Landshypotek Bank

Landshypotek Bank AB Year-end report 2020

January – December 2020

Per Lindblad, CEO of Landshypotek Bank, comments on the full-year 2020:

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. Net profit for the year of SEK 303 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.

January – December 2020

compared with January – December 2019

- 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 (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).

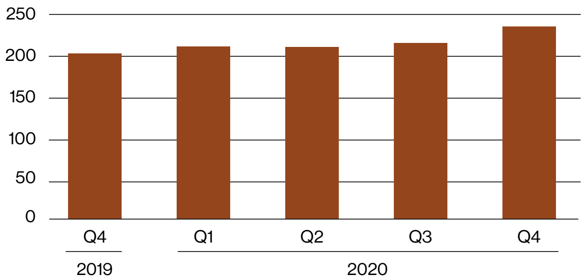
October – December 2020

compared with July – September 2020

- Operating profit amounted to SEK 106 million (116).
- The underlying operating profit, excluding the net result of financial transactions, was SEK 116 million (115).
- Net interest income amounted to SEK 235 million (215).
- Costs totalled SEK 127 million (106).
- Net credit losses positively impacted earnings by SEK 4 million (4).
- Loans to the public amounted to SEK 83.0 billion (80.0).
- Deposits from the public amounted to SEK 14.7 billion (14.5).

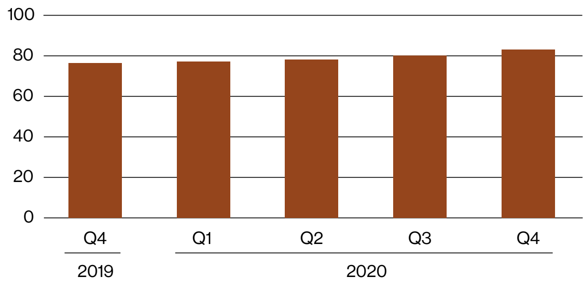
Net interest income

SEK million



Loans to the public

SEK billion



CEO's Statement

We have shown our strength in this unusual year

Landshypotek stood strong in 2020. We end this unusual year significantly stronger then when we started it, and 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 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 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 stable earnings create good preconditions for increasingly low financing costs. Together with increased volumes, this means that net profit for the year of SEK 303 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. Based on the strong earnings, SEK 163 million has been allocated as a Group contribution to the cooperative association for distribution and for running the association's operations.

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

- *The favourable future outlook in agriculture,* with substantial interest in locally produced and sustainable food. Our Lantbrukspanel is 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.
- *Our improved contact channels*, both analogue and digital. 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 take a considered, cautious line with dividends. But we showed and confirmed that our dividend benefitted society through the transfer of funds to 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 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 remains small. 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 products, for example where we currently exclude financing 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 at the core of our development and continued growth moving forward.

In 2020, we reached a new level, providing an excellent platform and preconditions for continuing to develop and be the best bank for lending – to existing and new customers in 2021.

Per Lindblad
Chief Executive Officer

Events at Landshypotek Bank in the fourth quarter of 2020

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

Healthy growth

Following a spring of limited growth in the credit market, the bank's volume growth accelerated during the summer before increasing even faster during the autumn. In the last months of the year, the bank's lending records to mortgage customers were broken. By the third quarter, the bank had already passed a total mortgage volume of more than SEK 10 billion, before ending the year at SEK 11.5 billion, up SEK 4.4 billion for the year. Farming and forestry lending grew SEK 2.3 billion to SEK 71.5 billion during the year. In total, the bank's loans to the public now amount to SEK 83 billion.

SEK 141 million was distributed to farmers across Sweden

During the economic uncertainty in the spring ensuing from the fight against Covid-19, Landshypotek Ekonomisk Förening, which owns Landshypotek Bank AB, decided to defer the decision on a dividend to its members. 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.

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 some formulations in the proposal and identified major risks for Swedish forestry. Landshypotek was quick to participate and autumn saw the start of discussions that had been long called for by Landshypotek. Further political action in the EU is now pending.

Summary Landshypotek Bank

SEK million	Q4 2020	Q4 2019	Q3 2020	Full-year 2020	Full-year 2019
Net interest income	235	202	215	872	815
Operating profit	106	74	116	397	418
Profit after tax	84	55	88	303	332
Loans to the public	83,036	76,367	79,971	83,036	76,367
Change in loans to the public, %	3.8	1.3	2.3	3.8	5.3
Interest margin, LTM, %	1.11	1.10	1.08	1.11	1.10
Deposits from the public	14,672	14,449	14,530	14,672	14,449
Change in deposits from the public, %	1.0	-0.9	-0.3	1.5	2.1
C/I ratio including financial transactions	0.56	0.64	0.49	0.55	0.53
C/I ratio excluding financial transactions	0.53	0.63	0.49	0.54	0.53
Credit loss level, % [1]	–	–	–	–	–
Total capital ratio, %	20.5	19.2	20.8	20.5	19.2
Rating, long-term					
Standard & Poor's, Covered bonds	AAA	AAA	AAA	AAA	AAA
Standard & Poor's	A	A-	A	A	A-
Fitch	A	A	A	A	A
Average number of employees, LTM	204	198	202	204	198

[1] *An outcome is only presented in the case of a negative earnings impact.*

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.

Record interest in Landshypotek's mortgage loans

Landshypotek maintained competitive mortgage rates for many fixed terms during the year. Increased visibility through good communication collaborations and digital marketing, among other actions, 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.

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 been conducted 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 digitalisation – better for customers

For many customers, increased digitalisation facilitates their banking and getting in touch with Landshypotek. Since last autumn, they can now change their loan terms via the online bank for example. The new website, launched in December, was developed based on the need of users to quickly and easily apply for loans and to save and retrieve information as well as contact the bank.

Development of the economy as well as farming and forestry

Despite changing conditions and the pandemic, Sweden's macro and household economies remain strong. The low interest rate environment is expected to continue for the next few years. A strong positive outlook is prevalent in farming and forestry.

Developments in the financial markets

Slightly slower pace of global recovery

Despite the continued spread of Covid-19 and consequent shutdowns, financial markets have focused on vaccine optimism and hope for stimuli in the US. This has stimulated capital markets and increased risk appetites. Forward-looking indicators such as the purchasing managers index and sentiment indicators have shown recovery is continuing, albeit at a slower pace. Labour market challenges have been noted in the US and Europe.

The macro outlook for Sweden – a relatively stable labour market and a stronger purchasing managers index – has been better than for many other parts of the world. Continued strong employment figures in combination with low interest rates have helped boost housing prices. The increased focus on housing during the pandemic has also given rise to increased demand for larger housing, for example.

Measures by central banks to support liquidity have continued to drive down already low interbank rates – these rates, which banks pay when borrowing from each other on shorter maturities, are one of the factors that affect the interest rates the bank can offer to customers.

The US labour market has continued to weaken and posted its lowest growth rate since April. In November, 245,000 new jobs were created compared with 600,000 in the corresponding period of 2019. The country's compiled purchasing managers index for December confirmed the recovery was slowing and was being affected by the increased spread of Covid-19.

As expected, the US central bank, the Federal Reserve, left the interest rate unchanged during the quarter. Bond purchases will continue at USD 120 billion per month according to the Federal Reserve, until significant progress has been made to allow the labour market to fully recover. A US stimulus package was approved just before the end of the year, which had been negotiated and approved in both chambers of Congress. The package, corresponding to slightly more than 4 percent of the country's GDP, significantly reduces downside risks to growth at the start of the new year. President Biden has also said he wants to see more stimuli.

Several positive signals in Europe

In December, European purchasing managers indices rose for the service and manufacturing industries. Industrial output continued to strengthen in October, despite increased spread of infection. Sentiment was lifted by the hope that a vaccine roll-out will stimulate the economy. Germany's ZEW economic sentiment index, which measures the economic expectations of investors and analysts, jumped from 39.0 in November to 55.0 in December. The 11-month negotiation of the Brexit agreement was completed on Christmas Eve and will apply from 1 January 2021. The UK made fishing concessions in the final stages of the negotiations.

During the quarter, the European Central Bank (ECB) added new stimuli. These include cheaper loans to banks, but most important was the expansion of bond purchases by EUR 500 billion (to EUR 1,850 billion) and an extension of the programme's duration until March 2022, with the possibility of early termination if no longer needed.

Sweden's economy generally stable

In Sweden, the Economic Tendency Survey for November rose to 97.5 from 96.0 in October. The increase was attributable to stronger signals primarily from manufacturing. The indicator's failure to rise further was due to weaker signals from the retail sector. Expectations for people's personal finances and for Sweden as a whole have become more negative. Prices for tenant-owner apartments continued to rise in November, but remained unchanged for houses (November compared with the August–October average). At an annualised rate, house prices posted a double-digit increase, while tenant-owner apartments increased 7 percent. The purchasing managers index for November was up slightly on October (59.1 compared with 58.2).

Tighter restrictions have entailed continued negative consequences for the already hard-pressed tourism, hospitality and retail sectors. However, the economy as a whole has yet to suffer any major negative consequences. The employment sub-index continued to rise in November. The strong outcome indicates the continued health of Sweden's economy. Statistics presented in December showed that households' finances were generally good. A report published by Sweden's financial supervisory authority (Finansinspektionen) in November noted an improvement in households' finances in almost all areas in 2020.

The Riksbank has expanded its bond-purchase programme to support the economy with SEK 200 billion to a total of SEK 700 billion. Purchases will be extended until 31 December 2021. The Riksbank expects the repo rate to remain unchanged at zero at the end of 2023 and continues to keep the door open for a rate cut.

Market developments for farmers and foresters

The year ended on a positive note for farmers and foresters, who were generally not as extensively impacted by the pandemic as businesses in many other sectors. The outlook is favourable due to the substantial interest in everything green, locally produced and sustainable. Higher prices made an appearance in several markets, generating a positive future outlook.

Mixed economy for forest owners

The market for timber has been impacted by the pandemic and extensive bark beetle infestations. The damage caused, which is estimated to be the most ever recorded in the country, has led to increased harvesting. Demand has strengthened in recent months in the wood products industry, with positive order intakes, boosted by the increase in home renovations. Closures and reduced production in other countries mean that Sweden has captured shares in the export market. However, order intakes for the pulp and paper industry were poorer. Increased harvesting, large inventories and lower sales, combined with a stronger krona, are depressing prices for pulp wood. The bark beetle infestation and the wet autumn have made it difficult to obtain harvesting capacity. The limitations have mainly affected smaller scale forest owners.

Advantageous conditions for arable farming

Developments have been favourable for arable farming. Following an early and large domestic harvest, price levels have remained stable at a high level. A record sowing in the autumn with crops establishing themselves well also contributes to an advantageous position. Autumn sown crops have a higher yield and are more drought resistant.

Stronger animal production

Milk and beef production noted positive trends with good recoveries following the 2018 drought. Settlement prices have been raised, feed supply is stable and production costs have decreased. The strong increase in production is continuing for dairy farmers.

As a result of the pandemic, the market for chicken has been adversely affected in the EU, with reduced demand and price decreases. School closures and fewer restaurant visits have contributed to prices being just over two percent lower in the last quarter than the average over the past three years. On the other hand, prices for chicken have risen in Sweden.

The market for pigmeat continues to be heavily impacted by African swine fever. South-East Asia imposed import bans on German pigmeat in September following outbreaks in Germany. This had a substantial impact in the EU with price pressure in the last quarter. Thereafter, prices have been down some 30-40 percent on the corresponding period of the previous year. In Sweden, however, the price trend has been more stable with prices up around 10 percent year-on-year.

Swedish producers capture market shares

Consumer trends, with increased awareness of sustainable choices, are reflected in more people choosing produced in Sweden, continue to strengthen. Statistics from Jordbruksverket (the Swedish Board of Agriculture) show that market share increased 2.5% for beef, 6.2% for pigmeat and 7.6% for chicken. Fewer restaurant visits have led to increased food purchases in the retail sector, which also benefits Swedish-produced livestock products.

Healthy demand for agricultural properties

In recent months, the supply of agricultural properties has been relatively low. Demand is expected to remain healthy and Statistics Sweden's figures indicate a continued positive price trend for the country as a whole. Improved sector trends are boosting the price trend. This was also reflected by Landshypotek Bank's Lantbrukspanel, where 8 out of 10 feel positive about the role of farmer. Over the next few years, the panel participants plan to invest primarily in major renovations or maintenance, and looking forward, more than half envisage expanding the land area of their farm. This will generate new financing needs, where a knowledgeable partner is needed to discuss solutions.

In summary, the last quarter has been positive for farming and forestry, despite the pandemic, animal diseases in our operating environment and insect infestations. Demand for food produced in Sweden has strengthened, as has interest in sustainable production methods and investments in agricultural properties.

Our financial performance

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. During the year, net interest income improved and the bank's loans to the public increased SEK 3.1 billion over the fourth quarter.

Financial report 2020

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, the change in earnings amounted to SEK 34 million. The change in earnings was mainly due to an improvement in 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 1. 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 about 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

Operating profit

SEK million	Full-year 2020	Full-year 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, %[1]	–	–
Operating profit	397	418
Operating profit excluding the net result of financial transactions	414	420

[1] *An outcome is only presented in the case of a negative earnings impact.*

Balance Sheet

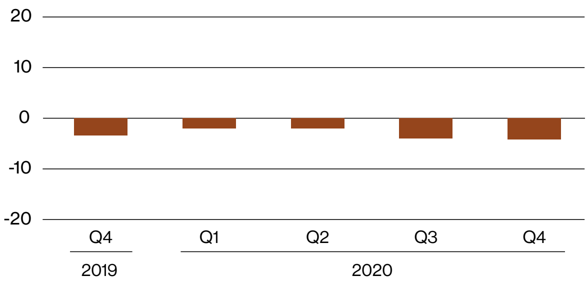
Assets, SEK million	31 Dec 2020
Eligible treasury bills	3,800
Loans to credit institutions	483
Loans to the public	83,036
Bonds and other interest-bearing securities	5,859
Derivatives	1,542
Tangible and intangible assets	164
Other assets	349
Total assets	**95,233**

Liabilities and equity, SEK million	31 Dec 2020
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	654
Equity	6,294
Total liabilities and equity	**95,233**

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 3 and Note 4.

Credit losses

SEK million



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.

Capital and capital adequacy

The total capital ratio for the consolidated situation amounted to 18.8 percent (18.2 at 31 December 2019) and the CET1 capital ratio was 15.2 percent (13.9 at 31 December 2019). The internally assessed capital requirement for the consolidated situation was SEK 4.1 billion (5.0 at 31 December 2019). The capital requirement should be compared with own funds of SEK 6.3 billion (6.3 at 31 December 2019). The capital adequacy assessment takes into account the minimum capital requirement, the Pillar II capital requirement and the combined buffer requirement. Refer to Note 1 for further information.

Assets

The largest asset item in the balance sheet is loans to the public, which amounted to SEK 83.0 billion (76.4 at 31 December 2019). The increase amounted to SEK 3.0 billion in the fourth quarter and corresponded to lending growth of 3.8 percent over the quarter. 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 at 31 December 2019). 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. 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.

Funding

SEK million	In issue 31 Dec 2020	Limit	In issue 31 Dec 2019
Swedish commercial paper	–	10,000	–
MTN programme	34,220	60,000	42,898
EMTN programme	31,788	100,498[1)]	16,582
Registered covered bonds	3,213		3,571
Subordinated loans	1,900		1,900

[1)] *EUR 10,000 million.*

Liabilities

Funding

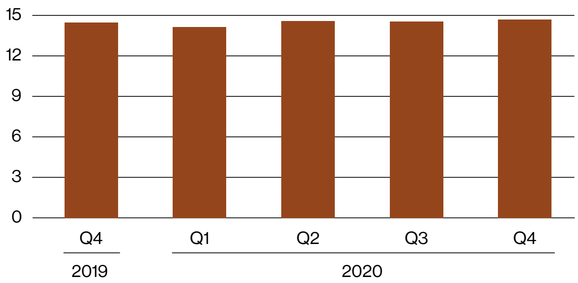
Landshypotek Bank actively raises funds via the capital markets, and as far as possible always strives to meet investors' wishes regarding tenors and interest-rate structures. Investor relations are of major importance as part of ensuring that investors' levels of awareness and interest are maintained in Landshypotek Bank. During the quarter, covered bonds to a value of SEK 5.4 billion and senior bonds to a value of SEK 0.6 billion were issued. At the same time, covered bonds matured or were repurchased to a value of SEK 1.9 billion.

Deposits from the public

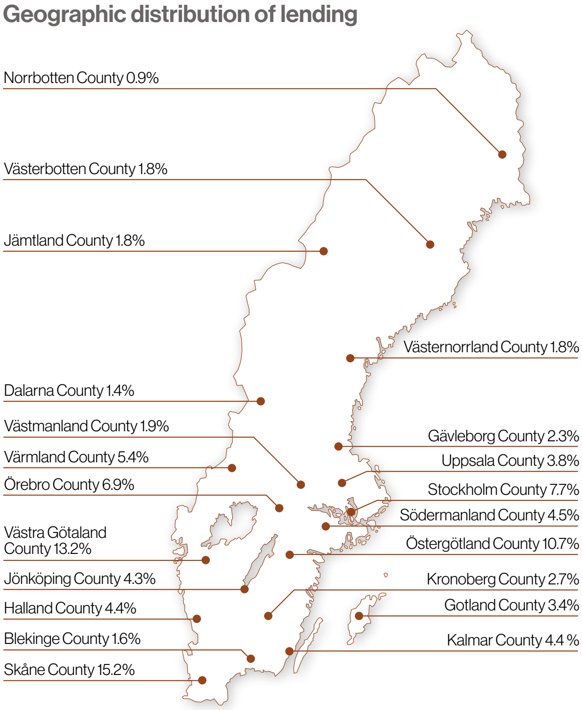
Deposits from the public totalled SEK 14.7 billion (14.4 at 31 December 2019).

Deposits from the public

SEK billion



Geographic distribution of lending



Q4 2020 compared with Q3 2020

Operating profit amounted to SEK 106 million (116) for the quarter. Excluding the net result of financial transactions, operating profit for the quarter was SEK 116 million (115). The change in the period was driven by a higher net interest income, which was offset by a lower net result of financial transactions and higher costs.

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. Projections for GDP and property prices have developed favourably in the quarter. 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. Stibor declined to even lower levels in the fourth quarter and is now at 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.

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	
S&P	A	A-1
Fitch	A	F1

Group structure

All farming and forestry borrowers of Landshypotek Bank are also members of Landshypotek Ekonomisk Förening. Landshypotek Ekonomisk Förening owns 100 percent of the shares in Landshypotek Bank. All operations are conducted exclusively in Landshypotek Bank.

Events after the end of the period

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

Stockholm, 2 February 2021

Per Lindblad
Chief Executive Officer

Accounting policies

This interim report has been prepared in accordance with IAS 34, Interim Financial Reporting. The accounting policies, calculation methods and risk management are unchanged compared with the last annual report, refer to Note 1 in the Annual Report for 2019 (www.landshypotek.se/en/about-landshypotek/investor-relations/).

Income Statement

SEK million	Note	Q4 2020	Q4 2019	Q3 2020	Full-year 2020	Full-year 2019
Interest income		360	342	361	1,443	1,351
of which interest income using the effective-interest method		360	342	361	1,443	1,351
of which other interest income		–	–	–	–	–
Interest expenses		-125	-141	-146	-571	-536
of which fees for deposit insurance		-3	-5	-4	-14	-15
of which fees for resolution fund		-8	-11	-8	-32	-48
Net interest income	2	**235**	**202**	**215**	**872**	**815**
Net result of financial transactions		-10	-5	0	-17	-1
Other operating income		3	1	2	8	62
Total operating income		**229**	**198**	**217**	**862**	**876**
General administrative expenses		-115	-115	-94	-428	-419
Depreciation, amortisation and impairment of tangible and intangible assets		-12	-12	-12	-49	-41
Other operating expenses		0	0	0	0	-1
Total expenses before credit losses		**-127**	**-127**	**-106**	**-478**	**-461**
Profit before credit losses		**102**	**70**	**112**	**384**	**415**
Net credit losses	3	4	3	4	13	3
Operating profit		**106**	**74**	**116**	**397**	**418**
Tax expense for the period		-22	-19	-28	-94	-86
Net profit for the period		**84**	**55**	**88**	**303**	**332**

Statement of Comprehensive Income

SEK million	Q4 2020	Q4 2019	Q3 2020	Full-year 2020	Full-year 2019
Net profit for the period	**84**	**55**	**88**	**303**	**332**
Other comprehensive income					
Items to be reclassified to income statement					
Financial assets at FVTOCI	7	-6	18	7	-9
Cross-currency basis spreads in fair value hedges	-6	-4	-4	-10	-4
Income tax related to other comprehensive income	0	2	-3	1	3
Total items that will be reclassified	**1**	**-8**	**11**	**-3**	**-10**
Total other comprehensive income	**1**	**-8**	**11**	**-3**	**-10**
Comprehensive income for the period	**84**	**48**	**99**	**300**	**322**

Balance Sheet

SEK million	Note	31 Dec 2020	30 Sep 2020	31 Dec 2019
Assets				
Cash and balances with central banks		17	28	43
Eligible treasury bills		3,800	3,872	3,998
Loans to credit institutions		483	486	501
Loans to the public	4	83,036	79,971	76,367
Value change of interest-hedged items in portfolio hedges		86	116	6
Bonds and other interest-bearing securities		5,859	6,168	5,850
Derivatives		1,542	1,788	1,647
Intangible assets		120	127	149
Tangible assets		44	3	4
Other assets		5	4	6
Current tax assets		–	–	9
Prepaid expenses and accrued income		240	283	285
Total assets	5, 6	**95,233**	**92,889**	**88,887**
Liabilities and equity				
Liabilities to credit institutions		5,842	6,355	1,475
Deposits from the public		14,672	14,530	14,449
Debt securities issued, etc.		66,327	63,524	64,790
Derivatives		243	264	192
Other liabilities		343	268	312
Tax liabilities		1	13	–
Accrued expenses and prepaid income		309	430	358
Provisions		1	2	2
Subordinated liabilities		1,200	1,200	1,200
Total liabilities		**88,939**	**86,587**	**82,777**
Total equity		**6,294**	**6,303**	**6,111**
Total liabilities and equity	5, 6	**95,233**	**92,889**	**88,887**

Statement of cash flow

SEK million	Full-year 2020	Full-year 2019
Opening cash and cash equivalents	**544**	**540**
Cash flow from operating activities	109	156
Cash flow from investment activities	–	37
Cash flow from financing activities	-152	-189
Cash flow for the period	**-43**	**4**
Closing cash and cash equivalents	**500**	**544**

Statement of changes in equity

January – December 2019 SEK million	Share capital	Other contributed equity	Fair value reserve	Cross-currency basis spreads in fair value hedges	Tier 1 capital	Retained earnings	Total
Opening balance	2,253	1,017	17	-23	700	1,960	5,924
Comprehensive income for the period			-7	-3		332	322
Total change before transactions with owners and holders of Tier 1 capital instruments	–	–	-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
Closing balance	2,253	1,017	10	-26	700	2,157	6,111

January – December 2020 SEK million	Share capital	Other contributed equity	Fair value reserve	Cross-currency basis spreads in fair value hedges	Tier 1 capital	Retained earnings	Total
Opening balance	2,253	1,017	10	-26	700	2,157	6,111
Comprehensive income for the period			6	-8		303	300
Total change before transactions with owners and holders of Tier 1 capital instruments	–	–	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
Closing balance	2,253	1,017	16	-34	700	2,342	6,294

Notes

Note 1 Capital and capital adequacy

The total capital ratio for the consolidated situation amounted to 18.8 percent (18.2 at 31 December 2019) and the CET1 capital ratio was 15.2 percent (13.9 at 31 December 2019). At Landshypotek Bank AB, the total capital ratio amounted to 20.5 percent (19.2 at 31 December 2019) and the CET1 capital ratio was 14.9 percent (13.7 at 31 December 2019).

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 was 5.9 percent (6.1 at 31 December 2019).

The internally assessed capital requirement for the consolidated situation was SEK 4.1 billion (5.0 at 31 December 2019). 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 at 31 December 2019).

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.

continued Note 1 Capital adequacy analysis

SEK million	Consolidated situation [1] 31 December 2020	Consolidated situation [1] 31 December 2019
CET1 capital: Instruments and reserves		
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 [2]	323	341
Equity in the balance sheet	**6,532**	**6,287**
Deductions related to the consolidated situation and other foreseeable costs [3]	-122	-116
Deductions for Tier 1 capital instruments classified as equity	-700	-700
CET1 capital before regulatory adjustments	**5,710**	**5,471**
CET1 capital: regulatory adjustments		
Further value adjustments	-10	-10
Intangible assets	-58	-149
Deferred tax assets that rely on future profitability	–	-8
IRB deductions [4]	-519	-468
Total regulatory adjustments to CET1 capital	**-587**	**-634**
CET1 capital	**5,123**	**4,836**
Additional Tier 1 capital: instruments		
Tier 1 capital instruments	–	–
of which: classified as equity under applicable accounting standards	–	–
Qualifying Tier I capital included in consolidated additional Tier 1 capital issued by subsidiaries and held by third parties	440	572
Tier 1 capital (CET1 capital + Tier 1 capital)	**5,563**	**5,408**
Tier 2 capital: instruments and provisions		
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
Tier 2 capital before regulatory adjustments	**772**	**939**
Tier 2 capital	**772**	**939**
Own funds (Tier 1 capital + Tier 2 capital)	**6,335**	**6,346**
Total risk-weighted exposure amount	**33,701**	**34,876**
Capital ratios and buffers		
Own funds requirement	**2,696**	**2,790**
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 (%) [5]	10.5	9.4

1) *The consolidated situation encompasses Landshypotek Ekonomisk Förening and the Landshypotek Bank AB Group.*

2) *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.*

3) *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.*

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

5) *Calculated as "the bank's CET1 capital less CET 1 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-weighted exposure amount."*

continued Note 1 Capital requirements

SEK million	Consolidated situation	
	31 December 2020	31 December 2019
Internally assessed capital requirement [1]		
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
Total capital requirement	**4,082**	**5,043**
Percentage of total risk-weighted exposure amount	**12.1**	**14.5**
Own funds (Tier 1 capital + Tier 2 capital)	**6,335**	**6,346**
Percentage of total risk-weighted exposure amount	**18.8**	**18.2**
Capital requirement as assessed by Finansinspektionen [2]		
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
Total capital requirement	**4,187**	**5,182**
Percentage of total risk-weighted exposure amount	**12.4**	**14.9**
Own funds (Tier 1 capital + Tier 2 capital)	**6,335**	**6,346**
Percentage of total risk-weighted exposure amount	**18.8**	**18.2**

[1] *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).*

[2] *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).*

Contd. Note 1 Own funds requirement by risk, approach and exposure class

31 December 2020 SEK million	Consolidated situation Exposure value[1]	Risk-weighted exposure amount[2]	Own funds requirement[3]	Average risk weight[4]
Credit risk – IRB approach	**83,822**	**23,956**	**1,916**	**29%**
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%
Credit risk – Standardised approach	**11,876**	**1,218**	**97**	**10%**
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%
Operational risk – Basic indicator approach		**1,554**	**124**	
Credit valuation adjustment risk – Standardised approach	**1,222**	**764**	**61**	**63%**
Additional risk exposure amount under Article 458 CRR (risk-weight floor)		**6,208**	**497**	
Total	**96,920**	**33,701**	**2,696**	

31 December 2019 SEK million	Consolidated situation Exposure value[1]	Risk-weighted exposure amount[2]	Own funds requirement[3]	Average risk weight[4]
Credit risk – IRB approach	**77,038**	**26,077**	**2,086**	**34%**
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%
Credit risk – Standardised approach	**12,254**	**1,281**	**102**	**10%**
Central governments or central banks	57	0	0	0%
Regional governments or local authorities	4,817	0	0	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%
Operational risk – Basic indicator approach		**1,470**	**118**	
Credit valuation adjustment risk – Standardised approach	**1,394**	**922**	**74**	**66%**
Additional risk exposure amount under Article 458 CRR (risk-weight floor)		**5,126**	**410**	
Total	**90,686**	**34,876**	**2,790**	

1) *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.*

2) *After application of the relevant 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.*

3) *Calculated by multiplying the risk-weighted exposure amount by 8 percent. Does not include any buffer requirements.*

4) *Calculated by dividing the risk-weighted exposure amounts by exposure value for the respective risk/exposure class.*

continued Note 1 Capital adequacy analysis

SEK million	Landshypotek Bank AB 31 December 2020	Landshypotek Bank AB 31 December 2019
CET1 capital: Instruments and reserves		
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 [1]	303	332
Equity in the balance sheet	**6,294**	**6,111**
Deductions related to the consolidated situation and other foreseeable costs [2]	–	–
Deductions for Tier 1 capital instruments classified as equity	-700	-700
CET1 capital before regulatory adjustments	**5,594**	**5,411**
CET1 capital: regulatory adjustments		
Further value adjustments	-10	-10
Intangible assets	-58	-149
Deferred tax assets that rely on future profitability	–	–
IRB deductions [3]	-519	-468
Total regulatory adjustments to CET1 capital	**-587**	**-626**
CET1 capital	**5,007**	**4,785**
Additional Tier 1 capital: instruments		
Tier 1 capital instruments	700	700
of which: classified as equity under applicable accounting standards	700	700
Qualifying Tier I capital included in consolidated additional Tier 1 capital issued by subsidiaries and held by third parties	–	–
Tier 1 capital (CET1 capital + Tier 1 capital)	**5,707**	**5,485**
Tier 2 capital: instruments and provisions		
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	–	–
Tier 2 capital before regulatory adjustments	**1,200**	**1,200**
Tier 2 capital	**1,200**	**1,200**
Own funds (Tier 1 capital + Tier 2 capital)	**6,907**	**6,685**
Total risk-weighted exposure amount	**33,703**	**34,880**
Capital ratios and buffers		
Own funds requirement	**2,696**	**2,790**
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 (%) [4]	10.4	9.2

1) *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.*

2) *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.*

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

4) *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."*

continued Note 1 Capital requirements

	Landshypotek Bank AB	
SEK million	**31 December 2020**	**31 December 2019**
Internally assessed capital requirement [1]		
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
Total capital requirement	**4,082**	**5,044**
Percentage of total risk-weighted exposure amount	**12.1**	**14.5**
Own funds (Tier 1 capital + Tier 2 capital)	**6,907**	**6,685**
Percentage of total risk-weighted exposure amount	**20.5**	**19.2**
Capital requirement as assessed by Finansinspektionen [2]		
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
Total capital requirement	**4,187**	**5,182**
Percentage of total risk-weighted exposure amount	**12.4**	**14.9**
Own funds (Tier 1 capital + Tier 2 capital)	**6,907**	**6,685**
Percentage of total risk-weighted exposure amount	**20.5**	**19.2**

1) *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).*

2) *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).*

Contd. Note 1 Own funds requirement by risk, approach and exposure class

	Landshypotek Bank AB			
31 December 2020 SEK million	**Exposure value[1]**	**Risk-weighted exposure amount[2]**	**Own funds requirement[3]**	**Average risk weight[4]**
Credit risk – IRB approach	**83,824**	**23,959**	**1,917**	**29%**
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%
Credit risk – Standardised approach	**11,871**	**1,217**	**97**	**10%**
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%
Operational risk – Basic indicator approach		**1,554**	**124**	
Credit valuation adjustment risk – Standardised approach	**1,222**	**764**	**61**	**63%**
Additional risk exposure amount under Article 458 CRR (risk-weight floor)		**6,208**	**497**	
Total	**96,917**	**33,703**	**2,696**	

	Landshypotek Bank AB			
31 December 2019 SEK million	**Exposure value[1]**	**Risk-weighted exposure amount[2]**	**Own funds requirement[3]**	**Average risk weight[4]**
Credit risk – IRB approach	**77,041**	**26,081**	**2,086**	**34%**
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%
Credit risk – Standardised approach	**12,257**	**1,281**	**102**	**10%**
Central governments or central banks	56	0	0	0%
Regional governments or local authorities	4,821	0	0	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%
Operational risk – Basic indicator approach		**1,470**	**118**	
Credit valuation adjustment risk – Standardised approach	**1,394**	**922**	**74**	**66%**
Additional risk exposure amount under Article 458 CRR (risk-weight floor)		**5,126**	**410**	
Total	**90,693**	**34,880**	**2,790**	

1) *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.*

2) *After application of the relevant 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.*

3) *Calculated by multiplying the risk-weighted exposure amount by 8 percent. Does not include any buffer requirements.*

4) *Calculated by dividing the risk-weighted exposure amount by the exposure value for the respective risk/exposure class.*

Note 2 Net interest income

SEK million	Q4 2020	Q4 2019	Q3 2020	Full-year 2020	Full-year 2019
Interest income					
Interest income on loans to credit institutions	0	0	0	0	0
Interest income on loans to the public	350	329	349	1,392	1,296
Interest income on interest-bearing securities	7	11	10	40	44
Other interest income	3	3	2	11	11
Total interest income	**360**	**342**	**361**	**1,443**	**1,351**
Interest expenses					
Interest expenses for liabilities to credit institutions	1	2	1	2	5
Interest expenses for deposits from the public	-24	-26	-24	-96	-106
of which fees for deposit insurance	-3	-5	-4	-14	-15
Interest expenses for interest-bearing securities	-108	-128	-129	-529	-521
Interest expenses for subordinated liabilities	-8	-8	-9	-34	-32
Interest expenses for derivative instruments	26	36	29	136	187
Other interest expenses	-12	-17	-13	-50	-69
of which fees for resolution fund	-8	-11	-8	-32	-48
Total interest expenses	**-125**	**-141**	**-146**	**-571**	**-536**
Total net interest income	**235**	**202**	**215**	**872**	**815**

All interest income is attributable to the Swedish market

Note 3 Net credit losses

SEK million	Q4 2020	Q4 2019	Q3 2020	Full-year 2020	Full-year 2019
Change in credit loss allowance, Stage 1	1	1	0	0	0
Change in credit loss allowance, Stage 2	1	3	2	6	4
Net credit losses, non-credit-impaired lending	**2**	**4**	**1**	**6**	**4**
Change in credit loss allowance, Stage 3	5	-1	2	28	4
Write-off for the period for confirmed losses	-3	0	0	-24	-11
Recoveries of previously confirmed losses	1	1	0	3	6
Net credit losses, credit-impaired lending	**2**	**0**	**3**	**7**	**-1**
Total net credit losses	**4**	**3**	**4**	**13**	**3**

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. If the risk classification exceeds the bank's limits for increased credit risk, the asset is classified as Stage 2.

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

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.

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 4.

Scenario	Expected credit loss
Current loss allowance (including credit reserves for loan commitments are included in the balance-sheet item Provisions)	SEK 41 million
Improved scenario	SEK 39 million
Deteriorated scenario	SEK 45 million

Note 4 Loans to the public

SEK million	31 Dec 2020	30 Sep 2020	31 Dec 2019
Loan receivables, stage 1	75,099	71,858	67,949
Loan receivables, stage 2	7,395	7,502	7,859
Loan receivables, stage 3	583	657	634
Gross loan receivables	**83,077**	**80,017**	**76,441**
Less credit loss allowance	-40	-47	-74
Net loan receivables	**83,036**	**79,971**	**76,367**
Disclosures on overdue loan receivables, gross			
Loan receivables overdue 5–90 days	6	43	43
Loan receivables overdue more than 90 days	153	261	253
Total overdue loan receivables, gross	**159**	**304**	**296**

Gross loan receivables January – December 2019 SEK million	Non-credit-impaired lending		Credit-impaired lending	
	Stage 1	Stage 2	Stage 3	Total
Opening balance	**63,071**	**8,996**	**526**	**72,593**
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
Migration between stages				
from 1 to 2	-1,336	1,336	–	–
from 1 to 3	-30	–	30	–
from 2 to 1	1,310	-1,310	–	–
from 2 to 3	–	-238	238	–
from 3 to 2	–	22	-22	–
from 3 to 1	40	–	-40	–
Closing balance	**67,949**	**7,859**	**634**	**76,441**

Gross loan receivables January – December 2020 SEK million	Non-credit-impaired lending		Credit-impaired lending	
	Stage 1	Stage 2	Stage 3	Total
Opening balance	**67,949**	**7,859**	**634**	**76,441**
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
Migration between stages				
from 1 to 2	-1,182	1,182	–	–
from 1 to 3	-45	–	45	–
from 2 to 1	940	-940	–	–
from 2 to 3	–	-109	109	–
from 3 to 2	–	48	-48	–
from 3 to 1	17	–	-17	–
Closing balance	**75,099**	**7,395**	**583**	**83,077**

continued Loans to the public

Credit loss allowance January – December 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			
Opening balance	-6	-21	-56	-83	-82	-2
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	–	–	–	–	–	–
Migration between stages						
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	-1	0
from 3 to 2	–	0	0	0	0	0
from 3 to 1	0	–	0	0	0	0
Closing balance	**-5**	**-17**	**-52**	**-74**	**-73**	**-1**

Credit loss allowance January – December 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			
Opening balance	-5	-17	-52	-74	-73	-1
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	–
Migration between stages						
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
Closing balance	**-5**	**-12**	**-24**	**-41**	**-40**	**-1**

Collateral exists in the form of immovable property for lending. For more information about the recognition of credit loss allowances, and estimates and critical assessments, refer to Note 3.

Note 5 Fair-value hierarchy for financial instruments

SEK million	31 December 2020 Level 1	Level 2	Level 3	Total	31 December 2019 Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI								
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
Derivatives identified as hedging instruments								
Interest-rate swaps		1,126		1,126		1,021		1,021
Cross-currency interest-rate swaps		416		416		626		626
Total assets measured at fair value	**9,659**	**1,542**	**–**	**11,201**	**9,848**	**1,647**	**–**	**11,495**
Derivatives identified as hedging instruments								
Interest-rate swaps		174		174		139		139
Cross-currency interest-rate swaps		69		69		53		53
Total liabilities measured at fair value	**–**	**243**	**–**	**243**	**–**	**192**	**–**	**192**

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

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 6 Fair Value Disclosures

SEK million	31 December 2020 Carrying amount	Fair value	31 December 2019 Carrying amount	Fair value
Assets				
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
Total assets	**94,738**	**96,485**	**88,407**	**89,777**
Liabilities and provisions				
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	256	256	224	224
Total liabilities	**88,541**	**89,284**	**82,329**	**83,017**

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

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
Change in loans to the public, %The percentage increase in loans to the public during the period.	The aim is to illustrate the growth in the credit portfolio, which comprises a key parameter for future income.
Interest margin, LTM, %: Net interest income over the last 12 months in relation to average lending during the period.	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.
Change in deposits from the public, %: The percentage increase in deposits from the public during the period.	This metric aims to illustrate the growth in the bank's deposits from the public and thereby part of the bank's financing.
C/I ratio including financial transactions: 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.
C/I ratio excluding financial transactions: 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.
Credit loss level, %: Net credit losses for the period restated on an annualised basis in relation to average lending during the period.	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.
Net credit-impaired assets after provisions in relation to total loans outstanding, %: 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.
Return on equity, %: 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.

SEK million	Q4 2020	Q4 2019	Q3 2020	Full-year 2020	Full-year 2019
Change in loans to the public	3,066	1,012	1,782	6,669	3,856
Opening balance, loans to the public	79,971	75,356	78,189	76,367	72,511
Change in loans to the public, %	**3.8**	**1.3**	**2.3**	**8.7**	**5.3**
Net interest income, accumulated LTM	872	815	838	872	815
Average loans to the public, LTM	78,776	74,235	77,361	78,776	74,235
Interest margin, LTM, %	**1.11**	**1.10**	**1.08**	**1.11**	**1.10**
Change in deposits from the public	142	-134	-40	223	299
Opening balance deposits from the public	14,530	14,583	14,570	14,449	14,150
Change in deposits from the public, %	**1.0**	**-0.9**	**-0.3**	**1.5**	**2.1**
Costs before credit losses	-127	-127	-106	-478	-461
Total operating income	229	198	217	862	876
C/I ratio including financial transactions	**0.56**	**0.64**	**0.49**	**0.55**	**0.53**
Costs before credit losses	-127	-127	-106	-478	-461
Total operating income excluding financial transactions	239	203	217	879	877
C/I ratio excluding financial transactions	**0.53**	**0.63**	**0.49**	**0.54**	**0.53**
Net credit losses calculated on a full-year basis	17	14	16	13	3
Average loans to the public, LTM	78,776	74,235	77,361	78,776	74,235
Credit loss level, % [1]	**–**	**–**	**–**	**–**	**–**
Credit-impaired assets, gross	583	634	657	583	634
Less provisions made	-24	-52	-29	-24	-52
Credit-impaired assets, net	**559**	**582**	**628**	**559**	**582**
Credit-impaired assets, net	559	582	628	559	582
Loans to the public	83,036	76,367	79,971	83,036	76,367
Net credit-impaired assets after allowances as a percentage of total loans outstanding, %	**0.67**	**0.76**	**0.79**	**0.67**	**0.76**
Profit after tax				303	332
Equity				6,294	6,111
Return on equity, %				**4.8**	**5.4**
Profit after tax				303	332
Number of shares, million				2	2
Earnings per share, SEK				**134.5**	**147.4**

[1] *An outcome is only presented in the case of a negative earnings impact.*

Reporting calendar 2021

Landshypotek Bank's reports are available at:
www.landshypotek.se/om-landshypotek

Annual Report 2020	19 March
General Meeting of Shareholders	28 April
Association Meeting	28 April
Interim Report Q1	5 May
Interim Report Q2	22 July
Interim Report Q3	1 November

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