

Landshypotek Bank AB

Interim report Q1 2020

January – March 2020

Per Lindblad, CEO of Landshypotek Bank comments on the first quarter of 2020:

Our results only show minor traces of the drama that has dominated the world and its financial markets of late. Earnings are stable and our performance was up slightly year-on-year, and even compared with last quarter. Our volumes continue to grow, albeit slightly slower than planned. Our part of the lending market is somewhat cautious, given the Riksbank's interest rate change at the start of the year and the socio-economic crash triggered by efforts to combat Covid-19. In these turbulent times, our particular responsibility is to operate our bank. We have strengthened our customer dialogue and acted swiftly to ensure continued access to finance for our customers. We have stable finances and a secure business, and we both want and have the capacity to continue growing. Making continued lending and savings possible for existing and new customers is a societal task that we stand for, care for and develop. If possible, this is even more important today, during these exceptional times.

January – March 2020

compared with January – March 2019

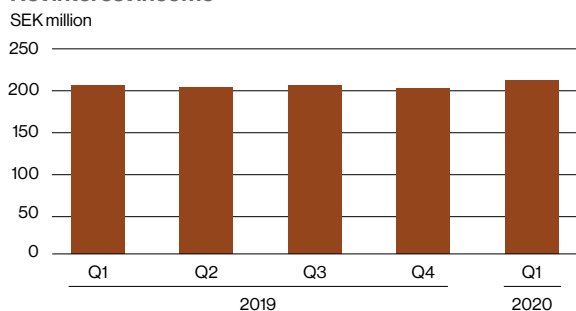
- Operating profit amounted to SEK 99 million (87).
The underlying operating profit, excluding the net result of financial transactions, was SEK 93 million (87).
- Net interest income amounted to SEK 211 million (206).
- Costs totalled SEK 120 million (112).
- Net credit losses positively impacted earnings by SEK 2 million (negative: 8).
- Loans to the public amounted to SEK 77.1 billion (73.3).
- Deposits from the public amounted to SEK 14.1 billion (14.4).

January – March 2020

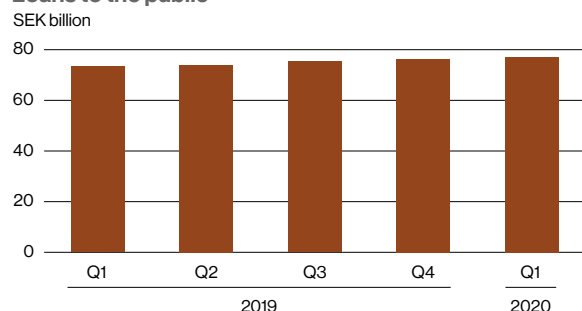
compared with October – December 2019

- Operating profit amounted to SEK 99 million (74).
The underlying operating profit, excluding the net result of financial transactions, was SEK 93 million (79).
- Net interest income amounted to SEK 211 million (202).
- Costs totalled SEK 120 million (127).
- Net credit losses positively impacted earnings by SEK 2 million (3).
- Loans to the public amounted to SEK 77.1 billion (76.4).
- Deposits from the public amounted to SEK 14.1 billion (14.4).

Net interest income



Loans to the public



CEO's Statement

Safe in a turbulent world

Our results for the first quarter only show minor traces of the drama that has dominated the world and its financial markets of late. Earnings have remained stable, though we had been expecting greater volume growth in the quarter. Of course, the fight against Covid-19 has impacted us, both as a bank in an economic environment where conditions have changed completely and as an employer with social responsibility.

At the start of the year, we read of the particularly infectious virus spreading in Wuhan without understanding the ramifications. The epidemic soon became a pandemic. The steps taken to stop the spread have created considerable economic turbulence and falling growth. The retail, restaurant and tourism sectors have noted dramatic falls in revenue. Stimulus packages have been arriving in waves.

The economic crisis is of a type and duration that we have never before experienced. This is a crisis of the real, rather than financial, economy. It's uncharted territory unlike anything we've experienced before and it's difficult to identify the right means to mitigate the effects. More direct support will no doubt be needed for the worst-hit companies and citizens.

How does all this affect Landshypotek, our customers and our business model? To date, farmers have not been affected to the same degree as some other businesses. In the short term, problems could arise in terms of labour. In the long term, the debate that has now arisen regarding self-sufficiency, growing locally and contingency stocks could benefit agriculture and forestry.

The forestry sector was impacted earlier. Harvesting groups are standing still, timber prices are falling and the industry is having trouble with provisions. In time, however, the industry is expected to recover when society gets moving again.

Mortgage customers and people living in the countryside with salaried income risk being affected by fewer job opportunities and the economic downturn. The state is taking numerous measures to keep interest rates down and ensure cover for households' costs. We know that we make a difference in terms of market competition. During the quarter, we received acclaim from Villaägarna as the best mortgage bank in 2019.

Landshypotek Bank has stable finances. We and our customers will be affected, but our assessment is that we will manage the probable impending recession well.



In these turbulent times, our particular responsibility is to operate our bank. Making continued lending and savings possible for existing and new customers is a societal task that we stand for, care for and develop. If possible, this is even more important today, during these exceptional times.

For these reasons, we have worked systematically with ongoing activities and assessment of the business impact to ensure our bank's operations remain as normal possible. We have maintained close contact with the authorities and assessed the financial measures and tools announced by the government and its agencies for households and for companies.

We have strengthened our customer dialogue. We have a long-standing tradition dating back to 1836 of being close to and supporting our customers through upturns and downturns. Naturally we want to have close discussions when we meet new and different trials.

The boards of the cooperative association and the bank have decided to postpone the general meetings to be able to follow the chain of events and take decisions with the best quality data. We have taken into account the particular responsibility that we banks have, even in these conditions, to secure lending and to comprise a safe component of the national economy. In parallel, our business model is based on distributing a dividend to the association's members: our customers and owners. Our dividend is part of a circular economy that supports Sweden's farmers and foresters.

In summary, it has been a turbulent quarter during which we have had to continue to drive and develop our bank. We have a stable business and, we both want and have the capacity to continue growing. Our customer relationships are important to us and we continue to welcome new customers. We have a robust business model and we want to continue to support farming and forestry. We are needed as a bank, especially right now.

Per Lindblad
CEO of Landshypotek Bank

Events at Landshypotek Bank in the first quarter of 2020

Change and responsibility in special times

In common with others, Landshypotek Bank has had to adapt to the special circumstances prevailing due to the Covid-19 pandemic. Adjustments had to be made to customer contact but the bank has taken care to keep operations functioning well. Many households and companies may experience financial stress due to the circumstances. Landshypotek Bank has followed the developments in the financial markets and monitored and assessed the state's supporting measures to be able to ensure customers' continued access to competitive financing. Initiatives have been taken to systematically assess and manage the situation, from both an operational and a strategic perspective. In particular, customers experiencing financial strain have been encouraged to contact the bank about, for example, temporary amortisation relief and other possible measures. Ongoing changes are being made to the regulatory framework by the authorities and further possibilities will be provided.

Regional meetings held by phone

Landshypotek Ekonomisk Förening was forced to cancel the first major meeting of the year for members and think outside the box. The eleven regional meetings were instead held by telephone and members who wished to participate were invited in. The meetings were conducted

at the start of April in a scaled-down format. Extra effort was instead invested in sharing as much material as possible via www.landshypotek.se. The bank and the association also increased availability and opened more contact channels. Both the bank and the cooperative association have shown particular openness during these times. Measures have included new possibilities for members to ask questions directly to the association's Chairman and the bank's CEO.

General meetings postponed

The boards of Landshypotek Bank and Landshypotek Ekonomisk Förening decided to postpone the scheduled general meetings. Both of the boards want to gain a better overview and assess the consequences for the bank and the association of the special circumstances affecting society and the national economy brought on by the Covid-19 pandemic, before the meetings are held. Election of the boards and resolutions on items including the dividend have been postponed until such a time as the meetings can be held.

Interest remains substantial for digital loan applications in farming and forestry

The ability to apply for a loan digitally continued to be well received by farming and forestry customers during the

Summary Landshypotek Bank

| SEK million | Q1 2020 | Q1 2019 | Q4 2019 | Jan–Mar 2020 | Jan–Mar 2019 | Full-year 2019 |
|--|---------|---------|---------|--------------|--------------|----------------|
| Net interest income | 211 | 206 | 202 | 211 | 206 | 815 |
| Operating profit | 99 | 87 | 74 | 99 | 87 | 418 |
| Profit after tax | 75 | 67 | 55 | 75 | 67 | 332 |
| Loans to the public | 77,078 | 73,272 | 76,367 | 77,078 | 73,272 | 76,367 |
| Change in loans to the public, % | 0.9 | 1.0 | 1.3 | 0.9 | 1.0 | 5.3 |
| Interest margin, LTM, % | 1.09 | 1.14 | 1.10 | 1.09 | 1.14 | 1.10 |
| Deposits from the public | 14,138 | 14,357 | 14,449 | 14,138 | 14,357 | 14,449 |
| Change in deposits from the public, % | -2.2 | 1.5 | -0.9 | -2.2 | 1.5 | 2.1 |
| C/I ratio including financial transactions | 0.55 | 0.54 | 0.64 | 0.55 | 0.54 | 0.53 |
| C/I ratio excluding financial transactions | 0.57 | 0.54 | 0.63 | 0.57 | 0.54 | 0.53 |
| Credit loss level, % ¹⁾ | – | 0.05 | – | – | 0.05 | – |
| Total capital ratio, % | 19.3 | 18.7 | 19.2 | 19.3 | 18.7 | 19.2 |
| Rating, long-term | | | | | | |
| Standard & Poor's, Covered bonds | AAA | AAA | AAA | AAA | AAA | AAA |
| Standard & Poor's | A | A- | A- | A | A- | A- |
| Fitch | A | A | A | A | A | A |
| Average number of employees, LTM | 198 | 191 | 198 | 198 | 191 | 198 |

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



period. The total amount of loan applications via the platform since the start in June 2019 reached SEK 2 billion in March.

Landshypotek named mortgage bank of the year

A fresh report from Villaägarna places Landshypotek first when choosing the best mortgage bank for 2019. Over the year, Landshypotek had the best interest rate for many fixed periods according to Villaägarna. The bank has continued to offer competitive interest rates in 2020, which is notable from the average rates for the quarter.

New report: Housing market engages interest but few change bank

The housing market engages interest. Some reflect over it as often as every month. Moreover, about 50 percent of Swedes have considered changing bank for their mortgage at some point over the last year. Despite this, only one third (32 percent) actually switch their mortgage to another bank. These were the findings of a survey conducted by Landshypotek Bank and presented in a series for Landshypotek Bank's Boendebarmeter – consumer sentiment in Sweden in terms of mortgages.

Our operating environment

A positive start was made to the quarter with a stable labour market and low unemployment in the US as well as macro indicators pointing toward Europe's economy starting to rise. The quarter was later dominated by the spread of Covid-19, for which policy measures to arrest the spread of infection have entailed shutting down economies and a negative macro environment.

Developments in the financial market

The bank's operating environment

Landshypotek Bank and its customers rely on a functioning financial market and the development of the macroeconomy. Moreover, the economic development of the sectors is crucial for farming and forestry customers. The measures to prevent the spread of Covid-19 have turned many things upside down during the quarter. Economies have ground to a halt. Massive investments are being made to soften the effects for households and companies. However, the farming and forestry sectors have been much less affected than many other sectors. A positive aspect for farming has been the debate regarding self-sufficiency and choosing goods produced in Sweden in stores.

Globally

The start of the first quarter felt positive. We believed we had left the US–China trade conflict and Brexit behind us, at least temporarily. The markets were denoted by more confident outlooks with positive stock exchanges and central banks adopting a wait-and-see stance. And then Covid-19 arrived – and led to these special conditions we find ourselves in to attempt to halt the spread.

The policy measures to arrest the spread of infection have also entailed shutting down economies and an extremely negative macro environment. The financial market reacted in the form of substantial stock market falls, increased credit margins, rising interbank rates and steeper yield curves, which resulted in higher interest rates on bonds with longer maturities compared with bonds with shorter maturities.

Globally, a number of central banks that previously had positive key interest rates lowered rates to zero. Fixed-income markets have stabilised in pace with the roll-out of central bank measures. Increased liquidity has driven down long-term interest rates. Stock markets have priced in a scenario with a faster “V-shaped” recovery curve, while the credit and bond markets are pricing in a slower recovery. One area where stress and anxiety continue to dominate is interbank interest rates, which have risen and stabilised at higher levels despite excess liquidity.

USA

The US made a positive start to the quarter with a stable labour market and low unemployment. In the last two weeks of March, however, ten million Americans lost their jobs. Such an increase has never before been noted. At the start of the year, the PMI showed positive figures, but figures for March pointed toward an economic downturn. The US government presented a USD 2 trillion stimulus package, corresponding to 10 percent of GDP, to combat the financial implications of Covid-19.

The US central bank, the Fed, opened the quarter with a stable real economy and a stabilised outlook due to the implemented interest rate cuts. However, the spread of Covid-19 has forced the Fed to cut the key interest rate from 1.75 to 0 percent. A programme with unlimited QE has also been launched. This programme means that the Fed can purchase many more types of assets at significantly higher volumes and at essentially any price. The Fed is endeavouring to show strength through swift measures to stabilise the unstable financial markets.

Europe

Macro indicators at the start of the year showed that Europe's economy was on the way up prior to Covid-19. The economic shutdown has heavily impacted development and, not unexpectedly, the PMI fell substantially in March. The industrial sector PMI fell to 44.5 from 49.2 in February and the service sector PMI declined to 26.4 from 52.6. The service sector has been hardest hit by the economic shutdown. As expected, Italy was worst hit, with an index of 17.4. A level we have never even approached.

The ECB has introduced a temporary QE programme, PEPP (Pandemic Emergency Purchase Program), which is intended to run until the Covid-19 crisis is over. The ECB has promised to do everything in its power to support the Euro countries' economies in the wake of Covid-19. The programme is for supporting government and corporate bonds in the Euro countries. The ECB has signalled its intent to avoid lowering the key interest rates any further.

Sweden

Sweden is a small, export-dependent economy and is naturally hard hit by the global economic shutdown. The industrial sector PMI fell to 43.2 in March from 52.7 in



February and the service sector PMI declined to 46.9 from 56.4. In the domestic economy, the tourism and restaurant sectors were hardest hit by the drop in travel and social distancing. The Economic Tendency Survey fell heavily in March from 98.7 in February to 92.4 in March. The indicator is at its lowest level since May 2013. New statistics from the Swedish Public Employment Service show a considerable increase in layoffs and we are likely to see a substantial increase in unemployment.

The government has presented several support packages to support the economy, including supporting companies with liquidity and steps to mitigate the effects on the job market. Moreover, agencies such as Sweden's financial supervisory authority (Finansinspektionen) are providing support by relaxing the countercyclical buffer requirement, allowing amortisation relief and deferring the introduction of forthcoming regulatory frameworks.

The Riksbank, Sweden's central bank, has introduced a raft of measures to stimulate the economy and improve the function of the markets. The Riksbank has expanded the purchase of bonds to encompass covered bonds and

commercial paper. Moreover, it has also lowered collateral requirements for loans from the Riksbank. The banks can now use their own covered bonds as collateral, which substantially strengthens the banks' liquidity.

Many companies have been hard hit. Government agencies are now trying all means to prevent any further weakening of households' finances – for example, attempts to keep interest rates down and the proposed amortisation relief.

Despite these massive measures and secure liquidity, short-term rates have risen considerably compared with the repo rate. In time this will impact many borrowers, since the majority have floating or short fixed-interest terms.

Operating environment for farming and forestry

As in other parts of society, the quarter was dominated by Covid-19 and its knock-on effects for demand, production and logistics flows. To date, however, the farming and

forestry sectors have been less impacted than other sectors. While demand for forest products has been impacted, agriculture has noted a positive debate about Sweden's self-sufficiency. In March, the government also classified food production, including primary production, as essential operations.

Logistical problems and volatility

In 2019, demand for forest raw materials slowed, resulting in, inter alia, weaker exports. The slowdown followed an extended period of strong demand. Following the outbreak of Covid-19 and its inter-continental spread, logistical problems have arisen with a shortage of transport containers and restrictions on maritime transportation and ports, resulting in increased transportation costs and lower returns on forest raw materials.

Logistical problems have also clearly affected a number of agricultural products. This has given rise to volatile prices for cereal and oilseed, among other effects. Stockpiling has also occurred in several countries with increased demand for flour, pasta and other storable foodstuffs resulting in rising prices. Export restrictions in countries such as Russia amplified the trend. In parallel, falling crude oil prices, and a weaker euro against the USD, have boosted price volatility with lower prices for maize and oilseeds.

At the same time, the real situation appears relatively stable according to the latest market reports, with small changes in production, consumption and stocks of cereals and oilseeds.

Stable prices for animal products

Settlement prices for milk have remained relatively stable in both the EU and Sweden through the start of the year. The price has remained above the level noted in the corresponding period of 2019. However, from mid-February, prices for milk powder, butter, cheese and whey have declined slightly due to the current societal concerns. The price drop took place despite relatively favourable market conditions. The production increase in the major exporting countries has been weak. Falling prices for crude oil helped the price trend, since they affect imports in the oil-producing countries, primarily in the Middle East. Increased demand for domestic dairy products was noted in several countries in conjunction with the spread of Covid-19.

World prices for beef trended positively in all categories through the start of the year, even if levels fluctuated slightly. In mid-March, the price was up 10 percent year-on-year. The same trend was not noted in the EU, where the average price in mid-March was down 4 percent year-on-year. Producer prices for beef in Sweden remain among the highest in the EU.

The pigmeat market was impacted by the effects of Covid-19 and the African swine fever outbreak, prevalently in China, which increased the export value from the EU by 40 percent. Over recent weeks, prices have remained stable in the EU and Sweden. Price levels are 11 percent and 32 percent up, respectively, on the corresponding period in 2019.

The per capita consumption of beef and pigmeat declined in Sweden during 2019. At the same time, Swedish consumers continue to prefer meat of Swedish origin. The per capita consumption of chicken increased in 2019 and, again, a clear increasing trend was noted where the country's consumers preferred chicken of Swedish origin.

Over the first months of the year, average wholesale prices in the EU for chicken and eggs trended positively. A similar trend was noted in Sweden, even if prices fluctuated to a slightly greater extent. In February, price levels in the EU and Sweden were up about 5 percent year-on-year.

Essential operations with strong resilience

The price volatility recorded in the quarter reflects the uncertainty surrounding economic developments as a result of the pandemic and the measures to slow its spread. Compared to many other sectors, the impact on agriculture is expected to be moderate. Demand for foodstuffs is expected to be relatively stable, even if some price pressure could arise due to changed consumption patterns and trade flows. In March, the government decided to make food, including its primary production, an essential operation for society. Several functions that are central to agriculture – such as animal health, transportation, trade and industries that supply the food chain with consumables – were also classified as essential operations.

Uncertainty is somewhat greater for forestry, since the industry is heavily export-dependent. However, forest can remain unharvested waiting for a better market. On the other hand, bark beetle infestations may force many forest owners to harvest despite lower timber prices.

The long-term perspective and sustainability of agriculture and forestry are also reflected in figures from the Swedish Agency for Growth Policy Analysis presented during the quarter. The study showed an 88 percent survival rate in 2017 for start-ups in agriculture, forestry and fisheries in 2014. This made the sector the second-best and compares well with the average of 76 percent.

Our financial performance

Landshypotek Bank posted growth in volumes and the bank's earnings remain strong. The bank posted a year-on-year increase in earnings driven by improved net interest income. Turbulence has dominated the financial market following the outbreak of Covid-19, but has had limited impact on the bank's earnings and financial position. The bank's loans to the public increased SEK 0.7 billion over the quarter.

Q1 2020 compared with Q1 2019

The bank's operating profit amounted to SEK 99 million (87), up SEK 12 million year-on-year. Excluding the net result of financial transactions, operating profit amounted to SEK 93 million (87). The change in earnings was mainly attributable to higher net interest income driven by a lower resolution fee.

Net interest income and volumes

Net interest income was SEK 211 million (206), up SEK 5 million. Interest income totalled SEK 360 million (327), up SEK 33 million as a result of increased lending and higher market interest rates.

Interest expenses amounted to SEK 149 million (121), up SEK 28 million year-on-year. As a result of rising market interest rates, the new financing was arranged at higher interest rate levels than the previous financing that matured. Interest expenses included fees to the Swedish National Debt Office's resolution fund, which amounted to SEK 8 million (16).

Other operating income

Other operating income was SEK 6 million (1), up SEK 5 million mainly due to a higher net result of financial transactions. The net result of financial transactions amounted to a gain of SEK 6 million for the year, where unrealised gains amounted to SEK 6 million and realised gains to SEK 0 million.

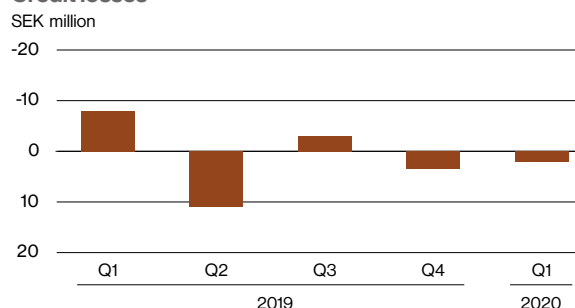
Costs

Costs amounted to SEK 120 million (112), up SEK 8 million year-on-year. Costs have increased due to expanded business development activities 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 SEK 2 million (losses: 8), of which net credit losses for non-credit-impaired assets had a positive earnings impact of SEK 4 million and credit-impaired assets had a negative earnings impact of SEK 2 million that was attributable to a few individual commitments. The total credit loss allowance for non-credit-impaired assets amounted to SEK 19 million (28).

Credit losses



Operating profit

| SEK million | Jan–Mar 2020 | Jan–Mar 2019 | Full-year 2019 |
|---|--------------|--------------|----------------|
| Net interest income | 211 | 206 | 815 |
| Other operating income | 6 | 1 | 60 |
| of which net result of financial transactions | 6 | 0 | -1 |
| Costs | -120 | -112 | -461 |
| C/I ratio including financial transactions | 0.55 | 0.54 | 0.53 |
| C/I ratio excluding financial transactions | 0.57 | 0.54 | 0.53 |
| Net recognised credit losses | 2 | -8 | 3 |
| Credit loss level, % ¹⁾ | - | 0.05 | - |
| Operating profit | 99 | 87 | 418 |
| Operating profit excluding the net result of financial transactions | 93 | 87 | 420 |

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

Balance Sheet

| Assets, SEK million | 31 Mar 2020 |
|---|---------------|
| Eligible treasury bills | 3,582 |
| Loans to credit institutions | 523 |
| Loans to the public | 77,078 |
| Bonds and other interest-bearing securities | 6,355 |
| Derivatives | 1,953 |
| Tangible and intangible assets | 198 |
| Other assets | 365 |
| Total assets | 90,054 |

| Liabilities and equity, SEK million | 31 Mar 2020 |
|-------------------------------------|---------------|
| Liabilities to credit institutions | 2,275 |
| Deposits from the public | 14,138 |
| Debt securities issued, etc. | 65,326 |
| Derivatives | 220 |
| Subordinated liabilities | 1,200 |
| Other liabilities | 734 |
| Equity | 6,161 |
| Total liabilities and equity | 90,054 |

Gross credit-impaired assets amounted to SEK 678 million (541) and the credit loss allowance to SEK 53 million (62). The provisions for credit-impaired assets pertained to individual commitments within varying types of farming and geographic locations. For more information, refer to Note 3 and Note 4.

Other comprehensive income

Other comprehensive income amounted to an expense of SEK 17 million (income: 12). Financial assets at fair value had a negative effect of SEK 21 million (positive: 13) on other comprehensive income and cross-currency basis spreads in fair-value hedges had a positive impact of SEK 3 million (negative: 1) on other comprehensive income.

Capital and capital adequacy

The total capital ratio for the consolidated situation amounted to 17.7 percent (18.2 at 31 December 2019) and the CET1 capital ratio was 14.0 percent (13.9 at 31 December 2019). The internally assessed capital requirement for the consolidated situation was SEK 4.2 billion (5.0 at 31 December 2019). The capital requirement should be compared with own funds of SEK 6.1 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 increased SEK 0.7 billion to SEK 77.1 billion during the quarter and where the largest part of the increase was attributable to mortgage operations. The increase corresponded to lending growth of 0.9 percent (1.3 at 31 December 2019) over the quarter. The geographic distribution of lending is stable over time.

Landshypotek Bank's liquidity portfolio totalled SEK 9.9 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 2.2 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

Funding

| SEK million | In issue 31 Mar 2020 | Limit | In issue 31 Mar 2019 |
|--------------------------|-------------------------|-----------------------|-------------------------|
| Swedish commercial paper | – | 10,000 | – |
| MTN programme | 42,523 | 60,000 | 42,898 |
| EMTN programme | 17,133 | 109,424 ¹⁾ | 16,582 |
| Registered covered bonds | 3,691 | | 3,571 |
| Subordinated loans | 1,900 | | 1,900 |

¹⁾ EUR 10,000 million.

ensuring that investors' levels of awareness and interest are maintained in Landshypotek Bank. During the quarter, covered bonds to a value of SEK 1.5 billion were issued. At the same time, bonds matured or were repurchased to a value of SEK 1.4 billion, of which SEK 0.7 billion pertained to covered bonds and SEK 0.7 billion to senior bonds.

Deposits from the public

Deposits from the public totalled SEK 14.1 billion (14.4 at 31 December 2019) and declined SEK 0.3 billion in the quarter.

Q1 2020 compared with Q4 2019

Operating profit amounted to SEK 99 million (74) for the quarter. Excluding the net result of financial transactions, operating profit amounted to SEK 93 million (79) for the quarter, up SEK 14 million. This increase was driven by improved net interest income and lower costs for the period.

Impact of Covid-19

Loans to the public

Landshypotek Bank encourages 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 guideline for temporary amortisation relief. To date, the

bank has not noted any material impact on earnings as a result of amortisation relief.

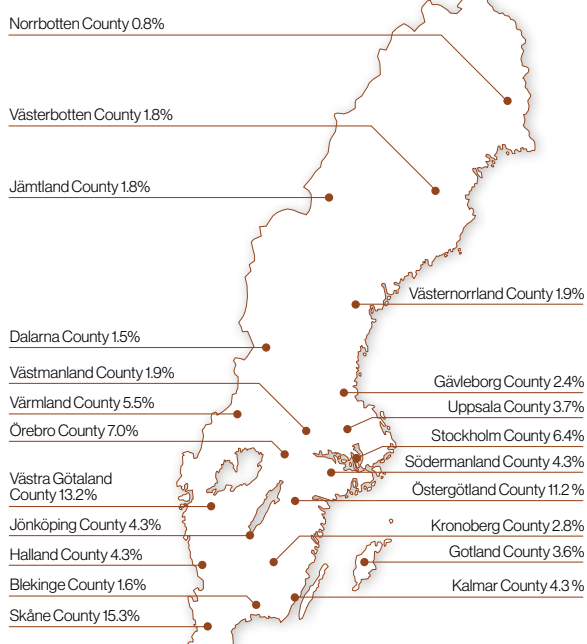
The Bank has conducted overall and individual analyses of the credit portfolio and based on these analyses adopted more conservative trends for GDP and property prices in the credit loss allowance model, which has led to increased provisions for credit losses. However, net credit losses in the period were positively affected by individual commitments.

Funding

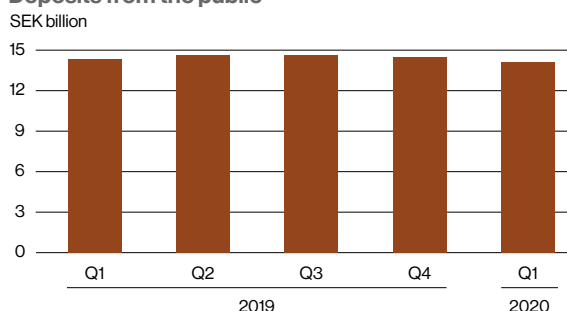
The financial market functioned well for Nordic banks with healthy demand for the bank's bonds until the Covid-19 outbreak, which led to considerable market turbulence at the end of March. This resulted in rising STIBOR rates and increasing credit risk premiums. The bank's needs for financing were low during the quarter and, accordingly, the impact on the bank's earnings was limited in the period.

Rising STIBOR rates and credit risk premiums could entail increased interest expenses moving forward. The steps taken by the Riksbank will hopefully mitigate the above. The bank's main source of funding is covered bonds, which are increasingly viewed as stable from a market perspective. With a now-functioning market for issuances and the possibility of refinancing via the Riksbank, the bank's funding possibilities remain stable.

Geographic distribution of lending



Deposits from the public



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.

| 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, 28 April 2020

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 | Q1 2020 | Q1 2019 | Q4 2019 | Jan-Mar 2020 | Jan-Mar 2019 | Full-year 2019 |
|---|------|-------------|-------------|-------------|-----------------|-----------------|-------------------|
| Interest income | | 360 | 327 | 342 | 360 | 327 | 1,351 |
| of which interest income using the effective-interest method | | 360 | 327 | 342 | 360 | 327 | 1,351 |
| of which other interest income | | - | - | - | - | - | - |
| Interest expenses | | -149 | -121 | -141 | -149 | -121 | -536 |
| of which fees for deposit insurance | | -4 | -3 | -5 | -4 | -3 | -15 |
| of which fees for resolution fund | | -8 | -16 | -11 | -8 | -16 | -48 |
| Net interest income | 2 | 211 | 206 | 202 | 211 | 206 | 815 |
| Net result of financial transactions | | 6 | 0 | -5 | 6 | 0 | -1 |
| Other operating income | | 1 | 1 | 1 | 1 | 1 | 62 |
| Total operating income | | 217 | 207 | 198 | 217 | 207 | 876 |
| General administrative expenses | | -108 | -104 | -115 | -108 | -104 | -419 |
| Depreciation, amortisation and impairment of tangible and intangible assets | | -13 | -8 | -12 | -13 | -8 | -41 |
| Other operating expenses | | 0 | 0 | 0 | 0 | 0 | -1 |
| Total expenses before credit losses | | -120 | -112 | -127 | -120 | -112 | -461 |
| Profit before credit losses | | 97 | 95 | 70 | 97 | 95 | 415 |
| Net credit losses | 3 | 2 | -8 | 3 | 2 | -8 | 3 |
| Operating profit | | 99 | 87 | 74 | 99 | 87 | 418 |
| Tax expense for the period | | -24 | -20 | -19 | -24 | -20 | -86 |
| Net profit for the period | | 75 | 67 | 55 | 75 | 67 | 332 |

Statement of Comprehensive Income

| SEK million | Q1 2020 | Q1 2019 | Q4 2019 | Jan-Mar 2020 | Jan-Mar 2019 | Full-year 2019 |
|---|------------|------------|------------|-----------------|-----------------|-------------------|
| Net profit for the period | 75 | 67 | 55 | 75 | 67 | 332 |
| Other comprehensive income | | | | | | |
| Items to be reclassified to income statement | | | | | | |
| Financial assets at FVTOCI | -26 | 17 | -6 | -26 | 17 | -9 |
| Cross-currency basis spreads in fair value hedges | 4 | -1 | -4 | 4 | -1 | -4 |
| Income tax related to other comprehensive income | 5 | -3 | 2 | 5 | -3 | 3 |
| Total items that will be reclassified | -17 | 12 | -8 | -17 | 12 | -10 |
| Total other comprehensive income | -17 | 12 | -8 | -17 | 12 | -10 |
| Comprehensive income for the period | 58 | 79 | 48 | 58 | 79 | 322 |

Balance Sheet

| SEK million | Note | 31 Mar 2020 | 31 Dec 2019 | 31 Mar 2019 |
|---|------|---------------|---------------|---------------|
| Assets | | | | |
| Cash and balances with central banks | | – | 43 | – |
| Eligible treasury bills | | 3,582 | 3,998 | 4,957 |
| Loans to credit institutions | | 523 | 501 | 470 |
| Loans to the public | 4 | 77,078 | 76,367 | 73,272 |
| Value change of interest-hedged items in portfolio hedges | | 49 | 6 | 47 |
| Bonds and other interest-bearing securities | | 6,355 | 5,850 | 7,800 |
| Derivatives | | 1,953 | 1,647 | 1,594 |
| Shares in Group entities | | – | – | 0 |
| Intangible assets | | 141 | 149 | 154 |
| Tangible assets | | 57 | 4 | 29 |
| Other assets | | 4 | 6 | 13 |
| Current tax assets | | 6 | 9 | 14 |
| Deferred tax assets | | – | 0 | 0 |
| Prepaid expenses and accrued income | | 306 | 285 | 389 |
| Total assets | 5, 6 | 90,054 | 88,887 | 88,739 |
| Liabilities and equity | | | | |
| Liabilities to credit institutions | | 2,275 | 1,475 | 752 |
| Deposits from the public | | 14,138 | 14,449 | 14,357 |
| Debt securities issued, etc. | | 65,326 | 64,790 | 65,261 |
| Derivatives | | 220 | 192 | 404 |
| Other liabilities | | 308 | 312 | 306 |
| Tax liabilities | | – | – | – |
| Accrued expenses and prepaid income | | 425 | 358 | 462 |
| Provisions | | 2 | 2 | 2 |
| Subordinated liabilities | | 1,200 | 1,200 | 1,200 |
| Total liabilities | | 83,894 | 82,777 | 82,743 |
| Total equity | | 6,161 | 6,111 | 5,996 |
| Total liabilities and equity | 5, 6 | 90,054 | 88,887 | 88,739 |

Statement of cash flow

| SEK million | Jan–Mar 2020 | Jan–Mar 2019 | Full-year 2019 |
|--|--------------|--------------|----------------|
| Opening cash and cash equivalents | 544 | 540 | 540 |
| Cash flow from operating activities | -13 | -45 | 156 |
| Cash flow from investment activities | – | -17 | 37 |
| Cash flow from financing activities | -8 | -7 | -189 |
| Cash flow for the period | -21 | -70 | 4 |
| Closing cash and cash equivalents | 523 | 470 | 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, equity | 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, equity | 2,253 | 1,017 | 10 | -26 | 700 | 2,157 | 6,111 |

| January – March 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, equity | 2,253 | 1,017 | 10 | -26 | 700 | 2,157 | 6,111 |
| Comprehensive income for the period | | | -21 | 3 | | 75 | 58 |
| Total change before transactions with owners and holders of Tier 1 capital instruments | - | - | -21 | 3 | - | 75 | 58 |
| Dividend on Tier 1 capital instruments | | | | | | -8 | -8 |
| Closing balance, equity | 2,253 | 1,017 | -10 | -22 | 700 | 2,224 | 6,161 |

Notes

Note 1 Capital and capital adequacy

The total capital ratio for the consolidated situation amounted to 17.7 percent (18.2 at 31 December 2019) and the CET1 capital ratio was 14.0 percent (13.9 at 31 December 2019). At Landshypotek Bank AB, the total capital ratio amounted to 19.3 percent (19.2 at 31 December 2019) and the CET1 capital ratio was 13.8 percent (13.7 at 31 December 2019). CET1 capital for the consolidated situation increased SEK 33 million to SEK 4,869 million, while total own funds declined SEK 199 million to SEK 6,147 million. The reduction in own funds is 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 quarter, mainly due to Finansinspektionen lowering the countercyclical buffer requirement on 16 March 2020 from 2.5 percent to zero percent and the increase in surplus capital reducing the eligible portion. The minimum capital requirement decreased SEK 5 million to SEK 2,785 million in the period.

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, which as of 31 March 2020 solely comprised the capital conservation buffer, must be covered by CET1 capital. The reason Finansinspektionen lowered the countercyclical buffer requirement during the quarter was to ensure a well-functioning credit supply during the economic downturn in the wake of the Covid-19 pandemic.

The leverage ratio for the consolidated situation was 6.0 percent (6.1 at 31 December 2019).

The internally assessed capital requirement for the consolidated situation was SEK 4.2 billion (5.0 at 31 December 2019). The capital requirement was reduced as a result of the lowered countercyclical buffer requirement. The capital requirement should be compared with own funds of SEK 6.1 billion (6.3 at 31 December 2019).

continued Note 1 Capital adequacy analysis

| SEK million | Consolidated situation ¹⁾ 31 March 2020 | Landshypotek Bank AB 31 March 2020 |
|---|---|---------------------------------------|
| CET1 capital: Instruments and reserves | | |
| Member contributions | 1,769 | – |
| Share capital | – | 2,253 |
| Other contributed equity | 1,798 | 1,017 |
| Tier 1 capital instruments | 700 | 700 |
| Reserves | -33 | -33 |
| Actuarial changes | -50 | 0 |
| Retained earnings | 2,078 | 2,149 |
| Net profit for the year ²⁾ | 69 | 75 |
| Equity in the balance sheet | 6,332 | 6,161 |
| Deductions related to the consolidated situation and other foreseeable costs ³⁾ | -141 | -36 |
| Deductions for Tier 1 capital instruments classified as equity | -700 | -700 |
| CET1 capital before regulatory adjustments | 5,491 | 5,424 |
| CET1 capital: regulatory adjustments | | |
| Further value adjustments | -10 | -10 |
| Intangible assets | -141 | -141 |
| IRB deductions ⁴⁾ | -463 | -463 |
| Total regulatory adjustments to CET1 capital | -622 | -613 |
| CET1 capital | 4,869 | 4,811 |
| Additional Tier 1 capital: instruments | | |
| Tier 1 capital instruments | – | 700 |
| of which: classified as equity under applicable accounting standards | – | 700 |
| Qualifying Tier 1 capital included in consolidated additional Tier 1 capital issued by subsidiaries and held by third parties | 470 | – |
| Tier 1 capital (CET1 capital + Tier 1 capital) | 5,338 | 5,511 |
| Tier 2 capital: instruments and provisions | | |
| Capital instruments and subordinated loans eligible as Tier 2 capital | – | 1,200 |
| Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third parties | 809 | – |
| Tier 2 capital before regulatory adjustments | 809 | 1,200 |
| Tier 2 capital | 809 | 1,200 |
| Own funds (Tier 1 capital + Tier 2 capital) | 6,147 | 6,711 |
| Total risk-weighted exposure amount | 34,811 | 34,816 |
| Capital ratios and buffers | | |
| Own funds requirement | 2,785 | 2,785 |
| CET1 capital ratio (%) | 14.0 | 13.8 |
| Tier 1 capital ratio (%) | 15.3 | 15.8 |
| Total capital ratio (%) | 17.7 | 19.3 |
| Institution-specific CET1 capital requirement including buffer requirements (%) | 7.0 | 7.0 |
| of which: capital conservation buffer requirement (%) | 2.5 | 2.5 |
| of which: countercyclical buffer requirement (%) | 0.0 | 0.0 |
| CET1 capital available to meet buffers (%) ⁵⁾ | 9.3 | 9.3 |

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

²⁾ A decision by Finansinspektionen in March 2020 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 March 2020 | Landshypotek Bank AB, 31 March 2020 |
|---|---|--|
| Internally assessed capital requirement¹⁾ | | |
| Pillar I capital requirement | 2,785 | 2,785 |
| Percentage of total risk-weighted exposure amount | 8.0 | 8.0 |
| Pillar II capital requirement | 544 | 544 |
| Percentage of total risk-weighted exposure amount | 1.6 | 1.6 |
| Combined buffer requirement | 870 | 870 |
| Percentage of total risk-weighted exposure amount | 2.5 | 2.5 |
| Total capital requirement | 4,199 | 4,199 |
| Percentage of total risk-weighted exposure amount | 12.1 | 12.1 |
| Own funds (Tier 1 capital + Tier 2 capital) | 6,147 | 6,711 |
| Percentage of total risk-weighted exposure amount | 17.7 | 19.3 |
| Capital requirement as assessed by Finansinspektionen²⁾ | | |
| Pillar I capital requirement | 2,785 | 2,785 |
| 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 | 870 | 870 |
| Percentage of total risk-weighted exposure amount | 2.5 | 2.5 |
| Total capital requirement | 4,303 | 4,304 |
| Percentage of total risk-weighted exposure amount | 12.4 | 12.4 |
| Own funds (Tier 1 capital + Tier 2 capital) | 6,147 | 6,711 |
| Percentage of total risk-weighted exposure amount | 17.7 | 19.3 |

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 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).

Own funds requirement by risk, approach and exposure class

| 31 March 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 | 77,641 | 25,605 | 2,048 | 33% |
| Retail – real estate collateral | 47,131 | 6,492 | 519 | 14% |
| Corporates | 30,424 | 19,028 | 1,522 | 63% |
| Other non-credit-obligation assets | 85 | 85 | 7 | 100% |
| Credit risk – Standardised approach | 12,589 | 1,424 | 114 | 11% |
| Central governments or central banks | 33 | 0 | 0 | 0% |
| Regional governments or local authorities | 4,399 | 0 | 0 | 0% |
| Institutions | 2,326 | 729 | 58 | 31% |
| Corporates | 14 | 14 | 1 | 100% |
| Retail | 35 | 25 | 2 | 72% |
| Secured by mortgage liens on immovable property | 210 | 95 | 8 | 45% |
| Exposures in default | 3 | 4 | 0 | 150% |
| Covered bonds | 5,570 | 557 | 45 | 10% |
| Operational risk – Basic indicator approach | | 1,470 | 118 | |
| Credit valuation adjustment risk – Standardised approach | 1,596 | 1,022 | 82 | 64% |
| Additional risk exposure amount under Article 458 CRR (risk-weight floor) | | 5,291 | 423 | |
| Total | 91,826 | 34,811 | 2,785 | |

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

| 31 March 2020 SEK million | Landshypotek Bank AB | | | |
|--|------------------------------|---|-------------------------------------|-----------------------------------|
| | Exposure value ¹⁾ | Risk-weighted exposure amount ²⁾ | Own funds requirement ³⁾ | Average risk weight ⁴⁾ |
| Credit risk – IRB approach | 77,645 | 25,610 | 2,049 | 33% |
| Retail – real estate collateral | 47,131 | 6,492 | 519 | 14% |
| Corporates | 30,424 | 19,028 | 1,522 | 63% |
| Other non-credit-obligation assets | 90 | 90 | 7 | 100% |
| Credit risk – Standardised approach | 12,591 | 1,424 | 114 | 11% |
| Central governments or central banks | 33 | 0 | 0 | 0% |
| Regional governments or local authorities | 4,403 | 0 | 0 | 0% |
| Institutions | 2,325 | 729 | 58 | 31% |
| Corporates | 14 | 14 | 1 | 100% |
| Retail | 35 | 25 | 2 | 72% |
| Secured by mortgage liens on immovable property | 210 | 95 | 8 | 45% |
| Exposures in default | 3 | 4 | 0 | 150% |
| Covered bonds | 5,570 | 557 | 45 | 10% |
| Operational risk – Basic indicator approach | | 1,470 | 118 | |
| Credit valuation adjustment risk – Standardised approach | 1,596 | 1,022 | 82 | 64% |
| Additional risk exposure amount under Article 458 CRR (risk-weight floor) | | 5,291 | 423 | |
| Total | 91,833 | 34,816 | 2,785 | |

¹⁾ Exposure value calculated in accordance with the CRR.

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 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.

Note 2 Net interest income

| SEK million | Q1 2020 | Q1 2019 | Q4 2019 | Jan–Mar 2020 | Jan–Mar 2019 | Full-year 2019 |
|--|-------------|-------------|-------------|--------------|--------------|----------------|
| Interest income | | | | | | |
| Interest income on loans to credit institutions | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest income on loans to the public | 346 | 315 | 329 | 346 | 315 | 1,296 |
| Interest income on interest-bearing securities | 11 | 9 | 11 | 11 | 9 | 44 |
| Other interest income | 3 | 2 | 3 | 3 | 2 | 11 |
| Total interest income | 360 | 327 | 342 | 360 | 327 | 1,351 |
| Interest expenses | | | | | | |
| Interest expenses for liabilities to credit institutions | 0 | 1 | 2 | 0 | 1 | 5 |
| Interest expenses for deposits from the public | -24 | -26 | -26 | -24 | -26 | -106 |
| of which fees for deposit insurance | -4 | -3 | -5 | -4 | -3 | -15 |
| Interest expenses for interest-bearing securities | -144 | -123 | -128 | -144 | -123 | -521 |
| Interest expenses for subordinated liabilities | -8 | -7 | -8 | -8 | -7 | -32 |
| Interest expenses for derivative instruments | 41 | 56 | 36 | 41 | 56 | 187 |
| Other interest expenses | -14 | -22 | -17 | -14 | -22 | -69 |
| of which fees for resolution fund | -8 | -16 | -11 | -8 | -16 | -48 |
| Total interest expenses | -149 | -121 | -141 | -149 | -121 | -536 |
| Total net interest income | 211 | 206 | 202 | 211 | 206 | 815 |

All interest income is attributable to the Swedish market

Note 3 Net credit losses

| SEK million | Q1 2020 | Q1 2019 | Q4 2019 | Jan–Mar 2020 | Jan–Mar 2019 | Full-year 2019 |
|---|------------|------------|------------|-----------------|-----------------|-------------------|
| Change in credit loss allowance, Stage 1 | 1 | 0 | 1 | 1 | 0 | 0 |
| Change in credit loss allowance, Stage 2 | 4 | 0 | 3 | 4 | 0 | 4 |
| Net credit losses, non-credit-impaired lending | 4 | -1 | 4 | 4 | -1 | 4 |
| Change in credit loss allowance, Stage 3 | -2 | -6 | -1 | -2 | -6 | 4 |
| Write-off for the period for confirmed losses | -1 | -3 | 0 | -1 | -3 | -11 |
| Recoveries of previously confirmed losses | 0 | 2 | 1 | 0 | 2 | 6 |
| Net credit losses, credit-impaired lending | -2 | -8 | 0 | -2 | -8 | -1 |
| Total net credit losses | 2 | -8 | 3 | 2 | -8 | 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.

- 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 | SEK 72 million |
| Improved scenario | SEK 69 million |
| Deteriorated scenario | SEK 77 million |

Note 4 Loans to the public

| SEK million | 31 Mar 2020 | 31 Dec 2019 | 31 Mar 2019 |
|---|---------------|---------------|---------------|
| Loan receivables, stage 1 | 69,029 | 67,949 | 64,076 |
| Loan receivables, stage 2 | 7,442 | 7,859 | 8,747 |
| Loan receivables, stage 3 | 678 | 634 | 537 |
| Gross loan receivables | 77,149 | 76,441 | 73,360 |
| Less credit loss allowance | -71 | -74 | -89 |
| Net loan receivables | 77,078 | 76,367 | 73,272 |
| Disclosures on overdue loan receivables, gross | | | |
| Loan receivables overdue 5–90 days | 20 | 43 | 78 |
| Loan receivables overdue more than 90 days | 306 | 253 | 163 |
| Total overdue loan receivables, gross | 326 | 296 | 242 |

| Gross loan receivables SEK million | Non-credit-impaired lending | | Credit-impaired lending | Total |
|--|-----------------------------|--------------|-------------------------|---------------|
| | Stage 1 | Stage 2 | Stage 3 | |
| Opening balance 1 Jan 2019 | 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 31 Dec 2019 | 67,949 | 7,859 | 634 | 76,441 |
| Opening balance 1 Jan 2020 | 67,949 | 7,859 | 634 | 76,441 |
| Increases in loan receivables due to origination and acquisition | 2,531 | 41 | 5 | 2,577 |
| Decreases in loan receivables due to derecognition | -1,497 | -329 | -44 | -1,869 |
| Decrease in loan receivables due to confirmed losses | - | - | 0 | 0 |
| Migration between stages | | | | |
| from 1 to 2 | -307 | 307 | - | - |
| from 1 to 3 | -38 | - | 38 | - |
| from 2 to 1 | 385 | -385 | - | - |
| from 2 to 3 | - | -56 | 56 | - |
| from 3 to 2 | - | 5 | -5 | - |
| from 3 to 1 | 6 | - | -6 | - |
| Closing balance 31 Mar 2020 | 69,029 | 7,442 | 678 | 77,149 |

continued Loans to the public

| Credit loss allowance SEK million | Non-credit-impaired lending | | Credit-impaired lending | Total credit loss allow- ance 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 1 Jan 2019 | -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 31 Dec 2019 | -5 | -17 | -52 | -74 | -73 | -1 |
| Opening balance 1 Jan 2020 | -5 | -17 | -52 | -74 | -73 | -1 |
| Increases due to origination and acquisition | 0 | 0 | 0 | -1 | 0 | 0 |
| Decreases due to derecognition | 0 | 1 | 1 | 2 | 2 | 0 |
| Decrease in allowance due to write-offs | - | - | 1 | 1 | 1 | - |
| Changes due to change in credit risk | 1 | 4 | 7 | 12 | 12 | 0 |
| Changes due to update in the methodology for estimation | 0 | -1 | -9 | -11 | -11 | - |
| Migration between stages | | | | | | |
| from 1 to 2 | 0 | -1 | - | -1 | -1 | 0 |
| from 1 to 3 | 0 | - | 0 | 0 | 0 | 0 |
| from 2 to 1 | 0 | 1 | - | 1 | 1 | 0 |
| from 2 to 3 | - | 1 | 0 | 0 | 0 | 0 |
| from 3 to 2 | - | 0 | 0 | 0 | 0 | 0 |
| from 3 to 1 | 0 | - | 0 | 0 | 0 | 0 |
| Closing balance 31 Mar 2020 | -5 | -14 | -53 | -72 | -71 | -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 March 2020 | | | | 31 March 2019 | | | |
|--|---------------|--------------|----------|---------------|---------------|--------------|----------|---------------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at FVTOCI | | | | | | | | |
| Eligible treasury bills, etc. | 3,582 | | | 3,582 | 4,957 | | | 4,957 |
| Bonds and other interest-bearing securities | 6,355 | | | 6,355 | 7,800 | | | 7,800 |
| Derivatives identified as hedging instruments | | | | | | | | |
| Interest-rate swaps | | 1,184 | | 1,184 | | 987 | | 987 |
| Cross-currency interest-rate swaps | | 769 | | 769 | | 607 | | 607 |
| Total assets measured at fair value | 9,937 | 1,953 | - | 11,890 | 12,757 | 1,594 | - | 14,351 |
| Derivatives identified as hedging instruments | | | | | | | | |
| Interest-rate swaps | | 163 | | 163 | | 207 | | 207 |
| Cross-currency interest-rate swaps | | 57 | | 57 | | 197 | | 197 |
| Total liabilities measured at fair value | - | 220 | - | 220 | - | 404 | - | 404 |

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 March 2020 | | 31 March 2019 | |
|---|-----------------|---------------|-----------------|---------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Assets | | | | |
| Eligible treasury bills | 3,582 | 3,582 | 4,957 | 4,957 |
| Loans to credit institutions | 523 | 523 | 470 | 470 |
| Loans to the public | 77,078 | 78,662 | 73,272 | 74,514 |
| Bonds and other interest-bearing securities | 6,355 | 6,355 | 7,800 | 7,800 |
| Derivatives | 1,953 | 1,953 | 1,594 | 1,594 |
| Total assets | 89,492 | 91,076 | 88,092 | 89,334 |
| Liabilities and provisions | | | | |
| Liabilities to credit institutions | 2,275 | 2,275 | 752 | 752 |
| Deposits from the public | 14,138 | 14,138 | 14,357 | 14,357 |
| Debt securities issued, etc. | 65,326 | 65,749 | 65,261 | 66,005 |
| Derivatives | 220 | 220 | 404 | 404 |
| Subordinated liabilities | 1,200 | 1,204 | 1,200 | 1,238 |
| Total liabilities | 83,159 | 83,586 | 81,973 | 82,755 |

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 rele-

vant 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 |
|--|--|
| 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. |
| 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. |
| 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. |
| Increase in deposits, %: 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. |
| Increase in lending, %: 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 lending to the public, which describes the earnings capacity. Cumulative LTM net interest income is used 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 | Q1 2020 | Q1 2019 | Q4 2019 | Jan-Mar 2020 | Jan-Mar 2019 | Full-year 2019 |
|--|-------------|-------------|-------------|-----------------|-----------------|-------------------|
| Change in loans to the public | 711 | 761 | 1,012 | 711 | 761 | 3,856 |
| Opening balance, loans to the public | 76,367 | 72,511 | 75,356 | 76,367 | 72,511 | 72,511 |
| Change in lending, % | 0.9 | 1.0 | 1.3 | 0.9 | 1.0 | 5.3 |
| Net interest income, accumulated LTM | 821 | 818 | 815 | 821 | 818 | 815 |
| Average loans to the public, LTM | 75,186 | 71,597 | 74,235 | 75,186 | 71,597 | 74,235 |
| Interest margin, LTM, % | 1.09 | 1.14 | 1.10 | 1.09 | 1.14 | 1.10 |
| Change in deposits from the public | -311 | 207 | -134 | -311 | 207 | 299 |
| Opening balance deposits from the public | 14,449 | 14,150 | 14,583 | 14,449 | 14,150 | 14,150 |
| Change in deposits, % | -2.2 | 1.5 | -0.9 | -2.2 | 1.5 | 2.1 |
| Costs before credit losses | -120 | -112 | -127 | -120 | -112 | -461 |
| Total operating income | 217 | 207 | 198 | 217 | 207 | 876 |
| C/I ratio including financial transactions | 0.55 | 0.54 | 0.64 | 0.55 | 0.54 | 0.53 |
| Costs before credit losses | -120 | -112 | -127 | -120 | -112 | -461 |
| Total operating income excluding financial transactions | 211 | 207 | 203 | 211 | 207 | 877 |
| C/I ratio excluding financial transactions | 0.57 | 0.54 | 0.63 | 0.57 | 0.54 | 0.53 |
| Net credit losses calculated on a full-year basis | 9 | -34 | 14 | 9 | -34 | 3 |
| Average loans to the public, LTM | 75,186 | 71,597 | 74,235 | 75,186 | 71,597 | 74,235 |
| Credit loss level, %¹⁾ | - | 0.05 | - | - | 0.05 | - |
| Credit-impaired assets, gross | 678 | 541 | 634 | 678 | 541 | 634 |
| Less provisions made | -53 | -62 | -52 | -53 | -62 | -52 |
| Credit-impaired assets, net | 625 | 478 | 582 | 625 | 478 | 582 |
| Credit-impaired assets, net | 625 | 478 | 582 | 625 | 478 | 582 |
| Loans to the public | 77,078 | 73,272 | 76,367 | 77,078 | 73,272 | 76,367 |
| Net credit-impaired assets after allowances as a percentage of total loans outstanding, % | 0.81 | 0.65 | 0.76 | 0.81 | 0.65 | 0.76 |
| Profit after tax | | | | | | 332 |
| Equity | | | | | | 6,111 |
| Return on equity, % | | | | | | 5.4 |
| Profit after tax | | | | | | 332 |
| Number of shares, million | | | | | | 2 |
| Earnings per share, SEK | | | | | | 147.4 |

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

Reporting calendar 2020

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

| | |
|---------------------|--|
| General Meeting | Not later than 30 June 2020 (date to be set) |
| Association Meeting | Not later than 30 June 2020 (date to be set) |
| Interim Report Q2 | 20 July 2020 |
| Interim Report Q3 | 28 October 2020 |

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