (LGD), to calculate regulatory capital requirements<sup>2</sup> for almost all retail exposure at Landshypotek Bank AB. PD is the likelihood that a counterparty defaults within a twelve-month period. The PD risk classification for these credits is performed on a scale of 1-6, where risk class 1 represents the highest credit quality and risk class 6 is for credits in default. Landshypotek Bank estimates the PD for each risk class. To calculate the PD per risk class for an average year, outcome data for the past ten years is used for internal purposes. Based on this, the PD for the portfolio<sup>3</sup> amounted to 0.94 percent as of 31 December 2014. The risk class PDs that Landshypotek Bank reports for capital adequacy purposes are more conservative since

<sup>1</sup> The definition can be found in Note 33

<sup>2</sup> Capital requirements excluding transitional rules linked to Basel I.

<sup>3</sup> The PD estimate for performing loans per risk class weighted with EAD per risk class for performing loans.

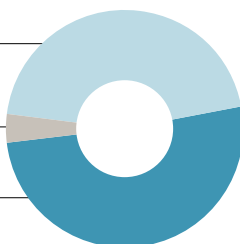
## Specification of volume by customer categories

Breakdown in %

Rural living 45 %

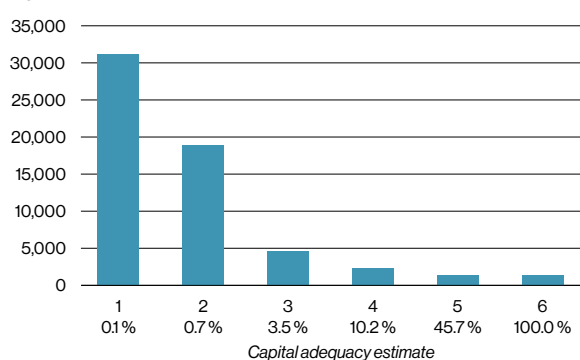
Rural enterprises 4 %  
– legal entities

Rural enterprises 51 %  
– private individuals



## Exposure per PD risk class

MSEK



they contain data from 1990 to 2013 including safety margins and, if they are applied, the PD for the portfolio is 2.05 percent. Further stress is applied to these risk class PDs through a formula from the Swedish Financial Supervisory Authority for the calculation of the capital requirement. The diagram below illustrates the retail exposure by PD risk class.

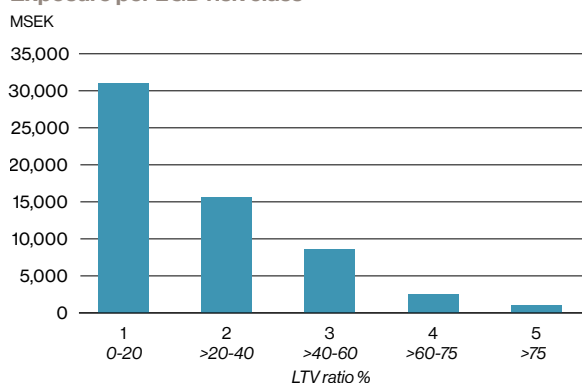
EAD is the exposure value that Landshypotek Bank is expected to have with the counterparty in the event of a default. The EAD for loans that are recognised in full on the balance sheet is calculated as the loan debt outstanding. For Landshypotek Bank's flexible first mortgage product<sup>1</sup>, EAD is calculated through the total loan granted to the counterparty multiplied by a Conversion Factor (CF). The CF is calculated based on the proportion of the limit that, historically, has been utilised in case of default.

For internal purposes, the assessment of how much of the outstanding claim in an average year that Landshypotek Bank stands to lose in the event of default (LGD) is based on internal data gathered during the period 1995 to 2008. For capital adequacy purposes, LGD is estimated based on data for 1994 with an additional safety margin. 1994 was the worst year ever for Landshypotek Bank with regard to LGDs since the financial crisis in the early 1990s. Landshypotek Bank utilises five LGD classes, which are based on the LTV ratio<sup>2</sup> of the exposure. The diagram below illustrates the retail exposure by LGD risk class. Landshypotek Bank uses two default categories: soft defaults and technical defaults. Soft defaults are registered manually when it is considered probable that customers will not be able to meet their commitments and Landshypotek Bank will have to foreclose on collateral or take similar measures.

<sup>1</sup> The customer utilizes when needed as much as wanted within the granted limit.

<sup>2</sup> Loans with a higher loan-to-value ratio than 20 percent are broken down and divided into several LGD risk classes.

Exposure per LGD risk class



Technical defaults occur automatically when customers, who are not already in a soft default process, are late by more than 90 days with their payments.

## Credit scoring and approval process

The Credit policy provides parameters and guidelines for the policies applicable, at any time, when granting credit in Landshypotek Bank. The aim is to ensure a favourable and long-term sustainable credit portfolio with well-balanced profitability in relation to risk. All granting of credit at Landshypotek Bank is to be based on customers' repayment capacity and loans are only granted if, based on sound reasoning, commitments can be expected to be fulfilled. Credit is only to be granted for purposes that Landshypotek Bank knows well. Credit granting is the result of analysis of the individual customer and/or limit group as a whole when applicable. Furthermore, in addition to the repayment capacity, collateral is analysed, which principally comprises real property in the form of agricultural and forest properties. Landshypotek Bank's risk-classification models comprise a key element of credit analysis. Landshypotek Bank grants loans against mortgage deeds in real property within 75 percent of an internally assessed market value. This value is to represent a long-term, sustainable value for the collateral in question, in other words, adjustments are made for items such as the value of harvestable wood. At Landshypotek Jordbrukskredit AB, loans are primarily granted against mortgage deeds in real property within 75-85 percent of the assessed market value. In addition, the company offers loans with EU support as collateral (EU loans) and, to a degree, loans with other collateral, such as sureties and chattel mortgages. To capture the total amount of credit granted to an individual customer or a group of customers with internal ties, credit limit groups are created. These are applied to ensure that credit concentrations do not become too large. All granting of credit is performed pursuant to a credit mandate matrix approved by the Board, which is governed by parameters such as limit amount, PD risk class and LTV ratio. There are four mandate levels, with officer level as the lowest and Board level as the highest. Credit decisions must be made by at least two officers jointly.

## Valuation of collateral – agricultural and forest properties

Regional office staff are assisted in the valuation process by the organisation of representatives of Landshypotek

Ekonomisk Förening. The network of representatives ensures that all properties are correctly valued and that the valuations are based on documented industry experience and a high degree of familiarity with local conditions. They also undergo regular training. All of the association's ten regions have a local board comprising four to eight members. It is these members who together comprise the network of representatives in Landshypotek Ekonomisk Förening. Members of the network of representatives are members of Landshypotek Ekonomisk Förening and, accordingly, are also owners of Landshypotek Bank. Valuations can also be outsourced to other external parties.

## Credit portfolio monitoring

In addition to credits being monitored at portfolio level, the credit portfolio is also regularly examined in terms of geography and, to a degree, limit group. Yearly credit monitoring is performed for all limit groups with credit limits over MSEK 5. In addition, an annual report is required for customers with poorer PD risk classes. Landshypotek Bank's geographic exposure as of 31 December 2014 is shown in the table on page 19. Landshypotek Bank has been unable to identify any major concentration to any individual branch of the agriculture or forestry sector or geographic area in Sweden.

## Overview of credit portfolio

In 2014, Landshypotek Bank's lending rose from MSEK 60,859 to MSEK 61,743, up 1.5 percent as compared with the Consumer Price Index for the same period, which increased 0.3 percent.

## Problem loans/ Management methods

An insolvency group is in place within the Credit Department that manages problem loans at an operational level. Provisions are made on an individual basis for doubtful credits<sup>1</sup> following a decision according to the assigned decision mandate and examined, thereafter, on an ongoing basis. The management of unsettled commitments and the settlement of credit commitments is performed with the aim of reducing the risk of loss and the proportion of loans outside the pool for covered bonds.

The exposure value for non-performing loans amounted to MSEK 1,477.<sup>2</sup>

## Counterparty risks

Landshypotek Bank's counterparty risks comprise credit risk for counterparties in the liquidity portfolio, for counterparties with whom Landshypotek Bank has derivative transactions with and for counterparties with whom Landshypotek Bank has deposits and any cash collateral. Landshypotek Bank's holdings in the liquidity portfolio comprise interest-bearing securities with high credit ratings and are all issued by Nordic credit institutions, Swedish municipalities or county councils. The purpose of the liquidity portfolio is to reduce Landshypotek Bank's liquidity risk. Landshypotek Bank enters into derivative transactions (swap contracts) to reduce interest-rate and currency risk.

Counterparties with whom Landshypotek Bank enters into swap contracts are Swedish or international banks with high credit ratings and with whom International

<sup>1</sup> The definition can be found on page 50

<sup>2</sup> Includes infected loans with the same counterparty.

SEK thousand	Covered bonds	Municipal bonds	Bonds issued by Kommuninvest Sverige AB
AAA	11,912,141	1,311,366	322,336
AA+		3,445,201	
<b>Total</b>	<b>11,912,141</b>	<b>4,756,567</b>	<b>322,336</b>

Market values including accrued interest.

SEK thousand	Total credit exposure, derivatives	Positive gross market-value excl. premium for potential future exposure	Positive market values after netting
AA+	1,014,253	754,323	322,019
AA-	678,021	424,075	6,141
A	866,974	628,350	287,144
A-	464,069	423,699	423,699
<b>Summa</b>	<b>3,023,318</b>	<b>2,230,448</b>	<b>1,039,004</b>

Market values including accrued interest.

## Fixed-interest terms for interest-bearing assets and liabilities, 2014

SEK thousand	<3 months	3-12 months	1-3 years	3-5 years	>5 years	Total
<b>Loans to credit institutions</b>						
Loans to the public	478,332					478,332
Bonds and other interest-bearing securities	40,338,972	9,485,319	7,717,966	2,839,681	1,021,219	61,403,157
Derivatives	6,080,000	600,000	7,850,000	1,106,000	400,000	16,036,000
	20,799,389	0	10,069,072	5,591,860	6,836,888	43,297,209
<b>Total assets</b>	<b>67,696,693</b>	<b>10,085,319</b>	<b>25,637,038</b>	<b>9,537,541</b>	<b>8,258,107</b>	<b>121,214,698</b>
<b>Liabilities</b>						
Liabilities to credit institutions	447,322					447,322
Borrowing/deposits from the public	5,828,821					5,828,821
Debt securities in issue	38,385,622	1,654,000	12,299,072	6,596,860	7,536,888	66,472,442
	28,788,362	3,250,000	10,350,000	704,000	710,000	43,802,362
Subordinated liabilities	430,000	200,000	70,000	0	-	700,000
<b>Total liabilities</b>	<b>73,880,127</b>	<b>5,104,000</b>	<b>22,719,072</b>	<b>7,300,860</b>	<b>8,246,888</b>	<b>117,250,947</b>
<b>Net</b>	<b>-6,183,435</b>	<b>4,981,319</b>	<b>2,917,966</b>	<b>2,236,681</b>	<b>11,219</b>	<b>3,963,750</b>
Interest-rate sensitivity, net	46,638	-41,313	-47,630	-75,734	29,742	
Cumulative interest-rate sensitivity	46,638	5,325	-42,305	-118,039	-88,297	

Nominal amounts are carried under the time slots when interest is reset.

Swaps and Derivatives Association (ISDA) agreements and unilateral Credit Support Annexes (CSAs) to Landshypotek Bank's benefit are in place, which reduce counterparty risk. Landshypotek Bank never pledges collateral since the derivative contracts are in the pool for covered bonds. Landshypotek Bank derivative counterparties must pledge collateral when their short-term ratings are lower than A-1. Landshypotek Bank also has deposits at a number of institutes with the aim of rapidly meeting urgent payments of loans to customers with accounts at other banks. The Chief Financial Officer has overall responsibility for management of counterparty risk.

## Market risk

Market risk is defined as:

*The risk, excluding the risk of default, that the value of assets, liabilities and/or financial contracts is negatively affected by changes in general economic conditions or events that affect a large part of the market as well as by company-specific events.*

The market risks to which Landshypotek Bank is exposed are interest-rate risks, currency risks, credit-spread risk, basis-spread risk and credit valuation adjustment risk.

## Risk management and analysis

The Board of Directors establishes how Landshypotek Bank's market risks are to be measured and reported, and sets risk limits. Risks are continuously monitored and are reported to both Landshypotek Bank's Bank Management and the Board of Directors. The Chief Financial Officer has overall responsibility for the day-to-day management of Landshypotek Bank's market risks. The Chief Risk Control Officer is responsible for ensuring independent control and reporting of Landshypotek Bank's exposures in relation to the limits set by the Board of Directors.

## Interest-rate risk

Interest-rate risk arises when fixed-interest terms for assets and liabilities are mismatched. Landshypotek Bank manages the interest-rate risk that arises in the course of business by striving to have the same fixed-interest term on borrowing as on lending. Due to actual conditions and availability in the capital market, there may be certain instances of imbalance between borrowing and lending tenors. This imbalance gives rise to an interest-rate risk that Landshypotek Bank manages using interest-rate swaps. Interest-rate risk is calculated as the change in market value that occurs if the

interest-rate curve is moved in parallel up or down by one percentage point. At year end, the interest-rate risk at a parallel movement of the interest-rate curve by one percentage point amounted to MSEK 88.

## Currency risk

Landshypotek Bank has parts of its financing in currencies other than SEK. Where financing is done in currencies other than SEK, the currency risk is managed by hedging foreign currency cash flows with swap contracts (SEK against the foreign currency) that fall due on the payment date. Marginal differences may arise. At 31 December 2014, all currency risk was managed with derivatives. For further information see Note 37.

## Basis-spread risk and credit-spread risk

Basis-spread risk arises for Landshypotek Bank when the currency risk that arises in conjunction with borrowing in a foreign currency is reduced by swapping

payments in foreign currency for payments in Swedish currency through cross-currency interest-rate swaps. Basis spreads have been volatile in recent years and can contribute to relatively substantial impacts on earnings. However, if Landshypotek Bank does not exit the swap agreements, the net impact on earnings when the swap agreements mature would be zero. Due to increased volatility in basis spreads, Landshypotek Bank has chosen not to take up any new funding in foreign currencies since 2011. Credit-spread risk arises from fluctuations in credit spreads in Landshypotek Bank's liquidity portfolio and its effect impacts earnings.

## Credit valuation adjustment risk

This risk arises when the credit ratings of counterparties in the bank's derivative contracts decline, thereby reducing the value of the respective derivative. This risk is mitigated by the fact that the bank's counterparties are obliged to pledge collateral and exchange contracts on reaching a specified rating and, since 1 January 2014, capital adequacy has been met for this risk as a Pillar I risk (see page 39).

### Maturity analysis for financial assets and liabilities, 2014

SEK thousand	<3 months	3-12 months	1-3 years	3-5 years	>5 years	Total
<b>Financial assets</b>						
Loans to credit institutions	478,332					478,332
Loans to the public	40,630 020	9,902 422	8,265 066	3 007 827	1,123 321	62,928 656
Bonds and other interest-bearing securities	59,369	1,395,750	12,856,482	2,159,982	613,000	17,084,583
Derivatives	1,912,914	645,138	3,665,830	4,113,217	5,667,771	16,004,870
<b>Total</b>	<b>43,080 634</b>	<b>11,943 309</b>	<b>24,787 378</b>	<b>9,281 026</b>	<b>7,404 093</b>	<b>96,496 440</b>
<b>Financial liabilities</b>						
Liabilities to credit institutions	447,322					447,322
Borrowing/deposits from the public	5,828,821					5,828,821
Granted credit facilities	813,480					813,480
Debt securities in issue	4,367,912	11,930,127	29,935,031	15,916,254	9,668,976	71,818,300
Derivatives	2,132,042	490,403	2,970,652	3,643,251	3,983,414	13,219,762
Subordinated liabilities	4,476	213,274	508,148	-	-	725,898
<b>Total</b>	<b>13,594,055</b>	<b>12,633,804</b>	<b>33,413,831</b>	<b>19,559,505</b>	<b>13,652,390</b>	<b>92,853,584</b>
<b>Net cash flow</b>	<b>29,486 579</b>	<b>-690 495</b>	<b>-8,626 453</b>	<b>-10,278 479</b>	<b>-6,248 297</b>	<b>3,642 856</b>
Refinancing risk	29,486 579	-690 495	-8,626 453	-10,278 479	-6,248 297	
Accumulated refinancing risk	29,486 579	28,796 085	20 169 632	9,891 153	3,642,856	

The above table includes all contracted cash flows. The amounts are not discounted and are recognised during the time slot when Landshypotek Bank is entitled to request payment or has an obligation or right to repay. Future variable rates of interest have been included in the calculation for derivatives and financial liabilities, but not for loans to the public, which reflects what would happen if operations were to cease as of 31 December 2014. The calculation of future rates of interest is based on forward rates plus any credit spreads.



## Liquidity risk

Landshypotek Bank defines liquidity risk as follows:

*The risk of being unable to refinance maturing loans or being unable to meet demand for additional liquidity as well as needing to borrow at disadvantageous interest rates.*

To a great extent, Landshypotek Bank is dependent on market funding and the inability to discharge payment obligations connected to market funding can have immediate and serious consequences for Landshypotek Bank. Therefore, risk tolerance for liquidity risks is low with conservative limits for both tenor and refinancing risk, which are monitored by the Risk Control unit on a daily basis.

In order to maintain good payment capacity, the Board has decided that cash and cash equivalents corresponding to the liquidity requirements of various periods in time must be available. One of the tolerance levels is that the liquidity reserve must be able to cover the projected accumulated net cash outflows for the forthcoming 180 days without the possibility of refinancing. None of the liquidity limits was exceeded in 2014. At 31 December 2014, the liquidity portfolio was 1.5 times larger than the need for refinancing over the next six months.

Landshypotek Bank's holdings in its liquidity portfolio are of the type that may be used as security for loans from the Riksbank (Sweden's central bank). In this case, the Riksbank is the "lender of last resort". The liquidity reserve consists of securities issued by Nordic institutions with a high credit rating and the liquidity portfolio primarily comprises covered bonds and, to a certain extent, bonds issued by Swedish municipalities and county councils as well as Kommuninvest. This liquidity reserve gives Landshypotek Bank the opportunity of bridging temporary strains on liquidity, but also provides the opportunity of procuring the necessary funds in times of severe liquidity crisis by selling assets in an orderly fashion, or reducing the financing need by calling in maturing loans. Landshypotek Bank has also set a floor for the liquidity reserve, based on it covering net outflows over a 30-day significant stress period pursuant to the Swedish Financial Supervisory Authority's definition under FFFS 2011:37, the Regulations Regarding the Reporting of Liquidity Risks for Credit Institutions and Investment Firms. For contracted flows, a 33-day period is used. This liquidity coverage ratio, with a limit value of 1.0, was 7.3 as of 31 December 2014. At the same date, 80 percent of Landshypotek Bank's liquidity reserve was in the pool for covered bonds.

Landshypotek Bank has started to offer deposits with the aim of diversifying its funding and, thereby, reducing liquidity risk. In February 2014, Landshypotek Bank launched an online bank where deposit accounts can be opened digitally and, which allows customers to move deposits between accounts inside and outside the bank.

Deposits with the bank have grown robustly during the year and at year end totalled SEK 5.8 billion. Landshypotek Bank performs regular stress tests of liquidity risk. The stress tests implemented include a decline in value of the liquidity portfolio, reduced capital repayments and interest income, lack of borrowing and withdrawals of deposits. The results of the stress tests demonstrate that Landshypotek Bank has an extremely healthy payment capacity.

## Operational risk

Operational risk is defined by Landshypotek Bank as follows:

*The risk of losses as a result of inadequate or failed internal processes, human error, faulty systems, external events and legal risks.*

Follow-up of operational risk in Landshypotek Bank is performed through incident reporting via an online tool that all employees have access to. Reported incidents are then conveyed to Landshypotek Bank's Board and Bank Management and follow-up is carried out regarding whether action plans are implemented to reduce the risk of repeated incidents.

Once a year, risk mapping of the bank is performed for the purpose of identifying and reducing significant operational risks. Each operational risk identified is assessed based on its consequences and probability, that is, the impact on operations if the risk were to occur and the likelihood of the risk occurring. The result of the annual risk analysis is presented to the Bank Management and Landshypotek Bank's Board. In 2014, Landshypotek Bank implemented a developed procedure for New Product Approval (NPAP). This is aimed at ensuring, to a greater degree, that implications stemming from Landshypotek Bank's new products and services can be managed by all involved parts of the bank prior to implementing the new products and services. A key element of this procedure comprises the participation of representatives from all internal functions at Landshypotek Bank in the approval procedure.

## Internal Capital Adequacy Assessment Process

In order to evaluate its capital requirement, Landshypotek Bank has developed an internal capital adequacy assessment process (ICAAP), and this has been adopted by the Board. The ICAAP results in a detailed report of Landshypotek Bank's risk profile and an assessment of the capital requirement in forthcoming years. The ICAAP includes all types of risks that are believed to have an impact on operations. Besides credit risks, market risks and operational risks, which have capital adequacy requirements under detailed Pillar I rules, within the framework of the Basel III rules, Landshypotek Bank also takes into consideration Pillar II risks in the form of interest-rate risk, currency risk, basis-spread risk, credit-spread risk, strategic risk, rating risk and concentration risk within the framework of the collective capital assessment. In addition, stress tests are performed to assess the capital requirement should conditions deteriorate.

In the 2014 capital assessment, regulatory requirements (the transitional rule related to the Basel I requirements) gave rise to the largest capital requirement. The Board also decides the internal capital requirement.

## Capital situation

On 1 January 2014, the EU's Capital Requirements Directive (new European capital adequacy rules), based on parts of the Basel III rules, entered force in Sweden. In relation to the earlier Swedish implementation of the Basel II rules, the new regulations entailed a raised capital requirement for Landshypotek Bank. This was a consequence of items including a new capital requirement for credit valuation adjustment risk (CVA) and LGD floors for IRB exposures. On 2 August 2014, the EU's Capital Requirements Directive (CRD IV) was implemented in Sweden through new laws and provisions. The latter contains rules pertaining to capital buffers and, with regard to Landshypotek Bank an additional requirement for a capital conservation buffer of 2.5 percentage points of the total risk-weighted exposure amount, over and above previous Basel III capital requirements of 8 percent of total risk-weighted assets. The capital conservation buffer must be covered by Common Equity Tier 1 capital. The Bank's remaining Common Equity Tier 1 capital to cover the buffer requirements, corresponds to 15.0 percent of the total risk-weighted exposure amount at 31 December 2014. As of September 2015, an additional requirement will be introduced of a countercyclical capital buffer of 1.0

percent of the total risk-weighted exposure amount. If an institute has insufficient capital to cover the buffer requirements, it must submit a plan to the Swedish Financial Supervisory Authority disclosing how it will meet the buffer requirements within a reasonable period of time. In addition, the institute will be subject to restrictions in the form of bans proscribing actions, such as, the payment of dividends and certain types of variable remuneration<sup>1</sup>. However, the buffer requirements differ from other capital requirements, since not meeting them is allowed on a temporary basis. Accordingly, the buffer requirements are not included under the own funds requirement recognised under the Basel III rules (tables on page 39).

However, the actual capital requirement for the bank has not changed because of the new Basel III rules. Due to the high risk weighting under the Basel I rules for loans with collateral in agricultural and forest properties, the transitional rule under Basel I continues to set the highest capital requirement for Landshypotek Bank.

When calculating the capital requirements under the Basel III credit-risk rules, Landshypotek Bank AB applies the Internal Ratings-based (IRB) Approach for retail exposure, which comprises the majority of the bank's credit-risk exposures. For other credit-risk exposures, the standardised approach is used. Landshypotek Bank applies the Basic Indicator approach to measure capital requirements for operational risk and the standardised approach to calculate capital requirements for CVA risk, but has no Pillar I capital requirement for market risk. At year end, the total capital ratio<sup>2</sup> for the consolidated situation under the Basel III approach was 24.5 percent. Own funds amounted to MSEK 4,936 and the capital requirement was MSEK 1,612. The total capital ratio including the transitional rules related to the Basel I requirements was 10.0 percent. Additional information can be found in Note 33.

## Return on equity

The owner directive sets a target for the bank of generating earnings after tax in relation to equity of five percentage points above the interest rate on a two-year swap contract. Accordingly, in 2014, the target for return on equity was 5.3 percent. The actual return in 2014 was 5.8 percent.

<sup>1</sup> Provided that the institute does not meet the requirement for the maximum distributable amount.

<sup>2</sup> Corresponds to the term capital adequacy ratio, which has been used in previous financial statements.

# Notes

## Note 1 Accounting policies

### Basis for preparing the annual accounts

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations of the above as published by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU. Furthermore, the Swedish Financial Supervisory Authority's regulations and general guidelines for annual reports in credit institutions and securities companies (FFFS 2008:25, including amendments), the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) and the recommendations of the Swedish Financial Reporting Board, RFR 1, Supplementary Accounting Rules for Groups are also applied.

The Parent Company, Landshypotek Bank AB, applies statutory IFRS, which means that the legal entity's financial statements must apply all of the IFRSs and statements adopted by the EU, in so far as this is possible within the framework of the Swedish Annual Accounts Act, the Swedish Pension Obligations Vesting Act and after taking into account the relationship between accounting and taxation. Permissible exceptions and supplements to IFRS are stated in the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities and the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) as well as the Swedish Financial Supervisory Authority's regulations and general guidelines for annual reports in credit institutions and securities companies (FFFS 2008:25). Differences in accounting policies between the Group and the Parent Company are set out under each heading below.

### Definitions and comparative data

The Landshypotek Group includes Landshypotek Bank AB and the subsidiary Landshypotek Jordbrukskredit AB as well as dormant companies. In running text in the Annual Report, "Landshypotek Bank" refers to the Group as defined above. The complete corporate names are used for individual Group companies. The Parent Company's functional currency and the Group's presentation currency are SEK. All amounts are reported, unless otherwise specified, in SEK thousands. Comparative figures for the preceding year are stated in parentheses

### Standards, amendments and interpretations coming into effect during the year

IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* as well as changes in IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* have all been adopted by the EU and will be applied from 1 January 2014. Since the Group only comprises wholly owned subsidiaries over which the Parent Company exercises a controlling influence, the new regulations will not require any changes in the financial reporting.

IFRIC 21 *Leases* is an interpretation related to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, but also includes liabilities where the timing and amount of the levy is certain. A "levy" is defined as a fee imposed on a company by a government body through laws and regulations. The interpretation states that a liability is recognised when the company has an obligating event that triggers payment of the levy, but does not define whether recognition of the liability gives rise to an asset or an expense. IFRIC 21 has had no impact on Landshypotek's reporting.

### New standards, amendments and interpretations as well as annual improvement projects that have not yet come into effect and were not applied in advance by the Group.

- *IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments.*

There will be three measurement categories for financial assets: amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). How an instrument is classified depends on the business model and the nature of the instrument. A new approach for calculating provisions for credit losses is being implemented and calculations are based on expected credit losses. Using the fair value option, the classification and measurement of financial liabilities has been changed to recognition at FVTPL. In this case, changes in credit risk are presented in other comprehensive income. Hedge accounting requirements have been changed through the replacement of the 80–125% effectiveness rule with requirements for an economic relationship between the hedged item and underlying instruments and that the hedge ratio is the same as that used in the risk management. The standard becomes effective as of 1 January 2018. The Group has yet to evaluate the impact of implementing the standard.

- *IFRS 7 Insurance Contracts*

It is as yet, too early to predict how this will impact Landshypotek Bank's reporting. Preliminary plans are to apply the amendments from 2017. The amendments have not yet been adopted by the EU.

Other new standards, amendments and interpretations as well as annual improvement projects that have not yet come into force were not considered to have any material impact on the consolidated financial statements.

### Consolidated accounting

The consolidated financial statements encompass the Parent Company and its subsidiaries. All subsidiaries are 100-percent owned by Landshypotek Bank AB. Subsidiaries are consolidated in accordance with the purchase method of accounting. All companies in the Group are Swedish limited liability companies with SEK as their accounting currency. Landshypotek Bank AB has no associated companies, other joint arrangements or

unconsolidated structured entities. The subsidiaries are all companies where the Parent Company exercises a controlling influence. Controlling influence means that the Parent Company is exposed to, or has the right to, returns from subsidiaries and the ability to affect those returns through exercising its influence. Subsidiaries are included in the consolidated accounts as of the date on which the controlling influence is transferred to the Group. They are excluded from the consolidated accounts as of the date on which the controlling influence ceases to apply. The purchase method is used to report Group acquisitions of subsidiaries. The cost comprises the fair value of all assets, liabilities and issued equity instruments placed as consideration for net assets in the subsidiary. Any surplus due to the cost exceeding the identifiable net assets of the acquisition balance is recognised as goodwill. Transaction costs are recognised directly in profit or loss.

#### Operating segments

An operating segment is a part of a company that generates income and costs through its operations, and its operating profit is regularly reviewed by the company's chief operating decision maker (CODM) as the basis for decisions pertaining to the allocation of resources and assessment of the segment's results. Furthermore, an operating segment has separate financial information. Landshypotek Bank offers loans in Sweden with real property as collateral. Customer deposits are included as an element of Landshypotek Bank's funding. For follow-up and reporting to the CODM, the operations are viewed as one operating segment.

Additional information in line with IFRS 8, paragraphs 32-34, is not provided in the Annual Report since customer deposits do not generate any income, the operations are conducted in one geographic area and no single customer of Landshypotek Bank accounts for 10 percent or more of the company's income.

#### Measurement of receivables and liabilities in foreign currency

Transactions in foreign currency are measured in the functional currency at the rate of exchange prevailing on the transaction date. Monetary assets and liabilities in foreign currency are measured in the functional currency at the rate of exchange prevailing on the balance sheet date. Exchange-rate differences that arise on translation of balance sheet items in foreign currency are recognised in profit or loss as exchange-rate gains or losses.

#### Classification and measurement rules for financial assets

Financial assets are divided into the following categories for measurement:

- ① Loans and receivables
- ② Financial assets at FVTPL

- ③ Available-for-sale financial assets Loans to credit institutions and loans to the public are classified as "Loans and receivables." This means that they are measured at amortised cost.

Bonds and other interest-bearing securities are classified as "Available-for-sale financial assets" or as "Financial assets at FVTPL". The classification is determined for each specific transaction. These assets are valued at fair value in the balance sheet regardless of classification. The following applies to those holdings classified as "Available-for-sale financial assets": Initial recognition is performed at fair value plus transaction costs. Gains and losses that arise as a result of changes in value are recognised after taxes via other comprehensive income in the fair-value reserve under equity until the financial asset is sold or impaired. When objective indications exist that a financial asset's recoverable amount is less than the carrying amount, an impairment test is performed. The need for impairment is defined as the difference between cost and actual fair value less any previous impairment recognised in profit or loss. When the asset is sold or impaired, the accumulated gain or loss, previously recognised in equity, is recognised in profit or loss.

For bonds and other interest-bearing securities classified as "Financial assets at FVTPL", the following applies: These assets are initially recognised at fair value and transaction costs are recognised in profit or loss. The gains and losses arising as a result of changes in value are recognised in profit or loss under the heading "Net result of financial transactions." Regardless of classification, interest income is recognised in profit or loss with application of the effective-interest method.

Derivative instruments with a positive market value are classified as "Financial assets at FVTPL". Gains and losses that arise as a result of unrealised changes in value are recognised on an ongoing basis in profit or loss under the item "Net result of financial transactions". Upon sale or impairment, the accumulated gain or loss is recognised under the item "Net result of financial transactions". Accrued and realised interest in derivative instruments is recognised net as an interest expense.

Financial assets are derecognised from the balance sheet when the right to receive cash flows from the instruments expires or is transferred and the Group has transferred virtually all risks and benefits associated with the right of ownership.

#### Classification and measurement of financial liabilities

For measurement purposes, financial liabilities are divided into two categories:

- ① Other financial liabilities
- ② Financial liabilities at FVTPL

Liabilities to credit institutions, and borrowing from the public, debt securities in issue and subordinated liabilities are classified as "Other financial liabilities." Other financial liabilities are recognised at amortised cost by using the effective-interest method. Transaction costs directly attributable to a specific liability are added to the cost and consideration is given thereto when calculating amortised cost. Recognition of financial liabilities subject to hedge accounting is dealt with in the section on Hedge accounting.

Derivative instruments with a negative market value are classified as "Financial liabilities at FVTPL". Gains and losses that arise as a result of unrealised changes in value are recognised on a current basis in profit or loss under the item "Net result of financial transactions". Upon sale or impairment, the accumulated gain or loss is recognised under the item "Net result of financial transactions". Accrued and realised interest in derivative instruments is recognised net as an interest expense.

Financial liabilities are derecognised from the balance sheet when the obligation to pay cash flows from the instruments has expired or been transferred and the Group has largely transferred all risks and obligations associated with the liability.

#### **Transaction-date or settlement-date accounting**

Financial assets and liabilities attributable to lending and deposits to and from the public are recognised on the settlement date. Business transactions in the money, bond or equity markets are recognised on the transaction date when the material rights and risks transfer between the parties.

#### **Intangible assets**

An intangible asset is an identifiable, non-monetary asset without physical form. An asset is a resource that is expected to yield future economic benefits over which control is exercised. Expenses associated with intangible assets are capitalised from the point in time when it is probable that the economic benefits that can be calculated in a reliable manner will arise. Amortisation is based on the economic life of the asset and starts when the asset is put to use. Intangible assets are amortised over a period of three to seven years. A test for impairment is performed when there is an indication that the asset may have diminished in value.

#### **Tangible assets**

Tangible assets consist mainly of real property. Properties are valued at cost less accumulated depreciation. Each part of a tangible non-current asset with a cost that is significant relative to the aggregate cost of the asset is depreciated separately. The depreciation method used reflects how the future economic benefits of the asset are expected to be used. Landshypotek Bank has produced separate depreciation plans for each significant component. The depreciation periods for the components of properties vary between 20 and 150 years.

#### **Provisions**

Provisions consist of recognised expected negative outflows of resources from the Group. Provisions are recognised when the Group has a legal or informal obligation as a result of events that have occurred when it is probable that an outflow of resources will be required to settle the undertaking. Landshypotek Bank has set aside provisions for future pension obligations and deferred taxes. For more information, refer to the section on Pension Costs.

#### **Interest income and interest expense**

Interest income and interest expense on financial assets and liabilities are recognised in profit or loss in accordance with the effective-interest method under the heading "Interest income and interest expense." Landshypotek Bank ceases to recognise interest as income when it is no longer likely that payment will be received. The change in value of financial assets and liabilities measured at FVTPL is recognised under the heading "Net result of financial transactions." This is also true for changes in fair value of financial assets and liabilities included in hedge accounting.

#### **Hedge accounting**

Hedge accounting is divided into different types of hedging relationships, depending on the purpose of the hedge.

*Fair-value hedges:* The Group applies hedge accounting for part of its exposure to interest-rate risk in fixed-interest lending against changes in fair value due to movements in interest rates. Interest-rate swaps and cross-currency interest-rate swaps are used for this purpose. Changes in the fair value of a derivative formally identified as a hedging instrument, and which fulfil the requirements for hedge accounting, are recognised in profit or loss under the heading "Net result of financial transactions." In addition, changes in fair value, attributable to the hedged risk, of a hedged liability are also recognised under this heading.

*Cash-flow hedges:* The Group hedges parts of its exposure to interest-rate risk, in floating interest financial liabilities, against changes in future cash flows due to interest-rate changes. Interest-rate swaps and cross-currency interest-rate swaps are used for this purpose. The effective portion of changes in the fair value of a derivative instrument identified as a hedging instrument, and which fulfils the requirements for hedge accounting is recognised in equity through other comprehensive income. When the hedged transaction occurs, the accumulated reserve in equity is returned to profit or loss. The gain or loss attributable to the ineffective portion is recognised immediately in profit or loss under the heading "Net result of financial transactions." Cash flows are expected to arise on an ongoing basis over the hedged item's remaining time to maturity.



*Macro hedging of fair value in the lending portfolio:* The Group applies hedge accounting for parts of its exposure to interest-rate risk in fixed-interest lending against changes in fair value due to movements in interest rates. For this purpose, groups of loans with similar risk exposure are identified as a portfolio, which is then hedged using interest-rate swaps. Changes in the fair value of a derivative formally identified as a hedging instrument, and which fulfil the requirements for hedge accounting, are recognised in profit or loss under the heading "Net result of financial transactions." Changes in value attributable to the hedged risk for the hedged lending portfolio are recognised in profit or loss under the heading "Net result of financial transactions" and in the balance sheet on a separate line in connection with "Loans to the public."

*Discontinuation of hedge accounting:* Landshypotek Bank terminates hedge accounting when the hedged item or hedging instrument is sold or expires and when the criteria for hedge accounting are no longer met. Gains or losses, which for cash-flow hedges, were previously recognised in other comprehensive income are transferred to profit or loss in conjunction with divestment of the underlying instrument and recognised there under the heading "Net result of financial transactions." If a fair-value hedge is no longer assessed as effective, the hedging instrument is reclassified as a derivative for trading. The accumulated change in fair value for the hedged item at the point in time when the hedging relationship ends is periodised via net interest income over the hedged item's remaining time to maturity.

#### **Commission income and commission expense**

Commission income is attributable to our lending and our borrowing. Income attributable to lending is recognised as revenue on notification and income attributable to borrowing is recognised on the transaction date. Commission expense is primarily attributable to Stability Fund fees to the Swedish National Debt Office and deposit insurance fees, and is expensed over the year.

#### **Net result of financial transactions**

Realised gains and losses attributable to the purchase and sale of bonds and derivative instruments in the liquidity portfolio and the buyback of bonds are recognised under the heading "Net result of financial transactions". In addition, unrealised gains and losses attributable to market-value changes of derivative instruments, holdings of financial assets valued at FVTPL and changes in fair value attributable to the hedged risk of the hedged assets or liabilities in a fair-value hedge are also recognised under this heading. When applicable, impairment attributable to available-for-sale financial assets is recognised under this item.

#### **Other income**

Income from services sold and external rental income relating to real property owned are reported under "Other income". Results of sales of operating properties are also recognised here.

#### **Personnel costs**

All direct personnel costs, including various forms of social security costs and payroll overheads are classified as personnel costs.

#### **Pension costs**

Landshypotek Bank's pension obligation under the BTP plan is a defined-benefit pension plan. Landshypotek Bank has funded its obligation via SPK, which manages the assets and administers pension payments on behalf of Landshypotek Bank. The Group recognises primarily the following three items:

- Service costs, i.e. pension entitlement earned for the current and prior periods, as well as gains and losses from settlements
- Net interest income (expense) is calculated on the net of the defined-benefit pension obligation less plan assets through the use of market rates of return on first-class corporate bonds.
- Actuarial gains and losses are recognised in other comprehensive income as they arise together with the return on plan assets and changes in the effect of the asset ceiling excluding the amount included in the net interest income.

The liability recognised in the balance sheet in respect of defined-benefit pension plans is the present value of the defined-benefit obligation on the balance sheet date less the fair value of plan assets. The present value calculation is based on the interest on a first-class corporate bond. The defined-benefit pension obligation is calculated annually by independent actuaries using the "projected unit credit method." For more information about pensions, refer to Note 7 and Note 29.

#### **Other expenses**

The "Other expenses" item contains other costs, including operating costs for own properties and marketing expenses.

#### **Loan losses**

Receivables of which any component is more than 5 days overdue are recognised as overdue receivables regardless of the possibility of recovering the receivable by realising collateral. A loan receivable is recognised as a doubtful receivable when an individual assessment indicates that it is unlikely to be paid in accordance with the terms of the loan agreement and where the value of the collateral is feared to be insufficient

to cover the value of the receivable with a sufficient margin. The full amount of a receivable is recognised as doubtful, even if parts of the receivable are covered by collateral. For the purpose of calculating the recoverable amount, estimated future cash flows are discounted using the original contract rate of interest. The difference between the loan receivable and the present value of the estimated recovery is reported as a probable loan loss.

#### **Restructuring of loans**

Agreements on concessions that entail a restructuring of the loan receivable are only made on an exceptional basis since all lending is against collateral, the value of which is realised in the event of default. When applicable, restructured loan receivables are commented on in the Administration Report.

#### **Tax expenses**

Recognised tax expenses include taxes for the current year, adjustments relating to prior years' current taxes and changes in deferred taxes. Deferred taxes are the taxes attributable to all temporary differences that arise between carrying amounts and values for tax purposes of assets and liabilities.

#### **Group contributions**

Group contributions are recognised in accordance with RFR 2. Yield-related Group contributions paid by Landshypotek Bank AB to the Parent Association, Landshypotek Ekonomisk Förening, are recognised directly in equity in Landshypotek Bank AB. Landshypotek Ekonomisk Förening recognises Group contributions received as financial income. Group contributions paid to reduce the Group's taxes are recognised directly in equity in each company.

#### **Estimates and critical assessments**

The application of the Group's accounting policies means that, in certain instances, recognised amounts are based on estimates and assumptions about the future. The estimates and assumptions made are always based on company management's best and fairest assessment of the future and are subject to continual review and validation. Despite this, future outcomes may, to a certain extent, differ from original assumptions made.

The calculation of Group expenses and obligations for defined-benefit pensions is based on a number of actuarial, demographic and financial assumptions that have a significant impact on recognised amounts. A list of the most critical assumptions used in the calculation of the provision for the year is presented in Note 29.

The value of the Group's loan receivables is subject to continual and individual assessment. If necessary, receivables are impaired to the assessed recoverable amount. In order to estimate the recoverable amount, a number of assessments are carried out, including an assessment of the counterparty's repayment capacity and the realisation value of any collateral. The final outcome may deviate from original provisions for loan losses.

## Note 2 Net interest income

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
<b>Interest income</b>				
Interest income on loans to credit institutions	6,811	6,999	6,800	6,963
Interest income on loans to Group companies			325	207
Interest income on loans to the public	1,770,615	2,005,595	1,751,590	1,986,463
Less interest losses	-951	-798	-946	-783
Interest income on interest-bearing securities	251,120	281,660	251,120	281,660
of which interest income on financial assets at FVTPL	179,940	183,489	179,940	183,489
of which interest income on available-for-sale financial assets	71,180	98,171	71,180	98,171
Other interest income	236	344	215	311
<b>Total</b>	<b>2,027,831</b>	<b>2,293,800</b>	<b>2,009,104</b>	<b>2,274,821</b>
Average interest on loans to the public	2,89 %	3,35 %	2,87 %	3,33 %
All interest income is attributable to the Swedish market				
<b>Interest expense</b>				
Interest expense for liabilities to Group companies	-163	-338	-188	-750
Interest expense for liabilities to credit institutions – other	-5,891	-16,130	-5,891	-16,130
Interest expense for borrowing/deposits from the public	-71,253	-38,087	-71,253	-38,087
Interest expense for interest-bearing securities	-1,309,846	-1,600,600	-1,309,846	-1,600,600
of which interest expense for other financial liabilities in fair value hedges adjusted for the fair value of hedged risk	-529,599	-485,249	-529,599	-485,249
of which interest expense on interest-bearing securities at amortised cost	-863,077	-1,115,351	-863,077	-1,115,351
of which periodization of the market value created from terminated hedging commitments*	82,830		82,830	
Interest expense for subordinated liabilities	-33,505	-35,470	-33,505	-35,470
Interest expense for derivative instruments	159,469	55,474	159,469	55,474
of which interest expense on derivatives at FVTPL	-172,699	-135,247	-172,699	-135,247
of which interest expense on derivatives identified as hedging instruments	332,169	190,721	332,169	190,721
Other interest expense	-1,780	-2,185	-1,486	-1,162
<b>Total</b>	<b>-1,262,968</b>	<b>-1,637,336</b>	<b>-1,262,699</b>	<b>-1,636,725</b>
<b>Total net interest income</b>	<b>764,863</b>	<b>656,464</b>	<b>746,405</b>	<b>638,096</b>

\* The item includes reduced recognised interest expenses from the periodization of the market value created from terminated fair-value hedging relationships that were terminated in 2013 and 2014. A corresponding amount with a negative impact on earnings, attributable to the decrease in value of hedging instruments (derivatives) in the terminated hedging relationships, has been recognised under the item net result of financial transactions. From 2015, these amounts will be recognised net in net interest income. The remaining amount to be periodised is MSEK 563.6, which will continue until August 2029.

## Note 3 Commission income

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
Loan commissions	14,082	14,708	13,223	12,841
<b>Total</b>	<b>14,082</b>	<b>14,708</b>	<b>13,223</b>	<b>12,841</b>

## Note 4 Commission expense

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
Commissions on securities	-40	-817	-40	-817
Deposit insurance	-1,580	-1,145	-1,580	-1,145
Stability Fund fees	-26,417	-32,571	-26,417	-32,571
<b>Total</b>	<b>-28,037</b>	<b>-34,533</b>	<b>-28,037</b>	<b>-34,533</b>

## Note 5 Net result of financial transactions

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
<b>Financial assets at FVTPL</b>				
Realised result of sales of bonds and other interest-bearing securities	12,033	3,192	12,033	3,192
<b>Available-for-sale financial assets</b>				
Realised result of sales of bonds and other interest-bearing securities	6,781	19,324	6,781	19,324
<b>Other financial liabilities</b>				
Realised result on early redemption of own bonds issued	-30,409	-26,259	-30,409	-26,259
<b>Financial liabilities at FVTPL</b>				
Realised result from purchase/sale of derivative contracts	-12,292		-12,292	
<b>Total realised result</b>	<b>-23,888</b>	<b>-3,743</b>	<b>-23,888</b>	<b>-3,743</b>
<b>Financial assets at FVTPL</b>				
Change in value of bonds and other interest-bearing securities	122,077	-19,457	122,077	-19,457
Change in value of derivatives with positive market values not included in any hedging relationship	142,364	12,677	142,364	12,677
<b>Financial liabilities at FVTPL</b>				
Change in value of derivatives with negative market values not included in any hedging relationship	-175,094	6,802	-175,094	6,802
<b>Items included in hedging relationships and subject to hedge accounting</b>				
Change in value of bonds in issue included in fair-value hedge	-1,234,903	371,448	-1,234,903	371,448
Value changes of interest-rate-risk hedged items in macro hedges	91,887	23,535	91,887	23,535
Change in value of derivatives included in fair-value hedge	1,140,877	-426,448	1,140,877	-426,448
<b>Total unrealised result</b>	<b>87,209</b>	<b>-31,443</b>	<b>87,209</b>	<b>-31,443</b>
<b>Net result of financial transactions</b>	<b>63,321</b>	<b>-35,186</b>	<b>63,321</b>	<b>-35,186</b>

Realised result is defined as changes in value that were realised, that is, received/paid from/to a counterparty, for transactions that were closed during the year. Unrealised result is defined as changes in the market values of open positions.

## Note 6 Other operating income

TSEK	Group		Parent Company	
	2014	2013	2014	2013
Income from property	1,649	1,761	1,649	1,761
Sale of operating property		916		916
Operating net from repossessed properties	-442		-442	
Other	267	224	259	220
<b>Total</b>	<b>1,474</b>	<b>2,901</b>	<b>1,466</b>	<b>2,897</b>

## Note 7 General administrative expenses

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
<b>Personnel costs</b>				
Salaries, etc. to Managing Director, senior executives and Board of Directors	-15,672	-12,845	-15,672	-12,845
Salaries, etc., to other personnel	-77,458	-64,351	-77,458	-64,351
Salaries, etc., to other personnel				
Provision to profit-sharing foundation	-3,985	-998	-3,985	-998
Pension costs	-18,150	-12,487	-21,771	-22,008
Social insurance charges	-28,980	-24,141	-28,980	-24,141
Other personnel costs	-1,007	-1,149	-1,007	-1,149
<b>Total</b>	<b>-145,252</b>	<b>-115,971</b>	<b>-148,873</b>	<b>-125,492</b>
<b>Specification of pension costs</b>				
Change in provision for pensions	369	1,088	369	1,088
Pension premiums	-17,033	-17,813	-17,033	-17,813
of which to senior executives	-1,301	-3,302	-1,301	-3,302
Directly paid pensions	-744	-883	-744	-883
Payroll and yield taxes attributable to pension costs	-4,362	-4,400	-4,362	-4,400
Defined-benefit pension plans	3,620	9,521	—	
<b>Total</b>	<b>-18,150</b>	<b>-12,487</b>	<b>-21,771</b>	<b>-22,008</b>

Pension costs in the Group are recognised in accordance with IAS 19, Employee Benefits. Pension costs in Landshypotek Bank AB have been calculated in accordance with the regulations of the Swedish Financial Supervisory Authority.

The company's pension obligations are covered by insurance in Sparinstituten's Pensionskassa and by provisions for pensions covered by credit insurance from FPG (Försäkringsbolaget Pensionsgaranti, mutual). Further information about the pension liability is reported in Note 29.

TSEK	Group		Parent Company	
	2014	2013	2014	2013
Number of male employees	79	66	79	66
Number of female employees	73	64	73	64
<b>Total</b>	<b>152</b>	<b>130</b>	<b>152</b>	<b>130</b>
Average number of salaried employees, including substitutes	144,0	122,0	144,0	122,0
<b>Loans to directors and senior executives</b>				
Loans to directors amount to	109,402	57,607	109,402	57,607
Loans to senior executives amount to	8,817	15,956	8,817	15,956
<b>Directors and senior executives</b>				
Number of directors	15	11	10	6
of which men	7	6	5	4



Cont. **Note 7** General administrative expenses

SEK thousand

	Group		Parent Company	
	2014	2013	2014	2013
Cost of premises	-13,980	-12,289	-13,980	-12,289
Office expenses	-2,894	-2,800	-2,894	-2,800
Telephone, data networks and postage expenses	-6,304	-5,170	-6,292	-5,159
IT expenses	-64,551	-51,882	-64,551	-51,822
Purchased services	-62,688	-47,585	-62,622	-47,517
Other	-11,043	-11,219	-9,778	-11,186
<b>Fees and expenses to appointed auditors</b>				
Audit assignment	-2,665	-2,789	-2,535	-2,679
Audit activities other than audit assignment	-964	-1,305	-964	-1,305
Tax consultancy	-47	-154	-47	-154
Other services	-412	-437	-412	-437
<b>Total</b>	<b>-165,548</b>	<b>-135,629</b>	<b>-164,075</b>	<b>-135,347</b>
<b>Total general administrative expenses</b>	<b>-310,799</b>	<b>-251,599</b>	<b>-312,947</b>	<b>-260,839</b>

Remuneration and other benefits, 2014	Basic salary/ Board fees	Variable remuneration	Other benefits	Pension costs	Share-based payments	Other compensation	Total
Chairman of the Board Henrik Toll	578					6	584
Director Hans Heuman	295					57	352
Director Catharina Lagerstam	327						327
Director Johan Löwen	278						278
Director Nils-Fredrik Nyblæus	371					23	394
Director Charlotte Önnestedt	232						232
Director Anna-Karin Celsing	193						193
Director Synnöve Trygg	195					7	202
Managing Director Kjell Hedman (1 Jan. 2014 - 30 Nov. 2014)	2,620		52	901		1,442	5,015
Managing Director Liza Nyberg (from 1 Nov. 2014)	247		8	187			442
Deputy Managing Director	1,698		185	478			2,361
Other senior executives (6 persons)	6,588		260	2,655		10	9,513
	<b>13,621</b>	<b>0</b>	<b>505</b>	<b>4,221</b>	<b>0</b>	<b>1,546</b>	<b>19,893</b>

Remuneration and other benefits, 2013	Basic salary/ Board fees	Variable remuneration	Other benefits	Pension costs	Share-based payments	Other compensation	Total
Chairman of the Board Henrik Toll	385					2	387
Director Hans Heuman	133					17	149
Director Catharina Lagerstam	283						283
Director Johan Löwen	245					10	255
Director Nils-Fredrik Nyblæus	268						268
Director Lars Åke Folkmer (part of the year)	64					1	65
Director Charlotte Önnestedt	209					5	215
Managing Director Kjell Hedman	2,626		172	1,322		1	4,121
Other senior executives (7 persons) <sup>1</sup>	8,038		367	3,302		18	11,725
	<b>12,252</b>	<b>0</b>	<b>539</b>	<b>4,624</b>	<b>0</b>	<b>54</b>	<b>17,469</b>

<sup>1</sup> The pension cost for Kjell Hedman comprises salary of SEK 1,440,000 during the notice period, which was converted into a pension contribution.

<sup>2</sup> No Deputy Managing Director in 2013.

## Cont. Note 7 General administrative expenses

Amounts under Salaries, etc. for the Managing Director, senior executives and Board for 2013 have been changed compared with the 2013 Annual Report, since the policy for reporting remunerations and benefits has changed.

A mutual notice period of six months applies for the Managing Director and Landshypotek. In case of termination by the company, compensation is payable of up to 12-months remuneration excluding the notice period. In the case of a sale of the business, whereby Landshypotek and the Managing Director

are not in agreement regarding continued employment, compensation of up to 24-months remuneration is payable excluding the notice period.

Other remuneration to the former Managing Director pertains to salary under the extended notice period of SEK 1.4 million that was converted into a pension contribution.

For other senior executives and Landshypotek, contractual notice periods of between two and six months apply.

## Note 8 Depreciation, amortisation and impairment of intangible and tangible non-current assets

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
<b>Tangible non-current assets</b>				
Depreciation of furniture, fixtures and equipment	-1,744	-1,441	-1,744	-1,441
Depreciation of real property	-559	-692	-559	-692
Depreciation of land improvements	-28	-28	-28	-28
<b>Intangible non-current assets</b>				
Amortisation of IT system	-14,160	-8,370	-14,160	-8,370
<b>Total</b>	<b>-16,491</b>	<b>-10,531</b>	<b>-16,491</b>	<b>-10,531</b>

## Note 9 Other operating expenses

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
Marketing expenses	-21,020	-18,583	-21,020	-18,583
Property expenses	-1,158	-1,308	-1,158	-1,308
Other	-1,676	-1,118	-1,667	-1,106
<b>Total</b>	<b>-23,854</b>	<b>-21,009</b>	<b>-23,845</b>	<b>-20,997</b>

## Note 10 Net loan losses

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
<b>Loan losses</b>				
Year's write-off for realised losses	-56,266	-27,362	-49,624	-23,340
Reversal of prior provisions for probable loan losses, recognised as realised losses in this year's accounts	56,487	23,948	50,809	20,323
Year's provision for probable loan losses	-104,547	-82,356	-85,070	-67,118
Recovery of previously realised losses	1,004	1,382	950	1,378
Reversal of prior provisions no longer necessary for probable loan losses	23,710	30,515	16,656	28,621
Guarantees		-505		
<b>Total</b>	<b>-79,612</b>	<b>-54,378</b>	<b>-66,278</b>	<b>-40,136</b>

All loan losses are attributable to loans to the public.

Properties taken over in foreclosure to protect claims, MSEK 9 (0).

## Note 11 Income tax on comprehensive income

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
Profit before tax	384,947	266,839	376,817	251,612
Income tax calculated at national tax rates	-84,688	-58,704	-82,900	-55,355
<b>Tax effects of:</b>				
Non-taxable income	52	76	47	69
Non-deductible expenses	-813	-585	-813	-585
Adjustment of preceding year's tax expense	1,915	414	1,915	412
<b>Total income tax related to profit or loss</b>	<b>-83,535</b>	<b>-58,801</b>	<b>-81,750</b>	<b>-55,458</b>
Weighted-average tax rate	21,7 %	22,0 %	21,7 %	22,0 %
of which current tax	-82,851	-57,014	-81,798	-55,542
of which deferred tax	-684	-1,787	48	83
<b>Specification of deferred tax</b>				
Deferred tax relating to pension costs	-732	-1,870		
Deferred tax relating to depreciation of real property	48	83	48	83
Deferred tax relating to loss carry-forwards				
Effect of change in tax rate			-	
<b>Total change in deferred tax</b>	<b>-684</b>	<b>-1,787</b>	<b>48</b>	<b>83</b>
The actual tax rate for the year was 22 percent (22) for the Group and the Parent Company. Deferred tax amounted to 22 percent.				
<b>Income tax related to other comprehensive income</b>				
<b>Cash-flow hedges</b>				
Profit/loss before tax	-9,167	47,783	-9,167	47,783
Deferred tax	2,017	-10,512	2,017	-10,512
Effect of change in tax rate	-	-	-	-
Profit/loss after tax	-7,150	37,271	-7,150	37,271
<b>Available-for-sale financial instruments</b>				
Profit/loss before tax	6,346	-23,675	6,346	-23,675
Tax	-1,396	5,209	-1,396	5,209
Adjustment of preceding years' tax expense	-	-	-	-
Reclassification of deferred tax	-	-	-	-
Profit/loss after tax	4,950	-18,467	4,950	-18,467
<b>Actuarial differences</b>				
Profit/loss before tax	-10,124	24,550		
Deferred tax	2,227	-5,401		
Profit/loss after tax	-7,897	19,149		
<b>Other comprehensive income</b>	<b>-10,098</b>	<b>37,953</b>	<b>-2,201</b>	<b>18,805</b>
Tax	-1,396	5,209	-1,396	5,209
Deferred tax	4,244	-15,913	2,017	-10,512
<b>Total income tax related to other comprehensive income</b>	<b>2,848</b>	<b>-10,705</b>	<b>621</b>	<b>-5,304</b>

## Note 12 Loans to credit institutions

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
Loans to Group companies				58,875
Loans to banks	478,332	260,103	571,557	240,312
of which reverse repos		-		-
Loans to PlusGiro		1,773		1,773
Loans to others		1		-
<b>Total</b>	<b>478,332</b>	<b>261,877</b>	<b>571,557</b>	<b>300,960</b>

## Note 13 Loans to the public

TSEK	Group		Parent Company	
	2014	2013	2014	2013
Loan receivables <sup>1)</sup>	61,824,733	60,921,843	61,489,426	60,601,122
Less specific provisions for individually assessed loan receivables	-82,138	-62,931	-57,029	-44,567
<b>Net loan receivables</b>	<b>61,742,595</b>	<b>60,858,912</b>	<b>61,432,397</b>	<b>60,556,555</b>
<b>Disclosures on overdue unimpaired loan receivables</b>				
Loan receivables overdue 5-90 days	34,748		34,748	0
Loan receivables overdue more than 90 days	754,985	791,979	748,039	791,591
<b>Total overdue unimpaired loan receivables <sup>2)</sup></b>	<b>789,732</b>	<b>791,979</b>	<b>782,786</b>	<b>791,591</b>
<b>Disclosures on doubtful credits</b>				
Doubtful credits that are not overdue	136,605	1,024	125,980	-
Overdue doubtful credits	220,443	236,229	206,451	215,074
<b>Total doubtful credits, gross</b>	<b>357,048</b>	<b>237,253</b>	<b>332,431</b>	<b>215,074</b>
Less capital provisions made	-82,138	-62,931	-57,029	-44,567
<b>Total doubtful credits, net</b>	<b>274,910</b>	<b>174,322</b>	<b>275,402</b>	<b>170,507</b>
Doubtful credits at beginning of year	237,253	112,766	215,074	104,122
New doubtful credits during year	253,252	205,092	239,163	186,023
Doubtful credits settled during year	-133,457	-80,605	-121,806	-75,072
<b>Doubtful credits at year end</b>	<b>357,048</b>	<b>237,253</b>	<b>332,431</b>	<b>215,074</b>
Capital provisions at beginning of year	-62,931	-29,671	-44,567	-21,026
Additional provisions during the year	-63,737	-68,470	-48,710	-53,202
Deducted provisions during the year	44,530	35,210	36,248	29,661
<b>Capital provisions at year end</b>	<b>-82,138</b>	<b>-62,931</b>	<b>-57,029</b>	<b>-44,567</b>

<sup>1)</sup> The 2013 Annual Report classified announced repayments attributable to loan receivables as Other assets. In the 2014 Annual Report, these amounts have instead been included under loan receivables and, accordingly, classified as Loans to the public. The amounts reclassified for 2013 were SEK 193,901,000 for the Group and SEK 189,077,000 for the Parent Company.

<sup>2)</sup> The 2013 Annual Report showed overdue loan receivables including doubtful credits. In the 2014 Annual Report, the amounts are shown excluding the overdue doubtful credits. In 2014, total overdue receivables including doubtful credits was SEK 1,010,175,000 (1,028,208,000) for the Group and SEK 989,237,000 (1,006,665,000) for the Parent Company.

Collateral exists in the form of real property for all lending.

## Note 14 Bonds and other interest-bearing securities

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
<b>Bonds</b>				
Issued by Swedish municipalities	5,073,159	4,477,607	5,073,159	4,477,607
Issued by credit institutions	1,005,141	391,806	1,005,141	391,806
Issued by housing finance institutions	10,719,958	10,202,569	10,719,958	10,202,569
of which covered bonds	11,725,099	10,594,375	11,725,099	10,594,375
<b>Total</b>	<b>16,798,258</b>	<b>15,071,982</b>	<b>16,798,258</b>	<b>15,071,982</b>
<b>Valuation of bonds and other interest-bearing securities</b>				
Nominal amount	16,036,000	14,678,000	16,036,000	14,678,000
Amortised cost	16,567,455	14,969,602	16,567,455	14,969,602
Fair value	16,798,258	15,071,982	16,798,258	15,071,982
Bonds and other interest-bearing securities are classified as available-for-sale financial assets or as a trading portfolio.				
<b>Bonds and other interest-bearing securities by category</b>				
Financial assets at FVTPL	10,044,034	8,721,971	10,044,034	8,721,971
Available-for-sale financial assets	6,754,224	6,350,011	6,754,224	6,350,011
<b>Total</b>	<b>16,798,258</b>	<b>15,071,982</b>	<b>16,798,258</b>	<b>15,071,982</b>
<b>Securities pledged pursuant to repurchase agreements (repos)</b>				
Carrying amount, listed mortgage bonds recognised at fair value	-	-	-	-
Carrying amount, repos	-	-	-	-
Carrying amount, reverse repos with the same counterparty	-	-	-	-
Fair value of listed mortgage bonds held as collateral for reverse repos	-	-	-	-

## Note 15 Derivatives

TSEK	Group			
	2014		2013	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
<b>Derivatives not included in hedge accounting</b>				
Positive closing value of interest-rate swaps	100,000	13,729	450,000	12,758
Positive closing value of cross-currency interest-rate swaps	2,709,371	234,447	2,306,369	117,838
<b>Total</b>	<b>2,809,371</b>	<b>248,176</b>	<b>2,756,369</b>	<b>130,596</b>
<b>Derivatives included in hedge accounting</b>				
Positive closing value of interest-rate swaps	14,417,312	1,303,118	12,369,897	411,338
Positive closing value of cross-currency interest-rate swaps	3,892,316	496,628	1,180,838	39,292
<b>Total</b>	<b>18,309,628</b>	<b>1,799,746</b>	<b>13,550,735</b>	<b>450,630</b>
<b>Total</b>	<b>21,118,999</b>	<b>2,047,922</b>	<b>16,307,104</b>	<b>581,226</b>



## Cont. Note 15 Derivatives

SEK thousand	Parent Company			
	2014		2013	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
<b>Derivatives not included in hedge accounting</b>				
Positive closing value of interest-rate swaps	100,000	13,729	450,000	12,758
Positive closing value of cross-currency interest-rate swaps	2,709,371	234,447	2,306,369	117,838
<b>Total</b>	<b>2,809,371</b>	<b>248,176</b>	<b>2,756,369</b>	<b>130,596</b>
<b>Derivatives included in hedge accounting</b>				
Positive closing value of interest-rate swaps	14,417,312	1,303,118	12,369,897	411,338
Positive closing value of cross-currency interest-rate swaps	3,892,316	496,628	1,180,838	39,292
<b>Total</b>	<b>18,309,628</b>	<b>1,799,746</b>	<b>13,550,735</b>	<b>450,630</b>
<b>Total</b>	<b>21,118,999</b>	<b>2,047,922</b>	<b>16,307,104</b>	<b>581,226</b>

Carrying amounts pertain to market values excluding accrued interest on derivative contracts. Accrued interest is recognised under prepaid expenses and accrued income.

## Note 16 Shares and participations in Group companies

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
<b>Holdings in credit institutions</b>				
Landshypotek Jordbrukskredit AB 1,000,000 shares with a quotient value of SEK 100			280,553	280,553
<b>Other holdings</b>				
Hypoteksbanken AB, 1,000 shares with a quotient value of SEK 100			100	100
Sveriges Allmänna Hypoteksbank AB 1,000 shares with a quotient value of SEK 100			100	100
<b>Total</b>			<b>280,753</b>	<b>280,753</b>

## Note 17 Intangible assets

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
<b>Other intangible non-current assets</b>				
Cost at beginning of year	52,960	35,348	52,960	35,348
Purchases during the year	6,087	17,612	6,087	17,612
<b>Closing cost</b>	<b>59,047</b>	<b>52,960</b>	<b>59,047</b>	<b>52,960</b>
Accumulated amortisation at beginning of year	-8,370		-8,370	
Amortisation for the year	-14,160	-8,370	-14,160	-8,370
<b>Closing accumulated amortisation and impairment</b>	<b>-22,530</b>	<b>-8,370</b>	<b>-22,530</b>	<b>-8,370</b>
<b>Carrying amount</b>	<b>36,517</b>	<b>44,590</b>	<b>36,517</b>	<b>44,590</b>

Intangible non-current assets consist of investments in software.

## Note 18 Tangible assets

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
<b>Furniture, fixtures and equipment</b>				
<b>Non-current assets</b>				
Cost at beginning of year	18,509	16,492	18,372	16,355
Purchases during the year	5,754	2,268	5,754	2,268
Disposals during the year		-251		-251
<b>Closing cost</b>	<b>24,263</b>	<b>18,509</b>	<b>24,126</b>	<b>18,372</b>
Accumulated depreciation at beginning of year	-12,385	-11,068	-12,248	-10,931
Depreciation and impairment for the year	-1,282	-1,642	-1,282	-1,642
Accumulated depreciation of assets sold		325		325
<b>Closing accumulated depreciation</b>	<b>-13,667</b>	<b>-12,385</b>	<b>-13,530</b>	<b>-12,248</b>
<b>Total furniture, fixtures and equipment</b>	<b>10,596</b>	<b>6,124</b>	<b>10,596</b>	<b>6,124</b>
<b>Buildings and land</b>				
<b>Non-current assets</b>				
Operating properties				
Number of properties	1	1	1	1
Estimated fair value	28,000	28,000	28,000	28,000
Properties taken over in foreclosure to protect claims				
Number of properties	1		1	
Estimated fair value	8,926		8,926	
Cost at beginning of year	16,271	21,152	16,271	18,585
Reclassification		-2,567		-
Foreclosure properties	8,926		8,926	
Capitalised renovation costs		436		436
Sales		-2,750		-2,750
<b>Closing cost</b>	<b>25,197</b>	<b>16,271</b>	<b>25,197</b>	<b>16,271</b>
<b>Write-up for the year</b>				
Accumulated depreciation at beginning of year	-3,322	-6,036	-3,322	-3,469
Reclassification		2,567		
Closing accumulated depreciation		857		857
Depreciation for the year	-587	-710	-587	-710
<b>Closing accumulated depreciation</b>	<b>-3,909</b>	<b>-3,322</b>	<b>-3,909</b>	<b>-3,322</b>
<b>Total buildings and land</b>	<b>21,288</b>	<b>12,949</b>	<b>21,288</b>	<b>12,949</b>

## Note 19 Other assets

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
Announced interest and repayments	8,455	4,261	8,461	4,263
Receivables from Group companies	8,400	1,558	8,400	1,558
Other receivables	2,313	3,108	2,081	2,896
<b>Total</b>	<b>19,169</b>	<b>8,928</b>	<b>18,942</b>	<b>8,717</b>

Accrued interest on receivables reclassified from Other assets to Prepaid expenses and accrued income. Amounts moved were SEK 112,523,000 for the Group and SEK 109,419,000 for the Parent Company.

## Note 20 Deferred tax assets

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
Deferred tax assets	13,911	10,351	11,177	9,112
<b>Total</b>	<b>13,911</b>	<b>10,351</b>	<b>11,177</b>	<b>9,112</b>
Opening deferred tax receivables on hedging reserve	8,951	19,464	8,951	19,464
Change in deferred tax on hedging reserve	2,017	-10,513	2,017	-10,513
<b>Closing deferred tax receivables on hedging reserve</b>	<b>10,968</b>	<b>8,951</b>	<b>10,968</b>	<b>8,951</b>
Opening deferred tax on actuarial differences	-2,866	2,535		
Change in deferred tax on actuarial differences	2,227	-5,401		
<b>Closing deferred tax liabilities on actuarial differences</b>	<b>-639</b>	<b>-2,866</b>		
Opening deferred tax receivables on pensions under IAS 19	4,104	5,974		
Less deferred tax on pensions under IAS 19	-732	-1,870		
<b>Closing deferred tax receivables on pensions pursuant to IAS 19</b>	<b>3,372</b>	<b>4,104</b>		
Opening deferred tax receivables on loss carry-forwards				
Less deferred tax on loss carry-forwards				
<b>Closing deferred tax receivables on loss carry-forwards</b>				
Opening deferred tax on depreciation of real property	161	78	161	78
Add deferred tax on depreciation of real property	48	83	48	83
<b>Closing deferred tax on depreciation of real property</b>	<b>209</b>	<b>161</b>	<b>209</b>	<b>161</b>
<b>Total deferred tax assets</b>	<b>13,911</b>	<b>10,351</b>	<b>11,177</b>	<b>9,112</b>

Deferred tax in 2013 was calculated using a tax rate of 22 percent.

All items are expected to be settled later than within 12 months.

## Note 21 Prepaid expenses and accrued income

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
Prepaid expenses	12,344	13,636	12,344	13,636
Accrued interest on loans to the public*	95,494	116,185	91,328	112,941
Accrued interest on interest-bearing instruments	192,253	182,019	192,253	182,019
Accrued interest on derivative instruments	268,759	316,677	268,759	316,677
Other accrued income	8,051		7,650	
<b>Total</b>	<b>576,901</b>	<b>628,517</b>	<b>572,334</b>	<b>625,273</b>

\* The 2013 Annual Report classified announced accrued interest attributable to loan receivables as Other assets. In the 2014 Annual Report, these amounts have instead been included under Accrued interest on loans to the public in the above table and, accordingly, are classified as Prepaid expenses and accrued income. The amounts reclassified for 2013 were SEK 112,523,000 for the Group and SEK 109,419,000 for the Parent Company.

## Note 22 Liabilities to credit institutions

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
Liabilities to Group companies			48,661	
Swedish banks		57,353		57,353
Non-Swedish banks	447,322	199,537	447,322	199,537
of which repos				
<b>Total</b>	<b>447,322</b>	<b>256,890</b>	<b>495,983</b>	<b>256,890</b>

## Note 23 Borrowing from the public

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
Deposits from the public	5,430,979	2,103,007	5,430,979	2,103,007
Other notes payable	397,842	44,000	397,842	44,000
<b>Total</b>	<b>5,828,821</b>	<b>2,147,007</b>	<b>5,828,821</b>	<b>2,147,007</b>

## Note 24 Debt securities in issue, etc.

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
Commercial paper	3,271,144	3,014,884	3,271,144	3,014,884
Bond loans	65,322,404	65,406,659	65,322,404	65,406,659
<b>Total</b>	<b>68,593,547</b>	<b>68,421,543</b>	<b>68,593,547</b>	<b>68,421,543</b>
<b>Debt securities in issue – hedged items in fair-value hedges</b>				
Amortised cost	26,914,508	22,826,048	26,914,508	22,826,048
Fair value adjusted for the change in the fair value of hedged risk	28,399,846	23,434,438	28,399,846	23,434,438

### Fair-value hedges

The Group hedges part of its exposure to interest-rate risk in fixed-interest financial liabilities against changes in fair value due to movements in interest rates. Interest-rate swaps and cross-currency interest-rate swaps are used for this purpose.

### Cash-flow hedges

The Group hedges part of its exposure to interest-rate risk in fixed-interest financial liabilities against changes in future cash flows due to movements in interest rates. Interest-rate swaps and cross-currency interest-rate swaps are used for this purpose.

## Note 25 Derivatives

SEK thousand	Group			
	2014		2013	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
<b>Derivatives not included in hedge accounting</b>				
Negative closing value of interest-rate swaps	11,035,000	638,277	12,685,000	329,901
Negative closing value of cross-currency interest-rate swaps	2,117,808	252,106	6,497,179	489,356
<b>Total</b>	<b>13,152,808</b>	<b>890,384</b>	<b>19,182,179</b>	<b>819,257</b>
<b>Derivatives included in hedge accounting</b>				
Negative closing value of interest-rate swaps	6,479,000	196,037	11,157,000	186,574
Negative closing value of cross-currency interest-rate swaps	2,519,772	106,300	2,434,560	216,203
<b>Total</b>	<b>8,998,772</b>	<b>302,336</b>	<b>13,591,560</b>	<b>402,777</b>
<b>Total</b>	<b>22,151,580</b>	<b>1,192,720</b>	<b>32,773,739</b>	<b>1,222,034</b>

	Parent Company			
	2014		2013	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
<b>Derivatives not included in hedge accounting</b>				
Negative closing value of interest-rate swaps	11,035,000	638,277	12,685,000	329,901
Negative closing value of cross-currency interest-rate swaps	2,117,808	252,106	6,497,179	489,356
<b>Total</b>	<b>13,152,808</b>	<b>890,384</b>	<b>19,182,179</b>	<b>819,257</b>
<b>Derivatives included in hedge accounting</b>				
Negative closing value of interest-rate swaps	6,479,000	196,037	11,157,000	186,574
Negative closing value of cross-currency interest-rate swaps	2,519,772	106,300	2,434,560	216,203
<b>Total</b>	<b>8,998,772</b>	<b>302,336</b>	<b>13,591,560</b>	<b>402,777</b>
<b>Total</b>	<b>22,151,580</b>	<b>1,192,720</b>	<b>32,773,739</b>	<b>1,222,034</b>

Carrying amounts pertain to market values excluding accrued interest on derivative contracts.  
Accrued interest is recognised under prepaid expenses and accrued income.

## Note 26 Other liabilities

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
Liabilities to Group companies	253,316	155,786	253,312	155,786
Accounts payable	16,489	15,752	16,489	15,752
Other liabilities	36,579	21,464	35,763	21,103
<b>Total</b>	<b>306,383</b>	<b>193,002</b>	<b>305,564</b>	<b>192,641</b>

## Note 27 Accrued expenses and deferred income

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
Accrued interest on borrowing from the public		113		113
Accrued interest on debt securities in issue	357,073	452,374	357,073	452,374
Accrued interest on derivatives	293,271	409,168	293,271	409,168
Other accrued expenses	41,739	42,111	41,739	42,111
Deferred income	962	580	962	580
<b>Total</b>	<b>693,045</b>	<b>904,347</b>	<b>693,046</b>	<b>904,346</b>



## Note 28 Provisions

SEK thousand

Defined-benefit pension plans are recognised in the balance sheet as a provision and are recognised in full in profit or loss as pension costs under personnel costs. Remeasurement of defined-benefit pension plans is recognised in other comprehensive income. The balance-sheet provision is the net of liabilities for pension obligations and the fair value of assets set aside to secure those pension obligations, known as plan assets.

A defined-benefit pension plan means that the employee is guaranteed a lifelong pension corresponding to a specified percentage of the employee's final salary and mainly comprises retirement pension, disability pension and survivors' pension. The Group's provision is affected by employees' life expectancy, anticipated final salary and the expected income base amount.

The plan is secured through the purchase of occupational pension insurance with the insurance company SPK

(Sparinstitutens PensionsKassa). SPK administers pensions and manages assets for pension purposes both for Landshypotek Bank and other employers. Therefore, the Group must establish its share of the plan assets held at SPK. Landshypotek Bank's share of SPK is 1.4 percent. The share is calculated using the ratio SPK would probably have used at the balance sheet date to distribute the assets if the plan were to be immediately phased out or if a situation had arisen whereby an extra payment would have been needed from employers because of insufficient assets. The employers are responsible for ensuring that SPK has sufficient assets to meet obligations under the pension plan pursuant to the legislation governing SPK. Therein lies Landshypotek Bank's risk. No such deficit exists at present. SPK's management of the assets is carried out in compliance with the regulations governing SPK. Accordingly, the Group's provision and pension cost is impacted by the result of SPK's asset management.

The table shows where in the financial statements the Group's post-employment benefits are recognised.

	Group		Parent Company	
	2014	2013	2014	2013
<b>Balance-sheet obligations pertaining to:</b>				
Defined-benefit pension plans	14,094	7,755	2,020	2,389
<b>Balance-sheet liability</b>	<b>14,094</b>	<b>7,755</b>	<b>2,020</b>	<b>2,389</b>
<b>Recognitions in operating profit pertaining to:*</b>				
Defined-benefit pension plans	8,515	9,415		
<b>Total</b>	<b>8,515</b>	<b>9,415</b>		
<b>Remeasurement of actuarial gain/loss pertaining to:</b>				
Defined-benefit pension plans	10,124	-24,550		
<b>Total</b>	<b>10,124</b>	<b>-24,550</b>		

\* Recognitions in operating profit include service costs for the current year, interest expense, service costs for previous years and gains and losses from settlements.

The amounts recognised in the balance sheet were calculated as follows:

	2014	2013
Present value of funded obligations	351,603	321,904
Fair value of plan assets	-337,509	-314,149
Shortfall in funded plans	14,094	7,755
Present value of unfunded obligations		
<b>Total shortfall in defined-benefit pension plans</b>	<b>14,094</b>	<b>7,755</b>
Effect of minimum funding requirement/asset ceiling	-	-
<b>Balance-sheet liability</b>	<b>14,094</b>	<b>7,755</b>

## Cont. Note 28 Provisions

SEK thousand

The change in the defined-benefit obligation during the year was as follows:	Present value of the obligation	Fair value of plan assets	Total
Opening balance, 1 January 2013	346,631	-304,476	42,155
Service costs for 2013	9,415		9,415
Interest expense/(income)	10,755	-9,732	1,023
Service costs for previous years and gains and losses from settlements	-3,477		-3,477
<b>Total Costs</b>	<b>16,693</b>	<b>-9,732</b>	<b>6,961</b>
Remeasurements:			
- Return on plan assets	-23,623	-35	-23,658
<b>Total remeasurements</b>	<b>-23,623</b>	<b>-35</b>	<b>-23,658</b>
Fees:			
- Employer		-14,247	-14,247
Payments from the plan:			
- Benefits paid	-17,797	14,341	-3,456
<b>Closing balance, 31 December 2013</b>	<b>321,904</b>	<b>-314,149</b>	<b>7,755</b>
Opening balance, 1 January 2014	321,904	-314,149	7,755
Service costs for 2014	8,515	0	8,515
Interest expense/(income)	12,232	-11,938	294
Service costs for previous years and gains and losses from settlements			0
<b>Total Costs</b>	<b>342,651</b>	<b>-326,087</b>	<b>16,564</b>
Remeasurements:			
- Return on plan assets	26,468	-16,344	10,124
<b>Total remeasurements</b>	<b>26,468</b>	<b>-16,344</b>	<b>10,124</b>
Fees:			
- Employer		-10,135	-10,135
- Employees covered by the plan			
Payments from the plan:			
- Benefits paid	-17,516	15,057	-2,459
<b>Closing balance, 31 December 2014</b>	<b>351,603</b>	<b>-337,509</b>	<b>14,094</b>

### The key actuarial assumptions were as follows:

	2014	2013
Discount rate	2.4 %	3.8 %
Salary increases	2.2 %	3.0 %
Pension increases	1.2 %	2.0 %

Mortality assumptions are based on official statistics and experience from mortality studies, and set in consultation with actuarial expertise. These assumptions mean the following average remaining life expectancies for individuals retiring at 65.

	2014	2013
<b>Retirement at the end of the reporting period:</b>		
Men	22	22
Women	24	24
<b>Retirement 20 years after the end of the reporting period:</b>		
Men	22	22
Women	24	24

## Cont. Note 28 Provisions

SEK thousand

The sensitivity of the defined-benefit obligation to changes in significant weighted assumptions are:

A change of one percentage point assuming all other factors are unchanged.

### Assumptions

	Present value of the obligation, 2014	Increase
Baseline scenario	351,603	
A 0.5-percentage point decrease in the discount rate	380,915	8.3 %
A 0.5-percentage point increase in expected indexing of benefits	380,224	8.1 %
A 0.5-percentage point increase in expected future salary increases	359,972	2.4 %
A 20-percent decrease in mortality intensity	375,159	6.7 %
Increase in the expected utilization rate for early retirement under the pension agreement from 20 to 40 percent.	356,296	1.3 %

### Distribution of the present value of the obligation, SEK thousand

	2014	2013
Active members	101,569	113,054
Deferred members	60,096	42,976
Retired plan members	189,938	165,874
<b>Total</b>	<b>351,603</b>	<b>321,904</b>

### Number of individuals included in the valuation

	2014	2013
Active members	63	112
Deferred members	139	99
Retired plan members	104	99
<b>Total</b>	<b>306</b>	<b>310</b>

### Maturity analysis undiscounted cash flows

Pension payments and payment of special payroll tax pertaining to the latent payroll tax liability, SEK thousand.

Pertaining to pension entitlement earned as per the balance sheet date under IAS 19.

At 31 December 2014	Within 1 year	Between 1-2 years	Between 2-5 years	Later than 5 years	Total
Pension payments	16,360	15,557	43,106	457,444	532,467
Special payroll tax (only pertaining to the latent payroll tax liability)	2,225	1,184	1,143	203	4,755
<b>Total</b>	<b>18,585</b>	<b>16,741</b>	<b>44,249</b>	<b>457,647</b>	<b>537,222</b>

The plan assets are comprised solely of the value of the insurance taken out with the SPK benevolent society to fund the defined-benefit BTP plan. Pension payments are made from this insurance.

## Note 29 Subordinated liabilities

SEK thousand

Due date	Nominal amount	Interest	Group		Parent Company	
			2014	2013	2014	2013
2017/2022	SEK 430,000,000	3 months STIBOR +3.85%	430,000	430,000	430,000	430,000
2015/2020	SEK 200,000,000	Fixed interest 4.60%	199,949	199,949	199,949	199,949
2017/2022	SEK 70,000,000	Fixed interest 5.82%	69,972	69,972	69,972	69,972
<b>Total</b>			<b>699,921</b>	<b>699,921</b>	<b>699,921</b>	<b>699,921</b>

## Note 30 Changes in Equity

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
<b>Change in hedging reserve</b>				
Hedging reserve, opening balance	-31,737	-69,008	-31,737	-69,008
Change in fair value over the year	-16,790	14,081	-16,790	14,081
Transfer to profit or loss	7,623	33,702	7,623	33,702
Change in deferred tax	2,017	-10,512	2,017	-10,512
<b>Hedging reserve, closing balance</b>	<b>-38,888</b>	<b>-31,737</b>	<b>-38,888</b>	<b>-31,737</b>
<b>Change in fair-value reserve</b>				
Fair-value reserve, opening balance	4,278	22,745	4,278	22,745
Change in fair value over the year	13,790	-15,130	13,790	-15,130
Transfer to profit or loss	-7,444	-8,545	-7,444	-8,545
Tax on change in value for the year	-1,396	5,209	-1,396	5,209
Tax on preceding year's change	-	-	-	-
<b>Fair-value reserve, closing balance</b>	<b>9,228</b>	<b>4,278</b>	<b>9,228</b>	<b>4,278</b>
<b>Actuarial differences</b>				
Actuarial differences at beginning of year	-10,161	-29,310		
Change for the year	-10,123	24,550		
Tax on change for the year	2,227	-5,401		
<b>Actuarial differences at year end</b>	<b>-18,057</b>	<b>-10,161</b>	<b>-</b>	<b>-</b>
<b>Total reserves at year end</b>	<b>-47,717</b>	<b>-37,620</b>	<b>-29,660</b>	<b>-27,459</b>

## Note 31 Memorandum items

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
<b>Pledged assets</b>	<b>None</b>	<b>None</b>	<b>None</b>	<b>None</b>
<b>Contingent liabilities</b>				
Försäkringsbolaget Pensionsgaranti, FPG	40	48	40	48
Flexible first lien mortgage loans, granted unutilised amount	680,208	540,107	680,208	540,107
<b>Total</b>	<b>680,248</b>	<b>540,155</b>	<b>680,248</b>	<b>540,155</b>
<b>Guarantees and other commitments</b>				
Sparbanken Öresund, overdraft facility	133,272	139,022	-	-
<b>Total</b>	<b>133,272</b>	<b>139,022</b>	<b>-</b>	<b>-</b>

## Note 32 Capital adequacy analysis

Consolidated situation <sup>1)</sup> , SEK thousand	31 Dec. 2014
Own funds, Basel III	4,936,116
Tier 1 capital	4,236,195
Common Equity Tier 1 (CET1) capital	4,236,195
Capital instruments included as CET1 capital	1,369,473
Retained earnings	3,090,538
Accumulated other comprehensive income	-29,660
Adjustment of CET1 capital due to prudential filters	38,888
(-) Other intangible assets	-36,517
(-) Deferred tax assets that rely on future profitability and do not arise as a result of temporary differences, net of associated tax liabilities	-14,643
(-) IRB shortfall of credit-risk adjustments to expected losses	-172,883
(-) Defined-benefit pension plans	-9,001
Tier 2 (T2) capital	699,921
Capital instruments and subordinated loans eligible as T2 capital	699,921
Own funds requirements, Basel III	1,612,047
Risk-weighted exposure amounts, Basel III	20,150,582
CET1 capital ratio (%)	21.02
Tier 1 capital ratio (%)	21.02
Total capital ratio (%)	24.50
Institution-specific CET1 capital requirement including buffer requirements (%)	7.00
of which: capital conservation buffer requirement (%)	2.50
CET1 capital available to meet buffers (as a share of total risk-weighted exposure amounts, %) <sup>2)</sup>	15.02
Capital quotient	3.06
Capital adequacy under the transitional rules linked to Basel I.	
Own funds	5,109,000
Own funds requirements	4,085,668
Total capital ratio (%) <sup>3)</sup>	10.00
Capital quotient	1.25

<sup>1)</sup> The consolidated situation includes Landshypotek Ekonomisk Förening and the Landshypotek Bank AB Group.

<sup>2)</sup> Calculated as "CET1 capital less the amount of this capital used to meet CET1 capital requirements after reduction for any other CET1 capital used to cover the tier 1 capital requirement and total own funds requirements" divided by the risk-weighted exposure amount, Basel III.

<sup>3)</sup> Corresponds to the term capital adequacy ratio, which has been used in previous financial statements.



Cont. **Note 32** Capital adequacy analysis

Own funds for the consolidated situation, SEK thousand	31 Dec. 2014
Member contributions	1,369,473
Other contributed capital	1,797,796
Reserves	-29,660
Actuarial differences	-18,058
Retained earnings	1,132,987
Net profit for the year <sup>1)</sup>	327,126
<b>Equity in balance sheet</b>	<b>4,579,665</b>
Deductions related to the consolidated situation and other foreseeable costs	-
<b>CET1 capital before regulatory adjustments <sup>2)</sup></b>	<b>4,579,665</b>
Adjustment of net profit for the year <sup>3)</sup>	-167,371
Intangible assets	-36,517
Deferred tax assets that rely on future profitability	-14,643
Fair value reserves related to gains or losses on cash-flow hedges	38,888
Negative amounts resulting from the calculation of expected loss amounts	-172,883
Defined-benefit pension plans	9,057
<b>CET1 capital</b>	<b>4,236,196</b>
<b>Tier 1 capital</b>	<b>4,236,196</b>
Capital instruments and subordinated loans eligible as T2 capital	699,921
<b>T2 capital</b>	<b>699,921</b>
<b>Total capital</b>	<b>4,936,116</b>

<sup>1)</sup> A decision by the Swedish Financial Supervisory Authority on 9 December 2014 gave Landshypotek Bank AB approval for using the annual surplus in own-funds calculations with the prerequisite that the elected auditor (PwC) has verified the surplus and that the surplus has been calculated pursuant to the applicable accounting framework, and that it is possible to verify that deductions have been made for any foreseeable costs and dividends in line with Regulation (EU) No 575/2013 and that these have been calculated according to Regulation (EU) No 241/2014.

<sup>2)</sup> The Swedish Financial Supervisory Authority's regulation FFFS 2014:12 entered force in August 2014. Capital adequacy must be reported in accordance with regulatory reporting templates. CET1 capital pertains to the consolidated situation and differs from equity under IFRS. Contributions to equity from insurance activities are excluded as are proposed dividends.

<sup>3)</sup> For Landshypotek, the consolidated situation only includes the surplus from Landshypotek Bank AB as acceptable profit under <sup>1)</sup>

Cont. **Note 32** Capital adequacy analysis

Own funds for Landshypotek Bank AB, SEK thousand	31 Dec. 2014
Own funds, Basel III	4,863,752
Tier 1 capital	4,163,831
CET1 capital	4,163,831
Capital instruments included as CET1 capital	2,173,000
Retained earnings	2,204,202
Accumulated other comprehensive income	-29,660
Adjustment of CET1 capital due to prudential filters	38,888
(-) Other intangible assets	-36,517
(-) Deferred tax assets that rely on future profitability and do not arise as a result of temporary differences, net of associated tax liabilities	-11,177
(-) IRB shortfall of credit-risk adjustments to expected losses	-172,883
(-) Defined-benefit pension plans	-2,020
T2 capital	699,921
Capital instruments and subordinated loans included as T2 capital	699,921
Own funds requirements, Basel III	1,598,025
Risk-weighted exposure amounts, Basel III	19,975,310
CET1 capital ratio (%)	20.84
Tier 1 capital ratio (%)	20.84
Total capital ratio (%)	24.35
Institution-specific CET1 capital requirement including buffer requirements (%)	7.00
of which: capital conservation buffer requirement (%)	2.50
CET1 capital available to meet buffers (as a share of total risk-weighted exposure amounts, %) <sup>1)</sup>	14.84
Capital quotient	3.04
Capital adequacy under the transitional rules linked to Basel I.	
Own funds	5,036,636
Own funds requirements	4,055,982
Total capital ratio (%) <sup>2)</sup>	9.93
Capital quotient	1.24

<sup>1)</sup> Calculated as "CET1 capital less the amount of this capital used to meet CET1 capital requirements after reduction for any other CET1 capital used to cover the tier 1 capital requirement and total own funds requirements" divided by the risk-weighted exposure amount, Basel III.

<sup>2)</sup> Corresponds to the term capital adequacy ratio, which has been used in previous financial statements.

## Note 33 Financial assets and liabilities by category

Group

TSEK						
	Measured at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Other financial liabilities	Liabilities in fair-value hedges adjusted for the fair value of hedged risk	Derivatives identified as hedging instruments
<b>2014</b>						
<b>Assets</b>						
Cash and balances with central banks			242,001			
Treasury bills and other eligible bills						
Loans to credit institutions			478,332			
Loans to the public			61,742,595			
Bonds and other interest-bearing securities	10,044,034	6,754,224				
Derivatives	248,176					1,799,746
<b>Total financial assets</b>	<b>10,292,210</b>	<b>6,754,224</b>	<b>62,462,928</b>	<b>-</b>	<b>-</b>	<b>1,799,746</b>
<b>Financial liabilities</b>						
Liabilities to credit institutions				447,322		
Borrowing from the public				5,828,821		
Debt securities in issue, etc.				40,193,701	28,399,846	
Derivatives	890,384					302,336
Subordinated liabilities				699,921		
<b>Total financial liabilities</b>	<b>890,384</b>	<b>0</b>	<b>-</b>	<b>47,169,765</b>	<b>28,399,846</b>	<b>302,336</b>

	Measured at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Other financial liabilities	Liabilities in fair-value hedges adjusted for the fair value of hedged risk	Derivatives identified as hedging instruments
<b>2013</b>						
<b>Assets</b>						
Cash and balances with central banks			431,893			
Treasury bills and other eligible bills						
Loans to credit institutions			261,877			
Loans to the public			60,858,912			
Bonds and other interest-bearing securities	8,721,971	6,350,011				
Derivatives	130,596					450,630
<b>Total financial assets</b>	<b>8,852,567</b>	<b>6,350,011</b>	<b>61,552,682</b>	<b>-</b>	<b>-</b>	<b>450,630</b>
<b>Financial liabilities</b>						
Liabilities to credit institutions				256,890		
Borrowing from the public				2,147,007		
Debt securities in issue, etc.				68,421,543		
Derivatives	819,257					402,777
Subordinated liabilities				699,921		
<b>Total financial liabilities</b>	<b>819,257</b>	<b>-</b>	<b>-</b>	<b>71,525,361</b>	<b>0</b>	<b>402,777</b>

Cont. **Note 33** Financial assets and liabilities by category

Parent Company

TSEK						
	Measured at fair value through profit or loss	Available- for-sale financial assets	Loans and receivables	Other finan- cial liabilities	Liabilities in fair-value hedges adjusted for the fair value of hedged risk	Derivatives identified as hedging instruments
<b>2014</b>						
<b>Assets</b>						
Cash and balances with central banks			242,001			
Treasury bills and other eligible bills						
Loans to credit institutions			571,557			
Loans to the public			61,432,397			
Bonds and other interest- bearing securities	10,044,034	6,754,224				
Derivatives	248,176					1,799,746
<b>Total financial assets</b>	<b>10,292,210</b>	<b>6,754,224</b>	<b>62,245,955</b>	<b>-</b>	<b>-</b>	<b>1,799,746</b>
<b>Financial liabilities</b>						
Liabilities to credit institutions				495,983		
Borrowing from the public				5,828,821		
Debt securities in issue, etc.				40,193,701	28,399,846	
Derivatives	890,384					302,336
Subordinated liabilities				699,921		
<b>Total financial liabilities</b>	<b>890,384</b>	<b>0</b>	<b>0</b>	<b>47,218,426</b>	<b>28,399,846</b>	<b>302,336</b>

	Measured at fair value through profit or loss	Available- for-sale financial assets	Loans and receivables	Other finan- cial liabilities	Liabilities in fair-value hedges adjusted for the fair value of hedged risk	Derivatives identified as hedging instruments
<b>2013</b>						
<b>Assets</b>						
Cash and balances with central banks			431,893			
Treasury bills and other eligible bills						
Loans to credit institutions			300,960			
Loans to the public			60,556,555			
Bonds and other interest- bearing securities	8,721,971	6,350,011				
Derivatives	130,596					450,630
<b>Total financial assets</b>	<b>8,852,567</b>	<b>6,350,011</b>	<b>61,289,408</b>	<b>0</b>	<b>0</b>	<b>450,630</b>
<b>Financial liabilities</b>						
Liabilities to credit institutions				256,890		
Borrowing from the public				2,147,007		
Debt securities in issue, etc.				68,421,543		
Derivatives	819,257					402,777
Subordinated liabilities				699,921		
<b>Total financial liabilities</b>	<b>819,257</b>	<b>0</b>	<b>0</b>	<b>71,525,361</b>	<b>0</b>	<b>402,777</b>

## Note 34 Fair value disclosures

Group

SEK thousand	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Cash and balances with central banks	242,001	242,001	431,893	431,893
Loans to credit institutions	478,332	478,332	261,877	261,877
Loans to the public	61,742,595	61,480,224	60,858,912	59,939,674
Bonds and other interest-bearing securities	16,798,258	16,798,258	15,071,982	15,071,982
Derivatives	2,047,922	2,047,922	581,226	581,226
Shares and participations				
<b>Total assets</b>	<b>81,309,107</b>	<b>81,046,736</b>	<b>77,205,890</b>	<b>76,286,652</b>
<b>Liabilities and provisions</b>				
Liabilities to credit institutions	447,322	447,322	256,890	256,890
Borrowing from the public	5,828,821	5,828,821	2,147,007	2,147,007
Debt securities in issue, etc.	68,593,547	70,090,876	68,421,543	68,668,866
Derivatives	1,192,720	1,192,720	1,222,034	1,222,034
Subordinated liabilities	699,921	753,229	699,921	775,054
<b>Total liabilities</b>	<b>76,762,332</b>	<b>78,312,968</b>	<b>72,747,395</b>	<b>73,069,851</b>

Fair value is recognised excluding accrued interest. Accrued interest is recognised under prepaid expenses and accrued income, and accrued expenses and deferred income.

Parent Company

SEK thousand	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Cash and balances with central banks	242,001	242,001	431,893	431,893
Loans to credit institutions	571,557	571,557	300,960	300,960
Loans to the public	61,432,397	61,170,508	60,556,555	59,623,777
Bonds and other interest-bearing securities	16,798,258	16,798,258	15,071,982	15,071,982
Derivatives	2,047,922	2,047,922	581,226	581,226
Shares and participations				
<b>Total assets</b>	<b>81,092,135</b>	<b>80,830,245</b>	<b>76,942,616</b>	<b>76,009,838</b>
<b>Liabilities and provisions</b>				
Liabilities to credit institutions	495,983	495,983	256,890	256,890
Borrowing from the public	5,828,821	5,828,821	2,147,007	2,147,007
Debt securities in issue, etc.	68,593,547	70,090,876	68,421,543	68,668,866
Derivatives	1,192,720	1,192,720	1,222,034	1,222,034
Subordinated liabilities	699,921	753,229	699,921	775,054
<b>Total liabilities</b>	<b>76,810,993</b>	<b>78,361,629</b>	<b>72,747,395</b>	<b>73,069,851</b>

Fair value is recognised excluding accrued interest. Accrued interest is recognised under prepaid expenses and accrued income, and accrued expenses and deferred income.



## Note 35 Fair-value hierarchy for financial instruments

Group

SEK thousand	2014				2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Loans and receivables</b>								
Cash and balances with central banks		242,001		242,001		431,893		431,893
Loans to credit institutions		478,332		478,332		261,877		261,877
Loans to the public			61,480,224	61,480,224			59,939,674	59,939,674
<b>Financial assets at FVTPL</b>								
Bonds and other interest-bearing securities	10,044,034			10,044,034	8,721,971			8,721,971
Interest-rate swaps		13,729		13,729		12,758		12,758
Cross-currency interest-rate swaps		234,447		234,447		117,838		117,838
Shares and participations								0
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		1,303,118		1,303,118		411,338		411,338
Cross-currency interest-rate swaps		496,628		496,628		39,292		39,292
<b>Available-for-sale financial assets</b>								
Bonds and other interest-bearing securities	6,604,474	149,750		6,754,224	1,872,404	4,477,607		6,350,011
<b>Total assets measured at fair value</b>	<b>16,648,508</b>	<b>2,918,005</b>	<b>61 480 224</b>	<b>81,046,736</b>	<b>10,594,375</b>	<b>5,752,603</b>	<b>59,939,674</b>	<b>76,286,652</b>
<b>Financial liabilities at FVTPL</b>								
Interest-rate swaps		638,277		638,277		329,901		329,901
Cross-currency interest-rate swaps		252,106		252,106		489,356		489,356
<b>Derivatives identified as hedging instruments</b>								0
Interest-rate swaps		196,037		196,037		186,574		186,574
Cross-currency interest-rate swaps		106,300		106,300		216,203		216,203
<b>Other financial liabilities</b>								0
Liabilities to credit institutions		447,322		447,322		256,890		256,890
Borrowing from the public		5,828,821		5,828,821		2,147,007		2,147,007
Debt securities in issue, etc.		70,090,876		70,090,876		68,668,866		68,668,866
Subordinated liabilities		753,229		753,229		775,054		775,054
<b>Total liabilities measured at fair value</b>	<b>0</b>	<b>78,312,968</b>	<b>0</b>	<b>78,312,968</b>	<b>0</b>	<b>73,069,851</b>	<b>0</b>	<b>73,069,851</b>

Fair value is recognised excluding accrued interest. Accrued interest is recognised under prepaid expenses and accrued income, and accrued expenses and deferred income.

In 2013, certain bonds were measured using measuring models based on market data and, accordingly, were included in Level 2. From 2014, all bonds are measured at their bid prices and classified as Level 1. An exception is made for one bond, which for technical reasons is valued using a measuring model based on market data and classified as Level 2. No other transfers were made between the levels. Level 1 only comprises quoted mortgage bonds and listed bonds issued by municipalities and county councils. Level 2 comprises derivative instruments and financial assets and liabilities for which there are well-established measuring models based on market data.

### Level 1

The fair value of financial instruments traded on an active market is based on the bid price of quoted market prices.

### Level 2

The fair values of financial instruments and derivative instruments not traded on an active market are calculated using the valuation technique of discounting future cash flows. Quoted market rates for the tenor in question are used for discounting. In all cases, listed swap curves were utilised as the basis for measurement. Listed credit spreads relative to the interest-rate swap curve were utilised for measuring the value of bond assets. The interest-rate swap curve and FX-basis swap curve were used for measurement of interest-rate and cross-currency interest-rate swaps, respectively. Debt securities in issue are measured on the interest-rate swap curve with the addition of market-based credit spreads. Accrued interest is not included in the calculation of fair value.

### Level 3

Input for assets/liabilities that are not based on observable market data.

Cont. **Note 35** Fair-value hierarchy for financial instruments

Parent Company

SEK thousand	2014				2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Loans and receivables</b>								
Cash and balances with central banks		242,001		242,001		431,893		431,893
Loans to credit institutions		571,557		571,557		300,960		300,960
Loans to the public		61,170,508		61,170,508		59,623,777		59,623,777
<b>Financial assets at FVTPL</b>								
Bonds and other interest-bearing securities	10,044,034			10,044,034	8,721,971			8,721,971
Interest-rate swaps		13,729		13,729		12,758		12,758
Cross-currency interest-rate swaps		234,447		234,447		117,838		117,838
Shares and participations								0
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		1,303,118		1,303,118		411,338		411,338
Cross-currency interest-rate swaps		496,628		496,628		39,292		39,292
<b>Available-for-sale financial assets</b>								
Bonds and other interest-bearing securities	6,604,474	149,750		6,754,224	1,872,404	4,477,607		6,350,011
<b>Total assets measured at fair value</b>	<b>16,648,508</b>	<b>3,011,230</b>	<b>61,170,508</b>	<b>80,830,245</b>	<b>10,594,375</b>	<b>5,791,686</b>	<b>59,623,777</b>	<b>76,009,838</b>
<b>Financial liabilities at FVTPL</b>								
Interest-rate swaps		638,277		638,277		329,901		329,901
Cross-currency interest-rate swaps		252,106		252,106		489,356		489,356
<b>Derivatives identified as hedging instruments</b>								0
Interest-rate swaps		196,037		196,037		186,574		186,574
Cross-currency interest-rate swaps		106,300		106,300		216,203		216,203
<b>Other financial liabilities</b>								0
Liabilities to credit institutions		495,983		495,983		256,890		256,890
Borrowing from the public		5,828,821		5,828,821		2,147,007		2,147,007
Debt securities in issue, etc.		70,090,876		70,090,876		68,668,866		68,668,866
Subordinated liabilities		753,229		753,229		775,054		775,054
<b>Total liabilities measured at fair value</b>	<b>-</b>	<b>78,361,629</b>	<b>-</b>	<b>78,361,629</b>	<b>-</b>	<b>73,069,851</b>	<b>-</b>	<b>73,069,851</b>

No transfers were made between the levels. Level 1 only comprises quoted mortgage bonds and Level 2 derivative instruments and bonds issued by municipalities and county councils for which there are well-established measuring models based on market data.

In 2013, certain bonds were measured using measuring models based on market data and, accordingly, were included in Level 2. From 2014, all bonds are measured at their bid prices and classified as Level 1. An exception is made for one bond, which for technical reasons is valued using a measuring model based on market data and classified as Level 2. No other transfers were made between the levels. Level 1 only comprises quoted mortgage bonds and listed bonds issued by municipalities and county councils. Level 2 comprises derivative instruments and financial assets and liabilities for which there are well-established measuring models based on market data.

#### Level 1

The fair value of financial instruments traded on an active market is based on the bid price of quoted market prices.

#### Level 2

The fair values of financial instruments and derivative instruments not traded on an active market are calculated using the valuation technique of discounting future cash flows. Quoted market rates for the tenor in question are used for discounting. In all cases, listed swap curves were utilised as the basis for measurement. Listed credit spreads relative to the interest-rate swap curve were utilised for measuring the value of bond assets. The interest-rate swap curve and FX-basis swap curve were used for measurement of interest-rate and cross-currency interest-rate swaps, respectively.

#### Level 3

Input for assets/liabilities that are not based on observable market data.

## Note 36 Assets and liabilities by significant currencies

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
<b>Assets</b>				
EUR	447,324	199,538	447,324	199,538
Loans to credit institutions	447,324	199,538	447,324	199,538
<b>Total assets</b>	<b>447,324</b>	<b>199,538</b>	<b>447,324</b>	<b>199,538</b>
<b>Liabilities</b>				
EUR	447,322	199,537	447,322	199,537
Liabilities to credit institutions	447,322	199,537	447,322	199,537
CHF	3,132,836	2,894,270	3,132,836	2,894,270
EUR	3,290,952	3,295,414	3,290,952	3,295,414
NOK	4,160,219	5,094,032	4,160,219	5,094,032
Debt securities in issue	10,584,007	11,283,716	10,584,007	11,283,716
<b>Total liabilities</b>	<b>11,031,329</b>	<b>11,483,253</b>	<b>11,031,329</b>	<b>11,483,253</b>

Other assets and liabilities arise in SEK.

All assets and liabilities in foreign currency are hedged against exchange-rate fluctuations using derivative contracts and the majority reported using hedge accounting.

## Note 37 Change in cash and cash equivalents

SEK thousand	Group		Parent Company	
	2014	2013	2014	2013
Cash and balances at beginning of year	431,893	45,400	431,893	45,400
Loans to credit institutions at beginning of year	261,877	79,730	300,960	71,868
Cash and balances at year end	242,001	431,893	242,001	431,893
Loans to credit institutions at year end	478,332	261,877	571,557	300,960
<b>Total change in cash and cash equivalents</b>	<b>26,563</b>	<b>568,638</b>	<b>80,705</b>	<b>615,585</b>

## Note 38 Disclosures concerning offsetting

Group and Parent Company

SEK thousand

Financial assets and liabilities covered by a contractual master netting agreement or similar, but not offset in the balance sheet.

	Amount recognised in the balance sheet, 31 December 2014	Related amounts not offset in the balance sheet			Net amount, 31 Decem- ber 2014
		Financial instruments	Paid (+) Received (-) collateral - securities	Paid (+) Received (-) cash - collateral	
<b>Assets</b>					
Derivatives, fair value	2,047,922	-953,926			
Derivatives, accrued interest	268,759	-174,155			
<b>Derivatives, total value including accrued interest</b>	<b>2,316,681</b>	<b>-1,128,081</b>		<b>-423,573</b>	<b>765,026</b>
Repurchase agreements, reverse repos	-				
<b>Liabilities</b>					
Derivatives, fair value	-1,192,720	953,926			
Derivatives, accrued interest	-293,271	174,155			
<b>Derivatives, total value including accrued interest</b>	<b>-1,485,991</b>	<b>1,128,081</b>			<b>-357,910</b>
Repurchase agreements, repos	-			-	

### Amounts recognised in the balance sheet

All assets and liabilities are recognised as gross amounts in the balance sheet, calculated on the basis of each individual instrument.

### Financial instruments

Based on contracted master netting agreements, Landshypotek Bank can offset cash flows with the same counterparty and value date. The procedure lowers risk for open exposures.

### Cash collateral received

Under contracted International Swaps and Derivatives Association (ISDA) agreements, Landshypotek has the right

to receive cash collateral for positive market values from counterparties whose ratings fall below a minimum agreed level. Such collateral is paid in cash to Landshypotek Bank's bank account and is recognised as a liability to the respective counterparty in the balance sheet. Paid-in collateral eliminates risk in positive exposures to counterparties with low ratings. If the counterparty defaults, Landshypotek Bank will utilise the paid-in cash collateral.

### Net amounts

Net amounts show the remaining market value of contracted swap agreements that can be neither offset nor covered by received collateral.

## Note 39 Related party disclosures

Group

SEK thousand	2014		2013	
	Lending	Interest income	Lending	Interest income
<b>Lending to key personnel</b>				
Managing Director	0	0	0	0
Board of Directors	109,402	4,222	57,607	2,966
Other individuals in senior positions	8,817	165	15,956	372
<b>Total</b>	<b>118,219</b>	<b>4,387</b>	<b>73,563</b>	<b>3,338</b>

Permanent employees of Landshypotek are able to borrow money at advantageous terms. The types of loans include both secured and unsecured loans. All lending is subject to customary credit approval processes. Credit information is obtained from Upplysningssentralen (UC). These loans may be subject to taxation as benefits. Unsecured loans with a ceiling of SEK 200,000 are granted with straight-line capital repayments over a maximum of ten years. The interest rate is 0.50 percent for 2015. Loans of up to 75 percent of the LTV ratio are granted against collateral in agricultural properties, houses, tenant-owned apartments and holiday homes. Straight-line capital repayment applies for these loans over a maximum period of 40 years. The fixed-rate periods are one, two, three, four, five and eight years. The interest rates are:

1 year	0.80 %
2 years	0.87 %
3 years	0.87 %
4 years	0.98 %
5 years	1.05 %
8 years	1.53 %

Loans to Board members are managed under the conflict of interest rules.

Group

SEK thousand	2014		2013	
	Lending	Interest expense	Lending	Interest expense
<b>Deposits from key personnel</b>				
Managing Director and other key individuals in senior positions	2,095	28	319	9
Board of Directors	5,290	24	3,514	12
<b>Total</b>	<b>7,385</b>	<b>52</b>	<b>3,833</b>	<b>21</b>

Parent Company

SEK thousand	2014		2013	
	Lending	Interest income	Lending	Interest income
<b>Lending to key personnel</b>				
Managing Director	0	0	0	0
Board of Directors	109,402	4,222	57,607	2,966
Other key individuals in senior positions	8,817	165	15,956	372
<b>Total</b>	<b>118,219</b>	<b>4,387</b>	<b>73,563</b>	<b>3,338</b>

Permanent employees of Landshypotek are able to borrow money at advantageous terms. The types of loans include both secured and unsecured loans. All lending is subject to customary credit approval processes. Credit information is obtained from Upplysningssentralen (UC). These loans may be subject to taxation as benefits. Unsecured loans with a ceiling of SEK 200,000 are granted with straight-line capital repayments over a maximum of ten years. The interest rate is 0.50 percent for 2015. Loans of up to 75 percent of the LTV ratio are granted against collateral in agricultural properties, houses, tenant-owned apartments and holiday homes. Straight-line capital repayment applies for these loans over a maximum period of 40 years. The fixed-rate periods are one, two, three, four, five and eight years. The interest rates are:

1 year	0.80 %
2 years	0.87 %
3 years	0.87 %
4 years	0.98 %
5 years	1.05 %
8 years	1.53 %

Loans to Board members are managed under the conflict of interest rules.

Parent Company

SEK thousand	2014		2013	
	Lending	Interest expense	Lending	Interest expense
<b>Deposits from key personnel</b>				
Managing Director and other key individuals in senior positions	2,095	28	319	9
Board of Directors	5,290	24	3,514	12
<b>Total</b>	<b>7,385</b>	<b>52</b>	<b>3,833</b>	<b>21</b>



# Appropriation of earnings

Retained earnings	1,000,607,380 SEK
Group contribution	-176,700,000 SEK
Tax effect of Group contribution	38,874,000 SEK
<b>Total</b>	<b>862,781,380 SEK</b>
Net profit for 2014	295,066,505 SEK
<b>At the disposal of the Annual General Meeting</b>	<b>1,157,847,885 SEK</b>

Conditional on the approval of the Annual General Meeting, a Group contribution has been paid in the amount of SEK 176,700,000, which has reduced unrestricted equity as of the balance sheet date by SEK 137,826,000 after taking the tax effect into account. The proposed transfer of value in the form of a Group contribution reduces the company's capital quotient to 1.24, calculated in accordance with the transitional rules of the Swedish Financial Supervisory Authority. Unrealised changes in value of assets and liabilities measured at fair value had a positive net impact on equity of MSEK 273.6.

The Board of Directors is of the opinion that the proposed dividend, in the form of a Group contribution, does not compromise the company's ability to fulfil its obligations in the short and long term, nor to make any necessary investments. The proposed transfer of value can therefore be justified considering that stated in Chapter 17, Section 3, paragraphs 2-3 of the Swedish Companies Act.

The Board of Directors proposes that the year's funds at the disposal of the Annual General Meeting, SEK 1,157,847,885, be carried forward. The Board of Directors and Managing Director hereby certify that the consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and provide a fair representation of the Group's position and performance. The annual accounts have been prepared in accordance with generally accepted accounting principles and provide a fair representation of the Parent Company's position and performance.

Stockholm, 12 March 2015

Henrik Toll  
*Chairman*

Anna-Karin Celsing  
*Member*

Hans Heuman  
*Member*

Catharina Lagerstam  
*Member*

Johan Löwen  
*Member*

Nils-Fredrik Nyblæus  
*Member*

Synnöve Trygg  
*Member*

Charlotte Önnestedt  
*Member*

Helena Andersson  
*Member/Employee Representative*

Hans Broberg  
*Member/Employee Representative*

Liza Nyberg  
*Managing Director*

Our auditors' report was submitted on 12 March 2015

Ulf Westerberg  
*Authorised Public Accountant*

Helena Kaiser de Carolis  
*Authorised Public Accountant*

# Auditor's report

To the annual meeting of the shareholders of Landshypotek Bank AB, corporate identity number 556500-2762

## Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Landshypotek Bank AB for the year 2014, except for the corporate governance statement on pages 20-29. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 12-79.

### *Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts*

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the parent company as of 31 December 2014 and of its financial performance and its cash

flows for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and the consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2014 and

of their financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinion does not comprise the corporate governance statement on pages 20-29. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

## Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Landshypotek Bank AB for the year 2014. We have also conducted a statutory examination of the corporate governance statement.

### *Responsibilities of the Board of Directors and the Managing Director*

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act and the Banking and Financing Business Act and that the corporate governance statement on pages 20-29 has been prepared in accordance with the Annual Accounts Act.

### *Auditor's responsibility*

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies, or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Furthermore, we have read the corporate governance statement and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

### *Opinions*

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

A corporate governance statement has been prepared, and its statutory content is consistent with the other parts of the annual accounts and consolidated accounts.

Stockholm 12 March 2015

Ulf Westerberg  
Authorized Public Accountant

Helena Kaiser de Carolis  
Authorized Public Accountant

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Production: Wildecos Ekonomisk information.  
Photo: Brendan Austin, Felix Odell, Lasse Eklöf/S-E-R.se, Landshypotek.

