



Landshypotek Bank

# Annual Report 2020



For a richer life in the countryside

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## Reporting calendar

General Meeting of Shareholders	28 April
Interim Report Q1	5 May
Interim Report Q2	22 July
Interim Report Q3	1 November





# For a richer life countryside

Landshypotek Bank wants to promote a richer life countryside. While other banks focus on the major cities and their prevailing economic conditions – we lift our gaze beyond Stockholm, Gothenburg and Malmö. We want to give everyone in Sweden opportunities to live richer lives. We want the Swedish countryside to continue to develop. This is our vision today. We have promoted and believed in this vision since 1836.

Landshypotek Bank is owned by some 37,000 farmers and foresters across the country and the bank's surplus is distributed to them.

Over the years, we have financed hundreds of thousands of investments in a living and sustainable countryside – in open landscapes, well-kept forests and locally produced food. But we are not here solely for green entrepreneurs in the countryside. Loans are offered to homeowners in the countryside as well as to homeowners across the country. Our savings products are open to Sweden's general public and to companies.

Together with our customers, Landshypotek Bank generates growth in Sweden. We are a small bank with a vital mission – to promote a richer life countryside.





# Selected KPIs

SEK **872** million

Net interest income amounted to SEK 872 million.

SEK **397** million

Operating profit amounted to SEK 397 million.

SEK **83.0** billion

Lending amounted to SEK 83.0 billion.

SEK **14.7** billion

Deposits amounted to SEK 14.7 billion.

**204**

204 people work at Landshypotek Bank. 30 new employees began working with us during the year – 14 women and 16 men.

**81,000**

Landshypotek Bank has 81,000 customers who borrow to finance farms, forests and houses, as well as savers.



# CEO's Statement

Landshypotek stood strong in 2020. We ended this unusual year significantly stronger than when we started it. We posted a very strong performance in the second half of the year. Over the year, we have proved to be extremely safe for our customers and been able to be active in the market during uncertain times. Our lending has grown. We have become increasingly accessible and relevant through our continuous and ongoing digital development, and the strength of our business model has been confirmed. Attributes we bring with us into 2021.

The developments also impacted figures for the year. Caution prevailed initially in the market following the Riksbank's (Sweden's central bank) interest rate change in January and the uncertainty arising in March in conjunction with society's measures to prevent the spread of Covid-19. In the autumn, growth in lending to farming and forestry was better than it has been for many years. Our historical relevance as the market leader in farming and forestry lending is being revitalised. In parallel, we remain one of the strongest new challengers in the mortgage market and increased our total lending volume 8.7 percent during the year to SEK 83 billion.

We have invested in digitalisation and improved customer interfaces, while maintaining good cost control. The low interest rate environment combined with the bank's stable operations create good preconditions for increasingly low financing costs. Together with increased volumes, this means that operating profit for the year of SEK 397 million entails a year-on-year improvement given that last year's figures included a capital gain of SEK 55 million from a property sale.

Despite a trying year, there are many positives to carry forward into 2021:

- *The favourable future outlook* in agriculture, with substantial interest in everything locally produced and sustainable food. Our Lantbrukspanel are increasingly positive about being a farmer. In many areas harvests have been generally good and in many sectors price trends have been favourable.
- *Our developed market presence*, with increased visibility and digital marketing. As a smaller operator, we are making more contacts and organising partnerships with other parties to capture greater space in the market. Over the year, we have rebuilt our website to better reflect the digital bank we are today. We are the only bank to provide a digital portal for farmers and foresters, which is arousing increasing interest and use. In addition, we have a local presence with account managers and elected representatives with sector expertise.

- *Our safety as a bank.* We have invested for many years in regulatory compliance and systems to become safer and better for customers. The low-risk nature of our business was noticeable through the year, since the societal uncertainty led to no noticeable change in customers' credit quality. Our favourable capital situation means we have always had the capacity to continue lending.
- *Our business model's contribution to societal benefit.* In the autumn, the association chose to distribute SEK 141 million to its members as a dividend for 2019. We took a considered approach to the dividend. But our assessment is that the dividend benefits society through the transfer of funds to our customers – Swedish farmers and foresters. Profit sharing forms the core of our business model. Its strength was confirmed when many members chose to reinvest their dividends.

We are owned by a cooperative association, whose members are our farming customers. The members pay in contributions, proportionate to their loans, to the association, thereby clearly linking the transactions to the association. Member returns are a core principle for a cooperative association and thus a foundation for our business model. Our assignment is to provide good financial terms to our customers, within which the dividend from the cooperative association is a key component of customers' total loan calculation. The profit distribution strengthens the finances of farms across the country that account for Swedish food production and forestry. The importance of Swedish agriculture and forestry has been highlighted during the year by government agencies in the wake of the pandemic. Agriculture has taken its place among societally important functions. In our model, the dividend is part of the societal benefit. The funds are distributed to Sweden's farmers and foresters, a share returns to us as contributed capital and a share goes to tax. It is a closed system for shared value creation.

The strength of our unique form of ownership showed when many thousands of members actively chose to contribute new capital to Landshypotek, increasing



members' contributions in Landshypotek by SEK 67 million and demonstrating that the members are active and believe in our model comprising dividends and contributions.

Based on the strong earnings for 2020, SEK 163 million has been allocated as a Group contribution to the cooperative association for distribution and for running the association's operations. The Association Board proposed that the Association Meeting resolve to distribute a dividend of SEK 147 million, which corresponds to a return of 8 percent on the members' contributions.

We even provide societal benefit in terms of housing transactions. We may not be large in terms of lending volume, but as a highly transparent challenger, we help many more than just those who choose us. We actively contribute to changing the previously homogeneous market with few participants to something better and more customer friendly.

We are now in 2021. We are continuing our endeavours to enable more people to find us and generate the growth we need. Though our customer base is growing

daily, it needs to be larger. We are continuously developing our relevance and accessibility for more customers. At the same time, we are identifying new possibilities. These include broadening the accessible market for our core products, for example where we currently exclude financing of tenant-owner cooperatives.

Attracting more customers means being more visible. We may need to develop other products, form more partnerships to reach more customers and together with others create more and enhanced offerings. The development of simple, comprehensible and easily accessible digital interfaces is a key element of our development and continued growth moving forward.

In 2020, we reached a new level and platform as our foundation. This foundation provides excellent preconditions for continuing to develop and be the best bank for lending – to existing and new customers in 2021.

Per Lindblad  
*Chief Executive Officer*

# The year in figures

Through healthy growth in the market during troubled times, we have demonstrated our strength despite this unusual year. Following a cautious start to the year, our lending to farmers and mortgage customers grew vigorously through the autumn. We have continued to invest in our digitalisation and improved customer interfaces, while maintaining good cost control. The operating profit for the year of SEK 397 million was up year-on-year given that last year's figures included a capital gain from a property sale. We will carry with us 2020's robust growth and positive earnings into 2021 to continue building an even better and more sustainable bank.

Per Lindblad, CEO

- Operating profit amounted to SEK **397** million (418). Operating profit for 2019 included a capital gain of SEK 55 million attributable to the sale of one property.
- The underlying operating profit, excluding the net result of financial transactions, was SEK **414** million (420).
- Net interest income amounted to SEK **872** million (815).
- Costs totalled SEK **478** million (461).
- Net credit losses positively impacted earnings by SEK **13** million (positive: 3).
- Loans to the public amounted to SEK **83.0** billion (76.4).
- Deposits from the public amounted to SEK **14.7** billion (14.4).

SEK million	2020	2019
Net interest income	872	815
Operating profit	397	418
Profit after tax	303	332
Loans to the public	83,036	76,367
Change in loans to the public, %	8.7	5.3
Interest margin, LTM, %	1.11	1.10
Deposits from the public	14,672	14,449
Change in deposits from the public, %	1.5	2.1
C/I ratio including financial transactions	0.55	0.53
C/I ratio excluding financial transactions	0.54	0.53
Credit loss level, % <sup>1)</sup>	–	–
Total capital ratio, %	20.5	19.2
Rating, long-term		
Standard & Poor's, Covered bonds	AAA	AAA
Standard & Poor's	A	A-
Fitch	A	A
Average number of employees, LTM	204	198

<sup>1)</sup> An outcome is only presented in the case of a negative earnings impact.



# About Landshypotek Bank

Landshypotek Bank is a wholly owned subsidiary of Landshypotek Ekonomisk Förening, which was founded almost two centuries ago to provide Sweden's farmers and foresters with safe financing on favourable terms. In 2017, the bank started to offer homeowner mortgages and has established itself in the mortgage market as a strong challenger offering clear and competitive interest rates.

In terms of the volume of loans outstanding, Landshypotek Bank is one of the ten largest banks in Sweden and is classed as systemically important due to its major significance for financing farming and forestry.

While the bank has specialised in lending, it also offers secure savings.

Landshypotek was founded by customers and is still owned today by those customers that borrow for farming and forestry, organised under a cooperative association. Accordingly, being customer-centric is intrinsic to the business model. The surplus is returned to farming and forestry customers. The bank has almost 200 employees nationwide.

Landshypotek Bank's market strength as a bank with a difference builds on aspects including:

- **To promote a sustainable countryside**

A living countryside, with cultivated and productive fields and forests that create growth and jobs. Landshypotek Bank's lending and savings accounts lay the foundation for a sustainable future for cities and the countryside. The bank's brand promise — "For a richer life in the countryside" — is interwoven in operations and the employees' work days.

- **Promoting farming and forestry**

Landshypotek Bank is owned by farmers and foresters and is the only bank in the Swedish banking market with full focus on lending to farming and forestry. Many account managers around the country have backgrounds in agriculture and forestry. The elected representatives have local networks within the farming and forestry sectors. Landshypotek is a green company with a green voice for Sweden's farmers and foresters.

- **Customer-centric DNA**

Landshypotek was founded by customers almost two centuries ago to enable secure loans with favourable interest rates. Customers guide the bank's development to continue challenging Sweden's banking market in terms of security, knowledge and favourable terms – whether for farm financing or mortgages and regardless of the location in Sweden.

- **The force of employee commitment**

The bank is developing together with its employees. As a small bank, participation and collaboration are prerequisites to be able to continue competing in the market and doing our best for customers. Therefore, Landshypotek Bank invests considerable energy in collaboration and constantly develops leadership and employeeship.

- **Rapid digital development**

Landshypotek Bank is undergoing rapid digital development and customers interface with the bank in increasing numbers of ways. Currently, Landshypotek is the only bank in the market with a digital portal for farming and forestry. The digital communication is developing rapidly and complements the bank's more traditional interfaces to provide the best customer experience.

## Landshypotek Bank – in brief

- Founded in 1836.
- Has 81,000 farming and forestry customers, as well as mortgage borrowers and savers.
- Has lending of some SEK 71.5 billion to farming and forestry in Sweden and SEK 11.5 billion in homeowner mortgages.
- Savings volumes amounted to SEK 14.7 billion.
- Owned by some 37,000 members of the cooperative association active in farming and forestry.
- SEK 141 million was distributed directly to members in 2020.
- The bank has 204 employees nationwide and welcomed 30 new staff members during the year.

# Events during the year

As for others, at the same time as Landshypotek Bank has had to relate to and manage the consequences of combatting the pandemic in society, growth has been good. Lending volumes increased for farming and forestry as well as for mortgages. The bank has continued its development to become an increasingly popular and better bank. An increased market presence and new partnerships has enabled more people to discover and choose a bank with a difference in Sweden's banking market.

## Increased digitalisation – new ways of meeting

Digitalisation and alternative ways of meeting have been accelerated by the pandemic. Increasingly, the bank's internal meetings have been conducted digitally and from home offices. Regional meetings and general meetings have also been performed digitally, as have many customer meetings. At the end of November, Landshypotek invited customers and other stakeholders in agriculture and forestry to a larger digital autumn meeting about the past agricultural year and the year to come.

## Increased accessibility – better for customers

Increased digitalisation facilitates bank errands and getting in touch with Landshypotek. Over the year, digital applications for first lien mortgage loans to farming and forestry took off dramatically. Since last autumn, loan terms can also be changed via the online bank. Documents are increasingly being made available in the online bank, for example, annual statements and changes in general terms and conditions. The new website was launched in December and has been developed based on the need of users to quickly and easily apply for loans, to save, retrieve information, and obtain advice and tips as well as contact the bank.

## Record interest in Landshypotek's mortgage loans

Landshypotek continued to offer homeowners competitive mortgage rates for many fixed terms during the year. Increased visibility through, inter alia, good communication collaborations and digital marketing has led to more people becoming aware of the bank. Moreover, a partnership with Villaägarna was initiated in October. Landshypotek's mortgages attracted record interest during the autumn.

## Impact on improving the EU taxonomy for sustainable forestry

In the autumn, the European Commission presented proposals for a taxonomy, a framework providing guidance on which investments can be considered environmentally sustainable. The bank has been critical of the formulation of the proposal and identified major risks for Swedish forestry. Discussion of these matters, which has been long called for by Landshypotek, started in the autumn. Further political action in the EU is now pending.

## Substantial interest when Landshypotek returned to the green bond market

In November, Landshypotek expanded its second green covered bond, which finances sustainable Swedish forestry. The issue of a further SEK 2.5 billion attracted substantial investor interest. Altogether, the bank has issued green bonds for a total of SEK 10.75 billion and is the Nordic region's largest issuer of green covered bonds.

## SEK 141 million was distributed to farmers across Sweden

During the economic uncertainty in the spring, Landshypotek Ekonomisk Förening, which owns Landshypotek Bank AB, decided to defer distribution of the member dividend. Armed with a better overview of the consequences and based on the bank's strong financial status as well as credit quality, the Extraordinary Association Meeting on 6 November resolved to adopt the proposed dividend. SEK 141 million of the bank's profits for 2019 were distributed to members, of which SEK 25 million was added to equity in the form of member contributions at the distribution date. Moreover, the members reinvested a further SEK 34 million.





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# Our operating environment

In 2020, the financial market was dominated by low interest rates and a buoyant stock market, in a macro environment dominated by political risk and clear signs of an economic downturn. Record harvests and bark beetle infestations were key elements when summing up the year for farming and forestry.

## Agriculture's role strengthened in importance in 2020

2020 was largely dominated by the pandemic. However, despite a testing year, the country's farmers and forest owners were generally not impacted like other sectors. Conversely, there are many positives to carry through to 2021, with substantial interest in sustainability and produced in Sweden as well as a favourable price trend in several branches.

## Essential operations

Following the pandemic's outbreak, the government decided to class the food supply chain, including primary production, as an essential operation. The decision confirms the importance of agriculture's role and helps boost farmers' belief in the future.

## Swedish producers capture larger market shares

Consumption patterns have changed during the pandemic. More work from home, fewer restaurant visits and closed upper secondary schools have resulted in a greater share of retail food purchases from the retail sector. This has strengthened the last few years' trend of increasing shares for food produced in Sweden.

This also contributes to 2020 being positive for animal producers, with the exception of egg production, which had overproduction in Sweden. Prices for pigmeat and piglets were stable at a significantly higher level than 2019. Even beef prices were up on last year and were among the highest in the EU. The failure of beef production volumes to fully recover following the 2018 drought was a contributory factor. Demand for Swedish meat exceeds supply. Within the EU, prices for pigmeat and beef were lower compared with 2019, following a decline in demand. The quantity of milk weighed-in was the highest since 2014 for Sweden and the average price was up slightly on 2019.

Harvests in arable farming were down somewhat on 2019, but remained the third largest in the last 25 years. Cereal prices were also high driven, for example, by increased imports to China and export stops in some countries.

## Increased digitalisation

Alternative digital interfaces for transactions, advice and exchanging experience are in increasing demand. Today, customers increasingly choose to interface digitally with the bank.

A clearer digital transition is also notable, albeit in other ways, for forest owners. Declining demand for newsprint has lowered pulp wood prices and the increase in e-commerce has contributed to the industry switching some production to packaging. The timber market experienced a more positive trend as a result of increased exports. In addition to weak pulp wood demand, the timber market price trend was depressed by large stocks resulting from bark beetle infestations. Damage caused during the year is estimated to be the highest ever in the country. Studies indicate that attacks can be expected to be lower in 2021.

## Focus on sustainability

The pandemic has brought the importance of food security to the forefront, but in 2020 sustainability captured substantial focus even in other contexts. The European Commission has, inter alia, highlighted sustainability in the taxonomy proposals. Landshypotek Bank has been critical of the formulation of parts of the proposal pertaining to farming and forestry, as it is unclear whether the regulations really promote more sustainable use. They would also involve extensive reporting.

A stronger economy for farming together with a more positive future outlook and increased interest in safe, long-term, sustainable investments, has resulted in considerable interest in buying agricultural properties – combined with low supply and low interest rates, value trends have been positive.

In summary, the industry has good momentum moving into 2021, both in terms of demand and of volumes produced. This was also reflected by Landshypotek Bank's Lantbrukspanel\*, where 8 out of 10 larger farm entrepreneurs feel positive about the role of farmer.

\* Landshypotek's Lantbrukspanel, a recurring panel with answers provided by more than 100 driven and engaged agricultural entrepreneurs across the country. Panel participants answer questions about their thoughts, beliefs and feelings regarding current sector issues and on what it is like to run a company in farming and forestry.



The same panel is of the opinion that constraints and complicated rules for ownership and use are the main obstacles to developing operations.

### Three themes for this year's financial markets

In 2020, financial markets were dominated by the coronavirus pandemic, massive support measures by central banks and the hope of a vaccine. Initially, stock markets went into substantial and rapid declines. Liquidity support measures by central banks have positively impacted stock markets and credit spreads have fallen below pre-pandemic levels.

Stock market downturns were followed by a strong recovery in the spring and summer before reaching new highs toward the end of the year. Aside from the pandemic, the market has had two other causes for concern – uncertainty stemming from Brexit and a US stimulus package, both of which came to pass over the Christmas holidays. The UK left the EU with an agreement and the US put a stimulus package in place. Labour market challenges have been noted in the US and Europe. The macro outlook for Sweden has been better than for many other parts of the world with a robust labour market, strong purchasing managers index (PMI) and rising house prices.

### Difficult in the US

The US labour market fell sharply at the outbreak of the pandemic with lockdowns but improved as the economy reopened in the second and third quarters. At year end, we again noted a downturn in the labour market due to the increasing spread of the virus and new lockdowns. Despite lower unemployment in December, far fewer new jobs were created than expected, indicating that the US economy is taking longer to recover than many thought.

### Slightly more positive in Europe

The development of the economy in Europe also suffered major impact from the lockdown. The services sector was hit particularly hard. However, clear signs of recovery in parts of the economy could be seen as early as June. As contagion accelerated again toward the end of the year, activity once again declined.

Industrial production and retail sales have remained relatively stable. Hope that a vaccine roll-out will stimulate the economy lifted sentiment. However, Europe remains

in deflation with annualised CPI in December at negative 0.3 percent.

The European Central Bank has taken strong action. Among other measures, the ECB has introduced a bond purchase programme that will remain active until the coronavirus crisis is over. Even if the ECB left the key interest rates unchanged during the year, it has indicated that future rate cuts cannot be ruled out should they prove necessary.

### Better in Sweden

The pandemic's outbreak also hit Sweden with a downturn in economic activity, a falling economy and rising unemployment. But as early as June, the recovery began to show in the PMI, retail sales and a rising Economic Tendency Survey. The positive trend continued in the second half of the year. The year ended strongly with the PMIs for December at 64.9 for manufacturing and 56.6 for the services sector.

While some sectors in Sweden, particularly the restaurant and hospitality sectors, were hit hard by stricter restrictions to reduce contagion, to date, there have been no broader effects on the wider economy. The housing market has remained stable. At an annualised rate, prices increased by double digits for house and 7 percent for tenant-owner apartments.

The government has delivered several support liquidity packages for companies and steps to mitigate impact on the labour market. Sweden's financial supervisory authority (Finansinspektionen) has supported banks by relaxing the countercyclical buffer requirement, accepted departures from the liquidity coverage requirement, allowed amortisation relief and deferred introduction of forthcoming regulatory frameworks.

The Riksbank has introduced a raft of measures. The bond purchase framework has been expanded in terms of volume and duration and to include corporate bonds. Moreover, the Riksbank has offered loans to banks for onward lending to companies.

The Riksbank projects an unchanged repo rate of zero until the end of 2023, but has not completely shut the door on interest rate cuts. The Riksbank and other central banks' liquidity support measures have had considerable effect on Stibor, that is the interbank rate, which has fallen to historic lows in relation to the repo rate.





# Administration Report

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# Administration Report

Landshypotek Bank posted continued strong growth in volumes as well as satisfactory earnings. Moreover, the bank reported a year-on-year decrease in operating profit, which was mainly attributable to the sale of one property in 2019 that resulted in a capital gain of SEK 55 million. Excluding this sale, operating profit increased SEK 34 million during the year. Net interest income improved during the year and the bank's loans to the public increased SEK 6.7 billion.

## Financial Report

The bank's operating profit amounted to SEK 397 million (418). Excluding the net result of financial transactions, operating profit amounted to SEK 414 million (420). The change in earnings was mainly attributable to the sale of one property in 2019 that resulted in a capital gain of SEK 55 million. Excluding this sale, operating profit increased SEK 34 million during the year. The change was mainly due to improved net interest income, which was partly offset by a lower net result of financial transactions and higher costs.

### Net interest income

Net interest income amounted to SEK 872 million (815). Interest income totalled SEK 1,443 million (1,351), up as a result of increased lending and higher interest rates. Interest expenses amounted to SEK 571 million (536). The increase was driven by larger lending volumes during the year but was offset by lower funding costs. Interest expenses included fees of SEK 32 million (48) to the Swedish National Debt Office's resolution fund.

### Net result of financial transactions

The net result of financial transactions amounted to a loss of SEK 17 million over the year, where unrealised losses in the period accounted for SEK 14 million and realised losses for SEK 3 million.

### Other operating income

Other operating income was SEK 8 million (62), with the change mainly due to the sale of one property in 2019.

### Costs

Costs amounted to SEK 478 million (461). The cost increase was partly an effect of putting investments into operation, but also due to necessary planned improvements to new systems, increased protection against cyber threats and higher amortisation and depreciation as a result of the bank implementing a new credit scoring system in the third quarter of 2019.

### Credit losses and credit-impaired assets

Net credit losses amounted to recoveries of SEK 13 million (3), of which net credit losses for non-credit-impaired

assets had a positive earnings impact of SEK 6 million and credit-impaired assets had a positive earnings impact of SEK 7 million that was attributable to recoveries of a few individual commitments.

The total credit loss allowance for non-credit-impaired assets amounted to SEK 17 million (23).

The bank's definition of default is governed by external capital adequacy rules. These rules have changed and as a result, the bank's definition of default changed in the fourth quarter. The change is reported in more detail under Note 3. In conjunction with this change, the number of stage 3 credits decreased, as they were defined as being in default. The effect on the bank's provisions for credit losses was limited, but amounted to a positive impact of just under SEK 1 million.

Gross credit-impaired assets amounted to SEK 583 million (634) and the credit loss allowance to SEK 24 million (52). The provisions for credit-impaired assets pertained to individual commitments within varying types of farming and geographic locations. The bank continued to post extremely good credit quality with continued credit recoveries. For more information, refer to Note 10 and Note 14.

### Other comprehensive income

Other comprehensive income amounted to an expense of SEK 3 million (expense: 10). Financial assets at fair value had an effect of SEK 6 million (negative: 7) on other comprehensive income and cross-currency basis spreads in fair-value hedges had a negative impact of SEK 8 million (negative: 3) on other comprehensive income.

### Assets

The largest asset item in the balance sheet is loans to the public, which amounted to SEK 83.0 billion (76.4). During the year, the increase amounted to SEK 6.7 billion and corresponded to lending growth of 8.7 percent. The largest part of the increase was attributable to mortgage operations. The geographic distribution of lending remains stable over time. Landshypotek Bank's liquidity portfolio totalled SEK 9.7 billion (9.8). The portfolio comprises Swedish covered bonds with the highest credit rating and bonds issued by Swedish municipalities. The holding of interest-bearing securities functions as a liquidity reserve.





## Operating profit

SEK million	2020	2019
Net interest income	872	815
Other operating income	-10	60
Of which net result of financial transactions	-17	-1
Costs	-478	-461
C/I ratio including financial transactions	0.55	0.53
C/I ratio excluding financial transactions	0.54	0.53
Net recognised credit losses	13	3
Credit loss level, % <sup>1)</sup>	–	–
Operating profit	397	418
Operating profit excluding the net result of financial transactions	414	420

<sup>1)</sup> An outcome is only presented in the case of a negative earnings impact.

The liquidity portfolio was 1.1 times (1.9 at 31 December 2019) larger than refinancing requirements for the next six months. The ratio is affected by the allocation of maturing debt for longer than six months and can, therefore, change between measurement periods.

## Liabilities

### Funding

Landshypotek Bank actively raises funds via the capital markets, and as far as possible always strives to meet investors' wishes regarding tenors and interest-rate structures. Investor relations are of major importance as part of ensuring that investors' levels of awareness and interest are maintained in Landshypotek Bank.

Covered bonds are bonds that carry a preferential right in a defined cover pool. Covered bonds outstanding totalled SEK 62.0 billion (55.6). Assets in the cover pool corresponding to SEK 86.8 billion (76.5) are in place as collateral for these bonds.

Landshypotek Bank has one international EMTN programme with a limit corresponding to around SEK 100.5 billion (105.0). The EMTN programme is denominated in EUR and has decreased over the year due to changes in the exchange rate.

During the year, covered bonds were issued to a value of approximately SEK 19.6 billion (12.1), of which one was a green covered bond to a value of SEK 2.5 billion. Moreover, the bank issued senior bonds to a value of SEK 2.6 billion (2.9). Over the year, bonds matured or were repurchased to a value of SEK 11.9 billion (14.6), of which SEK 9.1 billion (8.1) pertained to covered bonds and SEK 2.8 billion (6.5) to senior bonds.

Covered bonds are Landshypotek Bank's most important source of funding. 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 and residential mortgages as

collateral as well as supplemental collateral that comprises covered bonds issued by other credit institutions and bonds issued by Swedish municipalities.

The credits in Landshypotek Bank's cover pool have an LTV of 42.7 percent (42.5). The LTV or loan-to-value ratio shows loan amounts in relation to the value of the collateral. Accordingly, this means that Landshypotek Bank's customers' loans amount to 42.7 percent (42.5) of the value of their properties. Landshypotek Bank has around 46,000 loan customers and some 36,000 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 about 100,000.

#### Cover pool and covered bonds, SEK million

##### Cover pool

Loans	78,141
Supplemental collateral	3,725
Own debt securities issued	4,900
<b>Total cover pool</b>	<b>86,766</b>

##### Covered bonds

Issued in SEK	62,570
Issued in foreign currency	3,470
<b>Total covered bonds</b>	<b>66,040</b>
<b>Excess collateral</b>	31.4% 20,726

#### Key figures, cover pool, SEK million

##### LTV – Loan-to-value ratio

Average volume-weighted LTV	42.7%
<b>Number of pledged properties</b>	<b>35,581</b>
<b>Number of borrowers</b>	<b>46,142</b>
<b>Number of loans</b>	<b>100,352</b>

#### Lending volume in the cover pool per LTV interval

<10%	29%
10–20%	23%
20–30%	18%
30–40%	14%
40–50%	10%
50–60%	6%
60–70%	1%
70–75%	0%

*Of Landshypotek Bank's lending, 52 percent takes place against collateral where the loan amount is less than 20 percent of the value of the collateral. Only 1 percent of lending is against collateral where the loan amount is 60 percent or more of the value of the collateral.*

#### Deposits from the public

Deposits from the public totalled SEK 14.7 billion (14.4). Deposits from the public remained stable with little variation over the year.

### Capital and capital adequacy

The total capital ratio, own funds relative to risk-weighted assets, for the consolidated situation amounted to 18.8 percent (18.2). The CET1 capital ratio, CET1 capital relative to risk-weighted assets, amounted to 15.2 percent (13.9). The internally assessed capital requirement for the consolidated situation was SEK 4.1 billion (5.0). During the year, the capital requirement has reduced significantly, largely due to the lower countercyclical buffer requirement. However, Landshypotek's assessment is that the buffer requirement will be raised in the mid-term and the bank has therefore raised its internal capital targets to prepare for a future increase in the countercyclical buffer requirement. The capital requirement should be compared with own funds of SEK 6.3 billion (6.3). The capital adequacy assessment takes into account the minimum capital requirement, the Pillar II capital requirement and the combined buffer requirement. Refer to Note 3 for further information.

### Group contribution

Contingent upon the approval of the General Meeting, a Group contribution will be paid by Landshypotek Bank AB in the amount of SEK 163 million (162) to Landshypotek Ekonomisk Förening.

### Rating

Landshypotek Bank has credit ratings from two different rating agencies, Standard & Poor's and Fitch. During the year, Standard & Poor's raised the bank's long- and short-term ratings to A and A-1, respectively. During the year, Fitch again set the bank's long- and short-term ratings to A and F1, respectively.

Rating	Long	Short
S&P covered bonds	AAA	
Standard & Poor's	A	A-1
Fitch	A	F1

### Impact of Covid-19

#### Loans to the public

Landshypotek Bank has conducted continuous stress tests, and performed analyses and controls of groups of



customers with shared attributes to ensure the bank maintains good credit quality. The bank has encouraged customers to take early contact with the bank if they believe the effects of Covid-19 will affect their future payment capacity. The bank maintains ongoing dialogues with customers who could be impacted and follows Finansinspektionen's guidelines for temporary amortisation relief.

The bank continues to monitor GDP and property price developments, which are influencing factors in the model for credit loss provisions. Property prices remained stable throughout the year and posted positive price trends. GDP fell sharply in the first six months before recovering strongly in the second half of the year. The bank has not noted any negative impact on the bank's customers or decline in the quality of the credit portfolio as a result of society's efforts to combat Covid-19.

#### Funding

Following a more turbulent initial period, the financial markets functioned well for most types of bond issues. Landshypotek Bank issued both covered and senior bonds. The Riksbank's continued and expanded purchases of covered bonds have helped keep credit spreads low and they have now fallen below pre-pandemic levels.

Measures by the central banks to support liquidity have been expanded during the year, which has had a positive effect, creating a liquidity surplus in the market. During the year, Stibor has posted historic lows in relation to the repo rate. The bank's main funding source is covered bonds and with a now well-functioning market for issuances, the bank's funding possibilities remain stable.

### Sustainability Report pursuant to the Annual Accounts Act

Landshypotek Bank has prepared a sustainability report pursuant to the Annual Accounts Act. Landshypotek Bank's Sustainability Report contains information about the company's initiatives and position in terms of sustainable development, customers and the offering, personnel

and the work environment, business ethics, anti-corruption and environmental impact. The Sustainability Report is available on pages 20–32.

### Proposed appropriation of profits

SEK	
The following unrestricted equity is at the disposal of the Annual General Meeting:	
Retained earnings	2,148,601,192
Group contribution	-162,500,000
Tax effect of Group contribution	34,775,000
Net profit for the year	303,021,484
	<b>2,323,897,676</b>

The Board of Directors proposes that the funds at the Annual General Meeting's disposal be allocated as follows:

To be carried forward	2,323,897,676
	<b>2,323,897,676</b>

Conditional on the approval of the Annual General Meeting, a Group contribution has been paid in the amount of SEK 162,500,000, which has reduced unrestricted equity as of the balance sheet date by SEK 127,725,000 after taking the tax effect into account. Unrealised changes in the value of assets and liabilities measured at fair value had a net negative impact on equity of SEK 47,734,325.

The Board of Directors is of the opinion that the Group contribution does not compromise the company's ability to discharge 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 2,323,897,676, be carried forward.

The annual accounts have been prepared in accordance with generally accepted accounting principles and provide a fair representation of the company's position and performance.

### Funding

SEK million
Swedish commercial paper
MTN programme
EMTN programme
Registered covered bonds
Subordinated loans

<sup>1)</sup> EUR 10,000 million

Issued 31 December 2020	Limit	Issued 31 December 2019
–	10,000	–
34,220	60,000	42,898
31,788	100,498 <sup>1)</sup>	16,582
3,213		3,571
1,900		1,900







# Sustainability Report

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# To promote sustainable development countrywide

Landshypotek Bank helps people to run companies, realise their dreams and to live countrywide. Through the strong commitment of the bank's owners, customers, investors and employees, the bank strives daily to develop our unique bank. Landshypotek Bank believes in wise, long-term investments that continue over generations. More than 180 years ago, the first building society was founded that evolved into Landshypotek Bank as it stands today, and we plan to continue offering competitive financing and safe savings to countryside entrepreneurs and households for at least as long again.

## The bank's contribution to sustainable development

A living countryside, where fields and forests are cultivated, creates growth and jobs as well as the prerequisites for an evolving business community and welfare across the country. Sustainable development countrywide rests on the possibilities for living and working throughout Sweden. Landshypotek Bank uses sound and responsible credit granting to enable investments in rural enterprise and housing, both in and outside of cities. This lays the foundation for a future for the cities and the

countryside. In this way, the bank contributes to sustainable societal development – socially, environmentally and economically.

## Meaningful for development across the country

Agriculture and forestry fill many important functions and are of great significance to the country's development. The forest is a key link in the transition to a fossil-free society. Forest raw materials are renewable, recyclable and biodegradable, and can be used for many different products and replace fossil alternatives. Growing forests bind carbon dioxide and counter climate changes.

Swedish farms and agriculture maintain high standards for animal husbandry, environmental adjustment and food quality. Agriculture has considerable potential to contribute to reducing CO<sub>2</sub> emissions. The use of forests and cultivated land also contributes to biodiversity, nature management and variety in the Swedish countryside.

Being the bank for all of Sweden also means offering loans to customers wishing to buy homes outside the major cities. Together, Landshypotek Bank and its customers promote a living countryside where people live and work.

Due to the ever intensifying focus on sustainability, both internally and externally, Landshypotek Bank has also bolstered and more clearly structured its sustainability efforts in recent years. The bank is positive to the general increase in awareness and interest in the bank's operating environment.

### Sweden's member-owned bank

Farming and forestry borrowers become members of Landshypotek Ekonomisk Förening and, thereby, owners of Landshypotek Bank. With some 37,000 members, the association is one of the country's largest cooperative associations.

2016	The CEO of Landshypotek Bank appoints a Chief Sustainability Officer who is included in the bank's Management Group
2017	Landshypotek Bank's first Sustainability overview is published
2018	The Sustainability Report is prepared for the first time The bank's green bond framework is prepared Landshypotek Bank issues a green covered bond
2019	Green Bond Impact Report prepared for the first time A second green covered bond is issued A first analysis of the Bank's credit portfolio's impact on climate- and environment-related risks is carried out The bank starts reporting pursuant to the GHG protocol
2020	Green Bond Impact Report prepared for the second time The issue of a second tranche of the second green covered bond is completed The bank continues to analyse risks and opportunities from a climate perspective for the bank's credit portfolio and customers





The association's purpose is to benefit its customers and members. The owner directive sets out that Landshypotek Bank is to promote the members' financial interests by offering competitive financing for farming and forestry. The bank acts to promote a richer life countryside. This means a direct assignment to strengthen and contribute to societal sustainability – socially, economically and environmentally. By extension, this entails the bank making it possible to provide food security, a healthy environment, well-kept forests and open landscapes through strengthening the preconditions for active farmers and foresters, entrepreneurs in the countryside and residents of rural areas.

The bank's actions in pursuit of this owner directive are reported on an ongoing basis by the CEO to the Board of Directors of Landshypotek Ekonomisk Förening.

The ownership form is one of the bank's strengths. As loan customers are also the bank's owners, this creates commitment, shared responsibility and a long-term approach. The bank's profits are redistributed back to the members and to agriculture and forestry, or are used to develop operations at the bank. At Landshypotek Bank, we believe this is part of modern, progressive business practices. Read more about Landshypotek Ekonomisk Förening in the association's annual report.

#### **Impact on key issues**

Over the year, the bank has continued to engage in and monitor the formulation of the EU directive on sustainable investments and finance, and more specifically, how farming and forestry is classified in the underlying taxonomy. In particular, the bank's assessment is that Sweden's forestry comprises a basis for sustainable investment and has therefore engaged in comments to

the proposal to promote its inclusion. The bank has also published contributions to showcase the significance of Sweden's forestry from a sustainable investment perspective. The bank is monitoring the negotiations regarding design and implementation since, by extension, these could impact the bank's funding and its customers.

## **Customers and the offering**

### **Landshypotek Bank's customers**

Landshypotek Bank targets owners and entrepreneurs in agriculture and forestry, those living on agricultural properties, homeowners and savers. The bank's loan customers are mainly located outside of Sweden's major cities and the bank's target groups are clearly defined. Landshypotek Bank lends to customers against collateral in agricultural and forest properties or houses in Sweden. The bank's savings customers can be found countrywide.

The bank's customers include a large portion of the country's large-scale production agriculture, many smaller farmers and foresters as well as mortgage customers since the bank widened its customer offering in 2017. For natural reasons, the customers' relationships with the bank are longstanding and often continue across generations, since farming and forestry are capital intensive, long-term businesses.

### **Proximity and networks**

One of Landshypotek Bank's strengths is its close links to the farming and forestry industries. The bank's account managers at offices around the country often have backgrounds in agriculture and forestry, and banking and financing expertise. Moreover, the organisation is

small and decentralised, which enables close customer relationships with short decision paths. Together with its elected representatives, Landshypotek Ekonomisk Förening maintains an extremely strong presence, competence and commitment across the company.

### **Sound and sustainable lending**

Since 1836, Landshypotek Bank has endeavoured to offer sound and sustainable loans. This means contributing to customers' financial security, within the framework of the bank's credit regulations. The regulations aim to protect customers' financial positions and, at the same time, to shield the bank and owners from credit losses.

The bank promotes simplicity, clarity and transparency in its credit granting. Distribution and marketing must be responsible and moderate. Customers are to feel secure with Landshypotek Bank, and to understand the terms being offered when facing critical financial decisions.

Landshypotek Bank's operations are assessed as being critical for Sweden's financial system and are therefore encompassed by the Swedish National Debt Office's resolution planning. The bank thereby also contributes to securing the country's long-term economic stability.

The bank's focus entails natural limitations in its credit granting. The bank does not finance weapons, such as cluster weapons, anti-personnel mines, biological or chemical weapons, or the production or distribution of nuclear weapons, and the bank has no exposure to nuclear power or coal.

### **Credit appraisal including sustainability analysis**

Landshypotek Bank's credit appraisals are based on customers' repayment capacity. A sustainability analysis is always included in the credit appraisal for large and medium-sized companies and all legal entities. A sustainability analysis is also conducted if separate environmental risks could arise or if it is deemed appropriate in individual cases. The bank's account managers conduct a sustainability analysis to review whether operations are linked to a quality assurance system, if it is checked by a third-party, if self-assessments are conducted as well as the results of any checks performed. If these checks are missing, the bank conducts a more thorough review. Read more about risks and risk management in Note 2.

### **Preventive insolvency management**

The bank works actively with preventive insolvency management. This entails early contact by the bank with customers who have or who could have difficulties in meeting their interest or amortisation payments. Many

situations can arise in life that could change a person's repayment capacity. It is therefore important that the bank takes early contact with customers and prepares individual plans to enable them to get on top of their payments. The bank owns the entire insolvency process, which is highly material to the ability to follow customers irrespective of the situation. If the bank succeeds with early identification and can start a good dialogue, this often leads to good outcomes for our customers as well as the bank.

### **Investments**

The bank's liquidity reserve comprises interest-bearing securities, either covered bonds with the highest credit ratings issued by Nordic credit institutions or securities issued by Swedish municipalities or regions. The bank's green bond framework and its Sustainability Policy stipulate that the bank is to ensure responsible investments by integrating sustainability aspects in its investment decisions. As part of this objective, the bank has decided that investments in the liquidity portfolio may not include operations with a focus on fossil-based energy production, nuclear power, research or development of weapons, potentially environmentally harmful extraction of resources (for example, rare earths or fossil fuel), gambling or tobacco. Therefore, the bank's assessment is that there are no material non-financial risks linked to the bank's investment activities.

### **Greener funding**

In 2018, Landshypotek Bank prepared a green framework for issuing green bonds. The aims included being able to promote a more sustainable financial market as well as to meet demand from the bank's investors. The bank's green bond framework is based on sustainable forestry practices, renewable energy and energy-efficient buildings. The framework is aligned with the Green Bond Principles prepared by the International Capital Market Association. The framework was awarded a Dark Green rating from the Center for International and Environmental Research – Oslo (CICERO), which is the highest rating for green bonds.

In May 2018, the bank issued its first green covered bond under the green bond framework. In 2019, the bank issued an additional green covered bond and a further tranche of the second bond in 2020. The funds raised by the bonds are used exclusively to finance sustainable forestry. The total volume issued was SEK 10.75 billion. As per one of the obligations under the bank's green bond framework, the second impact report for green bonds was prepared and published on the bank's website



during the year. Read the full report on the bank's website under investor relations.

## Employees working for all of Sweden

Landshypotek Bank comprises around 204 (198) employees at 19 offices. Many of the bank's account managers, those meeting customers in the front office, have backgrounds in agronomy, forestry, agrology or similar fields in addition to their banking and financing expertise. The bank's account managers who work with mortgage loans have SwedSec licences. Together, the bank's staff work to promote a richer life countrywide.

### Employee-ship our way

The bank's foremost assets are its employees and culture as well as its employees' commitment. The employees are also the bank's main brand carrier; the aim is for all employees to feel committed, enjoy their daily work and feel motivated by, and pride in, their employer and their daily tasks. All employees are equally important irrespective of their role. During the year, all employees participated in defining the behaviour and actions that distinguish employees of Landshypotek Bank. The process was conducted through two digital employee days during which staff worked on and described our approach in four areas – safe and secure bank, employee-ship, customer meetings and external marketing – in which all employees work in at least one area.

### Small bank – Huge commitment

Each employee accounts for half a percent of the bank, which means that each individual's commitment is highly important. Employees are involved in numerous projects and are part of how the bank is developed. At the year's two digital employee meetings, staff were given opportunity to jointly discuss the bank's transition journey, make new contacts and work together in new compositions and constellations.

### Employee survey

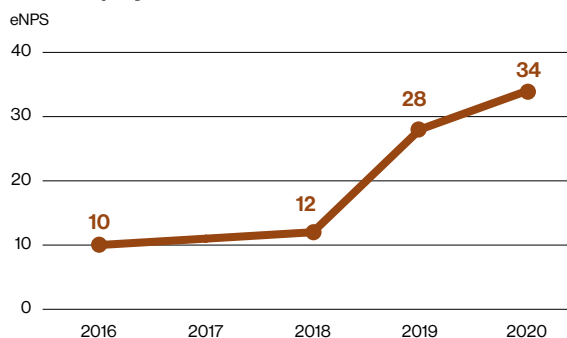
During the year, all employees were given the opportunity to respond to an employee survey aimed at capturing commitment, perspectives and views regarding the bank's development. The response rate was 94 percent, which is high and ensures that the survey provides an accurate image of employees' views and feelings. The same survey measured the eNPS for the year and posed the following question, "How likely are you to recommend Landshypotek Bank as an employer to a friend?" Commitment is a key factor in modern working life and a central metric for Landshypotek Bank. Committed employees have a positive behaviour and approach, are proud of their work, seek opportunities to grow and develop, feel recognised and share their ideas. These comprise just a few of the positive effects of high commitment.

The insights gained from the employee survey comprise the foundation for the bank's continued development and shared efforts to strengthen employee-ship and the culture that permeates the bank.

## Our ways

- contribute and leverage vicinity
- smile and greet
- help and request help
- share knowledge
- go the extra mile
- evaluate
- give feedback
- respect others' work and time
- question to gain understanding
- open to new ideas

### How likely are you to recommend Landshypotek Bank as an employer to a friend?



The graph shows that the likelihood of recommending the bank as an employer has risen among employees over the last few years. eNPS is the portion who responded 9–10 minus those that responded 1–6 on a scale of 1–10, where 10 represents most likely. Responses in the 7–8 range are treated as neutral.

### Coronavirus pandemic

The effects of the pandemic that struck society in 2020 have impacted working life at Landshypotek Bank. The pandemic has entailed remote working from home, new ways to collaborate and shared responsibility for community and collaboration between different work groups and departments. Over the year, the bank has asked employees about the impact on work during this extraordinary year.

### Sick leave

A work-life balance is crucial for everyone's well-being. A good work environment and climate promotes lower absence due to illness. Accordingly, it is important to regularly measure, follow up and take initiatives to prevent ill health and illness. The bank regularly measures and follows up sick leave to be able to implement timely initiatives. The bank's sick leave figures are low for both short-term (1–14 days absence) and long-term (>15 days absence) sick leave. Short-term sick leave decreased 16 percent in 2020 (average 0.9 FTE) compared with 2019 (average 1.1 FTEs) and declined 8 percent for long-term sick leave from already low levels (average 1.2 FTEs in 2020 and 1.3 FTEs for 2019).

### Skills and development

The bank thinks widely in terms of personnel skills and development. All managers have regular dialogues with their personnel to jointly manage and develop the work group's and the individual's tasks, and to build and broaden the employee's skills in the long term. Beside development in their current roles, this could include participating in different projects, holding courses for colleagues, swapping departments for a period or studying for a formal qualification. The bank has a standing range of courses available, some of which are obligatory, for

example, credit training for the bank's account managers as well as annual anti-money laundering training for all. Refer to the following table for the results.

Under the "knowledge at lunch" concept, the bank's employees are able to share their expertise while their colleagues can broaden their skillsets. Two lunches were held with the bank's employees during the year: Covid-19 and its impact on the economy, financial markets and Landshypotek as well as the bank's digital journey.

### Gender equality and diversity

The bank prioritises diversity and equal treatment and that all employees are provided the same opportunities irrespective of gender, gender identity, gender expression, ethnic origin, religion or belief, disabilities, sexual orientation or age. It is therefore central for the Bank to actively identify, avert and prevent all types of harassment and discrimination. Experience and knowledge of Swedish farming and forestry is important as a player in the sector, but an equally central success factor to promote a richer life countryside entails having a differentiated workforce in terms of experience, competence and background.

When recruiting, the bank prioritises creating space for different perspectives and evening out the gender, age and experience distribution of misaligned working groups and ensuring that no one is discriminated against or mistreated in other ways.

During 2019 and 2020, Landshypotek Bank participated in the focused survey of the financial industry by the Swedish Bankers' Association and the Employer's Association of the Swedish Banking Institutions. The survey's overriding objective was to clarify the conditions and needs within the sector's operations to be able to

	No. of employees who underwent training			
	2020	2019	2018	2017
Cyber security training (new)	99.5%			
GDPR training	54 (new employees and consultants)	44 (new employees and consultants)	All	–
Anti-money laundering training (annual)	All	99.5% <sup>1)</sup>	All	All
SwedSec licencing (employees with active licences)	68	64	52	26
Advanced credit training	–	21	51	35
Annual skills update (formerly credit training)	111	–	75	72

*The annual skills update has replaced the previous credit training and is intended for everyone at the bank who works with credit granting (direct to customers, in a control function or decision-making capacity).*

<sup>1)</sup> One employee who finished at the bank at the beginning of January 2020 did not complete the training.



create organisations where individual employees are not subjected to harassment. The results from respondents at Landshypotek Bank are in line with the results for the sector as a whole, with a few deviations. Among other things, a slightly lower incidence of behaviour that could be considered sexual harassment at Landshypotek Bank. Compared with the financial industry in general, the results for vulnerability were also lower at Landshypotek Bank. The perceptions of managers are aligned with the financial industry in general.

### Rights and conditions at work

Landshypotek Bank strives to be a popular, good place to work, both with regard to employment terms and conditions, and to the work environment. The employees are offered a benefits portal, loans at favourable terms and subsidised lunches for example. The bank has a collective agreement with the Financial Sector Union of Sweden and the Swedish Confederation of Professional Associations (SACO). Each of the two unions have appointed their own representative on the bank's Board.

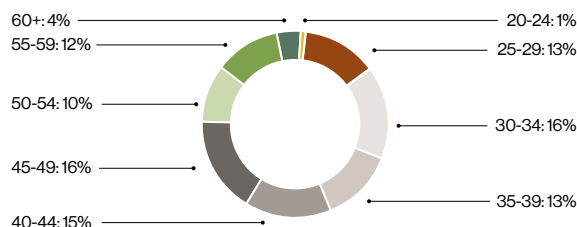
The bank strives to achieve sound and fair pay scales that ignore background and gender. The bank adheres to the legislation in this area, which entails the bank conducting an annual salary review within the organisation with the aim of identifying, addressing and preventing unjustified salary differences between genders. The analysis found that the pay scales were fair and that no unjustified salary differences existed between genders.

The bank's Work Environment Council is tasked with promoting a good work environment and following up the bank's work environment efforts. The Council comprises employer and union representatives, health and safety representatives, and the bank's Risk Manager. Employees also have access to generous wellness subsidies, health checks, support dialogues and extra financial compensation when on parental leave.

The bank believes that egalitarian and diverse groups improve work and performance. The bank prioritises creating space for different perspectives, evening out gender, age and experience distribution of misaligned working groups and ensuring that no one is discriminated against or mistreated in other ways.

### Age distribution

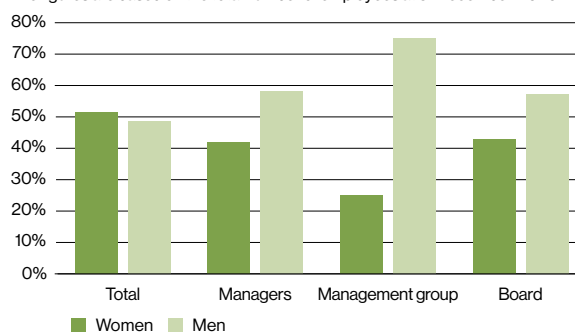
The figures are based on the total number of employees at 31 December 2020



The bank has a broad age distribution, with the most common age intervals among the bank's employees being 30–34 and 45–49. A total of one third of the bank's employees are within those intervals. The interval from 20–24 is the least common, which reflects the educational and experience requirements for many positions at the bank.

### Gender balance in percent, women/men

The figures are based on the total number of employees at 31 December 2020



The distribution between women and men is even at the bank. At 31 December 2020, the percentage distribution between men and women was 51/49 (51/49), among managers 42/58 (33/67), in the management 25/75 (13/87) and 43/57 (33/67) on the Board. The distribution meets the bank's goal of an even gender balance for all groups except the management. Some improvement was made during the year but it remains unbalanced.

### The ILO's Core Conventions apply to the bank's operations:

Human rights are always respected and the bank adheres to the legislation that applies to its operations. Labour law requires that employment is voluntary and that no form of discrimination, harassment or child labour may occur. Salaries are paid directly to the employees and any overtime is always compensated. The bank's employees have the right to organise and collective agreements are always respected. The bank complies with national environmental requirements. The operations are conducted with high moral standards and ethics to ensure sound professionalism. All forms of corruption, extortion and bribes are unacceptable.



## Business ethics and anti-corruption

Landshypotek Bank strives to achieve high risk awareness and low risk undertaking. This position is demonstrated by the bank's lending being primarily against collateral in immovable property and its focus on first lien mortgage loans for farms, forests and houses. Read more about the bank's risk management in Note 2.

### Acting ethically and correctly

Respect for human rights is essential for the conduct of sound and sustainable enterprise and something that the bank always adheres to in its own operations and in relation to customers, suppliers or other business partners. Given the operations of the bank and the bank's requirements of suppliers and business partners, the bank's assessment is that there are no significant risks linked to human rights.

Acting correctly and objectively is of great importance in all of the bank's business dealings. The bank's and the employees' extensive commitments in agriculture and forestry are a strength but also entail a risk of conflicts of interest and bias. A structured process is therefore in place, inter alia, to approve and follow up the ancillary activities of employees, which are notified and followed up annually. Should a risk of bias or other conflict of interest arise, the case must be transferred to another colleague at the bank.

### Prevention of financial crime

Money laundering and terrorism financing comprise serious threats to society in Sweden and the rest of the world. The bank does not tolerate and does not participate in money laundering or terrorism financing. The bank takes all reasonable measures to prevent the bank being used for money laundering or terrorism financing. The Board and CEO are ultimately responsible for the bank's operations taking the necessary precautions to prevent money laundering or terrorism financing, for the bank's internal rules complying with external regulatory requirements and that said rules are appropriate, well implemented and complied with in operations. As part of its organisation to prevent money laundering and terrorism financing, the bank has created the following roles and functions: Designated Supervisor, Central Function Manager, Operational AML Manager and Independent Auditor (the function is often conducted within the bank by internal audit). The bank has also established a separate AML function at Board level. Read more about Landshypotek Bank's risks and risk management in Note 2.

### Administration and internal regulatory compliance

Landshypotek Bank's ethics policy states that operations should apply sound values and professionalism; that customers', employees' and the owner's interests at an overall level should be taken into account in all

decisions, and that external and internal rules should always be complied with.

The bank's policy on conflicts of interest also governs insider trading as well as gifts, rewards and other benefits. Guidance is provided here for difficult situations.

Business ethics are included in various employee training courses, including induction training for new employees. If employees are unsure about how to apply the ethics policy, the first resort is to contact their immediate manager. Furthermore, the bank's compliance function can be contacted for advice and support. Finally, the bank has a whistle-blower process. Anyone who suspects serious misconduct can use the whistle-blower service anonymously. The bank uses an external supplier, WhistleB, to provide this service.

Landshypotek Bank also has an incident reporting system for deviations that entail a risk of adversely impacting the bank's internal or external procedures, requirements and regulatory compliance.

#### Suppliers and business partners

The Bank has mainly outsourced activities in terms of IT. In support of the bank's outsourcing, procurement and monitoring, the bank has a number of policy documents that set requirements for the bank's outsourcing agreements. The bank is also subject to Finansinspektionen's requirements for outsourcing agreements as defined in FFFS 2014:1. The bank monitors suppliers on an ongoing basis, which also encompasses an ESG perspective. All IT equipment purchased by the bank is TCO certified (fixed-line telephones are not included as no environmental classification is in place for telephones). TCO certification means that sustainability requirements are set, which include driving social and environmental responsibility over the product's lifecycle. The requirements extend beyond the industry standards and legislation that drive the development of sustainable IT products.

## Climate and the environment

Landshypotek Bank's main environmental impact is at customer level. The bank's core business is the financing of Sweden's agricultural and forestry sector. Many of the bank's core customers, run operations that affect and are affected by the climate and the environment. Climate change can have a direct and indirect impact on our customers' operations and, thus, also on the bank's credit risk.

Since the bank's core customers operate in farming and forestry, the customers' impact on the environment

can be both positive and negative. Farming and forestry reduce carbon dioxide in the atmosphere, and contributes to biodiversity, renewable raw materials and food. This requires input goods that may negatively impact the environment, such as from nitrogen leaching from fields, ammonia from fertilisers and pesticides in food production. Accordingly, the bank carries out sustainability analyses to identify environmental risks in its customer credit appraisals, see above.

#### Climate- and environment-related risk and opportunities within the framework of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

In 2020, Landshypotek Bank continued to identify climate- and environment-related risks and opportunities to be able to map these and to identify their short- and long-term effects on the bank's credit risk. The identified risks and opportunities primarily affect the bank's credit risk toward farming and forestry, which is also the segment toward which the bank has its largest exposure. In the first step, the bank has highlighted the physical risks and opportunities in its operating environment that impact the bank.

**Overarching:** Landshypotek Bank finances entrepreneurship and living in houses on agricultural properties. Agriculture is one of the sectors of society that is most clearly impacted by climate change. Arable farming and animal husbandry need to be constantly adapted to their environment. In the same manner, the risks and opportunities posed by a changed climate need to mark and permeate the entire bank.

**Governance:** Climate-related risks and opportunities for the bank's operations, today and in the future, are always on the bank's customers' agendas. In the same manner, this is incorporated as a natural part of the bank's governance and operations. The bank's position is strengthened through a focus on and awareness of these risks and opportunities.

**Strategy:** The bank finances agriculture, forestry and houses on the basis of long-standing customer relationships. The majority of the bank's lending finances agriculture – a sector of society that is clearly impacted by climate change. The bank wants to be part of the solution and provide financial solutions for transitioning and adapting agriculture to changed conditions, but also with the aim of making it more sustainable. Changes that require investment in new facilities, land and new energy solutions are areas that the bank has identified as development opportunities.



**Risk management:** Over the year, the bank continued to identify climate-related risks, which can be categorised as: physical risks (acute and systemic) and transition risks linked to the bank's lending. The largest risks for the bank will be physical risks in terms of the collateral accepted by the bank and where customers conduct their operations, in other words farm and forest properties.

**Metrics and targets:** The bank's direct environmental impact is measured and will diminish over time (refer to the section covering the bank's environmental impact).

#### Control of the bank's lending based on climate risks

SMHI (the Swedish Meteorological and Hydrological Institute) has completed its assignment by the bank to identify and analyse the physical risks and climate indicators most relevant to farming and forestry and, accordingly, for the bank. Two scenarios are used in the analysis: RCP 4.5 and RCP 8.5 as defined by the UN's Intergovernmental Panel on Climate Change (IPCC). The indicators assessed by SMHI as most relevant for farming and forestry are: temperature, length of the growing season, heatwaves, precipitation, total ten-year water flows, soil moisture, snow cover, sea levels, fire risk and wind gusts.

Based on this analysis, the bank has continued work with the climate indicators with the greatest impact on the bank's current credit portfolio. These indicators comprised temperature, length of the growing season, precipitation and fire risk. Based on these four indicators, the bank has simulated ECL levels based on the

expected development of RCP 4.5 and RCP 8.5. The bank's credit portfolio has been broken down by asset type (arable land, pasture and forest) and by municipality to illustrate the geographic effect based on the two scenarios for the respective indicators.

**Temperature:** An assumed average temperature rise to over 9 degrees will adversely impact agriculture, animal production and forestry in the form of drought and weather-related stress. The bank's exposure to operations where the risk of drought and heat-related stress will increase may result in higher credit loss levels due to customers having difficulty in meeting their undertakings to the bank.

**Length of growing season:** An assumed prolongation of the growing season to beyond 250 days per year will positively impact agriculture and forestry in the form of larger and more harvests. Credit loss levels are expected to decrease.

**Precipitation:** An assumed increase in precipitation to over 804 mm per year will adversely impact agriculture as flooding increases, which can result in damage to land and crops. Credit losses are expected to increase due to customers having difficulty in meeting their undertakings to the bank.

**Fire risk:** An assumed increase in fire risk to over 44 days per year will adversely impact forestry as the risk of uncontrolled fires increases. Credit losses are expected to increase due to customers having difficulty in meeting their undertakings to the bank.

## Physical risks and opportunities for farming and forestry

Indicator	Systemic risk/opportunity	Acute risk
Temperature	The temperature increases across the country.	No acute risks but will lead to higher risk of other acute events such as drought or heatwaves.
Length of growing season	The length of growing season increases across Sweden in pace with temperature increasing and growing zones moving northward. This could result in larger harvests of certain crops and enable new crops to be grown. However, conditions could deteriorate for other crops. A longer growing season also benefits forest growth.	An early spring raises the risk of spring frosts, which can harm harvests.
Heatwaves	Increased frequency and duration of heatwaves across the country.	Impacts animal husbandry where heat stress is a risk. Heat waves can lead to increased risk of stress for crops due to drought.
Precipitation	Annual precipitation increases across Sweden, mainly in the winter and spring and in the north and west of the country. Number of intense precipitation events expected to increase.	Raised risk of flooding and extreme precipitation, which can destroy crops. Wet ground increases the risk of windthrow and rutting damage.
Fire risk	Systemic risk in the form of increased risk of forest fires across the country.	Fire is primarily an acute risk for forestry.



#### **Climate change and its impact on farming and forestry**

Climate change will result in higher average temperatures in Sweden. Temperature zones will shift north, which will impact the length of the growing season and crop selection. Heatwaves will increase in frequency, resulting in heat stress for animals and vegetation. Precipitation will increase in all seasons but mainly in the winter and at most in northern and western parts of the country. Flows will change in watercourses, increasing in the south and decreasing in the north. Sea levels are expected to rise with a consequent effect on southern Sweden, where land uplift will not compensate for higher sea levels.

#### **Swedish agriculture and forestry perform well in terms of the climate**

From a global perspective, Swedish agriculture and forestry perform relatively well in terms of the climate. The main reason is good natural access to water. Access to water is the major challenge in other parts of the world as the climate warms, and which makes cultivation significantly more difficult. It is likely that we will have a warmer climate with more precipitation in Sweden. Precipitation may vary between the winter and the summer, with more precipitation during the winter. This scenario will result in drier summers and as a natural consequence, increased evaporation. A changed climate will result in extreme weather such as intense rainfall, flooding and long dry periods becoming more normal. In parallel, the growing season will become longer, which could allow more and

larger harvests. This will also create scope for animals to be outside longer to graze.

Sweden's natural climate has colder winters that generally result in lower pressure from different pests. If this balance is changed, it could have negative consequences for Swedish farming, with more insect and fungal infestations. The winter and its accompanying ground frost create a natural pause in growing for crops as well as weeds.

#### **Svensk Kolinlagring – pilot project**

Landshypotek Bank has financed farming and forestry for almost two centuries. The bank is convinced that farming and forestry are part of the future and part of the solution to the climate challenges we face. During the year, Landshypotek has provided funding for Svensk Kolinlagring's (Eng: Swedish Carbon Capture) pilot study into how farmers can increase carbon capture in their arable land. The bank is proud to participate in these efforts to increase agriculture's benefits and contribution to a sustainable society – whereby Swedish farmers can combine improved soil quality and increased carbon capture with increased profitability. Landshypotek looks forward to following Svensk Kolinlagring and its journey toward more climate-friendly and profitable agriculture.



The lack of a protective snow covering increases the risk of frost damage at the same time as milder winters could lead to less damage to overwintering crops. Expected quantities of precipitation and the lack of ground frost in the winter could lead to waterlogged soil. This would make access to fields with heavy machinery more difficult with consequent difficulties for the earlier growing season. However, in terms of autumn sown crops, such as autumn wheat and autumn rapeseed, these could benefit from changed precipitation patterns.

### The bank's own environmental impact

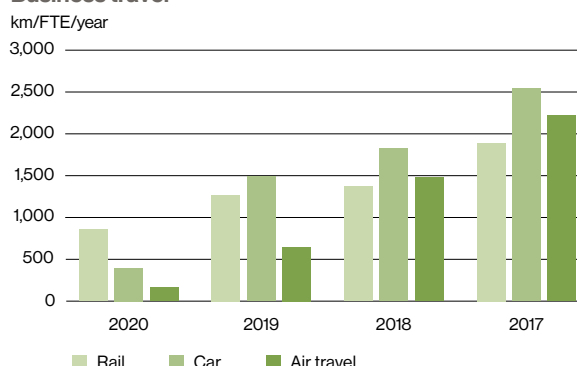
Landshypotek Bank's direct environmental impact is limited and arises mainly from the bank's premises and business travel. As the bank's customers and its 19 offices are spread across Sweden, a considerable amount of travel is required by operations. Telephone and video are the first choice for meetings and internal communication and comprise areas that developed vigorously in 2020 due to travel restrictions resulting from the ongoing pandemic. The bank's travel guidelines include taking the environment into consideration. Overall, the bank prioritises rail travel, but many of the customers can only be reached by car. For the second time, in 2020, the bank calculated the impact of the operations on the environment pursuant to the GHG protocol.

### Emissions broken down by scope

Emissions, tonne CO <sub>2</sub> e	2020	2019	2018	2017
Scope 1	0	0	0	0
Scope 2	41.9	30.5	38.7	44
Scope 3	28.90	67.8	118.1	156.8
<b>Total</b>	<b>70.8</b>	<b>98.3</b>	<b>156.8</b>	<b>200.8</b>
Per FTE	0.37	0.54	0.82	1.16

The bank's direct environmental impact has declined 28 percent year-on-year, mainly driven by less business travel (see diagram, Business travel). Emission sources included in the calculations are: district heating, district cooling and electricity consumption at office premises (Scope 2) as well as business travel by rail, car and air (Scope 3). The Scope 2 calculations are based on real data from suppliers and pertain to the consumption at the office in Stockholm. Consumption per FTE in Stockholm, the bank's largest office, forms the basis for calculations for the bank's other offices. The electricity calculations used the Nordic residual mix (2019) for all offices apart from the Stockholm office where actual emission factors were used. Green electricity agreements are in place for many offices. The residual mix for 2019 was used as the emission factor for 2020, since the

### Business travel



Over the last four years, business travel per km per FTE and year has declined, with air travel accounting for the largest decrease. The decrease was substantial this year compared with last year due to the ongoing pandemic and travel restrictions.

factor for 2020 is being published after the preparation of this report.

The Scope 3 calculations are based on real data from the bank's travel suppliers and pertain to employee mileage allowances for business travel by car. Scope 1 emissions were zero, as the bank has no manufacturing operations and owns no vehicles.

Landshypotek Bank focuses on growth through digital channels. From an environmental perspective, this is positive at the same time as it is an effective approach for meeting customers' changing requirements and expectations. The bank's savings offering is digital and, since 2017, the bank also offers homeowner mortgages using a fully digital loan application. From 2019, the bank also offers digital loan applications to new and existing farming and forestry customers. The digital service offering in the online bank was expanded during the year to enable existing customers to safely manage their transactions as and when it suited them best.

### Next step

The bank intends to continue working with climate- and environment-related risks within the framework of the TCFD's recommendations in 2021 and to implement the work in reporting to the Board, among other actions. The expected changes pertaining to non-financial reporting in 2021 and the completion of the first parts of the EU's taxonomy work will also be prioritised areas.

## Policies and governance documents

The bank's most important sustainability-related policies are:

### Overarching

- Sustainability Policy

### General corporate governance and ethics

- Ethics Policy
- Insider Policy
- Conflict of Interest Policy
- Compliance Policy
- Policy for Counteracting Money Laundering and Financing of Terrorism
- Owner directive

### Healthy credit granting and transactions

- Formal work plan for the Green Bond Committee
- Sustainability analysis instruction
- Credit Policy
- Credit Granting Guidelines
- KYC Guidelines
- Valuation Policy

### Work environment, employee commitment and societal responsibility

- Remuneration Policy
- HR Policy
- Board Diversity Policy
- Guidelines for Outsourced Operations
- Guidelines for Landshypotek Bank's Work Environment Efforts

## Implementation

Landshypotek Bank's policies have been established by the Board. Each manager at the bank is responsible for the implementation and observance of all rules and guidelines in daily activities.

Sustainability-related issues, particularly business ethics and anti-corruption, are included in various in-house training courses and the applicable policy documents are available to all employees. Governance documents are revised annually to ensure that they meet the requirements and expectations of our operating environment.

## Organisation

The CEO is responsible for Landshypotek Bank's sustainability initiatives and results. The bank's Chief Sustainability Officer, who is a member of the bank's management is responsible for sustainability issues. The HR Manager and Chief Risk Officer also have key roles in the work with sustainability issues.





# Corporate governance

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# Corporate Governance Report

Corporate governance is a key support in Landshypotek Bank's efforts to create value for its stakeholders and for the Board with its effective governance and control of operations.

## Foundation for corporate governance at Landshypotek Bank

Landshypotek Bank strives to implement corporate governance that is marked by its focus on structure, processes, and efficient governance and control, and which comprises a value-steered employee culture that reinforces own responsibility and commitment. During the year, the bank has implemented targeted efforts to improve both of these areas. The bank has high ambitions in terms of good corporate governance, risk management and internal control.

Governance is conducted pursuant to external rules for corporate governance that include, inter alia, the Companies Act, the Annual Accounts Act and the Swedish Corporate Governance Code (applicable parts thereof). The fundamental internal framework for corporate governance comprises, inter alia, the Articles of Association, the owner directive, formal work plans for the Board and its committees, the CEO's instruction, report plans and policies. Policies, guidelines and instructions that clarify the delegation of responsibility and working methods at the bank comprise key tools for the Board and CEO in their governance and control roles.

## Deviations from the Swedish Corporate Governance Code

Given the ownership structure with just one shareholder and the fact that the bank is not a listed company, certain parts of the Code are not appropriate for Landshypotek Bank. The following deviations from the Code are made in this Corporate Governance Report:

### *General Meeting*

#### *Code rule 1.1*

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. The aim of this rule 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. A deviation is made as the bank has only one shareholder.

### *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 sole influence over nominations. A deviation is made as the bank has only one shareholder.

### *Board procedures*

#### *Code rule 7.3*

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.

### *Remuneration to Board members and the company management*

#### *Code rule 9.1, point 3*

The rule states that the company must monitor and evaluate application of the guidelines for remuneration to the Board and senior executives that the general meeting of shareholders is legally obliged to establish, as well as the current remuneration structures and levels in the company. A deviation is made as the bank is not a listed company.

#### *Code rule 9.9*

The rule entails that the company's guidelines for remuneration to the Board and senior executives is also to cover salary and other benefits to other members of the company management. A deviation is made as the bank is not a listed company.

### *Information on corporate governance, sustainability and remuneration*

#### *Code rules 10.5–10.6*

The rules require the company to prepare a separate remuneration report with disclosure of remuneration to senior management. A deviation is made as the bank is not a listed company.



## Owners' control

Landshypotek Bank is a wholly owned subsidiary of Landshypotek Ekonomisk Förening. The bank is domiciled in Stockholm.

### Owner directive

Landshypotek Ekonomisk Förening's Board has adopted an owner directive. The aim of the owner directive is to clarify the owner's requirements of the bank and the targets that the bank is expected to achieve. The owner directive sets out, inter alia, a number of overarching principles regarding the bank's independence. Moreover, target metrics are stipulated for market share and profitability. Performance vis-à-vis the owner directive is reported on an ongoing basis to the Board of Directors of Landshypotek Ekonomisk Förening.

### Articles of Association

The Articles of Association is the fundamental document that defines the framework for the Bank's activities. The Articles of Association contain provisions on the minimum and maximum number of Board members and that the Board members and Chairman of the Board be appointed by the General Meeting. No provisions exist governing the appointment or removal of Board members. Any amendment of the Articles of Association requires notification to be issued at the earliest six weeks and at the latest four weeks before the General 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 2020

The Annual General Meeting of Landshypotek Bank was held on 17 June 2020. Kjell Nilsson was the Annual General Meeting's Chairman. The owner was represented by Per-Olof Hilmér, Chairman of Landshypotek Ekonomisk Förening. The AGM was attended by the majority of the bank's and the association's Board members, the CEO, auditors and members of the Election Committee. The General Meeting elected the Board, Election Committee and auditors for the period until the next AGM. The General Meeting re-elected the following Board members: Gunilla Aschan, Anna-Karin Celsing, Nils-Fredrik Nyblæus, Johan Trolle-Löwen and Ann Krumlinde Hyléen. Ole Laurits Lønnum and Lars-Johan Merin were elected as new Board members. At the AGM, Hans Broberg, with Petra Nilsson as deputy, and Anders Nilsson, with Ellen Weidman Wachtmeister as deputy, were designated as the employee representatives. Ann Krumlinde Hyléen was elected Chairman of the Board.

Furthermore, the authorised auditing firm Öhrlings PricewaterhouseCoopers AB (PwC) was re-elected as auditors. Authorised Public Accountant Helena Kaiser de Carolis was elected Auditor in Charge. The AGM resolved to discharge the Board of Directors and the CEO from liability. Furthermore, resolutions were passed on fees, appropriation of profits and adoption of the annual accounts for 2019. The CEO and Board of Directors presented the work performed in the company and on the company's Board during the year. The Election Committee presented its work during the year and its assessment of the eligibility of Board members on an individual basis as well as collectively. The General Meeting did not authorise the Board of Directors to issue new shares or buy back the company's shares.

### Election Committee

The Election Committee is tasked with preparing election and remuneration issues ahead of the next AGM. The Election Committee follows the instruction established for the Committee and the adopted policy regarding Board diversity and for assessing the eligibility of Board members. The 2020 AGM resolved that the Election Committee should comprise: Per-Olof Hilmér, Ann-Britt Karlsson, Marie André and Claes Mattsson. Per-Olof Hilmér represents the owner in his capacity as Chairman of Landshypotek Ekonomisk Förening.

### External 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 auditors are responsible for examining the Annual Report and accounts and also the Board's and CEO's administration of the bank. The auditors report the results of their examination in the auditor's report, which is submitted at the AGM. Furthermore, the auditors examine one of the bank's interim reports and submit their findings in their notes to the Audit Committee and the Board. To ensure the independence of the external auditor with regard to the audit of the Bank and the Bank's financial statements, the Board has established a policy governing the independence of the external auditor. Fees to the bank's auditors are reported in Note 7.

## Board of Directors

The Board's members are elected by the General Meeting from proposals made by the Election Committee. The Board is responsible for the organisation and administration of the bank affairs.

### **The Board's composition and eligibility**

According to the Articles of Association, the Board comprises a minimum of four and a maximum of eight members who are elected each year at the AGM until the AGM the following year. The bank performs an eligibility assessment in parallel with the appointment of Board members, on re-election of Board members and when needed. The eligibility assessment of Board members is performed by the Election Committee in accordance with the bank's eligibility assessment policy and Board diversity policy. The eligibility assessment takes into consideration the individual's expertise, experience, reputation, integrity and other criteria, such as potential conflicts of interest and the member's ability to dedicate sufficient time to the assignment. Finansinspektionen also conducts an eligibility assessment in conjunction with the appointment of Board members. Among other items, the Board 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. More detailed descriptions of the eligibility assessment and the diversity policy are published on the bank's website.

The Board comprises nine individuals, of which seven were elected at the AGM and two of which are employee representatives – three women and six 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 association. All of the Board members have extensive experience from trade and industry and/or 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. None of the Board members or the CEO hold shares or financial instruments issued by the bank. Through their own or their related parties' membership of Landshypotek Ekonomisk Förening, four of the Board members and the CEO have member contributions in the cooperative association.

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

The Board is responsible for the organisation and administration of the bank's affairs. Among other tasks, the Board should also decide issues regarding the bank's overriding goals and strategies, its risk appetite and risk strategy, the internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP), and decide other matters of greater strategic and financial significance. 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 also appoints, evaluates and, if the need arises, dismisses the CEO.

The Chairman of the Board is 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 association, ensuring that the Board members are provided with satisfactory information and decision data for their work by the CEO 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 follows the formal work plan and annual plan adopted at the statutory Board meeting. In 2020, the Board had 13 scheduled Board meetings.

The Board has established four committees to increase the efficiency of the Board's work. The committees prepare issues for decision by the Board and have also received specific decision mandates in certain issues. All of the committees have a formal work plan that sets out the tasks and the Board's delegated decision mandates as well as how the committee should report to the Board.

#### *The Board's Credit Committee*

The Credit Committee's primary task is to make decisions regarding loans and problem commitments pursuant to the established credit policy and to decide the members of the Credit Advisory Committee. In addition, the Committee is tasked with preparing amendments to and/or annual confirmation of items including credit policy and decision mandates for granting credit prior to the Board's decision. Furthermore, the Committee prepares items pertaining to the evaluation of portfolio strategies, the transparency of the credit portfolio, the review of valuation and decision models as well as the evaluation of existing or new delegation rights.

Following the statutory meeting in 2020, the members of the Credit Committee were as follows: Ann Krumlinde Hyléen (Chairman) and Nils-Fredrik Nyblæus, with Johan Trolle-Löwen and Gunilla Aschan as deputies. Credit analysts, the Insolvency Manager or another

specially appointed executive presents agenda items. The Credit Committee takes weekly credit decisions and, in addition, held four scheduled meetings in 2020.

#### *The 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 to provide the Board with information about and prepare internal rules, and to monitor, analyse and prioritise risk and capital-related issues.

Following the statutory meeting in 2020, the members of the Committee were as follows: Ann Krumlinde Hyléen (Chairman), Anna-Karin Celsing, Ole Laurits Lønnum and Nils-Fredrik Nyblæus. The Chief Risk Officer or another specially appointed executive presents agenda items. The Committee held five meetings in 2020.

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

The Audit 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 as well as compliance and the work of the

data protection officer. The Audit Committee is also tasked with preparing questions pertaining to measures for counteracting money laundering and financing of terrorism. The Committee meets in conjunction with external financial reports and, otherwise, whenever necessary.

Following the statutory meeting in 2020, the members of the Committee were as follows: Anna-Karin Celsing (Chairman), Gunilla Aschan, Nils-Fredrik Nyblæus and Johan Trolle-Löwen. The Chief Financial Officer or another specially appointed executive presents agenda items. The Committee held five meetings in 2020.

The Board has also appointed a separate AML forum comprising Ann Krumlinde Hyléen, Anna-Karin Celsing, Nils-Fredrik Nyblæus, the Head of Compliance and the CEO. The forum is temporary and is tasked with focused monitoring of the bank's work with questions pertaining to measures for counteracting money laundering and financing of terrorism.

#### *The Board's Remuneration Committee*

The main task of the Committee is to act in an advisory role to the Board on issues pertaining to remuneration at the bank. The Committee prepares Board issues

### Board attendance 2020

Board member	Board meetings	Credit Committee <sup>1)</sup>	Risk and Capital Committee <sup>2)</sup>	Audit Committee	Remuneration Committee <sup>3)</sup>
Ann Krumlinde Hyléen	13/13	2/4	5/5		2/2
Gunilla Aschan	13/13			5/5	
Hans Broberg	13/13				
Anna-Karin Celsing	13/13		5/5	5/5	2/2
Hans Heuman <sup>4)</sup>	7/13		3/5		1/2
Ole Laurits Lønnum <sup>5)</sup>	6/13		2/5		
Lars-Johan Merin <sup>6)</sup>	6/13				1/2
Anders Nilsson	13/13				
Nils-Fredrik Nyblæus	13/13	4/4	1/5	5/5	
Henrik Toll <sup>7)</sup>	7/13	2/4	3/5		1/2
Johan Trolle-Löwen	13/13			5/5	1/2
Helena Andersson, deputy <sup>8)</sup>	0/13				
Petra Nilsson, deputy	0/13				
Ellen Weidman Wachtmeister, deputy <sup>9)</sup>	0/13				

<sup>1)</sup> During the year, Ann Krumlinde Hyléen joined and Henrik Toll stepped down from the Credit Committee. Accordingly, attendance pertains to part of the year.

<sup>2)</sup> During the year, Ole Laurits Lønnum and Nils-Fredrik Nyblæus joined at the same time as Hans Heuman and Henrik Toll stepped down from the Risk and Capital Committee. Accordingly, attendance pertains to part of the year.

<sup>3)</sup> During the year, Ole Laurits Lønnum and Johan Trolle-Löwen joined at the same time as Hans Heuman and Henrik Toll stepped down from the Remuneration Committee. Accordingly, attendance pertains to part of the year.

<sup>4)</sup> Stepped down on 17 June 2020.

<sup>5)</sup> Elected to the Board at the General Meeting of Landshypotek Bank on 17 June 2020.

<sup>6)</sup> Elected to the Board at the General Meeting of Landshypotek Bank on 17 June 2020.

<sup>7)</sup> Stepped down on 17 June 2020.

<sup>8)</sup> Stepped down on 17 June 2020.

<sup>9)</sup> Elected to the Board at the General Meeting of Landshypotek Bank on 17 June 2020.





regarding the remuneration policy and the overall risk analysis for the company pertaining to the remuneration system.

Following the statutory meeting in 2020, the members of the Remuneration Committee were as follows: Ann Krumlinde Hyléen (Chairman), Anna-Karin Celsing, Lars-Johan Merin and Johan Trolle-Löwen. The CEO, HR Manager or other party appointed by the Committee presents agenda items and is responsible for preparing an agenda in consultation with the Chairman for each meeting. The Committee held two meetings in 2020.

#### **Evaluation of the Board of Directors**

Each year, the work of the Board is evaluated using a systematic and structured process. The evaluation's findings are presented to the full Board and the Election Committee. In conjunction with the Board evaluation, the Board's competence and training needs are reviewed and, based on this review, an annual training plan is prepared for the Board. The members' attendance at the respective committees can be seen on the preceding page.

### **Internal control and risk management**

The Board is also responsible for ensuring that internal rules are in place for effective governance and control of the bank, and that an appropriate framework for risk management exists that is regularly followed up and evaluated.

The basis for the internal governance and 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. The business operations are also responsible for their own risk management and for conducting self-evaluations of their operations. The bank strives to ensure that all operations apply a sound risk culture.

To ensure appropriate risk management – and to identify, analyse, rectify, monitor, and report risk and internal control – responsibility is divided between various functions based on the three lines of defence principle. The model differentiates between functions responsible for risk and regulatory compliance (first line of defence), functions for monitoring and control (second line of defence) and functions for independent review (third line of defence).

#### **The first line of defence – business operations**

A core principle is that the line organisation forms the first line of defence with responsibility for internal control and risk management. Responsibility for self-assessment is thus located where risk originates. This means that each employee is responsible for managing the risks in their own areas of responsibility.

#### **The second line of defence – independent control functions**

The risk organisation and compliance are independent control functions and comprise the second line of defence. These functions monitor the business areas'

risk management and regulatory compliance. The second line of defence maintains policies and frameworks for the first line of defence's risk management and validates the first line's methods and models for risk measurement and control.

#### *Risk organisation*

The risk organisation is responsible for structured and systematic measurement, control, analysis and continuous reporting on all material risks in the bank. The risk organisation is also tasked with, inter alia, the regular performance of relevant stress tests of material risks and for performing in-depth risk analyses in one or more risk areas where higher risks may exist for the bank. The work is conducted pursuant to a policy decided by the Board that describes its responsibilities and an annual plan. The risk organisation is independent from operations and the Chief Risk Officer is directly subordinate to the CEO and the Board.

#### *Compliance*

Compliance is tasked with advising and supporting the CEO and employees with ensuring that the bank's operations are conducted pursuant to the regulatory frameworks that govern licensable activities and to identify and report compliance risks. The work is conducted pursuant to a policy decided by the Board that describes its responsibilities and an annual plan. The Compliance unit is independent from business operations and the Chief Compliance Officer reports directly to the CEO and Board.

#### **Third line of defence – internal audit**

The third line of defence, internal audit, evaluates the bank's overall management of risk and regulatory compliance, and reviews the work of the first and second lines of defence.

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 internal audit review initiatives are conducted pursuant to a policy decided by the Board that describes its responsibilities and an annual plan. During 2020, the bank's internal audit was carried out by Deloitte AB.

#### **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, forecasts and impact analyses. The Board receives monthly financial reports in addition to the reporting submitted at each Board meeting. In addition, the Finance Department's Middle Office has a role in the internal control of financial reporting due to its responsibility for administering 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.

The Board's measures to follow up on internal control of financial reporting are executed through the Board's follow-up of the bank's finances and performance. This is carried out through monthly financial reports and reports at each Board meeting. Moreover, the Board and Audit Committee review and follow-up on the auditor's review reports.

## **Remuneration system**

The Board has set out the principles for the remuneration system that encompasses all employees at the bank in the remuneration policy. The remuneration policy is aimed at ensuring that the bank has a remuneration system that counters any incentive to accept unsound risks or act with a short-term perspective. The remuneration system should apply market terms, be non-discriminatory and reward good performance as well as ensure that the employees' efforts align with the bank's strategies and policies. Special weighting should be given toward a sound level of risk. The base employee remuneration model consists of a fixed basic salary. The bank has no variable remuneration program. However, the bank does have a profit-sharing foundation to which the bank allocates part of its profits to benefit its employees. Profit sharing is based on long-term company-wide targets in accordance with targets and the guidelines established by the Board. Variable remuneration in the form of a bonus can, in individual cases, be paid in arrears to reward exceptional performances. The bank is restrictive with benefits over and above those offered to all employees. Remuneration to the CEO, Bank Management and the managers of the control functions is set by



the Board. The principle applied for other employees is that decisions on remuneration are always made by the manager together with the manager's immediate superior and the HR Manager. Fixed remuneration is reviewed each year as part of the salary review and, each year, the bank conducts an employee salary survey. Information regarding the remuneration to the Board, the CEO and the Bank Management is presented in Note 7.

## CEO

The CEO is appointed by the Board and is responsible for the administration of the day-to-day operations. Among other tasks, the CEO must monitor the bank's operational and performance trends, and take ongoing decisions regarding the operations, development and control of the business. The CEO is responsible for operational compliance with the internal policies and strategies established by the Board for the bank. The CEO must review and assess the efficiency of the company's organisational structure, procedures, measures, methods and the like decided by the bank, and take appropriate measures to correct any inadequacies with

the aforementioned. The CEO also evaluates whether the bank controls and manages its risks in an efficient and appropriate manner. The CEO reports to the Board on an ongoing basis liaises closely with the Chairman. The Board has adopted a written instruction governing the role and work of the CEO. The instruction is a complement to the provisions in the Swedish Companies Act and the bank's Articles of Association. To ensure that the CEO has a good knowledge and understanding of the bank's organisation structure and processes, the bank's operations as well as the nature and scope of the bank's risks, the Board conducts an eligibility assessment of the CEO and evaluates the CEO's performance each year.

### The Bank Management and committees

The Bank Management supports the CEO in his role with the implementation of the guidelines and instructions decided by the Board and with the day-to-day operations. The Bank Management has no decision mandate and all decisions are taken by the CEO.

The collective expertise of the Bank Management should contribute to the CEO making good and well-balanced decisions. The Bank Management must ensure that the



bank's employees are guided toward the shared goals and contribute to the fulfilment of the bank's strategy.

In addition to the CEO, the following positions are included in the Bank Management: the chief commercial officers, General Counsel and Chief Sustainability Officer, Chief Information Officer, Chief Financial Officer, Head of Marketing, Communications and HR, and the Chief Risk Officer.

The CEO has also appointed councils and committees to support operational leadership. The committees that have been established are: the Balance Sheet and Income Statement Committee, Central Credit Advisory Committee, Insider Committee, Committee for Green Bonds, Insolvency Committee and the Pricing Committee.

To ensure that senior executives included in the Bank Management have a good knowledge and understanding of the bank's organisation structure and processes, the bank's operations as well as the nature and scope of the bank's risks, the CEO conducts an eligibility assessment of the senior executives included in the Bank Management.

## Business

### Business operations

The bank has organised its operations into two commercial areas: farms and forestry, and housing. The farms and forestry commercial area is driven by employees organised into four regions and 19 offices across the country. Proximity to customers is strengthened by the regional member organisation, which comprises the elected members from the bank's owner, Landshypotek Ekonomisk Förening. The housing commercial area is mainly run digitally and by telephone, and the farming and forestry commercial area operates through physical, digital and telephone meetings. In addition, a customer service organisation is in place that handles customers across all business. Each business area manager reports directly to the CEO and has full responsibility for all risks and the operational performance of the entire business area.

## Corporate culture

### A small bank with a vital mission.

Landshypotek Bank is a unique bank in the Swedish banking market. The bank has a clear assignment for Sweden's farming and forestry sectors and is owned by its farming and forestry loan customers, the bank's objectives and closeness to customers, together with

the ownership model, are important reasons behind the bank's values-driven organisation and its strong corporate culture.

Active, ongoing efforts are being driven at Landshypotek Bank to develop the bank together with the employees. On a number of occasions in 2020, employees gathered digitally to discuss the bank's development, in smaller groups and all together. As a small bank with some 200 employees, each employee comprises 0.5 percent of the bank and everyone is crucial to the bank's future.

Close dialogue between employees and managers is important at the bank. Therefore, the bank holds regular, structured dialogues between managers and employees. The dialogues aim to form an image of employees' work situations. Managers follow up the set goals and activities as well as what to focus on for the period until the next dialogue. The employee values are also followed up in the dialogue.

Each new employee must take part in a regulatory dialogue and receive information about the bank's policies during induction training. Continuously training the employees comprises another key part of the internal control of operations. The bank has a training programme that is adapted to the respective professional roles. All of the policies are published on the bank's intranet and are revised according to plan, mainly annually. To support employees in their work, the bank has introduced regular regulatory forums, where representatives from the business and the supporting organisation ensure the administration and implementation of new aspects of current regulations. These forums strengthen and streamline the bank's efforts to ensure operations are conducted efficiently, with risk-awareness and in compliance with regulations.

## Market disclosures

Landshypotek Bank has guidelines for disclosure that ensure the bank meets the external requirements set for the bank in terms of transparency, openness and information disclosure. The guidelines comprise an element of the bank's control framework.

# Board members

As of 18 March 2021



**Ann Krumlinde Hyléen**

Born: 1962, Vadstena, Chairman  
Director since 2018,  
Chairman since 2020  
Chairman of the Credit Committee, Risk and  
Capital Committee, and the Remuneration  
Committee.  
MSc in Business and Economics  
Chairman of Rocker, Skabersjö Gods AB and  
Moon Bay. Director of Väderstad.



**Anna-Karin Celsing**

Born: 1962, Stockholm, Director  
Director since 2014  
Chairman of the Audit Committee.  
Member of the Risk and Capital Committee,  
and the Remuneration Committee.  
MSc in Business and Economics  
Director of Carnegie Investment Bank,  
Lannebo Fonder AB, Peas Industries AB,  
OX2 AB, stiftelsen Beckmans Designhög-  
skola, Tim Bergling Foundation and Volati AB.



**Gunilla Aschan**

Born: 1960, Linköping, Director  
Director since 2019  
Member of the Audit Committee and deputy  
member of the Credit Committee.  
Agronomist  
Director of Ellen Keys Stiftelse Strand,  
Fyrklövern ekonomi och juridik, Lantmännen  
ekonomisk förening, and Torseröds Vind-  
kraftpark.



**Ole Laurits Lønnum**

Born: 1971, Norway, Director  
Director since 2020  
Member of the Risk and Capital Committee.  
MSc in Business and Economics  
CEO of Landkreditt.  
Chairman of Landkreditt Forsikring,  
Landkreditt Forvaltning, Landkreditt Bolig-  
kreditt and Landkreditt Eiendom.  
Deputy, Finans Norge.



**Hans Broberg**

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



**Lars-Johan Merin**

Born: 1959, Fellingsbro, Director  
Director since 2020  
Member of the Remuneration Committee.  
Agrologist.  
Chairman of Sveriges Frö- och Oljeväxtod-  
lare, Svensk Raps and Fellingsbro Lager &  
Fastigheter.  
Director of Spannmålsodlarna and Spannsam.



**Anders Nilsson**

Born: 1966, Östersund, Director  
Director since 2019  
Employee Representative for the Swedish  
Confederation of Professional Associations  
(SACO).  
Officer of Landshypotek Bank.



**Johan Trolle-Löwen**

Born: 1959, Nyköping, Director  
Director since 2011  
Member of the Audit Committee and  
Remuneration Committee, and deputy  
member of the Credit Committee.  
MSc in Engineering.  
Chairman of Kopparfors Skogar.  
Director of Firefly and Hargs Bruk.  
CEO and Director of Sjösa Förvaltnings and  
Limmersvik.



**Nils-Fredrik Nyblæus**

Born: 1951, Nyköping, Director  
Director since 2011  
Member of the Credit Committee, Audit  
Committee and Risk and Capital Committee.  
MSc in Business and Economics.  
Director of the Swedbank group's  
Gemensamma Pensionsstiftelse II, Alfáros  
Aktiebolag and Tunabergs Konsult.



# Senior Management

As of 18 March 2021



**Per Lindblad**

CEO  
Born: 1962  
Employed in: 2018  
Education: MSc Agronomy and Economics  
Previous experience: Head of Real Estate Finance, Large Corporates and Financial Institutions at SEB.



**Karl Högstedt**

Chief Financial Officer  
Born: 1975  
Employed in: 2019  
Education: MSc in Industrial Economics  
Previous experience: CFO Forex Bank, Finance Manager Forex Bank and Finance Director Intrum Justitia Finans.



**Johan Asklund**

Chief Commercial Officer  
Born: 1963  
Employed in: 2014  
Education: MSc in Business and Economics  
Previous experience: Regional Manager Middle Sweden Landshypotek Bank, Regional Manager in Retail Banking at Nordea.



**Maya Jernström**

Chief Information Officer  
Born: 1976  
Employed in: 2020  
Education: MSc in Engineering.  
Previous experience: Head of software organisations under agile transformation at Ericsson. Project and program manager in complex major projects impacting IT at Ericsson and SBAB Bank.



**Martin Kihlberg**

General Counsel and Chief Sustainability Officer  
Born: 1974  
Employed in: 2015  
Education: Master of Law, LL.M.  
Previous experience: Head of Public Affairs at Landshypotek Bank, Senior Legal Counsel SBAB Bank, Trainee solicitor at the Mannheimer Swartling law firm



**Tomas Uddin**

Head of Marketing, Communications and HR  
Born: 1971  
Employed in: 2012  
Education: BSc Political Science  
Previous experience: Chief of Staff at the Ministry of the Environment.



**Jan Lilja**

Chief Risk Officer  
Born: 1957  
Employed in: 2016  
Education: MSc in Business and Economics  
Previous experience: Head of Group Treasury at Swedbank, Head of Group Risk Control at Swedbank and CEO Swedbank Hypotek.



**Catharina Åbjörnsson Lindgren**

Chief Commercial Officer  
Born: 1971  
Employed in: 2010  
Education: Master of Law, LL.M.  
Previous experience: Acting CEO of Landshypotek Bank, Chief Legal Officer at Landshypotek Bank, Bank Lawyer at Nordea Bank Group Legal.

Changes in the Bank Management during the year  
Maya Jernström joined as Chief Information Officer during the year.





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# Income Statement

SEK million	Note	2020	2019
Interest income		1,443	1,351
of which interest income using the effective-interest method		1,443	1,351
of which other interest income		–	–
Interest expenses		-571	-536
of which fees for deposit insurance		-14	-15
of which fees for resolution fund		-32	-48
<b>Net interest income</b>	4	<b>872</b>	<b>815</b>
Net result of financial transactions	5	-17	-1
Other operating income	6	8	62
<b>Total operating income</b>		<b>862</b>	<b>876</b>
General administrative expenses	7	-428	-419
Depreciation, amortisation and impairment of tangible and intangible assets	8	-49	-41
Other operating expenses	9	0	-1
<b>Total expenses before credit losses</b>		<b>-478</b>	<b>-461</b>
<b>Profit before credit losses</b>		<b>384</b>	<b>415</b>
Net credit losses	10	13	3
<b>Operating profit</b>		<b>397</b>	<b>418</b>
Tax expense on profit for the year	11	-94	-86
<b>Net profit for the year</b>		<b>303</b>	<b>332</b>
Earnings per share, SEK		134.5	147.4
Parent Company's portion of net profit for the year		100%	100%

# Statement of Comprehensive Income

SEK million	Note	2020	2019
<b>Net profit for the year</b>		<b>303</b>	<b>332</b>
<b>Other comprehensive income</b>			
<b>Items to be reclassified to income statement</b>			
Financial assets at FVTOCI		7	-9
Change in cross-currency basis spreads in fair value hedge hedges		-10	-4
Tax on items that will be reclassified	11	1	3
<b>Total items that will be reclassified</b>		<b>-3</b>	<b>-10</b>
<b>Total other comprehensive income</b>		<b>-3</b>	<b>-10</b>
<b>Comprehensive income for the year</b>		<b>300</b>	<b>322</b>
Parent Company's portion of comprehensive income for the year		100%	100%



# Balance Sheet

SEK million	Note	2020	2019
<b>ASSETS</b>			
Cash and balances with central banks		17	43
Eligible treasury bills	12	3,800	3,998
Loans to credit institutions	13	483	501
Loans to the public	14	83,036	76,367
Value change of interest-hedged items in portfolio hedges		86	6
Bonds and other interest-bearing securities	15	5,859	5,850
Derivatives	16	1,542	1,647
Intangible assets	17	120	149
Tangible assets	18	44	26
Other assets	19	5	6
Current tax assets		–	9
Prepaid expenses and accrued income	20	240	285
<b>TOTAL ASSETS</b>		<b>95,233</b>	<b>88,887</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Liabilities to credit institutions	21	5,842	1,475
Deposits from the public	22	14,672	14,449
Debt securities issued, etc.	23	66,327	64,790
Derivatives	24	243	192
Other liabilities	25	343	312
Tax liabilities		1	–
Accrued expenses and prepaid income	26	309	358
Provisions	27	1	2
Subordinated liabilities	28	1,200	1,200
<b>Total liabilities</b>		<b>88,939</b>	<b>82,777</b>
<b>Equity</b>			
Share capital, number of shares outstanding: 2,253,000 (2,253,000)		2,253	2,253
Tier 1 capital		700	700
Other contributed equity		1,017	1,017
Reserves		-18	-16
Retained earnings		2,125	1,929
Net profit for the year		303	332
Shareholders' contributions for the year		42	23
Group contributions paid		-128	-128
<b>Total equity</b>	29	<b>6,294</b>	<b>6,111</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>95,233</b>	<b>88,887</b>

# Statement of changes in equity

2019 SEK million	Share capital	Other contributed equity	Fair value reserve <sup>1)</sup>	Cross-currency basis spreads in fair value hedges <sup>1)</sup>	Tier 1 capital	Retained earnings	Total
<b>Opening balance</b>	2,253	1,017	17	-23	700	1,960	5,924
Comprehensive income for the year			-7	-3		332	322
<b>Total change before transactions with owners and holders of Tier 1 capital instruments</b>	-	-	-7	-3	-	332	322
Dividend on Tier 1 capital instruments						-31	-31
Shareholders' contributions						23	23
Group contributions paid						-162	-162
Tax on Group contributions paid						35	35
<b>Closing balance</b>	2,253	1,017	10	-26	700	2,157	6,111

2020 SEK million	Share capital	Other contributed equity	Fair value reserve <sup>1)</sup>	Cross-currency basis spreads in fair value hedges <sup>1)</sup>	Tier 1 capital	Retained earnings	Total
<b>Opening balance</b>	2,253	1,017	10	-26	700	2,157	6,111
Comprehensive income for the year			6	-8		303	300
<b>Total change before transactions with owners and holders of Tier 1 capital instruments</b>	-	-	6	-8	-	303	300
Dividend on Tier 1 capital instruments						-32	-32
Shareholders' contributions						42	42
Group contributions paid						-163	-163
Tax on Group contributions paid						35	35
<b>Closing balance</b>	2,253	1,017	16	-34	700	2,342	6,294

<sup>1)</sup> See Note 31.

# Statement of cash flow

SEK million	Note	2020	2019
<b>Operating activities</b>			
Interest received	4	1,443	1,351
Interest paid	4	-571	-536
Net receipts of financial transactions	5	-3	6
Other operating cash receipts		8	2
Administrative expenses paid		-428	-434
Recovery of previously confirmed losses		3	6
Income tax paid		-53	-41
Change in eligible treasury bills		198	964
Change in loans to the public		-6,739	-3,824
Change in bonds and other interest-bearing securities		-9	226
Change in other assets		136	-333
Change in liabilities to credit institutions		4,367	521
Change in deposits from the public		223	299
Change in debt securities issued, etc.		1,538	2,148
Change in other liabilities		-4	-200
<b>Cash flow from operating activities</b>		<b>109</b>	<b>156</b>
<b>Investment activities</b>			
Acquisitions of intangible assets		-	-27
Acquisitions of tangible assets		-	-1
Divestments of operating properties through subsidiaries		-	66
<b>Cash flow from investment activities</b>		<b>-</b>	<b>37</b>
<b>Financing activities</b>			
Shareholders' contributions received		42	-
Tier 1 capital		-	-
Interest expense classified as Tier 1 capital dividend (AT1)		-32	-31
Dividends and Group contributions paid		-162	-158
Subordinated liabilities		-	-
<b>Cash flow from financing activities</b>		<b>-152</b>	<b>-189</b>
<b>Cash flow for the year</b>		<b>-44</b>	<b>4</b>
<b>Change in cash and cash equivalents</b>	37	<b>-44</b>	<b>4</b>
Cash and cash equivalents at beginning of year		544	540
Cash and cash equivalents at year end		500	544
<b>1) Change in debt instruments attributable to financing activities</b>			
Opening balance, subordinated liabilities		1,200	1,200
New subordinated loans		-	-
Redeemed/repurchased		-	-
Change in amortised cost		-	-
Closing balance, debt instruments		1,200	1,200



# Five-year Summary

SEK million	2020	2019	2018	2017	2016
<b>INCOME STATEMENT</b>					
Net interest income	872	815	799	800	736
Other operating income	-10	60	22	-46	33
Operating expenses	-428	-420	-411	-390	-392
Depreciation and amortisation	-49	-41	-17	-14	-14
Credit losses/recoveries	13	3	-8	-12	-15
<b>Operating profit</b>	<b>397</b>	<b>418</b>	<b>386</b>	<b>338</b>	<b>349</b>
<b>BALANCE SHEET</b>					
<b>Assets</b>					
Loans to the public	83,036	76,367	72,511	68,488	66,518
Other assets	12,197	12,520	13,417	15,905	15,662
<b>Total assets</b>	<b>95,233</b>	<b>88,887</b>	<b>85,928</b>	<b>84,394</b>	<b>82,180</b>
<b>Liabilities</b>					
Funding	88,042	81,913	78,945	77,177	76,006
Other liabilities	898	863	1,059	1,410	1,448
Equity	6,294	6,111	5,924	5,807	4,726
<b>Total liabilities and equity</b>	<b>95,233</b>	<b>88,887</b>	<b>85,928</b>	<b>84,394</b>	<b>82,180</b>
<b>Key financial ratios</b>					
Interest margin, %	1.11	1.10	1.13	1.19	1.13
Return on equity, %	4.81	5.44	4.97	4.40	5.84
Credit loss level, % <sup>1)</sup>	–	–	0.01	0.02	0.02

<sup>1)</sup> An outcome is only presented in the case of a negative earnings impact.

# Alternative performance measures

The bank uses alternative performance measures (APMs) in its interim and annual reports. APMs are financial metrics of historical or future performance, financial position or cash flows that are not defined in the applicable rules for financial reporting (for example, IFRS or the Swedish Annual Accounts Act for Credit Institutions and Securities Companies) nor in the capital adequacy rules. The bank uses APMs when these are relevant for the presentation and follow-up of the

bank's financial performance over time and when these metrics are deemed by the bank to provide additional valuable information to readers of the financial reports.

APMs can be calculated with various approaches and, accordingly, the bank's metrics are not directly comparable with similar metrics presented by other companies. The definitions and aims of the APMs are set out below.

Definitions of APMs	Aim
<b>Change in loans to the public, %</b> The percentage increase in loans to the public during the year.	The aim is to illustrate the growth in the credit portfolio, which comprises a key parameter for future income.
<b>Interest margin, %:</b> Net interest income in relation to average lending during the year.	The aim is to describe the bank's margin on net interest income in relation to loans to the public, which describes the earnings capacity. Cumulative LTM net interest income is used to provide comparable APMs for the period.
<b>Change in deposits from the public, %:</b> The percentage increase in deposits from the public during the year.	This metric aims to illustrate the growth in the bank's deposits from the public and thereby part of the bank's financing.
<b>C/I ratio including financial transactions:</b> Costs in relation to income including the net result of financial transactions.	The aim is to clarify costs in relation to income, which demonstrates the level of cost efficiency. This metric includes the net result of financial costs.
<b>C/I ratio excluding financial transactions:</b> Costs in relation to income excluding the net result of financial transactions.	The aim is to clarify costs in relation to income, which demonstrates the level of cost efficiency. This metric excludes the net result of financial costs.
<b>Credit loss level, %:</b> Net credit losses in relation to average lending during the year.	The aim is to clarify the scope of credit losses in relation to lending. In the quarterly APMs, the results for the quarter have been restated at full-year outcomes to provide comparable APMs for the period.
<b>Credit-impaired assets, net:</b> Credit-impaired assets, gross after deduction of provisions made.	This metric aims to show the proportion of loans outstanding that are categorised as credit-impaired assets, and for which the bank has not made any provisions.
<b>Net credit-impaired assets after provisions in relation to total loans outstanding, %:</b> Net credit-impaired assets in relation to loans to the public at the balance sheet date.	This metric aims to show the proportion of loans outstanding that are categorised as credit-impaired assets, and for which the bank has not made any provisions.
<b>Return on equity, %:</b> Net profit for the year divided by average equity.	The aim is to show the bank's return on equity, which is a measure of the bank's profitability. In the quarterly APMs, the results for the quarter have been restated at full-year outcomes to provide comparable APMs for the period.
<b>Earnings per share:</b> Net profit for the year divided by the share capital.	The aim is to show the shareholder's participation in earnings.

# Alternative performance measures

SEK million	2020	2019
Change in lending	6,669	3,856
Opening balance, loans outstanding	76,367	72,511
<b>Change in lending, %</b>	<b>8.7</b>	<b>5.3</b>
Net interest income	872	815
Average loans outstanding	78,776	74,235
<b>Interest margin, %</b>	<b>1.11</b>	<b>1.10</b>
Change in deposits	223	299
Opening balance deposits	14,449	14,150
<b>Change in deposits, %</b>	<b>1.5</b>	<b>2.1</b>
Costs before credit losses	-478	-461
Total operating income	862	876
<b>C/I ratio including financial transactions</b>	<b>0.55</b>	<b>0.53</b>
Costs before credit losses	-478	-461
Total operating income excluding financial transactions	879	877
<b>C/I ratio excluding financial transactions</b>	<b>0.54</b>	<b>0.53</b>
Net credit losses	13	3
Average loans outstanding	78,776	74,235
<b>Credit loss level, %<sup>1)</sup></b>	<b>-</b>	<b>-</b>
Credit-impaired assets, gross	583	634
Less provisions made	-24	-52
<b>Credit-impaired assets, net</b>	<b>559</b>	<b>582</b>
Doubtful credits, net	559	582
Loans to the public	83,036	76,367
<b>Net credit-impaired assets after allowances as a percentage of total loans outstanding, %</b>	<b>0.67</b>	<b>0.76</b>
Profit after tax	303	332
Equity	6,294	6,111
<b>Return on equity, %</b>	<b>4.8</b>	<b>5.4</b>
Profit after tax	303	332
Number of shares, million	2	2
<b>Earnings per share, SEK</b>	<b>134.5</b>	<b>147.4</b>

<sup>1)</sup> An outcome is only presented in the case of a negative earnings impact.



# Notes

## Note 1 Accounting policies

### Corporate information

On 18 March 2021, the Board of Directors of Landshypotek Bank AB (publ.), Corporate Registration Number 556500-2762, approved the financial statements. These financial statements will be presented for final adoption by the Annual General Meeting on 28 April 2021.

Landshypotek Bank (the "Bank") is owned by Landshypotek Ekonomisk Förening, in which all of the Bank's loan customers in the farming and forestry sector are members. Landshypotek Bank is specialised in lending to Swedish farming and forestry and lending for rural living. Landshypotek Bank also offers homeowner mortgages and savings products to the general public. Landshypotek Bank 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.

### Basis for preparing the annual accounts

Landshypotek Bank AB applies statutory IFRS, which means that the legal entity's financial statements must be prepared with application of the IFRSs and statements adopted by the EU, in so far as this is possible within the framework of the ÅRKL, 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 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).

### Currency and comparative data

The functional currency and presentation currency are SEK. All amounts are reported, unless otherwise specified, in SEK million. Comparative figures for the preceding year are stated in parentheses.

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

#### *Changes due to the Interest Rate Benchmark Reform*

Amendments to IAS 39, IFRS 9 and IFRS 7 due to the forthcoming reform to establish new reference rates provides certain reliefs in terms of hedge accounting. Under the revised standards, the requirement for hedge accounting is assessed on the assumption that the reference rate, on which the hedged cash flow and the cash flow form the hedging instrument have been based, does not change as a result of the new reference rates resulting from the benchmark reform. The amendment entered force for financial years beginning on or after 1 January 2020. The amendments had no impact on these financial statements.

No other new standards, amendments and interpretations or annual improvement projects that have not yet come into force had any material impact on these financial statements.

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

#### *Changes due to the Interest Rate Benchmark Reform – Phase 2*

In August 2020, the IASB issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 as a result of Phase 2 of the IBOR reform. The amendments were adopted by the EU in January 2021 and apply from 1 January 2021, with early adoption permitted. The amendments pertain to the accounting issues that arise when financial instruments benchmarked against an IBOR change to an alternative benchmark rate. The new rules include a practical expedient for the modifications required by the IBOR reform, which should be treated as a change in the floating interest rate. Amendments arising from the IBOR reform are permitted to hedge identification and hedge documentation without requiring the hedging relationship to be terminated. The implementation is not expected to have any impact on the financial statements.

No other new standards, amendments and interpretations as well as annual improvement projects that have not yet come into force are expected to have any material impact on these financial statements.

### 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. The bank offers loans in Sweden with collateral in immovable property. Deposits comprise one element of the 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 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 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:

- Financial assets at amortised cost
- Financial assets at FVTOCI
- Financial assets at FVTPL

The company's business model for administration of financial assets is used as the basis for the classification together with whether the contractual cash flows solely comprise capital and interest.

##### *Financial assets at amortised cost*

Loan and receivables are managed pursuant to a business model whose objective is to realise the assets' cash flows to collect the contractual cash flows consisting only of principal and interest on the principal amount outstanding. These assets are therefore valued at amortised cost.

Amortised cost pertains to the discounted present value of all future payments deriving from the instrument, where the discount rate comprises the asset's effective interest rate at the acquisition date.

##### *Financial assets that are not equity instruments at FVTOCI*

At specified times, the contractual terms for financial assets in this category must give rise to cash flows that only comprise repayments of capital and interest payments on the capital outstanding. The aim of the business model is to collect contractual cash flows on the holdings and to sell the financial assets.

The business model for bonds and other interest-bearing securities included in the liquidity portfolio encompasses both the collection of contractual cash flows and selling. The liquidity portfolio is recognised at FVTOCI except in those cases where this would lead to inconsistencies in accounting.

Gains and losses that arise as a result of changes in value, which are not attributable to effective interest and impairment, are recognised after taxes via other comprehensive income in the fair-value reserve under equity until the financial asset is sold or derecognised from the balance sheet. The loss allowance for assets is also recognised in other comprehensive income.

When the financial asset is derecognised from the balance sheet, the accumulated gain or loss, previously recognised in equity, is recognised in profit or loss.

##### *Financial assets at FVTPL*

If a financial asset cannot be classified in one of the above categories, it must be recognised at FVTPL. The company also has the possibility on initial recognition, to irrevocably identify a financial asset as measured at FVTPL to eliminate or reduce accounting inconsistencies.

#### Classification and measurement of financial liabilities

Under the main rule, all financial liabilities are classified as measured at amortised cost with certain exceptions, such as derivatives with negative values.

Aside from derivatives, all liabilities are recognised at amortised

cost. Derivatives with negative market values are recognised as financial liabilities at FVTPL.

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

Financial assets and liabilities attributable to lending and deposits 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 using straight-line amortisation. Testing is conducted of the impairment time, depreciation method and need for impairment on an annual basis or when there is an indication that the asset may have diminished in value.

#### Tangible assets

Tangible assets are valued at cost less accumulated depreciation and any impairment. Each component 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. Tangible assets are amortised over a period of three to five years. Straight-line depreciation is used.

- PCs – 3 years
- Furniture, fixtures and equipment – 5 years
- Fixed equipment – 5 years

#### Provisions

Provisions consist of recognised expected negative outflows of resources. Provisions are recognised when a legal or informal obligation has arisen as a result of events that have occurred when it is probable that an outflow of resources will be required to settle the undertaking. Provisions have been recognised for future pension obligations and deferred taxes.

#### 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." The change in value of financial assets and liabilities at FVTPL is accounted for under the heading "Net result of financial transactions." This is also true for changes in the 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. The accounting policies in IAS 39 are applied for hedge accounting for macro hedging and the accounting policies in IFRS 9 are

applied for other types of hedge accounting. Each hedging relationship identified is expected to be effective for the entire tenor. Effectiveness is tested partly through forward-looking (prospective) and partly with a retrospective (hindsight) evaluation.

#### *Fair-value hedges for borrowing*

Hedge accounting is applied for parts of the exposure to interest-rate risk in fixed-interest financial liabilities. The aim of the hedge being to offset changes in fair value due to movements in market 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.

#### *Macro hedging of fair value in the credit portfolio*

Hedge accounting is applied for parts of the exposure to interest-rate risk in fixed-interest financial lending. The aim of the hedge being to offset changes in fair value due to movements in market 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 credit 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."

#### *Fair-value hedges in fixed-interest investments*

Hedge accounting is applied for fixed-interest bonds in the liquidity portfolio. The hedge aims to cover any changes in fair value excluding credit spreads. 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 asset are also recognised under this heading. The credit spread is recognised under Other comprehensive income.

#### *Discontinuation of hedge accounting*

Hedge accounting is terminated 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 and fair-value hedges in investments, 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 the net result of financial transactions over the hedged item's remaining time to maturity.

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

Realised gains and losses attributable to the purchase and sale of bonds and derivative instruments in the liquidity reserve 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 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 here. When applicable, impairment attributable to financial assets is recognised at FVTOCI under this heading.

### **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 through subsidiaries 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**

Pension costs have been calculated in accordance with Finansinspektionen's regulations. The pension obligation under the BTP plan pertains to a defined-benefit plan and the obligation is funded via Sparinstitutens Pensionskassa (SPK), which manages the assets and administers pension payments on behalf of the company.

### **Leases**

Leases pertain to agreements where the bank is the lessee of premises, computers and video conferencing facilities, for which the contracts are deemed to comprise operational leases. The right to utilise the leased asset is recognised under Tangible assets and the present value of lease fees are recognised as a corresponding liability under Other liabilities. The bank applies the exceptions permitted under the standard in terms of short-term leases and leases of low-value assets. These leases are recognised as other expenses.

Depreciation of right-of-use assets and interest expenses pertaining to lease liabilities are recognised in profit or loss. Costs from operating activities are recognised in the statement of cash flow.

The lease liability is measured at the acquisition date at the present value of unpaid lease payments at the commencement date. Thereafter, the lease liability increases with the interest expense on the lease liability and decreases in line with lease payments made. The right-of-use asset is initially recognised at cost, that is the original value of the lease liability, including certain other expenses such as lease payments that were paid on or prior to the commencement date. The right-of-use asset is thereafter depreciated over the useful life. Lease payments are discounted using a discount rate. Gains or losses attributable to changes in leases are recognised in profit or loss.

### **Other operating expenses**

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



### Recognition of expected credit losses

#### *Credit portfolio*

Expected credit losses (ECLs) are recognised for the credit portfolio. Each asset is categorised to one of three stages:

- Stage 1 comprises performing assets with no significant increase in credit risk compared with initial recognition;
- Stage 2 comprises performing assets with a significant increase in credit risk compared with initial recognition; and
- Stage 3 comprises defaulted loans.

How the asset's PD risk class has deteriorated since the asset arose is measured, inter alia, to establish whether a loan asset has a significantly increased credit risk compared with the credit risk on initial recognition. If the risk classification exceeds internal limits for increased credit risk, the asset is classified as Stage 2.

The definition of default corresponds with that set out in external capital adequacy rules.

For Stage 1 assets, the loss allowance is calculated at an amount corresponding to 12-months' expected credit losses. For assets in stages 2 and 3, the loss allowance corresponds to the ECLs for the assets' remaining term.

The ECLs for performing assets (stages 1 and 2) are initially measured according to the internal calculation model. The calculation model weighs together the ECL outcomes based on three macro-economic scenarios (base, improved and deteriorated) for annual expected credit losses over the assets' lifetimes. ECLs for Stage 3 assets are estimated mainly through manual valuation of expected losses based on three scenarios.

For the credit portfolio, one of the scenarios comprises a forecast of the parameters for interest, GDP and the real estate price index. Parameter projections are made for the first five years and, thereafter, the scenario returns to a long-term expected trend of up till 30 years. To ensure consistency, the risk estimate for the credit portfolio is based on the same calculations as for capital adequacy.

For the credit portfolio, changes in risk of default and property prices have the greatest impact on the size of ECLs.

#### *Committed, but undisbursed credits*

ECLs are recognised for committed, but undisbursed credits. ECLs for committed, but undisbursed credits are calculated using existing IRB models and take forward-looking information into consideration.

#### *Liquidity portfolio*

ECLs are recognised for the parts of the liquidity portfolio that are classified as financial assets at FVTOCI.

ECLs for the liquidity portfolio are calculated based on, inter alia, default rates according to Standard & Poor's rating matrix and on internal historic LGD data from credits secured by mortgages on immovable property.

### Confirmed credit losses

When a credit loss is deemed definitive it is recognised as a confirmed credit loss and the recognised value of the receivable together with the appurtenant impairment for an expected credit loss is derecognised from the balance sheet.

A credit loss is deemed definitive and confirmed when the collateral has been realised and receipt recognised, or when a claim is waived on either legal or voluntary grounds. Received payments pertaining to written off financial assets are recognised in income as recoveries.

### 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 the main rule in RFR 2. Group contributions paid by Landshypotek Bank AB to the Parent Association, Landshypotek Ekonomisk Förening, are recognised directly in equity in Landshypotek Bank and as financial income at Landshypotek Ekonomisk Förening.

### Estimates and critical assessments

The application of the 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 affect the carrying amounts of assets, liabilities and off-balance-sheet exposures, as well as income and costs presented in the Annual Report. Moreover, they are subject to continual review and validation. Despite this, future outcomes may, to a certain extent, differ from the original assumptions made.

The ECLs are subject to continual assessment at both individual and collective levels. Among other items, estimates are based on:

- risk estimates for default and LGD;
- forecasts of future interest-rate, GDP and property price trends; and
- parameters such as; established threshold values for determining if the risk has increased significantly and weighting shares for various scenarios.

The ECL estimates are based on internal historical data, forecasts for macro parameters from well-reputed external sources and assessments by internal experts. Confirmed losses may deviate from the original loss allowances.

## Note 2 Risks

Risk arises in all financial operations. Sound management of these risks is a core focus at Landshypotek Bank. The foundation of sound risk management is a strong, shared risk culture with responsibility and decision making based on solid knowledge of the bank's customers.

Landshypotek Bank strives 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, a low acceptance level for risk undertaking, a distinct decisionmaking 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 CEO ensures that this level of acceptance is implemented in business activities. The main risks to which Landshypotek Bank is exposed are defined below. For further information regarding risks, refer to the Information regarding capital adequacy and risk management, Pillar III.

### Credit risk

#### Definition

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

#### Credit risk in the credit portfolio

Landshypotek Bank's loans to the public totalled SEK 83.0 billion (76.4). Lending encompasses lending to entrepreneurs and homeowners primarily against collateral in farm and forest properties. All lending takes place in Sweden.

#### Management of credit risk

##### Credit process

The credit policy, which is set by the Board, sets out the frameworks and fundamental principles for granting credit at Landshypotek Bank. All granting of credit at the 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. To further protect the bank against credit losses, accepted collateral primarily comprises collateral in immovable property.

##### Credit portfolio monitoring

All commitments are subject to credit monitoring on a scheduled and ongoing basis. Customers with higher risk levels are monitored more frequently. All credit decisions are to be preceded by a careful risk assessment and risk classification. The credit control unit uses portfolio analysis to identify sectors and segments, where risk has risen, for further assessment.

##### Management of problem credits

Operations at Landshypotek Bank bear full responsibility for customer relationships, profitability and risks in all customer

commitments. When needed, operations is assisted by the central departments with in-depth analyses and with managing problem customers and insolvency cases. The Credit and Business support unit assists with expertise with regard to problem commitments and confirmed insolvency cases. The bank's insolvency unit works primarily with defaulting commitments with the aim of discontinuing the loans with a minimal loss for the bank.

#### Counterparty risk, credit risk in treasury operations

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

Counterparties with whom the bank enters into swap contracts are Swedish or international banks with high credit ratings and with whom International Swaps and Derivatives Association (ISDA) agreements and unilateral Credit Support Annexes (CSAs) to Landshypotek Bank's benefit are in place, which reduce counterparty risk. The bank never pledges collateral since the derivative contracts are in the pool for covered bonds. Refer to the table, Derivative contracts broken down by rating, measured at fair value, for an account of the derivatives' exposure amount pursuant to the market value method in the CRR.

The Chief Financial Officer has overall responsibility for management of counterparty risk.

### Liquidity risk

#### Definition

Landshypotek Bank defines liquidity risk as the risk of being unable to discharge its payment obligations at the due date.

#### Liquidity risk

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 the bank.

#### Management of liquidity risk

To maintain good payment capacity, the Board has decided that a liquidity buffer should be available that corresponds to the forecast, accumulated net cash outflows for the next 180-day period and the outflows of deposits in a stressed scenario, without any possibility of refinancing. The liquidity portfolio was 1.1 times (1.9) larger than refinancing requirements for the next six months. The ratio is affected by the allocation of maturing debt for longer than six months and can, therefore, change between measurement periods.

Landshypotek Bank's holdings in its liquidity reserve are of the type that may be used as security for loans from the Riksbank. This liquidity reserve gives the bank the opportunity of bridging

### The liquidity reserve broken down by rating, measured at fair value

2020 SEK million	Covered bonds	Municipal bonds	Total
AAA	4,947	2,053	7,000
AA+	–	2,658	2,658
<b>Total</b>	<b>4,947</b>	<b>4,711</b>	<b>9,658</b>

2019 SEK million	Covered bonds	Municipal bonds	Total
AAA	5,040	1,827	6,868
AA+	–	2,981	2,981
<b>Total</b>	<b>5,040</b>	<b>4,808</b>	<b>9,848</b>

### Derivative contracts broken down by rating, measured at fair value

2020 SEK million	Positive market value <sup>2)</sup>	Exposure amount before credit risk mitigation techniques incl. netting gains and collateral received <sup>3) 4) 5)</sup>	Exposure amount after credit risk mitigation techniques incl. netting gains and collateral received <sup>3) 4) 5)</sup>
<b>Credit quality stage <sup>1)</sup></b>			
1	665	695	695
2	512	624	624
3	–	13	13
4–6	–	–	–
<b>Total</b>	<b>1,177</b>	<b>1,332</b>	<b>1,332</b>

2019 SEK million	Positive market value <sup>2)</sup>	Exposure amount before credit risk mitigation techniques incl. netting gains and collateral received <sup>3) 4) 5)</sup>	Exposure amount after credit risk mitigation techniques incl. netting gains and collateral received <sup>3) 4) 5)</sup>
<b>Credit quality stage <sup>1)</sup></b>			
1	752	808	808
2	562	713	713
3	–	13	13
4–6	–	–	–
<b>Total</b>	<b>1,315</b>	<b>1,534</b>	<b>1,534</b>

<sup>1)</sup> In accordance with the Commission Implementing Regulation (EU) 2016/1800.

<sup>2)</sup> Positive market values pertain to the market value incl. accrued interest per derivative.

<sup>3)</sup> Landshypotek received SEK 559 million (553) in cash collateral under derivative contracts.

<sup>4)</sup> Netting gains amounted to SEK 274 million (242).

<sup>5)</sup> Exposure value of derivative instruments based on the mark-to-market approach stipulated in the CRR.

temporary strains on liquidity, but also provides the opportunity of procuring the necessary funds in times of severe liquidity crisis by borrowing against or selling assets in an orderly fashion to reduce the financing need. The bank also measures the liquidity reserve, based on it covering net outflows over a 30-day significant stress period in accordance with external regulations. At 31 December 2020, the bank's LCR under EU Regulation 575/2013 and Commission Delegated Regulation (EU) 2015/61 was 229 percent (346) for Landshypotek Bank's consolidated situation and 229 percent (346) for Landshypotek Bank.

Landshypotek Bank has started to offer deposits with the aim of diversifying its funding and, thereby, reducing refinancing risk. Deposits with the bank amounted to SEK 14.7 billion (14.4). Landshypotek Bank performs regular stress tests of liquidity risk. These include a decline in value of the liquidity reserve,

reduced capital repayments and interest income, lack of new borrowing and withdrawals of deposits. The results of the stress tests demonstrate that Landshypotek Bank has an extremely healthy payment capacity.

#### Market risk

##### Definition

The market risks to which Landshypotek Bank is exposed are interest-rate risk, currency risk, credit-spread risk and basis-spread risk, and are defined as follows:

##### Interest-rate risk

The risk that the market value of discounted future inflows and outflows will develop negatively as a result of changes in interest rates.



#### *Currency risk*

The risk of losses on borrowed, lent or invested capital when exchange rates fluctuate.

#### *Credit-spread risk*

The risk of decreased market values as a consequence of widened spreads for risk-free interest for assets measured at fair value.

#### *Basis-spread risk*

The risk of decreased market values for derivatives entered into on borrowing in foreign currencies that cannot be compensated with a corresponding change in the market value of the issued debt instrument.

#### **Interest-rate risk**

Interest-rate risk arises when fixed-interest terms for assets and liabilities are mismatched, and as a consequence of utilising equity to finance fixed-term lending. It is measured, inter alia, as the changes in the present values of assets and liabilities that arise if there is a parallel shift in the interest-rate curve. The bank utilises interest-rate swaps as a tool for managing interest-rate risks.

The total impact of interest-rate risk on the balance sheet's present values for a parallel upward movement of the interest-rate curve of one percentage point amounted to negative SEK 140 million (negative: 120). Only a marginal portion of the change in the market values of assets and liabilities is recognised and, therefore, interest-rate risk that could impact earnings amounted to SEK 5 million (3).

#### **Currency risk**

The bank has no appetite for currency risks. The currency risk that arises when raising funds in currencies other than SEK is hedged by taking all of the cash flows in another currency and reflecting them in the derivative contracts used to hedge currency and interest-rate risk. In nominal amounts, the bank's funding in foreign currency amounted to SEK 3.5 billion. Any changes in exchange rates will have no material impact on earnings.

#### **Credit-spread risk**

Credit-spread risk arises from fluctuations in credit spreads in Landshypotek Bank's liquidity reserve and these also impact earnings. An increase in the credit spread of one basis point (1bp) would lead to a SEK 2 million (2) decrease in the value of the liquidity portfolio and would be recognised in other comprehensive income.

#### **Basis-spread risk**

Basis-spread risk arises for Landshypotek Bank when the currency and interest-rate risks that arise in conjunction with borrowing in a foreign currency are reduced by swapping payments in foreign currency for payments in Swedish currency through cross-currency interest-rate swaps. However, if Landshypotek Bank does not terminate the swap agreements ahead of time, the net earnings impact on expiry of the swap agreements would be zero. Due to increased volatility in basis spreads, Landshypotek Bank has chosen not to take up any funding in foreign currencies since 2011. A 1bp movement in basis spreads would lead to a SEK 2 million (2) value change in the swaps, which would be recognised in other comprehensive income.

#### **Fair-value hedges**

For the purpose of reducing or eliminating changes in the fair value of financial assets and liabilities resulting from changes in interest rates, Landshypotek Bank applies fair-value hedges as described in Note 1 Accounting policies. Landshypotek Bank uses interest-rate swaps that exchange payments of fixed interest for payments of floating interest to hedge fixed-interest assets, and swaps that exchange payments of floating interest for payments of fixed interest to hedge floating-interest liabilities.

An economic relationship exists between the hedged item and the hedging instrument, since the terms of the interest-rate swap correspond to those for the hedged item as regards the nominal amount, interest rate level, tenor, and payment and adjustment dates. The economic relationship is established through prospective testing on entering the hedge. Credit and basis spreads are not included in the financial hedging of fair value. Any market changes in these spreads are recognised in other comprehensive income.

Macro hedging is applied to hedge the fair value fixed-rate lending. The volume of fixed-rate lending is accumulated on an ongoing basis and the volume of interest rate hedges per interest-fixing occasion. When the interest-rate risk per interest-fixing occasion exceeds the bank's appetite for interest-rate risk, new interest hedges are conducted. Only the risk-free interest is hedged in interest hedges. Commercial margins are excluded when hedging interest.

#### *Effectiveness testing pursuant to IFRS 9*

The economic relationship between the underlying securities and the interest-rate swap is assessed using a qualitative analysis of the critical terms. The critical terms for the financial instruments are matched, particularly with regard to the nominal amount, reference rate, reset date and maturity. The fair values of the hedged item and the hedging instrument are expected to develop in opposite directions as a result of changes in the hedged reference rate risk. The effect of credit risk is not considered to be dominant in the change of fair value. The hedge ratio is 1:1 since the nominal amount of the interest-rate swap matches the underlying securities. The effectiveness of the hedge is assessed by comparing the change in value resulting from changes in the reference rate for the underlying security with the change in value for the identified interest-rate swap.

#### *Effectiveness testing pursuant to IAS 39*

Lending is grouped in annual intervals based on the next interest rate adjustment date. Each position in the respective time interval is hedged using interest-rate swaps corresponding to a nominal amount that covers part of the total loan amount. A specified loan amount in each time interval is thus identified as the hedged item. The efficiency of the hedged item is assessed prospectively and retrospectively. The prospective assessment uses a qualitative analysis of the critical terms of the hedged item and the interest-rate swap. The retrospective assessment is conducted monthly and uses the Schleifer-Noise method on a cumulative basis. Value changes in loans that arise from changes in the underlying interest rate are compared with the value changes in the identified interest-rate swaps.

#### **Ineffectiveness**

Ineffectiveness is calculated by comparing the change in fair value of the hedged risk in the hedged item with the change in

fair value of the derivative. The hedge is ineffective if the change in fair value of the derivative deviates from the change in value of the hedged item.

The main reason for ineffectiveness in these hedging relationships are:

- value changes in the floating leg of the derivative;
- differences between the initial values of the hedged item and the hedging instrument; and
- possible value changes related to counterparty risk in derivative contracts entered into.

### Operational risk

#### Definition

Landshypotek Bank defines operational risk as the risk of losses as a result of inappropriate or failed internal processes, human error, faulty systems and external events including legal risk.

#### Operational risk

Landshypotek Bank has a low appetite for operational risk.

The bank does not conduct operations in areas that generally generate the largest operating losses for banks. The bank conducts no trading operations or operations related to payment services, and conducts relatively simple operations for a bank.

However, a certain degree of operational risk exists in all operations and the bank identifies risks based on its significant processes and on the focus area of IT and information security. The significant processes identified for the bank are as follows:

- Meeting customers
- Supporting business
- Internal bank
- Financial reporting

### Management of operational risk

Incident identification and management of operational risks increases awareness and reduces the risk of losses. The identified risks are assessed on the basis of their likelihood of materialising as well as on how the risk impacts the bank in terms of its employees, reputation; and disruption to processes, both regulatory and financial. The bank has a risk system that dynamically links risks, incidents, customer complaints and actions taken to the bank's significant processes. Incidents and the results of the risk analyses are reported to the Bank Management and the Board. The main purpose of these efforts is, as far as possible, to identify operational risks in the significant processes and to take actions to ensure these risks do not materialise.

Risk analysis for the significant processes is also complemented through Landshypotek Bank's business continuity efforts. The aim of business continuity management is to identify the critical parts of operations and, thereafter, work to improve the robustness of these parts. Continuity management should also manage the type of events that cannot be foreseen in the risk analysis, but which could have major consequences for the bank.

Landshypotek Bank has an established process for significant changes that aims to ensure the bank is ready to manage new products, services and other significant changes. Key components in this process comprise the involvement of relevant departments at Landshypotek Bank, transparent discussion of the operational risks that could arise and well-documented decisions.

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

2020 SEK million	<3 months	3–12 months	1–3 years	3–5 years	>5 years	Total
<b>Assets</b>						
Eligible treasury bills	2,856	325	550	400		4,131
Loans to credit institutions	483					483
Loans to the public	51,306	9,334	16,086	5,700	256	82,682
Bonds and other interest-bearing securities	1,004	1,000	2,950	500		5,454
Derivatives	30,396	740	12,611	300	500	44,547
<b>Total assets</b>	<b>86,045</b>	<b>11,399</b>	<b>32,197</b>	<b>6,900</b>	<b>756</b>	<b>137,297</b>
<b>Liabilities</b>						
Liabilities to credit institutions	5,842					5,842
Deposits from the public	14,672					14,672
Debt securities issued	38,450	1,240	12,811	7,000	4,471	63,971
Derivatives	17,957	8,975	16,010	1,660		44,602
Subordinated liabilities	1,200					1,200
Other liabilities	0					0
<b>Total liabilities</b>	<b>78,122</b>	<b>10,215</b>	<b>28,821</b>	<b>8,660</b>	<b>4,471</b>	<b>130,288</b>
<b>Net</b>	<b>7,923</b>	<b>1,184</b>	<b>3,376</b>	<b>-1,760</b>	<b>-3,714</b>	<b>7,009</b>
Interest-rate sensitivity, net	-9	-8	-51	-69	-3	-140
Cumulative interest-rate sensitivity	-9	-17	-68	-137	-140	

2019 SEK million	<3 months	3–12 months	1–3 years	3–5 years	>5 years	Total
<b>Assets</b>						
Eligible treasury bills	3,177	100	475	700		4,452
Loans to credit institutions	501					501
Loans to the public	53,874	7,048	11,091	3,459	282	75,754
Bonds and other interest-bearing securities	1,004	900	1,800	1,550		5,254
Derivatives	25,597	3,948	8,154	6,960	6,610	51,269
<b>Total assets</b>	<b>84,153</b>	<b>11,996</b>	<b>21,520</b>	<b>12,669</b>	<b>6,892</b>	<b>137,230</b>
<b>Liabilities</b>						
Liabilities to credit institutions	1,475					1,475
Deposits from the public	14,449					14,449
Debt securities issued	34,703	4,548	8,355	6,960	8,486	63,052
Derivatives	29,325	7,050	10,875	3,610	275	51,135
Subordinated liabilities	1,200					1,200
Other liabilities	0					0
<b>Total liabilities</b>	<b>81,152</b>	<b>11,598</b>	<b>19,230</b>	<b>10,570</b>	<b>8,761</b>	<b>131,311</b>
<b>Net</b>	<b>3,001</b>	<b>398</b>	<b>2,290</b>	<b>2,099</b>	<b>-1,869</b>	<b>5,919</b>
Interest-rate sensitivity, net	12	-5	-49	-75	-3	-120
Cumulative interest-rate sensitivity	12	7	-43	-118	-120	

The above table differs from the maturity analysis, which includes all contracted flows, that is, nominal amounts plus contracted interest payments. The table shows nominal amounts for derivatives. Nominal amounts for inflows from derivatives are shown on the asset side and nominal amounts for outflows on the liability side. The amounts have been allocated according to the dates when interest is reset. This differs from the maturity analysis, which includes all contracted flows, that is, nominal amounts plus contracted interest payments.

## Maturity analysis for financial assets and liabilities

2020 SEK million	<3 months	3–12 months	1–3 years	3–5 years	>5 years	Total
<b>Financial assets</b>						
Eligible treasury bills	383	348	2,643	1,477		4,851
Loans to credit institutions	483					483
Loans to the public	51,636	9,660	16,532	5,824	297	83,950
Bonds and other interest-bearing securities	565	990	2,306	1,261		5,122
Derivatives	61	984	746	303	2,907	5,002
<b>Total</b>	<b>53,128</b>	<b>11,982</b>	<b>22,228</b>	<b>8,865</b>	<b>3,204</b>	<b>99,408</b>
<b>Liabilities</b>						
Liabilities to credit institutions	5,842					5,842
Borrowing/deposits from the public	14,672					14,672
Granted credit facilities	399					399
Debt securities issued	509	11,740	21,496	24,689	8,717	67,151
Derivatives	27	907	369	77	2,536	3,916
Subordinated liabilities	8	1,208				1,216
Other liabilities	19	256	23			298
<b>Total</b>	<b>21,478</b>	<b>14,111</b>	<b>21,889</b>	<b>24,765</b>	<b>11,252</b>	<b>93,495</b>
<b>Contracted cash flows</b>	<b>31,651</b>	<b>-2,129</b>	<b>339</b>	<b>-15,900</b>	<b>-8,048</b>	<b>5,913</b>

2019 SEK million	<3 months	3–12 months	1–3 years	3–5 years	>5 years	Total
<b>Financial assets</b>						
Eligible treasury bills	661	423	1,951	1,514		4,549
Loans to credit institutions	501					501
Loans to the public	54,185	7,300	11,462	3,562	322	76,831
Bonds and other interest-bearing securities	12	949	2,330	2,125		5,416
Derivatives	277	447	1,509	321	3,305	5,858
<b>Total</b>	<b>55,636</b>	<b>9,119</b>	<b>17,251</b>	<b>7,521</b>	<b>3,627</b>	<b>93,155</b>
<b>Liabilities</b>						
Liabilities to credit institutions	1,475					1,475
Borrowing/deposits from the public	14,449					14,449
Granted credit facilities	500					500
Debt securities issued	1,457	10,852	24,382	19,477	10,752	66,920
Derivatives	268	263	1,173	92	2,602	4,398
Subordinated liabilities	9	27	1,218			1,253
Other liabilities	4	6	12	1		23
<b>Total</b>	<b>18,161</b>	<b>11,147</b>	<b>26,784</b>	<b>19,570</b>	<b>13,354</b>	<b>89,017</b>
<b>Contracted cash flows</b>	<b>37,476</b>	<b>-2,028</b>	<b>-9,533</b>	<b>-12,049</b>	<b>-9,727</b>	<b>4,138</b>

The above tables include all contracted cash flows. The amounts are not discounted and are recognised during the time slot when Landshypotek 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. Loans to the public are reported until the next date for loan renewal, when the customer can redeem the loan if the customer so desires. Interest-rate derivatives are settled on a net basis, while currency interest-rate derivatives are settled on a gross basis, which is reflected in the above table. This entails that contracted amounts on maturity are only included for currency interest-rate derivatives. All flows are stated net for interest-rate derivatives.



**Derivatives that comprise hedging instruments for interest and currency risk in fair value and macro hedging**

2020 SEK million	<3 months	3–12 months	1–3 years	3–5 years	>5 years	Total
<b>Interest-rate risk</b>						
Interest-rate swaps paying fixed interest and receiving floating interest						
Nominal amount	2,700	8,975	12,910	1,650		26,235
Average fixed interest rate, %	0.24	0.10	0.27	0.75		
Interest-rate swaps paying floating interest and receiving fixed interest						
Nominal amount	800	500	12,385	7,000	2,095	22,780
Average fixed interest rate, %	1.11	0.38	0.95	0.82	2.80	
<b>Foreign currency risk</b>						
Currency related derivatives SEK/NOK						
Nominal amount		351				351
Average exchange rate		0.85				
Currency related derivatives SEK/EUR						
Nominal amount		467	228		2,424	3,119
Average exchange rate		0.10	0.11		0.10	
<b>Total</b>	<b>3,500</b>	<b>10,293</b>	<b>25,523</b>	<b>8,650</b>	<b>4,519</b>	<b>52,485</b>

2019 SEK million	<3 months	3–12 months	1–3 years	3–5 years	>5 years	Total
<b>Interest-rate risk</b>						
Interest-rate swaps paying fixed interest and receiving floating interest						
Nominal amount	2,650	7,050	10,875	3,610	395	24,580
Average fixed interest rate, %	0.02	0.22	0.31	0.60	1.56	
Interest-rate swaps paying floating interest and receiving fixed interest						
Nominal amount		3,738	7,125	6,960	5,995	23,818
Average fixed interest rate, %		0.96	0.74	1.26	1.47	
<b>Foreign currency risk</b>						
Currency related derivatives SEK/NOK						
Nominal amount	242		351			593
Average exchange rate	0.83		0.85			
Currency related derivatives SEK/EUR						
Nominal amount		200	695		2,424	3,319
Average exchange rate		0.10	0.10		0.10	
<b>Total</b>	<b>2,892</b>	<b>10,988</b>	<b>19,046</b>	<b>10,570</b>	<b>8,814</b>	<b>52,310</b>

## Hedging instrument

2020 SEK million	Balance-sheet item encompassing derivatives	Carrying amount		Change in fair value used to measure efficiency
		Assets	Liabilities	
Interest-rate risk				
Interest-rate swaps, macro hedging, loans to the public	Derivatives	8	94	-82
Interest-rate swaps, fair-value hedges, liquidity reserve	Derivatives		79	-33
Interest-rate swaps, fair-value hedges, debt securities issued, SEK	Derivatives	685	0	147
Foreign currency risk				
Cross-currency interest-rate swaps, EUR and NOK	Derivatives	849	69	12
		1,542	243	45

2019 SEK million	Balance-sheet item encompassing derivatives	Carrying amount		Change in fair value used to measure efficiency
		Assets	Liabilities	
Interest-rate risk				
Interest-rate swaps, macro hedging, loans to the public	Derivatives	47	51	36
Interest-rate swaps, fair-value hedges, liquidity reserve	Derivatives	1	64	7
Interest-rate swaps, fair-value hedges, debt securities issued, SEK	Derivatives	511	24	91
Foreign currency risk				
Cross-currency interest-rate swaps, EUR and NOK	Derivatives	1,088	53	181
		1,647	192	315

## Hedged items

2020 SEK million	Balance-sheet item encompassing the hedged item	Carrying amount		Change in fair value used to measure efficiency
		Assets	Liabilities	
Interest-rate risk				
Fixed-rate loans to the public	Loans to the public	28,029		80
Fixed-rate liquidity reserve	Eligible treasury bills, Bonds and other interest-bearing securities	5,704		32
Fixed-rate funding in SEK	Debt securities issued, etc.		23,310	-143
Foreign currency risk				
Fixed-rate funding in EUR and NOK	Debt securities issued, etc.		4,300	-28
		33,733	27,610	-59

2019 SEK million	Balance-sheet item encompassing the hedged item	Carrying amount		Change in fair value used to measure efficiency
		Assets	Liabilities	
Interest-rate risk				
Fixed-rate loans to the public	Loans to the public	19,058		-35
Fixed-rate liquidity reserve	Eligible treasury bills, Bonds and other interest-bearing securities	5,588		-7
Fixed-rate funding in SEK	Debt securities issued, etc.		24,155	-94
Foreign currency risk				
Fixed-rate funding in EUR and NOK	Debt securities issued, etc.		4,984	-186
		24,646	29,139	-322

Ineffectiveness recognised amounted to an expense of SEK 14 million (expense: 7) and was recognised in the Net result of financial transactions.

## Note 3 Capital and capital adequacy

The total capital ratio for the consolidated situation amounted to 18.8 percent (18.2) and the CET1 capital ratio was 15.2 percent (13.9). The total capital ratio for Landshypotek Bank AB amounted to 20.5 percent (19.2) and the CET1 capital ratio was 14.9 percent (13.7).

Despite an increase in CET1 capital during the year, own funds for the consolidated situation decreased SEK 11 million to SEK 6,335 million. The reduction in own funds was due to the consolidated situation being subject to provisions that limit how large a share of externally issued additional Tier 1 capital and T2 capital instruments in Landshypotek Bank AB may be included in own funds for the consolidated situation. The share that can be included is affected, inter alia, by the size of the bank's surplus capital. This increased significantly in the year, mainly due to Finansinspektionen lowering the countercyclical buffer requirement from 2.5 percent to zero percent and due to the adoption of additional new rules that improve the capital situation.

In the second quarter of 2020, new rules extending the so-called SME discount entered force, which reduced the capital requirement for lending to SMEs. Mainly attributable to the above, the minimum capital requirement decreased SEK 94 million to SEK 2,696 million despite increased lending in the year. Moreover, in the fourth quarter of 2020, new own funds rules have reduced the own funds deduction for intangible assets. This resulted from software assets, which are classified as intangible assets, being permitted to be written down over three years in own funds, which is more beneficial than the previous rules that entailed deducting the entire balance-sheet line item intangible assets from own funds.

In addition to the minimum capital requirement of 8 percent of the total risk-weighted amount, the combined buffer requirement is 2.5 percent. The combined buffer requirement must be covered by CET1 capital.

The leverage ratio for the consolidated situation amounted to 5.9 percent (6.1).

The internally assessed capital requirement for the consolidated situation was SEK 4.1 billion (5.0). The internally assessed capital requirement decreased, mainly as a result of the lowered countercyclical buffer requirement and the new rules reducing the capital requirement for lending to SMEs. The capital requirement should be compared with own funds of SEK 6.3 billion (6.3).

### New definition of default

On 15 December 2020, the bank started to register borrowers in default based on a changed definition of default. This was due to new European regulatory requirements aimed at harmonising own-funds calculations for credit risk between banks. A borrower is, inter alia, to be classified as in default if the borrower has a material credit obligation to the bank, which has fallen past due by more than 90 days. A significant credit obligation has already been defined by the bank as not less than SEK 25 million. For the bank, the largest change entailed by the new definition of default is the application of new materiality thresholds.

These comprise both absolute and relative minimum materiality thresholds. For retail exposures the new minimum materiality thresholds are SEK 1,000 and 1 percent of the exposure, and for corporate exposures the thresholds are SEK 5,000 and 1 percent of the exposure.

The impact of the implementation of the new definition of default in operations on the bank's capital situation was only marginal. However, the new definition of default is expected to lead to a significant improvement in the capital situation in conjunction with its implementation in the models in about one year's time. This is due to the expectation that the bank's default rate will decline and that the bank will only calculate internal PD estimates for corporate exposures.

## Capital adequacy analysis

SEK million	Consolidated situation <sup>1)</sup>	
	2020	2019
<b>CET1 capital: Instruments and reserves</b>		
Member contributions	1,833	1,767
Share capital	–	–
Other contributed equity	1,798	1,798
Tier 1 capital instruments	700	700
Reserves	-18	-16
Actuarial changes	-17	-48
Retained earnings	1,913	1,745
Net profit for the year <sup>2)</sup>	323	341
<b>Equity in the balance sheet</b>	<b>6,532</b>	<b>6,287</b>
Deductions related to the consolidated situation and other foreseeable costs <sup>3)</sup>	-122	-116
Deductions for Tier 1 capital instruments classified as equity	-700	-700
<b>CET1 capital before regulatory adjustments</b>	<b>5,710</b>	<b>5,471</b>
<b>CET1 capital: regulatory adjustments</b>		
Further value adjustments	-10	-10
Intangible assets	-58	-149
Deferred tax assets that rely on future profitability	–	-8
IRB deductions <sup>4)</sup>	-519	-468
<b>Total regulatory adjustments to CET1 capital</b>	<b>-587</b>	<b>-634</b>
<b>CET1 capital</b>	<b>5,123</b>	<b>4,836</b>
<b>Additional Tier 1 capital: instruments</b>		
Tier 1 capital instruments	–	–
of which: classified as equity under applicable accounting standards	–	–
Qualifying Tier 1 capital included in consolidated additional Tier 1 capital issued by subsidiaries and held by third parties	440	572
<b>Tier 1 capital (CET1 capital + Tier 1 capital)</b>	<b>5,563</b>	<b>5,408</b>
<b>Tier 2 capital: instruments and provisions</b>		
Capital instruments and subordinated loans eligible as Tier 2 capital	–	–
Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third parties	772	939
<b>Tier 2 capital before regulatory adjustments</b>	<b>772</b>	<b>939</b>
<b>Tier 2 capital</b>	<b>772</b>	<b>939</b>
<b>Own funds (Tier 1 capital + Tier 2 capital)</b>	<b>6,335</b>	<b>6,346</b>
<b>Total risk-weighted exposure amount</b>	<b>33,701</b>	<b>34,876</b>
<b>Capital ratios and buffers</b>		
<b>Own funds requirement</b>	<b>2,696</b>	<b>2,790</b>
CET1 capital ratio (%)	15.2	13.9
Tier 1 capital ratio (%)	16.5	15.5
Total capital ratio (%)	18.8	18.2
Institution-specific CET1 capital requirement including buffer requirements (%)	7.0	9.5
of which capital conservation buffer requirement (%)	2.5	2.5
of which countercyclical buffer requirement (%)	0.0	2.5
CET1 capital available to meet buffers (%) <sup>5)</sup>	10.5	9.4

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

<sup>2)</sup> A decision by Finansinspektionen granted Landshypotek Bank a permit, subject to specific terms and conditions, for using the interim or full-year surplus in own-funds calculations for Landshypotek Bank AB and also for its consolidated situation.

<sup>3)</sup> The item pertains to expected value transfers in the form of dividends to members in the consolidated situation and Group contributions to the Parent Association of Landshypotek Bank AB.

<sup>4)</sup> Deductions arising from expected credit losses exceeding the outstanding provisions for credit losses (negative amounts resulting from the calculation of expected loss amounts).

<sup>5)</sup> Calculated as "the bank's CET1 capital less CET1 used to cover the CET1 capital requirement and less any other CET1 items used to cover the tier 1 capital requirement and/or total own funds requirements divided by the total risk exposure amount."



## Capital requirements

SEK million	Consolidated situation	
	2020	2019
<b>Internally assessed capital requirement<sup>1)</sup></b>		
Pillar I capital requirement	2,696	2,790
Percentage of total risk-weighted exposure amount	8.0	8.0
Pillar II capital requirement	544	509
Percentage of total risk-weighted exposure amount	1.6	1.5
Combined buffer requirement	843	1,744
Percentage of total risk-weighted exposure amount	2.5	5.0
<b>Total capital requirement</b>	<b>4,082</b>	<b>5,043</b>
<b>Percentage of total risk-weighted exposure amount</b>	<b>12.1</b>	<b>14.5</b>
<b>Own funds (Tier 1 capital + Tier 2 capital)</b>	<b>6,335</b>	<b>6,346</b>
<b>Percentage of total risk-weighted exposure amount</b>	<b>18.8</b>	<b>18.2</b>
<b>Capital requirement as assessed by Finansinspektionen<sup>2)</sup></b>		
Pillar I capital requirement	2,696	2,790
Percentage of total risk-weighted exposure amount	8.0	8.0
Pillar II capital requirement	648	648
Percentage of total risk-weighted exposure amount	1.9	1.9
Combined buffer requirement	843	1,744
Percentage of total risk-weighted exposure amount	2.5	5.0
<b>Total capital requirement</b>	<b>4,187</b>	<b>5,182</b>
<b>Percentage of total risk-weighted exposure amount</b>	<b>12.4</b>	<b>14.9</b>
<b>Own funds (Tier 1 capital + Tier 2 capital)</b>	<b>6,335</b>	<b>6,346</b>
<b>Percentage of total risk-weighted exposure amount</b>	<b>18.8</b>	<b>18.2</b>

<sup>1)</sup> Pertains to Pillar I capital requirements pursuant to the Capital Requirements Regulation, Pillar II capital requirements according to the bank's (ICAAP 2020 and 2019, respectively) and the combined buffer requirement pursuant to the Capital Buffers Act (2014:966).

<sup>2)</sup> Pertains to Pillar I capital requirements pursuant to the Capital Requirements Regulation, Pillar II capital requirements according to Finansinspektionen's (SREP 2019) and the combined buffer requirement pursuant to the Capital Buffers Act (2014:966).

## Own funds requirement by risk, approach and exposure class

2020 SEK million	Consolidated situation			
	Exposure value <sup>1)</sup>	Risk exposure amount <sup>2)</sup>	Own funds requirement <sup>3)</sup>	Average risk weight <sup>4)</sup>
<b>Credit risk – IRB approach</b>	<b>83,822</b>	<b>23,956</b>	<b>1,916</b>	<b>29%</b>
Retail – real estate collateral	50,942	6,527	522	13%
Corporates	32,747	17,296	1,384	53%
Other non-credit-obligation assets	133	133	11	100%
<b>Credit risk – Standardised approach</b>	<b>11,876</b>	<b>1,218</b>	<b>97</b>	<b>10%</b>
Central governments or central banks	19	0	0	0%
Regional governments or local authorities	4,720	0	0	0%
Institutions	1,913	587	47	31%
Corporates	14	14	1	100%
Retail	26	18	1	70%
Secured by mortgage liens on immovable property	221	100	8	45%
Exposures in default	2	3	0	150%
Covered bonds	4,962	496	40	10%
<b>Operational risk – Basic indicator approach</b>		<b>1,554</b>	<b>124</b>	
<b>Credit valuation adjustment risk – Standardised approach</b>	<b>1,222</b>	<b>764</b>	<b>61</b>	<b>63%</b>
<b>Additional risk exposure amount under Article 458 CRR (risk-weight floor)</b>		<b>6,208</b>	<b>497</b>	
<b>Total</b>	<b>96,920</b>	<b>33,701</b>	<b>2,696</b>	

2019 SEK million	Consolidated situation			
	Exposure value <sup>1)</sup>	Risk exposure amount <sup>2)</sup>	Own funds requirement <sup>3)</sup>	Average risk weight <sup>4)</sup>
<b>Credit risk – IRB approach</b>	<b>77,038</b>	<b>26,077</b>	<b>2,086</b>	<b>34%</b>
Retail – real estate collateral	46,195	6,423	514	14%
Corporates	30,786	19,598	1,568	64%
Other non-credit-obligation assets	57	57	5	100%
<b>Credit risk – Standardised approach</b>	<b>12,254</b>	<b>1,281</b>	<b>102</b>	<b>10%</b>
Central governments or central banks	57	–	–	0%
Regional governments or local authorities	4,817	–	–	0%
Institutions	2,042	628	50	31%
Corporates	14	14	1	100%
Retail	43	30	2	69%
Secured by mortgage liens on immovable property	217	99	8	45%
Exposures in default	3	5	0	150%
Covered bonds	5,061	506	40	10%
<b>Operational risk – Basic indicator approach</b>		<b>1,470</b>	<b>118</b>	
<b>Credit valuation adjustment risk – Standardised approach</b>	<b>1,394</b>	<b>922</b>	<b>74</b>	<b>66%</b>
<b>Additional risk exposure amount under Article 458 CRR (risk-weight floor)</b>		<b>5,126</b>	<b>410</b>	
<b>Total</b>	<b>90,686</b>	<b>34,876</b>	<b>2,790</b>	

<sup>1)</sup> Exposure value calculated in accordance with the CRR. In certain cases, instead of exposure value, the abbreviation EAD (Exposure at default) and the term exposure amount were used in the bank's previous reports.

<sup>2)</sup> After application of the appropriate risk weights. Risk weights for the IRB approach are based on internal risk classification and internal historical data while risk weights as prescribed in the CRR are applied for the standardised approach.

<sup>3)</sup> Calculated by multiplying the risk exposure amount by 8 percent. Does not include any buffer requirements.

<sup>4)</sup> Calculated by dividing the risk exposure amount by the exposure value for the respective risk/exposure class.

## Capital adequacy analysis

SEK million	Landshypotek Bank AB	
	2020	2019
<b>CET1 capital instruments: Instruments and reserves</b>		
Member contributions	–	–
Share capital	2,253	2,253
Other contributed equity	1,017	1,017
Tier 1 capital instruments	700	700
Reserves	-18	-16
Actuarial changes	0	–
Retained earnings	2,039	1,825
Net profit for the year <sup>1)</sup>	303	332
<b>Equity in the balance sheet</b>	<b>6,294</b>	<b>6,111</b>
Deductions related to the consolidated situation and other foreseeable costs <sup>2)</sup>	–	–
Deductions for Tier 1 capital instruments classified as equity	-700	-700
<b>CET1 capital before regulatory adjustments</b>	<b>5,594</b>	<b>5,411</b>
<b>CET1 capital: regulatory adjustments</b>		
Further value adjustments	-10	-10
Intangible assets	-58	-149
Deferred tax assets that rely on future profitability	–	–
IRB deductions <sup>3)</sup>	-519	-468
<b>Total regulatory adjustments to CET1 capital</b>	<b>-587</b>	<b>-626</b>
<b>CET1 capital</b>	<b>5,007</b>	<b>4,785</b>
<b>Additional Tier 1 capital: instruments</b>		
Tier 1 capital instruments	700	700
of which: classified as equity under applicable accounting standards	700	700
Qualifying Tier 1 capital included in consolidated additional Tier 1 capital issued by subsidiaries and held by third parties	–	–
<b>Tier 1 capital (CET1 capital + Tier 1 capital)</b>	<b>5,707</b>	<b>5,485</b>
<b>Tier 2 capital: instruments and provisions</b>		
Capital instruments and subordinated loans eligible as Tier 2 capital	1,200	1,200
Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third parties	–	–
<b>Tier 2 capital before regulatory adjustments</b>	<b>1,200</b>	<b>1,200</b>
<b>Tier 2 capital</b>	<b>1,200</b>	<b>1,200</b>
<b>Own funds (Tier 1 capital + Tier 2 capital)</b>	<b>6,907</b>	<b>6,685</b>
<b>Total risk-weighted exposure amount</b>	<b>33,703</b>	<b>34,880</b>
<b>Capital ratios and buffers</b>		
<b>Own funds requirement</b>	<b>2,696</b>	<b>2,790</b>
CET1 capital ratio (%)	14.9	13.7
Tier 1 capital ratio (%)	16.9	15.7
Total capital ratio (%)	20.5	19.2
Institution-specific CET1 capital requirement including buffer requirements (%)	7.0	9.5
of which capital conservation buffer requirement (%)	2.5	2.5
of which countercyclical buffer requirement (%)	0.0	2.5
CET1 capital available to meet buffers (%) <sup>4)</sup>	10.4	9.2

<sup>1)</sup> A decision by Finansinspektionen granted Landshypotek Bank a permit, subject to specific terms and conditions, for using the interim or full-year surplus in own-funds calculations for Landshypotek Bank AB and also for its consolidated situation.

<sup>2)</sup> The item pertains to expected value transfers in the form of dividends to members in the consolidated situation and Group contributions to the Parent Association of Landshypotek Bank AB.

<sup>3)</sup> Deductions arising from expected credit losses exceeding the outstanding provisions for credit losses (negative amounts resulting from the calculation of expected loss amounts).

<sup>4)</sup> Calculated as "the bank's CET1 capital less CET1 used to cover the CET1 capital requirement and less any other CET1 items used to cover the tier 1 capital requirement and/or total own funds requirements divided by the total risk exposure amount."

## Capital requirements

SEK million	Landshypotek Bank AB	
	2020	2019
<b>Internally assessed capital requirement<sup>1)</sup></b>		
Pillar I capital requirement	2,696	2,790
Percentage of total risk-weighted exposure amount	8.0	8.0
Pillar II capital requirement	544	509
Percentage of total risk-weighted exposure amount	1.6	1.5
Combined buffer requirement	843	1,744
Percentage of total risk-weighted exposure amount	2.5	5.0
<b>Total capital requirement</b>	<b>4,082</b>	<b>5,044</b>
<b>Percentage of total risk-weighted exposure amount</b>	<b>12.1</b>	<b>14.5</b>
<b>Own funds (Tier 1 capital + Tier 2 capital)</b>	<b>6,907</b>	<b>6,685</b>
<b>Percentage of total risk-weighted exposure amount</b>	<b>20.5</b>	<b>19.2</b>
<b>Capital requirement as assessed by Finansinspektionen<sup>2)</sup></b>		
Pillar I capital requirement	2,696	2,790
Percentage of total risk-weighted exposure amount	8.0	8.0
Pillar II capital requirement	648	648
Percentage of total risk-weighted exposure amount	1.9	1.9
Combined buffer requirement	843	1,744
Percentage of total risk-weighted exposure amount	2.5	5.0
<b>Total capital requirement</b>	<b>4,187</b>	<b>5,182</b>
<b>Percentage of total risk-weighted exposure amount</b>	<b>12.4</b>	<b>14.9</b>
<b>Own funds (Tier 1 capital + Tier 2 capital)</b>	<b>6,907</b>	<b>6,685</b>
<b>Percentage of total risk-weighted exposure amount</b>	<b>20.5</b>	<b>19.2</b>

<sup>1)</sup> Pertains to Pillar I capital requirements pursuant to the Capital Requirements Regulation, Pillar II capital requirements according to the bank's (ICAAP 2020 and 2019, respectively) and the combined buffer requirement pursuant to the Capital Buffers Act (2014:966).

<sup>2)</sup> Pertains to Pillar I capital requirements pursuant to the Capital Requirements Regulation, Pillar II capital requirements according to Finansinspektionen's (SREP 2019) and the combined buffer requirement pursuant to the Capital Buffers Act (2014:966).



## Own funds requirement by risk, approach and exposure class

2020 SEK million	Landshypotek Bank AB			
	Exposure value <sup>1)</sup>	Risk exposure amount <sup>2)</sup>	Own funds requirement <sup>3)</sup>	Average risk weight <sup>4)</sup>
<b>Credit risk – IRB approach</b>	<b>83,824</b>	<b>23,959</b>	<b>1,917</b>	<b>29%</b>
Retail – real estate collateral	50,942	6,527	522	13%
Corporates	32,747	17,296	1,384	53%
Other non-credit-obligation assets	135	135	11	100%
<b>Credit risk – Standardised approach</b>	<b>11,871</b>	<b>1,217</b>	<b>97</b>	<b>10%</b>
Central governments or central banks	19	0	0	0%
Regional governments or local authorities	4,720	0	0	0%
Institutions	1,908	586	47	31%
Corporates	14	14	1	100%
Retail	26	18	1	70%
Secured by mortgage liens on immovable property	221	100	8	45%
Exposures in default	2	3	0	150%
Covered bonds	4,962	496	40	10%
<b>Operational risk – Basic indicator approach</b>		<b>1,554</b>	<b>124</b>	
<b>Credit valuation adjustment risk – Standardised approach</b>	<b>1,222</b>	<b>764</b>	<b>61</b>	<b>63%</b>
<b>Additional risk exposure amount under Article 458 CRR (risk-weight floor)</b>		<b>6,208</b>	<b>497</b>	
<b>Total</b>	<b>96,917</b>	<b>33,703</b>	<b>2,696</b>	

2019 SEK million	Landshypotek Bank AB			
	Exposure value <sup>1)</sup>	Risk exposure amount <sup>2)</sup>	Own funds requirement <sup>3)</sup>	Average risk weight <sup>4)</sup>
<b>Credit risk – IRB approach</b>	<b>77,041</b>	<b>26,081</b>	<b>2,086</b>	<b>34%</b>
Retail – real estate collateral	46,195	6,423	514	14%
Corporates	30,786	19,598	1,568	64%
Other non-credit-obligation assets	60	60	5	100%
<b>Credit risk – Standardised approach</b>	<b>12,257</b>	<b>1,281</b>	<b>102</b>	<b>10%</b>
Central governments or central banks	56	–	–	0%
Regional governments or local authorities	4,821	–	–	0%
Institutions	2,042	628	50	31%
Corporates	14	14	1	100%
Retail	43	30	2	69%
Secured by mortgage liens on immovable property	217	99	8	45%
Exposures in default	3	5	0	150%
Covered bonds	5,061	506	40	10%
<b>Operational risk – Basic indicator approach</b>		<b>1,470</b>	<b>118</b>	
<b>Credit valuation adjustment risk – Standardised approach</b>	<b>1,394</b>	<b>922</b>	<b>74</b>	<b>66%</b>
<b>Additional risk exposure amount under Article 458 CRR (risk-weight floor)</b>		<b>5,126</b>	<b>410</b>	
<b>Total</b>	<b>90,693</b>	<b>34,880</b>	<b>2,790</b>	

<sup>1)</sup> Exposure value calculated in accordance with the CRR.

<sup>2)</sup> After application of the appropriate risk weights. Risk weights for the IRB approach are based on internal risk classification and internal historical data while risk weights as prescribed in the CRR are applied for the standardised approach.

<sup>3)</sup> Calculated by multiplying the risk exposure amount by 8 percent. Does not include any buffer requirements.

<sup>4)</sup> Calculated by dividing the risk exposure amount by the exposure value for the respective risk/exposure class.

## Note 4 Net interest income

SEK million	2020	2019
<b>Interest income</b>		
Interest income on loans to credit institutions	0	0
Interest income on loans to the public	1,392	1,296
Interest income on interest-bearing securities	40	44
of which interest income for financial assets in fair-value hedges	27	37
of which interest income on financial assets at FVTOCI	13	7
Other interest income	11	11
<b>Total interest income</b>	<b>1,443</b>	<b>1,351</b>
Average interest on loans to the public	1.75%	1.74%
<b>Interest expenses</b>		
Interest expenses for liabilities to credit institutions – other	2	5
Interest expenses for deposits from the public	-96	-106
of which fees for deposit insurance	-14	-15
Interest expenses for interest-bearing securities	-529	-521
of which interest expenses for financial liabilities in fair value hedges adjusted for the fair value of hedged risk	-407	-470
of which interest expenses on interest-bearing securities at amortised cost	-214	-183
of which periodisation of the market value created from terminated hedging commitments <sup>1)</sup>	92	132
Interest expenses for subordinated liabilities	-34	-32
Interest expenses for derivative instruments	136	187
of which interest expenses on derivatives at FVTPL	0	0
of which interest expenses on derivatives identified as hedging instruments	228	319
of which reclassification of terminated hedging relationships <sup>1)</sup>	-92	-132
Other interest expenses	-50	-69
of which government stabilisation fund fees	-32	-48
<b>Total interest expenses</b>	<b>-571</b>	<b>-536</b>
<b>Total</b>	<b>872</b>	<b>815</b>

<sup>1)</sup> The item pertains to a reduction in recognised interest expenses from the periodisation of the market value created from hedged risk attributable to fair-value hedging relationships that were terminated in 2013 and 2018. 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 Derivatives in Net interest income. Accordingly, this has no net impact on net interest income and only affects the net result of financial transactions. The terminated hedging relationships are recognised in the balance sheet under Debt securities issued, etc. The remaining amount to be periodised is SEK 480.9 million, which will continue until May 2031.

All interest income is attributable to the Swedish market.

## Note 5 Net result of financial transactions

SEK million	2020	2019
<b>Financial assets at FVTOCI</b>		
Realised result of sales of bonds and other interest-bearing securities	1	23
<b>Financial liabilities at amortised cost</b>		
Realised result on early redemption of own bonds issued	-5	-10
Realised result from purchase/sale of derivative contracts	1	-8
<b>Total realised result</b>	<b>-3</b>	<b>6</b>
<b>Items included in hedging relationships and subject to hedge accounting</b>		
Change in value of bonds in issue included in fair-value hedges	-171	-280
Value change of interest-hedged items in portfolio hedges	80	-35
Change in value of investment bonds included in fair-value hedges	32	-7
Change in value of derivatives included in fair-value hedges	-47	183
of which reclassification of terminated hedging relationships <sup>1)</sup>	92	132
<b>Total unrealised result</b>	<b>-14</b>	<b>-7</b>
<b>Total</b>	<b>-17</b>	<b>-1</b>

<sup>1)</sup> The item pertains to a reduction in recognised interest expenses from the periodisation of the market value created from hedged risk attributable to fair-value hedging relationships that were terminated in 2013 and 2018. The terminated hedging relationships are recognised in the balance sheet under Debt securities issued, etc. The remaining amount to be periodised is SEK 480.9 million, which will continue until May 2031.

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

SEK million	2020	2019
Income from property	3	1
Other <sup>1)</sup>	5	61
<b>Total</b>	<b>8</b>	<b>62</b>

<sup>1)</sup> The item pertains to a capital gain in 2019 of SEK 55 million attributable to the sale of one operating property through a subsidiary.

## Note 7 General administrative expenses

SEK million	2020	2019
<b>Personnel costs</b>		
Salaries, etc. to CEO, senior executives and Board of Directors	-20	-20
Salaries, etc., to other personnel	-106	-99
Provision to profit-sharing foundation	-6	-5
Pension costs	-23	-24
Social insurance charges	-39	-39
Other personnel costs	-9	-11
<b>Total personnel costs</b>	<b>-203</b>	<b>-199</b>
<b>Other administrative expenses</b>		
Travel expenses	-1	-2
Telephone and data expenses	-2	-2
Office expenses	-4	-3
Cost of premises	-6	-5
IT expenses	-129	-117
Postage	-5	-5
Consultants	-43	-44
Information expenses	-11	-10
Purchased services	-1	-1
Marketing expenses	-17	-23
Agencies and associations	-4	-4
<b>Total other administrative expenses</b>	<b>-222</b>	<b>-217</b>
<b>Fees and expenses to appointed auditors</b>		
Audit assignment	-2	-2
Audit activities other than audit assignment	-1	-1
Tax consultancy	0	0
Other services	0	0
<b>Total fees and expenses to appointed auditors</b>	<b>-4</b>	<b>-3</b>
<b>Total</b>	<b>-428</b>	<b>-419</b>
<b>Specification of pension costs</b>		
Change in provision for pensions	-	0
Pension premiums	-18	-19
of which to senior executives	-3	-3
of which to other personnel	-16	-16
Directly paid pensions	-1	-1
Payroll and yield taxes attributable to pension costs	-4	-5
<b>Total pension costs</b>	<b>-23</b>	<b>-24</b>



	2020	2019
<b>Number of employees</b>		
Number of men	97	100
Number of women	107	98
<b>Total</b>	<b>204</b>	<b>198</b>
Average number of salaried employees, including substitutes	204	199
<b>Directors and senior executives</b>		
Number of directors	9	11
of whom, men	6	6
of whom, women	3	5
Number of senior executives	8	8
of whom, men	6	7
of whom, women	2	1

## Remuneration and other benefits

2020 SEK thousand	Basic salary/ Board fees	Committee fees	Other benefits	Pension costs	Other com- pensation	Total
Chairman of the Board Ann Krumlinde Hyléen	460	138				598
Board member Lars-Johan Merin	160					160
Board member Johan Trolle Löwen	320	75				395
Board member Nils-Fredrik Nyblaeus	320	213			13	546
Board member Gunilla Aschan	320	75			3	398
Board member Anna-Karin Eliasson Celsing	320	175				495
Board member Ole Laurits Lønnum	160	38				198
Former Chairman Henrik Toll (until June 2020)	300	100				400
Former Board member Hans Heuman (until June 2020)	160	38			5	203
CEO Per Lindblad	3,856		9	1,286	7	5,157
Other senior executives (7 persons)	12,481		134	2,710	9	15,335
<b>Total</b>	<b>18,857</b>	<b>850</b>	<b>143</b>	<b>3,996</b>	<b>37</b>	<b>23,883</b>

2019 SEK thousand	Basic salary/ Board fees	Committee fees	Other benefits	Pension costs	Other com- pensation	Total
Chairman of the Board Henrik Toll	525	200				725
Board member Hans Heuman	300	75			11	386
Board member Johan Trolle Löwen	300	75				375
Board member Nils-Fredrik Nyblaeus	300	175			16	491
Board member Gunilla Aschan	160	38				198
Board member Anna-Karin Eliasson Celsing	300	175				475
Board member Synnöve Trygg	140	38				178
Board member Ann Krumlinde Hyléen	300	38				338
Board member Charlotte Önnestedt	140	38				178
CEO Per Lindblad	3,771		10	2,805	21	6,607
Other senior executives (7 persons)	12,474		207	2,824	7	15,512
<b>Total</b>	<b>18,709</b>	<b>850</b>	<b>217</b>	<b>5,629</b>	<b>55</b>	<b>25,461</b>

No variable remuneration or share-based remuneration has been paid.

A mutual notice period of six months applies for the CEO and Landshypotek Bank. 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 Bank and the CEO are not in agreement regarding continued employment, compensation of up to 24-months' remuneration is payable excluding the notice period.

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

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

SEK million	2020	2019
<b>Intangible assets</b>		
Amortisation of IT system	-29	-24
<b>Tangible non-current assets</b>		
Depreciation of furniture, fixtures and equipment	-1	-2
Depreciation of real property	-	0
Depreciation of land improvements	-	0
Depreciation of right-of-use assets	-19	-14
<b>Total</b>	<b>-49</b>	<b>-41</b>

## Note 9 Operating expenses

SEK million	2020	2019
Other	0	-1
<b>Total</b>	<b>0</b>	<b>-1</b>

## Note 10 Net credit losses

SEK million	2020	2019
Change in credit loss allowance, Stage 1	0	0
Change in credit loss allowance, Stage 2	6	4
<b>Net credit losses, non-credit-impaired lending</b>	<b>6</b>	<b>4</b>
Change in credit loss allowance, Stage 3	28	4
Write-off for the period for confirmed losses	-24	-11
Recoveries of previously confirmed losses	3	6
<b>Net credit losses, credit-impaired lending</b>	<b>7</b>	<b>-1</b>
<b>Total</b>	<b>13</b>	<b>3</b>

No properties were taken over in foreclosure to protect claims.

### Recognition of loss allowance

The bank recognises expected credit losses for financial assets and off-balance-sheet exposures in the credit portfolio, and for the parts of the liquidity portfolio that are classified as financial assets at FVTOCI.

Each asset is categorised to one of three stages:

- Stage 1 comprises performing assets with no significant increase in credit risk compared with initial recognition;
- Stage 2 comprises performing assets with significant increase in credit risk compared with initial recognition; and
- Stage 3 comprises defaulted loans.

### Establishing significant increase in credit risk

To establish whether a loan asset has a significantly increased credit risk compared with the credit risk on initial recognition, among other actions, the bank measures how the asset's PD risk class has deteriorated since the asset arose. Classification of an agreement as having a higher risk corresponding to Stage 2 generally requires a risk increase of at least 1–3 PD risk classes. Agreements that were signed at a low level of risk require a greater deterioration in PD risk class to change stages than agreements signed with a higher risk level. Moreover, agreements lacking information regarding the original risk class, and those that are more than 31 days late with a payment are classified as Stage 2. Stage 3 corresponds to default. The bank's definition of default corresponds with that set out in external capital adequacy rules.

Internal risk classification on initial recognition <sup>1)</sup>	PD interval on initial recognition	Significant increase in credit risk
<b>PD model 1 (customer categories: Private individuals, Micro-enterprises and Small enterprises)</b>		
1	<0.08%	3 Risk classes
2	0.08–0.18%	3 Risk classes
3–4	0.18–0.80%	2–3 Risk classes
5–7	>0.80 and <100%	<3 Risk classes
<b>PD model 2 (customer category: Medium-sized enterprises)</b>		
A	<0.15%	2 Risk classes
B	0.15–0.60%	2 Risk classes
C	0.60–1.50%	2 Risk classes
D–E	1.50–9.00%	1–2 Risk classes
F–G	>9.00 and <100%	<2 Risk classes

<sup>1)</sup> Risk classes and PD estimates for loans with initial recognition from January 2018.

### Individually assessed stage 3 credits

ECLs for Stage 3 assets are estimated mainly through individual and manual valuation of expected losses based on three scenarios. The assessment is based on current information that takes into consideration macro-economic and borrower-specific factors that could impact future cash flows, such as current and expected economic conditions, time until recovery and the value of pledged collateral.

### Measurement

For Stage 1 assets, the loss allowance is calculated at an amount corresponding to 12-months' expected credit losses. For assets in stages 2 and 3, the loss allowance corresponds to the expected credit losses (ECLs) for the assets' remaining term.

The bank's expected credit losses are subject to continual assessment at both individual and collective levels. The estimates are based on internally developed statistical models that take into consideration historical data and probability weighted forward-looking macro-economic scenarios.

The most important input data used to measure ECLs is:

- Probability of Default (PD) – estimates the probability of an agreement entering into default.
- Loss Given Default (LGD) – the assessment of how much of the exposure value that Landshypotek Bank stands to lose in the event of default.
- Exposure At Default (EAD) – an estimated credit exposure at a future default date after taking into account expected changes in credit exposure in the form of, inter alia, limit utilisation, extra capital repayments, early redemption and expected risk of default; and
- The expected maturity matches the term of the agreement, limited to not longer than 30 years.

In the majority of the credit portfolio agreements, PD and LGD are based on internal historical data and utilise the bank's capital adequacy IRB models (see description in Landshypotek Bank's Information regarding capital adequacy and risk management 2019). The estimates have been recalibrated to capture the current financial position. For agreements in the bank's liquidity portfolio, ECLs are estimated based on, inter alia, the default rates in the rating matrices from an international rating agency.

In estimating the future risk, PD and LGD are affected by forecasts for future economic development through macro-economic scenarios.

Sensitivity analyses	Expected credit loss (percentage difference)
Current loss allowance (including credit reserves for loan commitments are included in the balance-sheet item Provisions), SEK million	41
Percentage difference in ECL if PD were to increase 100%	31%
Percentage difference in ECL if property prices were to decrease 10%	13%

## Loans to the public broken down by PD interval

2020 SEK million	Stage 1	Stage 2	Stage 3
0.00 to <0.15	15,278	2,640	0
0.15 to <0.25	23,850	907	0
0.25 to <0.50	21,847	812	0
0.50 to <0.75	6,107	309	0
0.75 to <2.50	7,212	912	0
2.50 to <10.00	466	1,237	0
10.00 to <100	302	575	0
100 (default)	0	0	583
<b>Total</b>	<b>75,063</b>	<b>7,391</b>	<b>583</b>

### Probability weighted macro-economic scenarios

The calculation model weighs together the ECL outcomes based on three macro-economic scenarios (base, improved and deteriorated) for annual expected credit losses over the assets' lifetimes.

In the case of the credit portfolio, one of the bank's scenarios includes the macro parameters for interest, GDP and the property price index. The macro parameters are based on forecasts from reputable, external sources and the assessments of internal experts. Parameter projections are made for the first five years and, thereafter, the scenario returns to a long-term expected trend of up till 30 years for the macro parameters. The bank's three scenarios for future economic developments (base, improved and deteriorated) are weighed together using the respective likelihoods of 80 and 10 percent each.

In general, a deterioration in the future economic trend will lead to increased credit loss allowances based either on the projected macro parameters or on an increase in the likelihood of the deteriorated scenario taking place. In the same way, improvements in the future economic development will lead to lower credit loss allowances.

An example follows of what the bank's credit loss allowance would look like if the respective improved or the deteriorated scenarios were assigned a probability of 100 percent, which would impact the mechanically calculated credit loss allowances (individually assessed stage 3 credits have not been included). For more information, refer to Note 14.

Scenario SEK million	Expected credit loss
Current loss allowance	41
Improved scenario	39
Deteriorated scenario	45

The following parameters use the bank's expectations as the base scenario. The improved scenario reflects the most beneficial outcome for the bank and the deteriorated scenario the least beneficial outcome for the bank. The improved and deteriorated scenarios should not be seen as forecasts and nor do they reflect any expected outcome in different economic conditions.

Macro-economic risk factors %	Baseline scenario	Deteriorated scenario	Improved scenario
<b>Interest</b>			
Year 0	-0.15	0.20	-0.51
Year 1	-0.07	0.54	-0.69
Year 2	-0.07	0.73	-0.86
Year 3	-0.04	0.90	-0.98
Year 4	0.01	1.07	-1.06
<b>GDP trend</b>			
Year 0	-3.60	-4.26	-2.94
Year 1	3.50	2.56	4.44
Year 2	3.30	2.15	4.45
Year 3	2.20	0.87	3.53
Year 4	1.80	0.31	3.29
<b>Property index (Value trend since actual valuation)</b>			
Year 0	0.00	0.00	0.00
Year 1	0.00	-5.00	2.00
Year 2	0.00	-9.75	4.04
Year 3	0.00	-14.26	6.12
Year 4	0.00	-18.55	8.24



## Note 11 Income tax on comprehensive income

SEK million	2020	2019
Profit before tax	397	418
Income tax calculated at national tax rates	-85	-90
<b>Tax effects of:</b>		
Non-taxable income	0	12
Non-deductible expenses	-8	-8
Adjustment of preceding year's tax expense	-1	-1
<b>Total income tax related to profit or loss</b>	<b>-94</b>	<b>-86</b>
Weighted-average tax rate	23.6%	20.6%
of which current tax	-94	-86
of which deferred tax	-	-
<b>Income tax related to other comprehensive income</b>		
<b>Cross-currency basis spreads in fair value hedges</b>		
Profit/loss before tax	-10	-4
Current tax	2	1
<b>Profit/loss after tax</b>	<b>-8</b>	<b>-3</b>
<b>Fair-value reserve</b>		
Profit/loss before tax	7	-9
Current tax	-2	2
<b>Profit/loss after tax</b>	<b>6</b>	<b>-7</b>
<b>Total income tax related to other comprehensive income</b>	<b>1</b>	<b>3</b>
of which current tax	1	3
of which deferred tax	-	-

## Note 12 Eligible treasury bills

SEK million	2020	2019
Swedish banks	3,800	3,998
<b>Total</b>	<b>3,800</b>	<b>3,998</b>
<b>Listed bonds and other interest-bearing securities by category</b>		
Financial assets at FVTOCI	3,800	3,998
<b>Total</b>	<b>3,800</b>	<b>3,998</b>
<b>Valuation of listed bonds and other interest-bearing securities</b>		
Nominal amount	3,731	3,952
Amortised cost	3,787	3,992
Fair value	3,800	3,998

## Note 13 Loans to credit institutions

SEK million	2020	2019
Loans to banks	483	501
<b>Total</b>	<b>483</b>	<b>501</b>

## Note 14 Loans to the public

SEK million	2020	2019
Loan receivables, stage 1	75,099	67,948
Loan receivables, stage 2	7,395	7,859
Loan receivables, stage 3	583	634
<b>Gross loan receivables</b>	<b>83,077</b>	<b>76,441</b>
Less credit loss allowance	-40	-74
<b>Net loan receivables</b>	<b>83,036</b>	<b>76,367</b>
<b>Disclosures on past due loan receivables, gross</b>		
Loan receivables past due, 5–90 days	6	43
Loan receivables past due, more than 90 days	153	253
<b>Total past due loan receivables, gross</b>	<b>159</b>	<b>296</b>

Gross loan receivables 2019 SEK million	Non-credit-impaired lending		Credit-impaired lending	Total
	Stage 1	Stage 2	Stage 3	
<b>Opening balance</b>	<b>63,071</b>	<b>8,996</b>	<b>526</b>	<b>72,593</b>
Increases in loan receivables due to origination and acquisition	10,030	124	33	10,187
Decreases in loan receivables due to derecognition	-5,136	-1,071	-96	-6,303
Decrease in loan receivables due to confirmed losses	–	–	-36	-36
<b>Migration between stages</b>				
from 1 to 2	-1,336	1,336	–	0
from 1 to 3	-30	–	30	0
from 2 to 1	1,310	-1,310	–	0
from 2 to 3	–	-238	238	0
from 3 to 2	–	22	-22	0
from 3 to 1	40	–	-40	0
<b>Closing balance</b>	<b>67,949</b>	<b>7,859</b>	<b>634</b>	<b>76,441</b>

Gross loan receivables 2020 SEK million	Non-credit-impaired lending		Credit-impaired lending	Total
	Stage 1	Stage 2	Stage 3	
<b>Opening balance</b>	<b>67,949</b>	<b>7,859</b>	<b>634</b>	<b>76,441</b>
Increases in loan receivables due to origination and acquisition	14,083	300	61	14,444
Decreases in loan receivables due to derecognition	-6,664	-945	-144	-7,753
Decrease in loan receivables due to confirmed losses	–	–	-55	-55
<b>Migration between stages</b>				
from 1 to 2	-1,182	1,182	–	0
from 1 to 3	-45	–	45	0
from 2 to 1	940	-940	–	0
from 2 to 3	–	-109	109	0
from 3 to 2	–	48	-48	0
from 3 to 1	17	–	-17	0
<b>Closing balance</b>	<b>75,099</b>	<b>7,395</b>	<b>583</b>	<b>83,077</b>

Credit loss allowance 2019 SEK million	Non-credit-impaired lending		Credit- impaired lending	Total credit loss allowance lending	Of which credit loss allowance for balance-sheet assets	Of which provisions for off-balance- sheet exposures
	Stage 1	Stage 2	Stage 3			
<b>Opening balance</b>	<b>-6</b>	<b>-21</b>	<b>-56</b>	<b>-83</b>	<b>-82</b>	<b>-2</b>
Increases due to origination and acquisition	-1	-1	0	-2	-2	0
Decreases due to derecognition	1	3	6	9	8	1
Decrease in allowance due to write-offs	-	-	11	11	11	-
Changes due to change in credit risk	2	-3	-8	-9	-9	0
Changes due to update in the methodology for estimation	-	-	-	-	-	-
<b>Migration between stages</b>						
from 1 to 2	0	-5	-	-5	-5	0
from 1 to 3	0	-	0	0	0	0
from 2 to 1	0	7	-	7	7	0
from 2 to 3	-	3	-4	-1	-2	0
from 3 to 2	-	0	0	0	0	0
from 3 to 1	0	-	0	0	0	0
<b>Closing balance</b>	<b>-5</b>	<b>-17</b>	<b>-52</b>	<b>-74</b>	<b>-74</b>	<b>-1</b>

Credit loss allowance 2020 SEK million	Non-credit-impaired lending		Credit- impaired lending	Total credit loss allowance lending	Of which credit loss allowance for balance-sheet assets	Of which provisions for off-balance- sheet exposures
	Stage 1	Stage 2	Stage 3			
<b>Opening balance</b>	<b>-5</b>	<b>-17</b>	<b>-52</b>	<b>-74</b>	<b>-74</b>	<b>-1</b>
Increases due to origination and acquisition	-2	-1	0	-3	-3	0
Decreases due to derecognition	1	1	8	10	10	0
Decrease in allowance due to write-offs	-	-	24	24	24	-
Changes due to change in credit risk	1	5	-5	1	1	0
Changes due to update in the methodology for estimation	0	0	3	3	3	-
<b>Migration between stages</b>						
from 1 to 2	0	-4	-	-4	-4	0
from 1 to 3	0	-	-1	-1	-1	0
from 2 to 1	0	3	-	3	3	0
from 2 to 3	-	1	-1	0	0	0
from 3 to 2	-	0	0	0	0	0
from 3 to 1	0	-	0	0	0	0
<b>Closing balance</b>	<b>-5</b>	<b>-12</b>	<b>-24</b>	<b>-41</b>	<b>-40</b>	<b>-1</b>

The value of the collateral for Stage 3 loan receivables amounted to SEK 1,376 million (1,342) as of 31 December 2020.

Internal Ratings Based (IRB) approach SEK million	2020		2019	
	Gross loan receivables	Credit loss allowance	Gross loan receivables	Credit loss allowance
<b>Stage 1</b>				
Risk class 1	2,635	0	2,556	0
Risk class 2	18,812	0	16,459	0
Risk class 3	19,817	1	16,149	1
Risk class 4	29,472	2	28,682	3
Risk class 5	3,903	1	3,870	1
Risk class 6	404	1	228	0
Risk class 7	20	0	4	0
<b>Stage 2</b>				
Risk class 1	1,166	0	1,285	0
Risk class 2	1,714	0	1,830	0
Risk class 3	588	0	702	0
Risk class 4	1,358	0	1,325	1
Risk class 5	1,481	3	1,466	4
Risk class 6	907	5	1,026	8
Risk class 7	176	3	224	4
<b>Stage 3</b>				
Risk class 8	583	24	634	52
<b>Total</b>	<b>83,036</b>	<b>41</b>	<b>76,441</b>	<b>74</b>

## Note 15 Bonds and other interest-bearing securities

SEK million	2020	2019
<b>Listed bonds</b>		
Issued by Swedish municipalities	911	809
Issued by housing finance institutions	4,948	5,040
of which covered bonds	4,948	5,040
<b>Total</b>	<b>5,859</b>	<b>5,850</b>
<b>Listed bonds and other interest-bearing securities by category</b>		
Financial assets at FVTOCI	5,859	5,850
<b>Total</b>	<b>5,859</b>	<b>5,850</b>
<b>Valuation of listed bonds and other interest-bearing securities</b>		
Nominal amount	5,754	5,754
Amortised cost	5,808	5,832
Fair value	5,859	5,850

## Note 16 Derivatives

SEK million	2020		2019	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
<b>Derivatives included in hedge accounting</b>				
Positive closing value of interest-rate swaps	32,404	1,126	39,977	1,021
Positive closing value of cross-currency interest-rate swaps	2,805	416	3,319	626
<b>Total</b>	<b>35,209</b>	<b>1,542</b>	<b>43,296</b>	<b>1,647</b>



## Note 17 Intangible assets

SEK million	2020	2019
Opening accumulated cost	243	216
Purchases during the year	–	27
<b>Closing accumulated cost</b>	<b>243</b>	<b>243</b>
Opening accumulated amortisation	-95	-73
Amortisation during the year	-29	-22
<b>Closing accumulated amortisation</b>	<b>-124</b>	<b>-95</b>
<b>Total</b>	<b>120</b>	<b>149</b>

Intangible non-current assets consist of investments in software.

## Note 18 Tangible assets

SEK million	2020	2019
<b>Equipment</b>		
Opening accumulated cost	30	31
Purchases during the year	–	1
Retirements/disposals during the year	–	-3
<b>Closing accumulated cost</b>	<b>30</b>	<b>30</b>
Opening accumulated depreciation	-26	-26
Depreciation during the year	-1	-1
Retirements/disposals during the year	–	1
<b>Closing accumulated depreciation</b>	<b>-27</b>	<b>-26</b>
<b>Right-of-use assets</b>		
Opening accumulated cost	36	–
Purchases during the year	39	36
Retirements/disposals during the year	-14	–
<b>Closing accumulated cost</b>	<b>61</b>	<b>36</b>
Opening accumulated depreciation	-14	–
Depreciation during the year	-19	-14
Retirements/disposals during the year	14	–
<b>Closing accumulated depreciation</b>	<b>-20</b>	<b>-14</b>
<b>Total</b>	<b>44</b>	<b>26</b>

<b>Total buildings and land</b>	<b>2020</b>	<b>2019</b>
Properties taken over in foreclosure to protect claims		
Number of properties	–	–
Estimated fair value	–	–

## Note 19 Other assets

SEK million	2020	2019
Receivables from Group companies	–	1
Other receivables	5	5
<b>Total</b>	<b>5</b>	<b>6</b>

## Note 20 Prepaid expenses and accrued income

SEK million	2020	2019
Prepaid expenses	22	27
Accrued interest on loans to the public	2	2
Accrued interest on interest-bearing instruments	23	30
Accrued interest on derivatives	189	223
Other accrued income	3	4
<b>Total</b>	<b>240</b>	<b>285</b>

## Note 21 Liabilities to credit institutions

SEK million	2020	2019
Swedish banks	5,283	922
Non-Swedish banks	559	553
<b>Total</b>	<b>5,842</b>	<b>1,475</b>

## Note 22 Deposits from the public

SEK million	2020	2019
Deposits from the public	14,672	14,449
<b>Total</b>	<b>14,672</b>	<b>14,449</b>

## Note 23 Debt securities issued, etc.

SEK million	2020	2019
Bond loans	66,327	64,790
<b>Total</b>	<b>66,327</b>	<b>64,790</b>
<b>Debt securities issued – hedged items in fair-value hedges</b>		
Amortised cost	26,345	28,807
Fair value adjusted for the change in the fair value of hedged risk	27,817	30,212

### Bond loans

The bank's bond loans encompass covered bonds and senior bonds.

### Fair-value hedges

The bank 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.

## Note 24 Derivatives

SEK million	2020		2019	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
<b>Derivatives included in hedge accounting</b>				
Negative closing value of interest-rate swaps	25,390	174	17,841	139
Negative closing value of cross-currency interest-rate swaps	665	69	593	53
<b>Total</b>	<b>26,055</b>	<b>243</b>	<b>18,434</b>	<b>192</b>

## Note 25 Other liabilities

SEK million	2020	2019
Liabilities to Group companies	241	216
Accounts payable	14	8
Lease liabilities	42	22
Other liabilities	46	66
<b>Total</b>	<b>343</b>	<b>312</b>

## Note 26 Accrued expenses and prepaid income

SEK million	2020	2019
Accrued interest on debt securities issued	227	273
Accrued interest on derivatives	50	53
Accrued interest	0	0
Other accrued expenses	20	31
Deferred income	13	2
<b>Total</b>	<b>309</b>	<b>358</b>

## Note 27 Other provisions

SEK million	2020	2019
Defined-benefit pension plans	–	1
Other provisions	1	1
<b>Total</b>	<b>1</b>	<b>2</b>

## Note 28 Subordinated liabilities

SEK million			2020	2019
Due date	Nominal amount	Interest		
2021/2026	1,200,000,000	3M STIBOR + 2.70%	1,200	1,200
<b>Total</b>			<b>1,200</b>	<b>1,200</b>

Landshypotek Bank has an early redemption option on the debt on 25 May 2021. Should Landshypotek Bank elect not to exercise this option, the debt continues to run until its maturity date, 25 May 2026.

## Note 29 Changes in Equity

SEK million	2020	2019
<b>Cross-currency basis spreads in fair value hedges</b>		
Cross-currency basis spreads in fair value hedges, opening balance	-26	-23
Change in fair value over the year	-10	-4
Transfer to profit or loss	-	-
Tax on change for the year	2	1
<b>Cross-currency basis spreads in fair value hedges, closing balance</b>	<b>-34</b>	<b>-26</b>
<b>Change in fair-value reserve</b>		
Fair-value reserve, opening balance	10	17
Change in fair value over the year	6	-21
Transfer to profit or loss	1	12
Tax on change for the year	-2	2
<b>Fair-value reserve, closing balance</b>	<b>16</b>	<b>10</b>
<b>Total reserves at year end</b>	<b>-18</b>	<b>-16</b>

## Note 30 Pledged assets, contingent liabilities and other obligations

SEK million	2020	2019
<b>Pledged assets for own liabilities</b>		
Loan receivables, covered bonds	78,141	76,475
Collateral pledged under repurchase agreements	1,282	922
<b>Contingent liabilities</b>		
Försäkringsbolaget Pensionsgaranti, FPG	0	0
Bank guarantees	27	30
<b>Total</b>	<b>27</b>	<b>30</b>
<b>Other obligations</b>		
Committed, but undisbursed credits	2,145	1,666
<b>Total</b>	<b>2,145</b>	<b>1,666</b>

Loans to the public have been pledged as collateral for covered bonds issued. In the event of the company's insolvency, bondholders have priority rights to the assets registered in the cover pool pursuant to the Covered Bond Issuance Act (2003:1223). Possession of other pledged securities passes to the pledgee in the event of bankruptcy.



## Note 31 Financial assets and liabilities by category

2020 SEK million	Financial assets at amortised cost	Financial assets at FVTOCI	Financial liabilities at amortised cost	Derivatives identified as hedging instruments
<b>Assets</b>				
Cash and balances with central banks	17			
Eligible treasury bills, etc.		3,800		
Loans to credit institutions	483			
Loans to the public	83,036			
Bonds and other interest-bearing securities		5,859		
Derivatives				1,542
<b>Total financial assets</b>	<b>83,537</b>	<b>9,659</b>	<b>–</b>	<b>1,542</b>
<b>Liabilities</b>				
Liabilities to credit institutions			5,842	
Deposits from the public			14,672	
Debt securities issued, etc.			66,327	
Derivatives				243
Subordinated liabilities			1,200	
Other liabilities			297	
<b>Total financial liabilities</b>	<b>–</b>	<b>–</b>	<b>88,339</b>	<b>243</b>

2019 SEK million	Financial assets at amortised cost	Financial assets at FVTOCI	Financial liabilities at amortised cost	Derivatives identified as hedging instruments
<b>Assets</b>				
Cash and balances with central banks	43			
Eligible treasury bills, etc.		3,998		
Loans to credit institutions	501			
Loans to the public	76,367			
Bonds and other interest-bearing securities		5,850		
Derivatives				1,647
<b>Total financial assets</b>	<b>76,911</b>	<b>9,848</b>	<b>–</b>	<b>1,647</b>
<b>Liabilities</b>				
Liabilities to credit institutions			1,475	
Deposits from the public			14,449	
Debt securities issued, etc.			64,790	
Derivatives				192
Subordinated liabilities			1,200	
Other liabilities			224	
<b>Total financial liabilities</b>	<b>–</b>	<b>–</b>	<b>82,137</b>	<b>192</b>

## Note 32 Fair value disclosures

SEK million	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Cash and balances with central banks	17	17	43	43
Eligible treasury bills	3,800	3,800	3,998	3,998
Loans to credit institutions	483	483	501	501
Loans to the public	83,036	84,784	76,367	77,737
Bonds and other interest-bearing securities	5,859	5,859	5,850	5,850
Derivatives	1,542	1,542	1,647	1,647
<b>Total assets</b>	<b>94,738</b>	<b>96,485</b>	<b>88,407</b>	<b>89,777</b>
<b>Liabilities</b>				
Liabilities to credit institutions	5,842	5,842	1,475	1,475
Deposits from the public	14,672	14,672	14,449	14,449
Debt securities issued, etc.	66,327	67,068	64,790	65,445
Derivatives	243	243	192	192
Subordinated liabilities	1,200	1,203	1,200	1,233
Other liabilities	297	297	224	224
<b>Total liabilities</b>	<b>88,582</b>	<b>89,326</b>	<b>82,329</b>	<b>83,017</b>

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

The fair values of cash and balances with central banks, loans to credit institutions, liabilities to credit institutions and other liabilities comprise a reasonable approximation based on the cost of the assets and liabilities since these assets and liabilities have short maturities.

The fair values of eligible treasury bills, bonds, other interest-bearing securities and subordinated liabilities comprise quoted market prices.

The fair values of loans to the public, debt securities issued and derivatives are calculated by discounting future cash flows. Quoted market rates for the tenor in question are used for discounting.

## Note 33 Fair-value hierarchy for financial instruments

SEK million	2020				2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets at FVTOCI</b>								
Eligible treasury bills, etc.	3,800			3,800	3,998			3,998
Bonds and other interest-bearing securities	5,859			5,859	5,850			5,850
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		1,126		1,126		1,021		1,021
Cross-currency interest-rate swaps		416		416		626		626
<b>Total assets measured at fair value</b>	<b>9,659</b>	<b>1,542</b>	<b>–</b>	<b>11,201</b>	<b>9,848</b>	<b>1,647</b>	<b>–</b>	<b>11,495</b>
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		174		174		139		139
Cross-currency interest-rate swaps		69		69		53		53
<b>Total liabilities measured at fair value</b>	<b>–</b>	<b>243</b>	<b>–</b>	<b>243</b>	<b>–</b>	<b>192</b>	<b>–</b>	<b>192</b>

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

All financial assets and liabilities measured at fair value are classified according to a valuation hierarchy. This hierarchy reflects the observable prices or other information included in the valuation techniques applied. Ahead of each quarter, the values of quoted prices are assessed with regard to whether or

not they represent actual and regularly occurring transactions. Transfers can be made between levels in the hierarchy when indications exist that market conditions, e.g., liquidity, have changed. No transfers were made between the levels.

Level 1 only comprises listed mortgage bonds and bonds issued by municipalities and county councils. Level 2 comprises derivative instruments and financial 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 are 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 and cross-currency basis swap curves are used for measurement of interest-rate and cross-currency interest-rate swaps, respectively. 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.

## Note 34 Assets and liabilities by significant currencies

SEK million	2020	2019
<b>Assets</b>		
Loans to credit institutions – EUR	480	492
<b>Total assets</b>	<b>480</b>	<b>492</b>
<b>Liabilities</b>		
Liabilities to credit institutions – EUR	480	492
Debt securities issued – EUR	3,955	4,381
Debt securities issued – NOK	294	539
<b>Total liabilities</b>	<b>4,729</b>	<b>5,412</b>

Other assets and liabilities arise in SEK. All assets and liabilities in foreign currency are hedged against exchange-rate fluctuations using derivative contracts.

## Note 35 Change in cash and cash equivalents

SEK million	2020	2019
Loans to credit institutions at beginning of year	544	540
Loans to credit institutions at year end	500	544
<b>Total change in cash and cash equivalents</b>	<b>-44</b>	<b>4</b>

## Note 36 Offsetting disclosures

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

2020 SEK million	Amount recognised in the balance sheet	Related amounts not offset in the balance sheet			Net amounts
		Financial instruments subject to ISDA agreements	Paid (+) Received (-) collateral – securities	Paid (+) Received (-) cash – collateral	
<b>Assets</b>					
Derivatives, fair value	1,542	-173			
Derivatives, accrued interest	170	-23			
<b>Derivatives, total value including accrued interest</b>	<b>1,712</b>	<b>-197</b>	<b>-</b>	<b>-559</b>	<b>957</b>
<b>Reverse repos</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>					
Derivatives, fair value	-243	173			
Derivatives, accrued interest	-31	23			
<b>Derivatives, total value including accrued interest</b>	<b>-274</b>	<b>197</b>	<b>-</b>	<b>-</b>	<b>-78</b>
<b>Reverse repos</b>	<b>-1,282</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-1,282</b>

2019 SEK million	Amount recognised in the balance sheet	Related amounts not offset in the balance sheet			Net amounts
		Financial instruments subject to ISDA agreements	Paid (+) Received (-) collateral – securities	Paid (+) Received (-) cash – collateral	
<b>Assets</b>					
Derivatives, fair value	1,647	-133			
Derivatives, accrued interest	172	-20			
<b>Derivatives, total value including accrued interest</b>	<b>1,819</b>	<b>-153</b>	<b>-</b>	<b>-553</b>	<b>1,113</b>
<b>Reverse repos</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>					
Derivatives, fair value	-192	133			
Derivatives, accrued interest	-2	20			
<b>Derivatives, total value including accrued interest</b>	<b>-193</b>	<b>153</b>	<b>-</b>	<b>-</b>	<b>-40</b>
<b>Reverse repos</b>	<b>-922</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-922</b>

### Amount 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 Bank has the right to receive cash collateral for positive market values from

counterparties whose ratings fall below a minimum agreed level. Moreover, Landshypotek is obliged to collect cash collateral from all counterparties for positive market values on derivative contracts entered into after 1 March 2017. 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. 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 37 Related-party disclosures

SEK million	2020		2019	
Lending to key personnel	Lending	Interest income	Lending	Interest income
CEO and senior executives	0	0	8	0
Board of Directors	77	1	86	1
<b>Total</b>	<b>77</b>	<b>1</b>	<b>94</b>	<b>1</b>

SEK million	2020		2019	
Deposits from key personnel	Deposits	Interest expense	Deposits	Interest expense
CEO and senior executives	5	0	4	0
Board of Directors	12	0	18	0
<b>Total</b>	<b>18</b>	<b>0</b>	<b>22</b>	<b>0</b>

### Lending

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 and the highest amount for which advantageous terms are available is SEK 4 million. Amounts in excess of the above receive the best interest rate provided to customers together with an automatic discount through the Bolån Villa product (refer to [www.landshypotek.se](http://www.landshypotek.se) for applicable discounts). Credit information is obtained from Upplysningscentralen (UC). These loans may be subject to taxation as benefits. Since June 2017, no new unsecured loans are offered. Loans taken prior to that date will expire at the end of the loan term, maximum ten years. The interest rate is 0.68 per cent for 2020. Loans of up to 75 percent of the LTV ratio are granted against collateral in agricultural properties, houses, tenant-owned apartments and holiday homes. Capital repayment plans apply for these loans over a maximum period of 50 years. The fixed-rate periods are one, two, three, four and five years. The applicable interest rates are:

1 year	0.68%
2 years	0.71%
3 years	0.75%
4 years	0.80%
5 years	0.86%

### Deposits

Deposits from key personnel are subject to the same terms and conditions as other equivalent deposits with the company.



## Note 38 Appropriation of earnings

### SEK

The following unrestricted equity is at the disposal of the Annual General Meeting:

Retained earnings	2,148,601,192
Group contributions	-162,500,000
Tax effect of Group contribution	34,775,000
Net profit for the year	303,021,484
	<b>2,323,897,676</b>

The Board of Directors proposes that the funds at the Annual General Meeting's disposal be allocated as follows:

To be carried forward	2,323,897,676
	<b>2,323,897,676</b>

Conditional on the approval of the Annual General Meeting, a Group contribution has been paid in the amount of SEK

162,500,000, which has reduced unrestricted equity as of the balance sheet date by SEK 127,725,000 after taking the tax effect into account.

Unrealised changes in the value of assets and liabilities measured at fair value had a net negative impact on equity of SEK 47,734,325.

The Board of Directors is of the opinion that the Group contribution does not compromise the company's ability to discharge 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 2,323,897,676, be carried forward.

The annual accounts have been prepared in accordance with generally accepted accounting principles and provide a fair representation of the company's position and performance.

Stockholm, 18 March 2021

Ann Krumlinde Hyléen  
*Chairman*

Gunilla Aschan  
*Member*

Hans Broberg  
*Member/Employee Representative*

Anna-Karin Celsing  
*Member*

Ole Laurits Lønnum  
*Member*

Lars-Johan Merin  
*Member*

Anders Nilsson  
*Member/Employee Representative*

Nils-Fredrik Nyblæus  
*Member*

Johan Trolle-Löwen  
*Member*

Per Lindblad  
*CEO*

Our auditor's report was submitted on 18 March 2021  
Öhrlings PricewaterhouseCoopers AB

Helena Kaiser de Carolis  
*Authorised Public Accountant*  
*Auditor-in-charge*

Frida Main  
*Authorised Public Accountant*

# Auditor's report (unofficial translation)

To the Annual General Meeting of the shareholders of Landshypotek Bank AB (publ),  
corporate identity number 556500-2762

## REPORT ON THE ANNUAL ACCOUNTS

### Opinions

We have audited the annual accounts of Landshypotek Bank AB (publ) for the year 2020 except for the corporate governance statement and the statutory sustainability report on pages 33–46 and 19–32, respectively. The annual accounts of the company are included on pages 13–95 in this document.

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 Landshypotek Bank AB (publ) as of 31 December 2020 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not cover the corporate governance statement and the statutory sustainability report on pages 33–46 and 19–32, respectively. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for Landshypotek Bank AB (publ).

Our opinions in this report on the annual accounts are consistent with the content of the additional report that has been submitted to the company's Audit Committee in accordance with the Audit Regulation (537/2014) Article 11.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Landshypotek Bank AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its Parent Company or its controlled companies within the EU.

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

### Audit scope

#### *Our audit approach*

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management and the Board made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which the company operates.

#### *Materiality*

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

### Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts as a whole, but we do not provide a separate opinion on these matters.

*Provision for expected credit losses*

The critical assessments and estimates are included in the assessment of the provision for expected credit losses (ECLs). In the case of individually assessed loans, estimates are included in the assessment of whether a credit event has taken place and in the assessment of the amount of the provision.

The ECLs are calculated as a function of the probability of default, exposure at default, loss given default and the timing of default. Loans are allocated to three separate categories depending on the level of credit risk or change in credit risk for each individual loan. For loans with no significant increase in credit risk, stage 1, the ECL is calculated for expected default events within the next 12 months. For loans with a significant increase in credit risk, stage 2, or loans in default, stage 3, the ECL is calculated for lifetime incurred and expected default events.

The bank has the possibility of adjusting the modelled credit losses to take into account market trends.

Refer to the Annual Report, Note 1 Accounting Policies (Estimates and critical assessments), Note 2 Risks (Credit risk), Note 10 Net credit losses and Note 14 Loans to the public.

Our audit included a combination of tests of internal controls pertaining to the credit process and substantive procedures regarding, inter alia, credit files and assessments made by the bank.

We have created an understanding of the credit process, including follow up of credits and the management of problem credits. Our examination of controls included the company's procedures for monitoring and duality as well as the key controls in the provisions for credit losses process. We have evaluated the effects of the coronavirus pandemic by reviewing the company's analyses and stress tests.

For stage 3 credits, we have conducted spot checks of documentation in the credit files, assessed credit risk, verified the calculation of the provision and checked the provision against the accounts.

For stage 1 and 2 credits, we have assessed the company's calculation models by evaluating the methodology and underlying assumptions, examined the company's own validation of the calculation models and conducted independent control calculations for a selection of credits. We have also evaluated the company's assessment of adjustments to the modelled ECLs.

*Measurement of financial instruments – derivatives*

The derivative portfolio comprises interest and cross-currency interest-rate swaps traded on the OTC market. For the valuation of derivatives at fair value, established valuation models based on observable market data discount future cash flows. The valuation includes a certain degree of subjectivity regarding, primarily, the valuation of the credit risk component and the interpolation of market data with longer tenors.

Refer to the Annual Report, Note 1 Accounting policies, Note 2 Risks (market risk), notes 16 and 24 Derivatives and Note 33 Fair-value hierarchy for financial instruments.

Our audit has included both tests of the internal control of the valuation process regarding derivatives and substantive procedures regarding the valuation at year-end closing. We have examined the processes for price validation, validation of market data, validation of models and general IT controls in the finance system.

We have confirmed that the performed valuation controls reconcile with the reported holdings. We have also examined adjustments of fair value, in particular adjustments of the credit risk component.

**Other information than the annual accounts**

This document also contains other information than the annual accounts and is found on pages 1–12 and in the sustainability report on pages 19–32. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Board of Directors and the Managing Director are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

**Auditor's responsibility**

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

A further description of our responsibility for the audit of the annual accounts is available on Revisorsinspektionen's website [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the auditor's report.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the Managing Director of Landshypotek Bank AB (publ) for the year 2020 and the proposed appropriations of the company's profit or loss.

We recommend to the general 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.

### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Landshypotek Bank AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

### 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. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's type of operations, size and risks place on the size of the company's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organisation and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organisation is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Banking and Financing Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion

about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the auditor's report.

### The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 33–46 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our 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. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with Chapter 6, Section 6, the second paragraph, points 2–6 of the Annual Accounts Act and Chapter 7, Section 31, the second paragraph the same law are consistent with the other parts of the annual accounts and are in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

### The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on pages 19–32, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report 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. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

Öhrlings PricewaterhouseCoopers AB, 113 97 Stockholm, was appointed auditor of Landshypotek Bank AB (publ) by the general meeting of the shareholders 17 June 2020. We have been the company's auditor since the company obtained its license to operate. According to the transition rules in the Audit Regulation (537/2014) Öhrlings PricewaterhouseCoopers AB cannot be re-elected after the annual general meeting 2024.

Stockholm, 18 March 2021  
Öhrlings PricewaterhouseCoopers AB

Helena Kaiser de Carolis  
Authorised Public Accountant  
Auditor-in-charge

Frida Main  
Authorised Public Accountant







# Addresses

## HEAD OFFICE

### Landshypotek Bank AB

Regeringsgatan 48  
Box 14092  
SE-104 41 Stockholm  
+46 (0)8-459 04 00

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## REGIONAL OFFICES

### Falkenberg

Torsholmsvägen 3  
Box 289  
SE-311 23 Falkenberg  
Switchboard:  
+46 (0)346-7182 90

### Jönköping

Huskvarnavägen 80  
SE-554 54 Jönköping  
Switchboard:  
+46 (0)36-34 17 70

### Linköping

Vasavägen 5  
Box 114  
SE-581 02 Linköping  
Switchboard:  
+46 (0)13-10 65 10

### Skellefteå

Stationsgatan 21  
SE-931 21 Skellefteå  
Switchboard:  
+46 (0)910-73 31 60

### Växjö

Kungsgatan 5  
Box 1205  
SE-351 12 Växjö  
Switchboard:  
+46 (0)470-72 64 50

### Gävle

Vågskrivargatan 5  
SE-803 20 Gävle  
Switchboard:  
+46 (0)26-13 46 90

### Kalmar

Husängsvägen 2  
Box 833  
SE-391 28 Kalmar  
Switchboard:  
+46 (0)480-42 65 80

### Lund

Stora Södergatan 8B  
Box 1017  
SE-222 23 Lund  
Switchboard:  
+46 (0)46-32 75 40

### Stockholm

Regeringsgatan 48  
Box 14092  
SE-104 41 Stockholm  
Switchboard:  
+46 (0)8-412 57 00

### Örebro

Gustavsviksvägen 7  
SE-702 30 Örebro  
Switchboard:  
+46 (0)19-16 16 30

### Göteborg

Fabriksgatan 13  
Box 5047  
SE-402 21 Göteborg  
Switchboard:  
+46 (0)31-708 36 00

### Karlstad

Älvgatan 1  
SE-652 25 Karlstad  
Switchboard:  
+46 (0)54-17 74 90

### Nyköping

Västra Storgatan 7  
SE-611 31 Nyköping  
Switchboard:  
+46 (0)16-10 58 70

### Uppsala

Bolandsgatan 15 G  
SE-753 23 Uppsala  
Switchboard:  
+46 (0)18-16 93 30

### Östersund

Rådhusgatan 46  
SE-831 34 Östersund  
Switchboard:  
+46 (0)63-14 12 70

### Härnösand

Universitetsbacken 1  
SE-871 31 Härnösand  
Switchboard:  
+46 (0)611-53 36 60

### Kristianstad

Krinova Science Park  
Stridsvagnsvägen 14  
SE-291 39 Kristianstad  
Switchboard:  
+46 (0)46-32 75 40

### Skara

Klostergatan 15  
Box 66  
SE-532 21 Skara  
Switchboard:  
+46 (0)511-34 58 80

### Visby

Kopparviksgatan 9  
Box 1102  
SE-621 22 Visby  
Switchboard:  
+46 (0)498-20 75 70

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## Customer Services

+46 (0)771 44 00 20

## Interest rate information

+46 (0)771 44 00 30

## Membership matters

+46 (0)771-44 00 40

## Website

[www.landshypotek.se](http://www.landshypotek.se)





