



Landshypotek Bank

# Annual Report 2018

For a richer life in the countryside



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## Reporting calendar

Interim Report Q1	30 April 2019
General Meeting	7 May 2019
Interim Report Q2	19 July 2019
Interim Report Q3	25 October 2019



# For a richer life countryside

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

Landshypotek Bank is owned by some 39,000 farmers and foresters across the country and our surplus is reinvested in their operations. Over the years, we have

financed hundreds of thousands of investments in a living and sustainable countryside — in open landscapes, well-kept forests and locally produced food. But we are not here solely for farmers and foresters. We offer loans to homeowners across the country as well as farmers and foresters. Our savings products are open to Sweden's general public and to companies.

And together with our customers, the bank generates growth in Sweden. We are a small bank with a vital mission — to promote a richer life countryside.







# 2018

SEK **387.6** million

Operating profit amounted to SEK 387.6 million.

SEK **72.5** billion

Lending amounted to SEK 72.5 billion.

**190**

190 people work at Landshypotek Bank. 26 new employees began working with us during the year — an equal amount of women and men.

SEK **31.2** million

Members invested SEK 31.2 million net in Landshypotek Bank during 2018.

SEK **14.1** billion

Deposits amounted to SEK 14.1 billion.

**80,000**

Landshypotek Bank has 80,000 customers who borrow to finance farms, forests and houses, as well as savers.

# Focus on becoming an increasingly popular and better bank

Landshypotek Bank is a bank that is growing vigorously. Our introduction to the mortgage market will enable us to become a bank for more customers than ever before. At the same time as we are, and always will be, a bank for farmers and foresters. However, we are now developing based on what we have and what we represent — and are continuing to grow as a challenger and a bank with a difference in the Swedish banking market.

When summarising 2018, there are a few events that stick out:

- Our green bond, which we have based entirely on Swedish forestry and the daily efforts of our customers, the foresters, to promote sustainable development. The bond leveraged our unique expertise and experience in forestry lending and the financial markets. There was a record level of interest in this bond, as well as extensive interest in what we did with the bond proceeds. At its listing ceremony, at the world's largest green exchange in Luxembourg, it was described as pioneering. With this bond, we demonstrated exactly what a green bank is.
- Our introduction to the mortgage market. In the first quarter of the year, we passed the 1 billion krona mark for residential mortgages to homeowners across the country; we have now passed the 4 billion mark. Throughout the year, we engendered a feeling of security, maintained a competitive edge and met customers with a mix of a good offering, new technology, proven know-how and genuine values. We are a challenger and mortgages have progressed from a start-up to a more established business with healthy growth.
- Our actions when our farming and forestry customers were hit by the summer's drought. We were active, customer-centric and encouraged customers to have an early dialogue with the bank. These close dialogues created the preconditions for individual assessments and the necessary actions and solutions for each individual entrepreneur. Our actions confirmed the importance of a bank for farming and forestry that combines know-how with a long-term perspective.

We have invested extensively in the internal work with capital and regulations over several years. We have also built and become an even more reliable and long-term sustainable bank, thus providing a strong basis for greater customer focus. We will now continue to develop based on what we have and what we represent.

We are focusing our efforts on becoming an even better bank for customers who want to save and borrow. This is where we are — and will be — the best for more customers.

As a bank, we have a different background and different values compared with other banks. We have entered 2019 with an ambitious plan for growth and investment that focuses on continued development. We aim to continue growing our mortgage operations and to become increasingly important in the agroforestry market and for our farming and forestry customers.

We will be even more active, for both new and old customers, as we take care of and improve our bank on every level. We are continuing to grow our customer base and thereby increasingly leverage the structure that we have worked hard for and built to meet today's banking requirements. The digital solutions that we were at the forefront of when we entered the savings and mortgage markets, also generate opportunities for us in more and new ways as we meet farming and forestry customers moving forward.

We will also continue to work on our culture, leadership and employeeship. Landshypotek has a soul — it shows in everyone who works here and who is involved with the bank. Our values, closeness to each other and our customers, and our focus on those customers are great strengths. And while this culture needs to be nurtured — it also needs to continuously develop.

In summarising 2018, we can see that we are improving our underlying ability to produce results. We have noted growth in all our services. As lending volume increases, net interest income is strengthened. We are providing excellent service to our farming and forestry customers; all of which provides a strong basis for generating results. The growth we are working to achieve is important in terms of managing, running and developing our bank. Our growth means increasing the number of employees, but much of the cost increases arise from statutory fees and in adjustments to new regulations.



Our investment in mortgages is one part of this necessary growth. This is a long-term initiative and we are consciously growing with a low level of risk. It is already possible to see the effects of the diversification — earnings are becoming more stable and the bank is more sustainable. Moreover, the increase in volume is starting to positively impact results.

We are confident in our digital solution and our approach as a mortgage bank. Many new competitors have been attracted to the mortgage market for reasons other than benefitting customers or society. However, we base our actions on doing something positive for customers and society. We respect the special trust many customers bestow on the bank when involving us in key decisions about their finances. We want to be part of building a better Sweden. We refer to ourselves as a challenger in the mortgage market, but when we challenge, we do not jeopardise customers' security or lose our understanding of the importance of providing opportunities for the whole country.

The results fuel our continued development and investments to become a better bank, and we will focus on improving our ability to meet ever more customers. During the year we also continued development of a digital platform for credit scoring that will further enable better customer relationships and more efficient ways to meet more customers.

The results also make it possible to distribute a dividend to the owners. This year, the bank is paying a Group contribution of SEK 158 million to the cooperative association, whose members encompass our loan customers in the farming and forestry sector. In turn, the Group contribution funds the association's operations and a dividend to its members — in other words, Sweden's farmers and foresters. This dividend is both an important part and confirmation of what Landshypotek Bank is and is working towards.

This has been my first year as CEO of Landshypotek Bank. Every day, I am struck by the potential that exists in the bank. It is inspiring to have the opportunity to work in an environment with such extensive competence as that represented by colleagues, the Board and the management. We will now leverage the possibilities inherent in being a secure bank with extensive experience and which is financially sound, while at the same time maintaining strong focus on development as part of our desire to do things differently, innovatively and truly beneficially for customers.

In 2019, we will become an even better bank for new and existing customers.

Per Lindblad  
CEO of Landshypotek Bank

# Views on the bank, developments and 2018

2018 was the year when Landshypotek Bank's mortgage lending gained momentum, when farming and forestry was hit by a summer with extreme weather conditions and the bank continued to develop its communication profile as a bank with a difference. This was reinforced with three management perspectives.

## **Catharina Åbjörnsson Lindgren on pursuing a new avenue as a mortgage bank**

Owning a home is the largest private financial commitment that many people have, so we are obviously thrilled that thousands of people chose us as their new mortgage bank in 2018.

We often hear that our customers welcome a challenger representing true sustainability, who is secure and focuses on the long term, and who also has attractive, transparent and clear interest rates. Many mortgage customers are tired of the myriad creative solutions offered by other banks in terms of what is required to get a better interest rate, and find it difficult to understand what it is that affects such rates. We have opted to pursue a different avenue. As a mortgage customer at our bank, you can see clearly what your interest rate will be and what will affect it, without negotiations or upselling requirements. Attractive interest rates are offered based on the loan-to-value ratio and fixed-rate period. The way we set interest rates is entirely transparent and is consistent for all mortgage customers of the bank across the country.

Customers seem to appreciate this understanding, simplicity and combination of security and innovation.

*Catharina Åbjörnsson Lindgren is Chief Commercial Officer at Landshypotek Bank. The bank is growing faster than many established players and has lent over SEK 4 billion in mortgages in less than a year.*





## Per Lindblad on the drought

We opted not to react to the drought by making short-term, vague pledges or campaigns. Instead, we chose to maintain close dialogues with our farming and forestry customers through account managers and were kept updated on the situation by the association's elected representatives.

The drought will affect the agriculture and forestry markets as well as the finances of individual entrepreneurs for several years, although the consequences vary according to geography and sector. Our relationships and close dialogs with our customers allowed us to gain rapid and extensive control of the situation.

We have financed farming and forestry since 1836 and know that when times feel challenging, a bank with long-term security is what is needed. We always make individual assessments about what is good and what is possible for each entrepreneur. As the farmers and foresters' own bank, we want to be part of meeting and overcoming temporary challenges to create sound, long-term entrepreneurship. With almost two centuries' experience of farming and forestry financing, we have a long-term mindset, have close ties and believe in the future of agriculture and forestry. The drought highlighted the innovative spirit and ingenuity of this country's farming and forestry entrepreneurs. Interest in Swedish food and the role played by Swedish farmers was also galvanized among members of the public.

*Per Lindblad is CEO of Landshypotek Bank.  
With its drought, 2018 will go down in history as a challenging year for Sweden's farmers.*



## Tomas Uddin on the story of a bank with a difference

We often highlight that we are a bank with a difference. Some people find that a little abrasive, but in our world different is good. We hope our customers feel that there is a difference in being a customer with our bank. Some of them feel this keenly, for example in terms of our proximity and commitment to Swedish farming and forestry. For others, this difference is perhaps only noticeable in how the bank communicates about things other than just interest rates — things about which we are passionate.

Whichever it is, we feel that this is important. We offer the same security and adhere to the same regulations as our competition, but we stand for other ideals and act differently. We have made an active choice to be a value-driven bank. We stand up for Swedes who live outside the major cities and for enterprise based on farming and forestry, which we want to help develop and grow. This is a fundamental mission for a country that is sustainable in the long term. For our employees, this is clear each and every day. It is also clear to them that another kind of drive is required at a small bank — you get the chance to grow responsibly here and to participate in our development by working for a greater good. Leadership and employeeship also need to be driven by values. We like to see that customers share our commitment and choose their bank based on values.

*Tomas Uddin is Chief Marketing and Communications Officer at Landshypotek Bank.  
The story of Landshypotek Bank and the commitment of employees are both strengths of the bank.*

# 2018 in figures

2018 can be summed up as a year of healthy results and growth, and a year when considerable progress was made with preparing for the future. Our ability to generate results is stronger than in previous years. We are continuing to grow as the farmers and foresters' bank. Our mortgage venture is for the long term, and is already starting to positively impact results. We are developing based on what we have and what we represent. Step by step, we are becoming a better bank for more customers — and are continuing to grow as a challenger and a bank with a difference in the Swedish banking market.

*Per Lindblad, CEO of Landshypotek Bank*

- Operating profit amounted to SEK **387.6** million (339.2).
- The underlying operating profit, excluding the net result of financial transactions, was SEK **370.4** million (387.3).
- Net interest income amounted to SEK **799.0** million (800.4).
- Costs totalled SEK **425.8** million (402.5).
- Net credit losses resulted in a recovery of SEK **8.0** million (12.5).
- Lending amounted to SEK **72.5** billion (68.5).
- Deposits amounted to SEK **14.1** billion (12.7).

Group SEK million	2018	2017
Net interest income	799.0	800.4
Operating profit	387.6	339.2
Profit after tax	295.5	256.4
Loans to the public	72,511	68,488
Increase in lending, %	5.9	3.0
Interest margin, %	1.13	1.19
Deposits from the public	14,150	12,675
Increase in deposits from the public, %	11.6	8.0
C/I ratio including financial transactions	0.52	0.53
C/I ratio excluding financial transactions	0.53	0.50
Credit loss level, %	0.01	0.02
Total capital ratio, consolidated situation, %	18.4	43.8
Rating, long-term		
Standard & Poor's, Covered bonds	AAA	AAA
Standard & Poor's	A-	A-
Fitch	A	A
Average number of employees, LTM	190	176

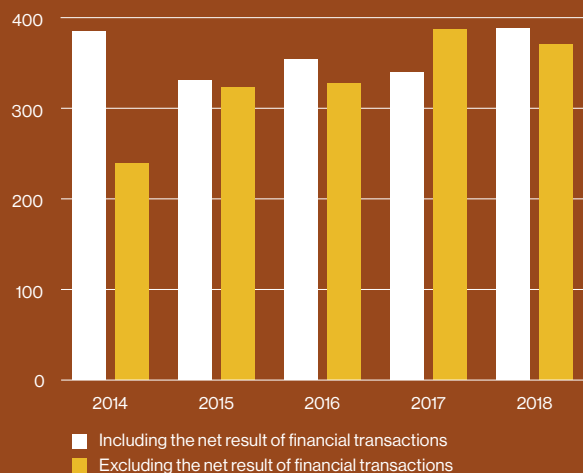


# An overview of the year

Landshypotek Bank remains a growing bank. Operating profit has increased while credit losses remain low. Costs increased in line with our plan to strengthen the bank as a whole, and the bank is able to present historically strong results for 2018.

## Operating profit

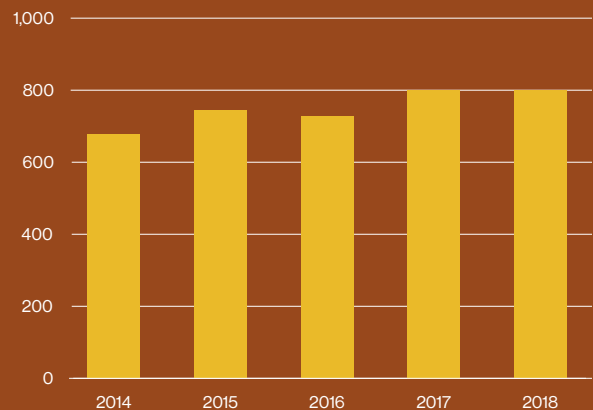
SEK million



Operating profit for 2018 totalled SEK 387.6 million. Operating profit excluding the net result of financial transactions was SEK 370.4 million.

## Net interest income

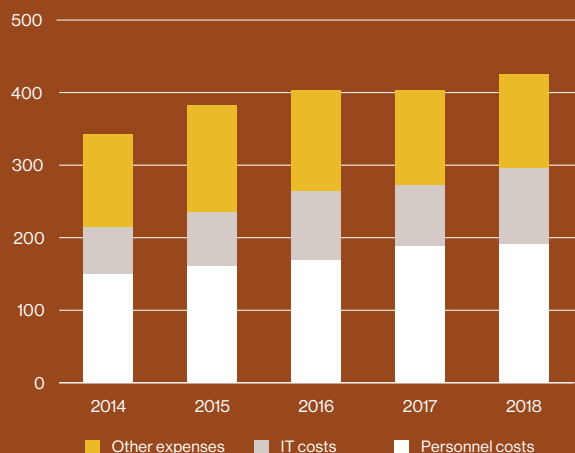
SEK million



Net interest income for 2018 totalled SEK 799.0 million. The amount of net interest income is determined primarily by the volume of loans outstanding and the margin between the interest rates on borrowing and lending.

## Costs

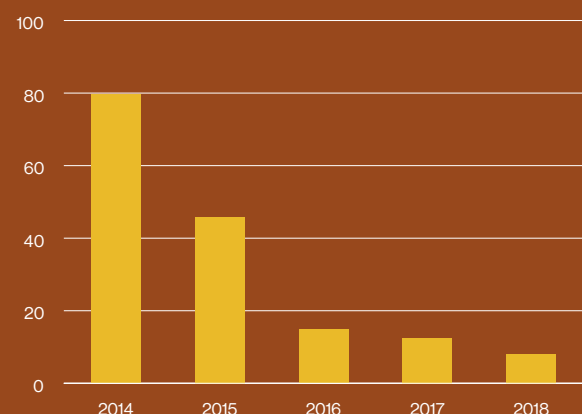
SEK million



Costs for 2018 totalled SEK 425.8 million. Costs increased in line with our plan that aims in part to administer the bank's growth and in part to allow the continued strengthening of the bank as a whole.

## Loan losses

SEK million



Credit losses for 2018 amounted to SEK 8.0 million, which corresponds to 0.01 percent of lending.



Landshypotek Bank

# Hela landet bank

För ett rikare liv på landet





# Events in 2018

Attention surrounding the new mortgage bank, the pioneering launch of the world's first ever forest-backed, green covered bond and close dialogues with customers about the effects of the summer's drought. These are just some of things that took place and characterised Landshypotek Bank in 2018.

## Close dialogue with customers about the effects of the summer drought

With its extreme heat and lack of rain, 2018 was a difficult year for many farmers. The full effects have yet to show, but harvests and animal husbandry were both impacted for many farmers around the country. Landshypotek Bank was quick to encourage customers to open a dialogue with the bank and has therefore kept close contact with customers as well as public agencies and agricultural organisations. We always work to participate in solutions that are designed to promote sustainable and healthy entrepreneurship.

## Pioneering launch of forest-backed green bond

In May, Landshypotek Bank issued a covered bond fully backed by sustainable forestry's contribution to biodiversity and to reducing carbon dioxide in Earth's atmosphere. Market interest was extremely high and the bond was oversubscribed within half an hour. The bond was listed and listing ceremonies were held at Nasdaq Stockholm and the Luxembourg Green Exchange. Interest in the pioneering bond was considerable among the media, the financial sector and forestry stakeholders.

## Strong start as a new mortgage bank

Customers' interest in Landshypotek Bank as a new mortgage market entrant has been very substantial. Many new customers have discovered Landshypotek Bank since the autumn 2017 market launch of mortgage loans, and growth continues. As of December 31, 2018, the bank had more than SEK 3.7 billion in homeowner mortgages. This underlines the need for a challenger — a bank with a difference in the Swedish banking market that offers competitive and highly transparent interest rates.

## Permission for the IRB approaches strengthen the bank in the long term

In June Landshypotek Bank implemented Finansinspektionen's permission for a new and altered IRB approach for capital adequacy purposes regarding credit risk. The bank began using a foundation IRB approach for corporate exposures and an adapted variant of the

bank's advanced IRB approach for retail exposure, which applies to the new mortgages for capital adequacy purposes. In the spring Finansinspektionen also notified its decision to take no further action on the case pertaining to one of Landshypotek Bank's valuation methods that the bank had appealed.

## Intensified dialogue about the future of agriculture and forestry

During the spring, Landshypotek Bank participated in dialogue evenings known as Lokalsamtal across the country, which addressed key countryside issues. The bank also initiated a separate initiative in forestry finance. During the autumn, Landshypotek Bank presented Lantbrukspanelen, a new and recurring panel with answers provided by driven and engaged agricultural entrepreneurs across the country. The panel comprises around 100 people and responds to issues affecting entrepreneurs in agriculture and forestry.

## A knowledge bank with surveys that arouse attention

On several occasions during the year, the bank presented the Boendebarmetern, which indicates consumer sentiment in terms of housing and financing. Here, the bank contributes a perspective that showcases the entire country, instead of the usual public focus on the major cities. Over the year, Landshypotek Bank also completed and presented several surveys that reflect current issues, attitudes and know-how relating to agriculture and forestry.

## Activities and expos with new partners

The bank maintained a strong presence over the year, with customer meetings, expos and general meetings, and participated at various events across the country. While important for meeting new and existing customers, expos also allow us to meet industry colleagues and keep informed about developments in agriculture and forestry. The bank also tested a number of new meeting places over the year and developed its marketing as a more wide-ranging bank for more customer groups. There has been substantial interest in meeting and finding out more about a bank with a difference.

# A bank with a difference

Landshypotek Bank is a bank for borrowing and for saving. Loans are offered to farmers and foresters as well as homeowners across the country. Our savings products are open to Sweden's general public and to companies. The bank has a long history dating back to 1836 with lending focused on ownership and cultivation of farms and forests, and is currently undergoing rapid development and growing among more customer groups. Landshypotek's focus outside of the major cities means it defines itself as a bank for all of Sweden.

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

- The aim of operations — for a richer life in the countryside
- Competence — close links to farming and forestry
- Strength of the member organisation
- The force of employee commitment
- Digital development
- A challenger as a mortgage bank
- Promoting a sustainable countryside

## A richer life in the countryside

The bank's brand promise — "For a richer life in the countryside" — is interwoven throughout the bank's and its employees' work days. The distribution of the bank's surplus to farmers and foresters comprises another key principle for the value-driven operation that is Landshypotek Bank.

## Close to farming and forestry customers

The bank's strength in terms of financing farming and forestry is its close links to farming and forestry. Account managers are located around the country and often have backgrounds in agriculture and forestry, as well as banking and financing expertise. The bank's customer operations are complemented by the cooperative association's elected representatives organised in regions across the country.

## Strength of the member organisation

The bank is owned by its loan customers in the farming and forestry sector. The cooperative association strengthens ties, commitment and the long-term perspective for the bank's operations, and it is also responsible for relations with the members.

## The force of employee commitment

The bank is developing together with its employees. Satisfied employees lead to satisfied customers. The four employee values — Customer-centric focus, Drive, Enthusiasm and Together — were drawn up by the employees and inspire all work at Landshypotek Bank.

## Digital development

Landshypotek Bank's history extends more than 180 years, but it is developing continuously to meet customers' needs. In 2017, a new platform was launched that facilitates convenient online mortgage applications. In 2018, a new credit management system laid the foundations for more efficient customer administration. Digitisation enables more efficient work and extends opportunities for customers.

## A challenger as a mortgage bank

Though relatively new, the mortgage venture is for the long term. Landshypotek Bank wants to help more people discover a bank with a difference that offers considerable security and extensive experience, and with an eye for opportunities nationwide. The bank applies competitive interest rates and transparent pricing without any requirements for upselling or full customer offers.

## Promoting a sustainable countryside

A living countryside, where fields and forests are cultivated and allowed to grow, leads to both growth and jobs. These are the cornerstones of a well-developed business community and Swedish welfare. The country's sustainable development rests on the conditions for living and working throughout Sweden. Landshypotek Bank enables rural living and investments in rural enterprise, which lays the foundations for the future of both the cities and the countryside.





**A small bank with  
a vital mission**







# A sustainable bank for ventures nationwide

Landshypotek Bank enables rural living and investments in rural entrepreneurs, which lays the foundations for the future of both the cities and the countryside. In this way, the bank contributes to sustainable societal development — socially, environmentally and economically — just as it has done since it started in 1836.

The bank's sustainability perspective is based on where customers come from and their operations. A living countryside, where fields and forests are cultivated, leads to both growth and jobs. These are the cornerstones of a well-developed business community and Swedish welfare. According to Landshypotek Bank, the country's sustainable development rests on the conditions for living and working throughout Sweden.

Sustainability at Landshypotek Bank is about viewing the bank's operations and role in the greater societal development and, in parallel, showcasing several aspects of the bank's operations from a long-term and responsible perspective. Therefore, the bank's sustainability efforts permeate operations and affect all of the bank's stakeholders, such as its customers, employees, owners, association members and investors. Since the bank is owned by its farming and forestry loan customers, the bank's business model contributes to an economically and socially sustainable society. During the year, Landshypotek Bank created a green bond based on Swedish foresters' environmental efforts. Read more about Landshypotek Bank's sustainability work in the Sustainability Report on pages 31–38.

## About Landshypotek Bank

Landshypotek Bank is a wholly owned subsidiary of Landshypotek Ekonomisk Förening. Historically, lending has been primarily against collateral in the form of farming and forestry real estate, but in 2017, the bank started to offer homeowner mortgages.

Landshypotek Bank's customers are located across Sweden. The majority of lending has historically been to people against collateral in immovable property. Local presence is an important success factor for lending to the farming and forestry sector. The bank's 39,000 farming and forestry borrowers own the bank through the cooperative association and are responsible for its capital, and share in its earnings. Each member has a vote at the annual regional meetings. The appointed Board members from the respective regions, 43 members, then represent the members at the Association Meeting. All business and licensable activities are conducted

within the bank, which has 190 employees nationwide. Read more about Landshypotek Bank's operations and organisation in the Corporate Governance Report on pages 39–54.

## The bank's customers and services

Landshypotek Bank has customers who save, live or run businesses across the country. The bank offers services with a focus on lending and saving.

Customers:

- professional farmers and foresters;
- entrepreneurs who use their farming and forest properties as a platform for other operations than traditional agriculture;
- people who live or have holiday homes on agricultural and forest properties but who are not agricultural entrepreneurs;
- people who own forest, with a home on or at a distance from the forestry property;
- people who live in houses, across Sweden;
- savers and residents of cities and the countryside.

Landshypotek Bank offers customers competitive financing and products with a focus on loans and savings. The main product offered is first lien mortgage loans. The bank also has more products that complement and strengthen customers' opportunities to be the bank's customers, often together with business partners, in areas including financing and legal services. Customers, who are also members, also have access to a product that is completely unique in the market: investing in Landshypotek.

# Becoming an increasingly popular and better bank

Landshypotek Bank has long been growing in terms of volume and has consistently generated healthy earnings. The growth has been used to become a stronger and better bank with investments that, inter alia, meet the growing regulatory requirements from agencies and the need to develop the IT system. Progress is now being made in terms of increasing the number of customers. Put simply, the bank is developing to be able to meet and to serve more new customer groups for the bank. The aim is to develop to serve more customers as a niched bank to save with and borrow from.

Strategic development is the subject of ongoing dialogue at Landshypotek Bank. Each year, discussion intensifies and the boards of the bank and the association gather for a shared dialogue. The strategic dialogue is made tangible by the bank in the late autumn through various business and operational plans and budgets for the forthcoming year. Dialogue is pursued with all employees and, accordingly, participation is considerable.

Participation significantly empowers change. Over the last few years, the bank has changed considerably and modernised following, among other things:

- The change of IT platform. The bank has migrated from a 70s system to a modern system. The initiative was rolled out in 2012. In some areas the bank has started to harvest a return on the investment, on products such as savings solutions and the new home mortgages. From the perspective of our operating environment, the new system offers a strong competitive advantage. Substantial strengthening of resources has been gradually imposed in terms of system skills, including both development and management.
- The meeting of growing and amended regulatory capital requirements. Considerable work has been invested in strengthening these efforts and bank initiatives with issues such as risk, capital and regulatory frameworks. This applies to both the strengthening of resources in terms of numbers of employees and budget, as well as building competence, processes, the organisation and the process for managing issues. The capital base has also been strengthened.
- New brand platform. Strategic choices have been made to leave our focus on the few to becoming open to many. Without losing our edge, this broadening is ultimately expressed as being a bank for the entire country. The bank's communication has changed considerably and activity has increased.

- Clear definition of roles and division between bank and association. The dividend policy has changed, which has led to stronger commitment and increased contributed capital. The owner directive has clarified the owners' intentions for the bank. The association is being strengthened as a member organisation and the elected representatives are developing as ambassadors.

Landshypotek Bank adopted a new strategic direction in 2015. The transition involves moving towards growth through a broadened customer base. The bank's focus on professional farmers has been supplemented with the clear aim of serving more customer groups. The number of services offered by the bank has only been marginally impacted. The bank is niched as a bank to save with and borrow from, and these services are being offered, packaged and modified for more customers. This development leverages the strength of the brand with a difference, closeness to customers and the commitment to enabling opportunities across the country.

The bank is now presenting itself in more places to communicate and enhance its relevance to more and more customer groups.

Landshypotek Bank has chosen a market position as being competitively priced and able to quickly resolve customers' financing needs through mortgages. The Bank has historically had efficient working methods for credits and close relationships with customers. Much is changing in today's banking market, and the bank is maintaining its strength by being efficient and customer-centric in this new market environment.

The way the bank's employees can achieve this is via greater customer relevance for more people, more efficient preparation of loans for more people and a culture and communication method that convey a bank with a difference in the Swedish banking market.





# Employees who make the difference

Landshypotek Bank encompasses all the tasks of a major bank while simultaneously retaining a small bank's sensitivity and closeness to customers.

## Fredrik Sjöström

Fredrik Sjöström's journey within Landshypotek Bank started with a summer job, but after finishing his degree it was clear to him that he wanted to continue working here. He now works as an account manager at the Jönköping office.

*"Our strength at Landshypotek Bank is that we work so closely with our customers. We often know them on a personal level, which means we are able to help them easily and smoothly with their day-to-day operations."*

**Is there an aspect you think particularly distinguishes Landshypotek Bank?**

*"I think the fact that we are specialists in farming and forestry is extremely valuable. As we understand our customers' operations, we are also able to provide rapid assistance when unforeseen events occur. One recent, telling example was everything that happened in 2018, a year characterised by drought, forest fires and increased insect attacks."*

**What is a typical work day for you?**

*"No two days are the same, and my work tasks range from "simple" financing issues to complicated generation shifts where we work to find the best solutions for both existing and new customers. It is exactly how I'd like it to be," explains Fredrik Sjöström.*



## Elin Ekstrand

With a background in agronomy, Elin Ekstrand started working at Landshypotek Bank four years ago. Today, she serves as the link between the marketing department and the member organisation as a whole, but that is not all.

*"It is a wide-ranging role. In general I work on increasing awareness of our bank and our relevance within Swedish farming and forestry. In practical terms, this means that I work closely together with the member and business organisations for farming and forestry."*

**What brought you to Landshypotek Bank?**

*"My reason for applying here was mainly due to the link with farming and forestry — what the bank stands for and what we do for agriculture and forestry. After all, Landshypotek is an important part of enabling us to have Swedish, locally produced food on our tables while also contributing to a sustainable future for the coming generations."*

**What is the best thing about your job?**

*"One of the most fun aspects of working for Landshypotek Bank is that there are so many driven personalities here who truly believe in what we are doing, who we are and what we stand for. The fact that we really means "we" — all of us together," concludes Elin Ekstrand.*



## Malin Svedberg

In spring 2018, Landshypotek Bank became the first bank in the world to issue a covered green bond fully based on sustainable Swedish forestry. The bond received extensive interest from investors and was oversubscribed in less than half an hour.

One of the people driving this green bond was Malin Svedberg, who works as a business developer and sustainability coordinator at Landshypotek Bank.



*"Efforts to produce the bond began back in 2016. Initially we had to sound out other banks and test the conditions for putting together a product of this kind. The major challenge was to set up a "green framework" that not only consisted of nice-sounding words, but of something that truly was green and that the bank could stand behind. As the market for green bonds was relatively new at that time, we really had to start from the beginning in multiple ways.*

### **Describe the process leading up last spring's issue.**

*"After many attempts we decided to focus on forestry. There were several reasons behind this, but one major reason was that it is by definition sustainable, renewable and because forests also absorb carbon dioxide. Cicero, an independent climate research organisation, then*

*scrutinised every part of the planned bond to verify that we lived up to our established targets and had succeeded in creating a green framework with a genuinely positive climate impact."*

### **By all appearances the bond was a success?**

*"Absolutely, it was a real hit in several different ways. From a purely business point of view it was oversubscribed in less than half an hour, but the bond also gave us a chance to show that green investments work. It also opened the door for Landshypotek Bank to both influence and take part in a wider debate about the environment and climate in an entirely new way. This was a way for the bank to show the wider community what fantastic work our customers do within their businesses each and every day."*

# A bank with a distinguished history

Together with the customers, Landshypotek Bank has had a central role in building the Sweden we see today, with Swedish food production, cultivated land, a living countryside and well-kept forests. The bank is built on its commitment to Swedish farming and forestry. A few milestones:

**1836** The country's first building society was started in Skåne. Its aim was to provide farmers with loans secured by mortgages in agricultural properties. Thereafter, building societies were started for Östgöta in 1845, Småland and other provinces in 1846, the Mälars provinces in 1847, Örebro County in 1849, Värmland County in 1850 and Älvsborg and other counties in 1850, before Norrland, Gotland and Gävle-Dalarna in 1861.

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

**1961** Credit market regulations were eased and Sveriges Allmänna Hypoteksbank was able to issue bonds.

**1986** The bond markets were deregulated and bonds with shorter tenors were introduced. Deregulation also entailed increased competition.

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

**2013** Landshypotek became a bank and the name Landshypotek Bank AB (publ) was registered. Finansinspektionen granted a banking licence in autumn 2012.

**2014** The new Landshypotek Bank presented itself with a new logotype. The bank opened a digital savings bank for the general public in Sweden.

**2017** Landshypotek Bank presented the news that it would offer mortgage loans to homeowners outside of the major cities.





# Drought and continued low interest rates

Extreme weather and drought conditions interfered with production and harvests in several regions around the world as well as in Sweden during 2018. However, the economy remains strong even if it has slowed slightly. The reduction in monetary policy stimuli has had a notable impact on the financial markets with interest rate hikes and reduced bond purchases by central banks. However, interest rates have continued to remain low and inflation weak.

## A year dominated by drought for farmers and foresters

Large parts of Landshypotek Bank's business is linked to lending to farming and forestry, although many customers also have salaried income. To one extent or another, this summer's drought affected most of the country's agricultural entrepreneurs. Geographical differences were considerable, with some northern regions reporting harvests that were close to normal while for others, particularly in the south, total harvests were more than 50 percent below normal.

The short term effects of the drought include lower liquidity and reduced margins for many agricultural entrepreneurs. Several companies will have to review their buffers and exercise greater restraint in terms of investment for a period. That said, there is much variation. Many of the country's agricultural entrepreneurs have additional income from activities other than agriculture and therefore several legs to stand on. It was also noted that entrepreneurs are well prepared and identified various solutions to manage the situation and mitigate the negative effects. The year's drought clearly demonstrated that the country's farmers and foresters have strong innovation and collaboration skills.

## Developments in a number of farming and forestry sectors:

In 2018, the numbers of beef livestock sent to slaughter increased in Sweden. The trend was a knock-on effect of the drought, but was also due to reduced milk production with fewer dairy cows. Slaughter volumes are expected to remain high in the coming months, as shortages of silage and more expensive purchased fodder have led to long slaughter queues.

Higher slaughter volumes, increased imports and lower exports have caused beef prices to trend downward in the EU. Price levels in Sweden are higher than in the rest of the EU, but large supplies have pushed prices down slightly. The increase in supply is expected to continue for the coming months as are lower prices.

Prices for fattening pigs and piglets have declined over the last few months in the EU. Prices in Sweden have also trended downward, albeit from higher levels and not to the same extent as the rest of the EU. Higher costs due to the summer's weather and lower settlement prices have exerted pressure on entrepreneurs' profitability. However, the added value represented by the Swedish model for beef and pork production remains in demand with consumers. In Sweden, animals are healthy and have the lowest levels of antibiotic use in the EU. For a long time, awareness of and interest in Swedish production has been considerable and interest increased further in conjunction with the drought. Surveys conducted by Landshypotek Bank inter alia have shown that willingness to pay for Swedish production increased in conjunction with the drought.

The summer's heat and the feed situation have also affected milk production, both in the form of lower milk yields and fewer cows. The settlement price for milk fell in the spring and the summer before rising at the end of the year. Overall, the settlement price for Swedish dairy farmers has been higher than the average for the preceding five-year period. The organic market continues to be more stable. Conventional dairy farmers are more sensitive to global market movements. Increased milk production in the major export regions, relatively large stockpiles and a moderate increase in demand resulted in higher milk volumes in 2018 than in 2017.

As for pig farmers, feed comprises a major production cost for poultry farmers and egg producers. Higher feed prices have therefore put pressure on margins. After rising for a number of years, poultry production declined in 2018. Price levels for eggs and chicken remain higher in Sweden than in the rest of the EU. Demand for poultry and eggs is expected to remain stable, but margins will continue to be under pressure from relatively high feed prices over the next few years.

Forestry was also affected by the summer's drought. Several forest fires broke out. In some cases, new plantings were damaged or did not take place due to the drought. The drought has also resulted in greater infestations of the eight-dentated bark beetle, which is expected to continue in 2019.



A healthy economy with strong demand in Europe and Sweden has resulted in increased prices for pulp wood and timber. It has prompted forest owners to increase harvesting notifications. This summer's fires also led to an increase in those planning harvests.

Both the forest industry and forest owners were optimistic about short-term market trends.

### Price trend for agricultural properties

Forest and agricultural properties are still seen as stable, long-term investments. While the official data shows a stable price trend for agricultural properties in 2018, it also shows that it has slowed year-on-year. However, differences are considerable between various types of properties and between regions, with differences being noted for arable land and forest properties. Prices for arable land declined by an average of 4 percent across the country according to LRF Konsult. The downturn in prices was mainly in the south of the country. LRF Konsult also reported higher prices for forest properties in 2018. For the country as a whole, the increase was barely 3 percent, but the north recorded falling prices for forest land.

### Financial market with reduced monetary policy stimuli

In 2018, the reduction in monetary policy stimuli had a notable impact on the financial markets with interest rate hikes and reduced bond purchases by the central banks. Increasing market fear of a recession in the wake of trade conflicts and interest rate hikes has also been a clear trend. Furthermore, in a number of European countries, political conditions have also been a cause of some concern in the financial markets.

### Strong US economy

The US economy has remained strong with support from tax cuts and an extremely robust labour market. Initially, the trade conflict positively affected demand for domestically produced goods as imported goods became more expensive, which also benefited growth. Unemployment is down at 1960s levels, but this was only visible in the pay envelopes toward the end of the year. Salary increases reached 3.4 percent, and are therefore at levels historically considered as inflationary.

The US central bank raised its interest rate by 25 basis points on four occasions during the year. Moreover, the central bank also started reducing its balance sheet, thereby further tightening monetary policy during the year. Despite the above, long-term interest rates closed the year lower than they started. This is a clear sign of how concerns about the economy have characterised the market. Another sign was provided by stock indices in the fourth quarter. The Dow Jones index posted its all time high on 3 October, only to decline 13 percent by the end of the year.

### Economic boom slows down in Europe

The year started optimistically in Europe with strong forward-looking indicators that pointed toward continued strength in the economy. However, this optimism did not deliver and growth slowed gradually during the year. Political developments likely had some impact. The difficulties experienced with forming governments in Germany and Italy, which were followed by budget problems in Italy and France, dampened optimism. In addition, the Brexit negotiations led to the market adopting a wait-and-see policy for the entire year.

Despite the clear slowdown, the ECB stood by its decision to reduce the monetary policy stimuli. From year end, it has stopped its net purchases of bonds and held firm with the forecast of an initial rate hike after summer 2019. Inflation dropped back to 1.6 percent in December, from 2.2 percent as recently as October.

### High activity in the Swedish economy despite dampening effects

In Sweden, the economy remained strong in the first half of the year before slowing down in the second half of the year. Third quarter GDP recorded negative growth of 0.2 percent. A clear downturn in housing construction following concerns in autumn 2017 and weaker private consumption were the main reasons behind the slowdown. The house price trend followed two different directions. Prices fell in Stockholm and Gothenburg and the surrounding municipalities; moreover, a weak downward price trend was recorded for the counties adjacent to Stockholm. In the rest of the country, the trend differed and house prices remained unchanged or rose. Over the last 12 months, house prices were unchanged for the country as a whole due to 50 percent of the total sales value being attributable to one of the three major metropolitan areas. Sales reached a peak in 2018 with nearly 54,000 houses sold. However, this can be related to the total number of villas of about 2 million. Average mortgage interest rates declined during the year as a result of increased competition for customers. New entrants have established themselves and are applying pressure on the margins of traditional providers. However, the mortgage market remains dominated by the major banks with about three quarters of the market, although they only accounted for 50 percent of new lending in 2018.

In December, high employment levels alongside increased cost pressure led the Riksbank to announce the first repo rate hike in seven years. At the same time, the Riksbank's forecast indicates a slower rate of increase than previously signalled. Inflation forecasts have been revised downwards slightly for the next few years. The Riksbank's announcement prompted short-term market rates to rise, while long-term rates fell slightly. The delay in forming a government following the autumn elections has had no major impact on the financial markets. Swedish budgetary discipline is firmly rooted and a large majority in the Riksdag backs the goal of keeping a balanced budget over an economic cycle.





# Administration Report

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# Administration Report

Landshypotek Bank's earnings remained strong for 2018. Earnings improved due to such factors as a year-on-year higher net result of financial transactions. Net interest income remained stable as a result of the steadily increasing lending volume and lower funding costs. Credit losses continued to be very low.

## Operating profit

Group, SEK million	2018	2017
Net interest income	799.0	800.4
Other operating income	22.5	-46.2
Of which net result of financial transactions	17.3	-48.1
Costs	-425.8	-402.5
C/I ratio including financial transactions	0.52	0.53
C/I ratio excluding financial transactions	0.53	0.50
Net recognised credit losses	-8.0	-12.5
Credit loss level, %	0.01	0.02
Operating profit	387.6	339.2
Operating profit excluding the net result of financial transactions	370.4	387.3

## Financial report

The Group's operating profit amounted to SEK 387.6 million (339.2), up SEK 48.4 million compared with last year. The improvement in earnings was primarily attributable to an increase in the net result of financial transactions.

Excluding the net result of financial transactions, operating profit amounted to SEK 370.4 million (387.3), down SEK 16.9 million. However, higher net interest income in 2017 was mainly attributable to a change in the accounting treatment of doubtful interest payments, which resulted in a nonrecurring item of SEK 27.0 million. Excluding this nonrecurring item, operating profit excluding the net result of financial transactions increased SEK 10.1 million.

### Net interest income and volumes

Net interest income totalled SEK 799.0 million (800.4) and interest income amounted to SEK 1,229.4 million (1,295.8).

Interest expenses amounted to SEK 430.4 million (495.5), down SEK 65.1 million year-on-year. The new financing was conducted at lower interest rates than the previous financing that matured.

Interest expenses included fees to the Swedish National Debt Office's resolution fund of SEK 74.8 million (56.9), up SEK 17.9 million. After excluding the resolution fee and the above nonrecurring item from 2017, underlying net interest income actually improved SEK 43.5 million.

### Other operating income

Other operating income amounted to SEK 22.5 million (loss: 46.2), up SEK 68.7 million compared with the year-earlier period. The improvement was due to an increase of SEK 65.4 million in the net result of financial transactions to SEK 17.3 million (loss: 48.1). This amount, comprised an unrealised gain of SEK 9.5 million and a realised gain of SEK 7.8 million.

From 1 January 2018, Landshypotek Bank applies IFRS 9 for hedge accounting for borrowing in a foreign currency. This means that the change in value of the basis spreads in the cross-currency interest-rate swaps used as hedging instruments are recognised in other comprehensive income. This leads to less volatility in the net result of financial transactions.

### Costs

Costs amounted to SEK 425.8 million (402.5), up SEK 23.3 million year-on-year, but still in line with the bank's plans. Employee numbers grew during 2018, to administer the bank's growth and to continue strengthening the bank as a whole. Year-on-year, business development activities were also higher.

### Credit losses and credit-impaired assets

Landshypotek Bank has applied IFRS 9 from 1 January 2018, which means credit losses are recognised for both non-credit-impaired assets (stages 1 and 2) and credit-impaired assets (stage 3). See notes 10 and 14 for further information.





Net credit losses amounted to recoveries of SEK 8.0 million (12.5), of which net credit losses for non-credit-impaired assets had a positive earnings impact of SEK 13.0 million and credit-impaired assets had a negative earnings impact of SEK 21.0 million that was attributable to a few individual commitments. Credit losses arising from credit-impaired assets comprised the net change in the credit loss allowance and confirmed losses during the period with a negative earnings impact of SEK 26.8 million, together with recoveries of previously confirmed losses with a positive earnings impact of SEK 5.8 million.

The total credit loss allowance for non-credit-impaired assets amounted to SEK 27.0 million.

Gross credit-impaired assets amounted to SEK 525.8 million and the credit loss allowance to SEK 56.1 million. The provisions for credit-impaired assets pertained to individual commitments within varying types of farming and geographic locations.

#### **Other comprehensive income**

Other comprehensive income amounted to an expense of SEK 39.6 million (income: 11.4). Financial assets at fair value and cross-currency basis spreads in fair value hedges had a net negative impact of SEK 43.6 million on other comprehensive income. Actuarial gains and losses in defined-benefit pensions amounted to a net gain of SEK 4.0 million (loss: 11.6).

## **Financial structure**

### **Assets**

The largest asset item in the balance sheet is loans to the public, which amounted to SEK 72.5 billion (68.5). Loans to the public increased SEK 4.0 billion over the year and the largest part of the increase was attributable to the new mortgage operations. More information about Landshypotek Bank's loans to the public can be found in Note 14.

Landshypotek Bank's liquidity portfolio totalled SEK 11.0 billion (13.4). 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 2.9 (1.5) times larger than refinancing requirements for the next six months. The ratio is affected by the allocation of maturing debt for longer than six months and can, therefore, change between measurement periods.

Landshypotek Bank uses derivatives for the purpose of managing the difference in terms of fixed interest and currency risks between assets and liabilities. The market value of the Group's holding of derivatives contracts with positive market values amounted to SEK 1.3 billion (1.5). The nominal value of the derivative assets totalled SEK 33.3 billion (20.9). More information about Landshypotek Bank's derivative assets can be found in Note 16.

SEK million	Issued 31 December 2018	Limit	Issued 31 December 2017
Swedish commercial paper	–	10,000	–
MTN programme	41,002	60,000	46,368
EMTN programme	16,788	35,476 <sup>1)</sup>	11,700
Registered covered bonds	3,446		3,341
Subordinated loans	1,900		1,900

<sup>1)</sup> EUR 3,500 million

Tangible and intangible assets amounted to SEK 158.2 million (117.2), up SEK 41.1 million over the year. The increase was attributable to capitalised system investments pertaining to the bank's lending business and funding administration.

## 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. During the year, Landshypotek Bank issued a SEK 5.25 billion green covered bond. Investor relations are of major importance as part of ensuring that investors' levels of awareness and interest are maintained in Landshypotek Bank.

Covered bonds are bonds that carry a preferential right in a defined cover pool. Covered bonds outstanding

totalled SEK 51.5 billion (53.8). Assets in the cover pool corresponding to SEK 72.4 billion (71.1) are in place as collateral for these bonds.

Landshypotek Bank has two programmes for issuing covered bonds, a Swedish MTN programme with a limit of SEK 60.0 billion and an international EMTN programme with a limit corresponding to around SEK 35.5 billion. Over the year, registered covered bonds have increased due to changes in the exchange rate, but no new funding has been arranged.

During the year, covered bonds to a total value of approximately SEK 6.2 billion and senior bonds to a value of SEK 5.0 billion were issued. In 2018, bonds matured or were repurchased to a value of SEK 8.2 billion, of which SEK 7.1 billion pertained to covered bonds. The finance market for Nordic banks functioned smoothly over the year and demand for the bank's bonds has been favourable.





Covered bonds are Landshypotek Bank's most important source of funding. Landshypotek Bank's covered bonds have an AAA credit rating from the rating agency Standard & Poor's.

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

The credits in Landshypotek Bank's cover pool have an LTV of 42.6 percent. The LTV or loan-to-value ratio shows loan amounts in relation to the value of the collateral. Accordingly, this means that Landshypotek Bank's customers' loans amount to an average value of 42.6 percent of the value of their properties. Landshypotek Bank has around 42,000 farming and forestry customers as well as mortgages and some 33,000 pledged properties. In many cases, the difference is attributable to more than one individual jointly pledging their shared property. The number of loans amounts to about 99,000.

The market value of the Group's holding of derivatives contracts with positive market values amounted to SEK 0.5 billion (0.7). The nominal value of the derivative liabilities totalled SEK 18.6 billion (33.4). More information about Landshypotek Bank's derivative liabilities can be found in Note 26.

#### Cover pool and covered bonds

##### Cover pool

Loans	SEK 68.6 billion
Supplemental collateral	SEK 3.8 billion

<b>Total cover pool</b>	<b>SEK 72.4 billion</b>
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##### Covered bonds

Issued in SEK	SEK 46.1 billion
Issued in foreign currency	SEK 5.4 billion

<b>Total covered bonds</b>	<b>SEK 51.5 billion</b>
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<b>Excess collateral</b>	40.5%	SEK 20.9 billion
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#### Key ratios, cover pool

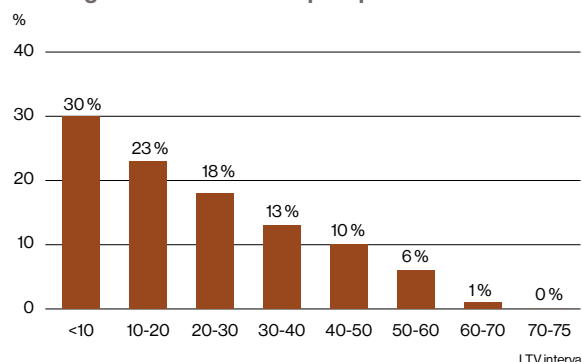
##### LTV — Loan-to-value ratio

Average volume-weighted LTV	42.6%
<b>Number of pledged properties</b>	<b>32,851</b>
<b>Number of borrowers</b>	<b>41,681</b>
<b>Number of loans</b>	<b>98,691</b>

#### Deposits from the public

Deposits from the public totalled SEK 14.1 billion (12.7). Growth totalled SEK 1.4 billion during the year.

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



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

#### Rating

Landshypotek Bank has credit ratings from two different rating agencies, Standard & Poor's and Fitch. In 2018, both Standard & Poor's and Fitch confirmed Landshypotek's ratings of A- and A respectively.

Rating	Long	Short
Standard & Poor's, Covered bonds	AAA	
Standard & Poor's	A-	A-2
Fitch	A	F1

#### Capital and capital adequacy

The total capital ratio for the consolidated situation amounted to 18.4 percent (43.8). The total capital ratio for Landshypotek Bank amounted to 19.4 percent (43.2). The substantial year-on-year reduction in the capital ratio was attributable to the following actions by the bank during the year:

- Implementation of a new IRB approach permission;
- Introduction of the risk-weight floor for the exposure class "Retail – real estate collateral" in Pillar I instead of in Pillar II; and
- Implementation of a more restrictive interpretation of how large a proportion of the 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 internally assessed capital requirement for the consolidated situation was SEK 4.8 billion (5.3). The capital requirement should be compared with own funds for the consolidated situation of SEK 6.2 billion (6.8). Refer to Note 3 for further information.

### Group contributions

Contingent upon the approval of the General Meeting, a Group contribution will be paid by Landshypotek Bank AB in the amount of SEK 157.9 million (170.1) to Landshypotek Ekonomisk Förening.

## Sustainability report pursuant to the Annual Accounts Act

Landshypotek Bank has prepared a sustainability report for the Group pursuant to the Annual Accounts Act. Landshypotek Bank's sustainability report contains information about the company's initiatives and position in terms of sustainable development, customers and the offering, personnel and the work environment, business ethics, anti-corruption and environmental impact.

The sustainability report is available on pages 31–38.

## Proposed appropriation of profits

SEK	
The following unrestricted equity is at the disposal of the Annual General Meeting:	
Retained earnings	1,783,625,006
Group contributions	-157,900,000
Tax effect of Group contribution	34,738,000
Net profit for the year	294,175,004
	<b>1,954,638,010</b>

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

To be carried forward	1,954,638,010
	<b>1,954,638,010</b>

Conditional on the approval of the Annual General Meeting, a Group contribution has been paid in the amount of SEK 157,900,000, which has reduced unrestricted equity as of the balance sheet date by SEK 123,162,000 after taking the tax effect into account. Unrealised changes in the value of assets and liabilities measured at fair value had a net negative impact on equity of SEK 151,547,454.

The Board of Directors is of the opinion that the proposed dividend, in the form of a Group contribution, does not compromise the company's or the Group's ability to discharge its obligations in the short and long term, nor to make any necessary investments. The proposed transfer of value can therefore be justified considering that stated in Chapter 17, Section 3, paragraphs 2–3 of the Swedish Companies Act. The Board of Directors proposes that the year's funds at the disposal of the AGM, SEK 1,954,638,010 be carried forward.

The Board of Directors and CEO hereby certify that the consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and provide a fair representation of the Group's position and performance.

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



# Sustainability Report

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# To promote sustainable development countryside

We enable people to run companies, realise their dreams and to live countryside. Through the strong commitment of our owners, customers, investors and employees, we strive daily to develop our unique bank. We believe in wise, long-term investments that continue over generations. We have been around for more than 180 years and plan to be here for at least as long again.

## The bank's contribution to sustainable development

A living countryside, where fields and forests are cultivated, and thereby create growth and jobs. These are the cornerstones of a well-developed business community and Swedish welfare. The country's sustainable development rests on the conditions for living and working throughout Sweden. Landshypotek Bank uses sound and responsible credit granting to enable rural living and investments in rural enterprise. This lays the foundation for a future for the cities and the countryside. In this way, the bank contributes to sustainable societal development — socially, environmentally and economically.

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

Swedish farms and agriculture maintain high standards for animal husbandry, environmental adjustment and food quality. The use of forests and cultivated land also contributes to biodiversity, nature management and variety in the Swedish countryside.

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

Landshypotek Bank's sustainability efforts also include the bank's other key stakeholders: employees, owners (members) and investors. To be a truly sustainable bank will require that the bank continues to develop all parts of its business and operations.

Due to the ever intensifying focus on these issues, externally, Landshypotek Bank has increased and more clearly structured its sustainability efforts since 2015. The bank is positive to the general increase in awareness and interest in the bank's operating environment.

2015	Landshypotek Bank participates in Finansinspektionen's mapping of environmental and sustainability perspectives in credit granting to companies
2016	<p>Landshypotek Bank participates in sector initiatives in the Swedish Bankers' Association to maintain <i>Sustainability overview for credit granting to companies</i></p> <p>The CEO of Landshypotek Bank appoints a Chief Sustainability Officer who is included in the bank's Management Group</p>
2017	Landshypotek Bank's first <i>Sustainability overview</i> is published
2018	<p>Sustainability analysis instruction updated</p> <p>The sustainability report is prepared and published for the first time</p> <p>The bank's green framework is prepared and published</p> <p>Landshypotek Bank issues a green covered bond</p> <p>Landshypotek Bank participates in Finansinspektionen's mapping of environmental and sustainability perspectives in credit granting to companies</p>

## Sweden's member-owned bank

Farming and forestry borrowers become members of Landshypotek Ekonomisk Förening and, thereby, owners of Landshypotek Bank. With some 39,000 members, the association is one of the country's largest cooperative associations.

The association's sole purpose is to benefit its customers and members. The owner directive sets out that Landshypotek Bank is to promote the members' financial interests by offering competitive financing for farming and forestry.

The ownership form is one of the bank's strengths. As loan customers are also the bank's owners, this creates commitment, shared responsibility and a long-term approach. The bank's profits are redistributed back to the members and to agriculture and forestry, or are used to develop operations at the bank. Landshypotek Bank believes this is part of modern, progressive business practices.

Read more about Landshypotek Ekonomisk Förening in the association's annual report.



## Customers and the offering

### Landshypotek Bank's customers

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

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

### Landshypotek Bank's strength

Landshypotek Bank's strength is its close links to the farming and forestry industries. The bank's account managers at offices around the country often have backgrounds in agriculture and forestry, and banking and financing expertise. Moreover, the organisation is small and decentralised, which enables close customer relationships with short decision paths. Together with its elected representatives, Landshypotek Ekonomisk Förening maintains an extremely strong presence, competence and commitment across the company.

### Sound and sustainable lending

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

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

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

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

### Credit appraisal including sustainability analysis

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

### Impact on key issues

During the year, the bank has engaged itself in discussions pertaining to ownership rights. The legal situation in combination with actions of the authorities has created uncertainty regarding the ownership and cultivation of farms and forests. This gives rise to uncertainty in terms of the bank's assessment of the value of forest properties, which has consequences for individuals in terms of their ability to live and operate companies countrywide. Landshypotek Bank continues to monitor discussions with the aim of safeguarding the long-term security of the bank's owners and customers.

### Investments

The bank's liquidity reserve comprises interest-bearing securities, either covered bonds with the highest credit ratings issued by Nordic credit institutions or securities issued by Swedish municipalities or county councils. Therefore, the bank's assessment is that there are no material non-financial risks linked to the bank's investment activities.

### Greener funding

In 2018, Landshypotek Bank prepared a green framework for issuing green bonds. The aim is to promote a more sustainable financial market as well as to meet demand from the bank's investors. The bank's green framework is based on sustainable forestry practices, renewable energy and energy-efficient buildings. The framework is aligned with the Green Bond Principles



*Landshypotek Bank's Green Bond Framework, together with the bank's policies, provide a sound base for climate-friendly investments. Landshypotek Bank's Green Bond Framework is in line with the recommendations of the Green Bond Principles. The framework lists eligible projects that support the transition to low carbon, climate-resilient growth and a sustainable economy."*

CICERO's Second Opinion on Landshypotek Banks's Green Bond Framework (19 April 2018).

prepared by the International Capital Market Association. The Center for International Climate and Environmental Research – Oslo (CICERO) provided the bank with an independent assessment of the green framework together with its accompanying policies and processes to thereby assess the projects' environmental impact. CICERO's assessment of the project types, policies, goals and reporting standards resulted in the bank's framework being awarded a rating of Dark Green. In May 2018, the bank issued its first green covered bond under the green framework and the funds raised through the bond were used to finance sustainable forestry.

## Employees working for all of Sweden

Landshypotek Bank comprises around 190 employees at 19 offices. Many of the bank's account managers, the bank's customer-facing front office, have backgrounds in agronomy, forestry or agrology in addition to their banking expertise. The bank's account managers who work with mortgage loans have SwedSec licences. The bank is also increasingly attracting staff from the banking and finance sector. Together, the bank's staff work to promote a richer life countrywide.

### Employeeship our way

Landshypotek Bank's foremost assets are its employees, culture and commitment. All of the employees have participated in creating the bank's employee values (read more about these on page 48). The employees are also the bank's main brand carrier; the aim is for all employees to enjoy their daily work and feel motivated by, and pride in, their employer.

An employee survey on discrimination was conducted during the year. The results found that the majority (96 percent) perceived themselves as having equal rights and opportunities at work, up slightly on the preceding year (91 percent). The findings and observations from the survey are being processed by management with the aim of identifying improvement areas and to take appropriate actions.

### Small bank — Huge commitment

Each employee accounts for around half a percent of the bank, which means that each individual's commitment is highly important. Employees are involved in numerous projects and are part of how the bank is run. This is notable in the strategy and planning processes. Over the year, the entire bank has gathered on two occasions to discuss the bank's transition and to make new contacts within the bank.

### Skills and development

The bank thinks widely in terms of personnel skills and development. All managers have regular dialogues with their personnel to jointly manage and develop the work group's and the individual's tasks, and to build and broaden the employee's skills in the long term. The dialogues are based on the bank's employee values. Beside development in their current roles, this could include participating in different projects, holding courses for colleagues, swapping departments for a period or studying for a formal qualification. The bank has a standing range of courses available, some of which are obligatory, for example, credit training for the bank's account managers as well as annual anti-money laundering training for all. In 2018, all employees underwent the new, mandatory GDPR training program. Refer to the following table for the results.

	No. of employees who underwent training	
	2018	2017
Business law	14	12
GDPR training (new)	All	–
Credit training	75	72
Anti-money laundering training (annual)	All	All
SwedSec licencing (employees with active licences)	52	26
Advanced credit training	51	35
Valuation training (new)	77	–

### Rights and conditions at work

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

Several factors contribute to the bank's shared environment and to everyone's performance and well-being.





Each manager and employee contribute on a daily basis in their manner and behaviour to creating and developing a positive working climate. In addition, there is a Work Environment Council tasked with promoting a good work environment and following up the bank's work environment efforts. The Council comprises employer and union representatives, health and safety representatives, and the bank's Risk Manager. Employees also have access to generous wellness subsidies and health checks.

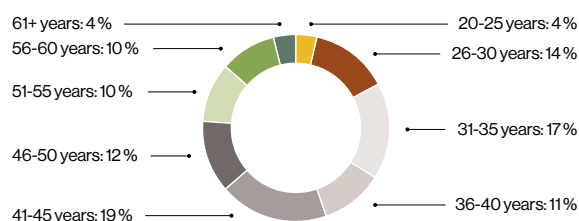
The bank believes that egalitarian and diverse groups improve work and performance. The bank prioritises creating space for different perspectives, evening out gender, age and experience distribution of misaligned working groups and ensuring that no one is discriminated against or mistreated in other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

The bank has a broad age distribution, with the most common age interval among the bank's employees being 41–45. One in five employees are in this interval, and the youngest and oldest intervals (20–25 and 61+) are the most unusual. Barely one in ten are in these intervals.



The distribution between women and men is even in most groupings. At 31 December 2018, the distribution between men and women was 50/50, 40/60 among managers, 33/67 in the management and 50/50 on the Board.

#### Age distribution



### Business ethics and anti-corruption

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

#### Acting ethically and correctly

Respect for human rights is essential for the conduct of sound and sustainable enterprise and something that the bank always adheres to in its own operations and



in relation to customers, suppliers or other business partners. Given the operations of the bank and the bank's requirements of suppliers and business partners, the bank's assessment is that there are no significant risks linked to human rights.

Acting correctly and objectively is of great importance in all of the bank's business dealings. The bank's and the employees' extensive commitments in agriculture and forestry are a strength but also entail risks. For this reason, a structured process is in place to approve and follow up ancillary activities. Should a risk of a conflict of interest arise, the case must be transferred to another colleague. Employees' ancillary activities are followed up annually.

#### **Prevention of financial crime**

Money laundering and terrorism financing comprise serious threats to society in Sweden and the rest of the world. The bank does not tolerate and does not participate in money laundering or terrorism financing. The bank takes all reasonable measures to prevent the bank being used for money laundering or terrorism financing. The Board and CEO are ultimately responsible for the bank's operations taking the necessary precautions to prevent money laundering or terrorism financing, for the bank's internal rules complying with external regulatory requirements and that said rules are appropriate, well implemented and complied with in operations. As part of its organisation to prevent money laundering and terrorism financing, the bank has created the following roles: Designated Supervisor, Central Function Manager, AML Manager and Independent Auditor. Read more

about Landshypotek Bank's risks and risk management in Note 2.

#### **Policy and administration**

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

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

Business ethics are included in various employee training courses, including induction training for new employees. Moreover, all new employees have a regulatory dialogue with the bank's compliance function.

If employees are unsure about how to apply the ethics policy, the first resort is to contact their immediate manager.

The bank's compliance function can also provide advice and support. Finally, the bank has a whistle-blower process. Anyone who suspects serious misconduct can contact the compliance function anonymously.

Landshypotek Bank also has an incident reporting system for deviations from internal or external requirements and rules.



### Suppliers and business partners

The Bank has mainly outsourced activities in terms of IT. In support of the bank's outsourcing, procurement and monitoring, the bank has a number of policy documents that set requirements for the bank's outsourcing agreements. The bank is also subject to Finansinspektionen's requirements for outsourcing agreements as defined in FFFS 2014:1. The bank monitors suppliers on an ongoing basis, which also encompasses an ESG perspective.

### GDPR and data protection officer

The General Data Protection Regulation (GDPR) was introduced during the year. Under the GDPR, an organisation is required to appoint a data protection officer if its core business entails particular forms of data processing and if that processing is conducted on a large scale. The bank has appointed a data protection officer tasked with supporting the bank's operations and registered individuals with data protection issues. The data protection officer verifies the bank's internal compliance with the GDPR by: gathering information about how the organisation processes personal data, verifying compliance with the rules and internal control documents, and by informing and advising the organisation. The data protection officer also acts as the contact for registered individuals with regard to the bank's processing of personal data and for the Swedish Data Protection Authority with regard to inquiries and inspection of the operations.

### Environment

Landshypotek Bank's main environmental impact is at customer level. The bank's core business is the financing of Sweden's agricultural and forestry sector. Many of the bank's core customers, run operations that affect and are affected by the climate and the environment. Climate change can have a direct and indirect impact on our customers' operations and, thus, also on the bank's credit risk. For 2018, the bank has not analysed any climate scenarios since, in the bank's assessment is important that the market as a whole prepares relevant standards and models that highlight the risks scientifically and adequately for the operations conducted by the bank. The bank therefore participates in working groups as part of, inter alia, the Swedish Bankers' Association where the issues are discussed between the Swedish banks and other industry stakeholders.

Since the bank's core customers operate in farming and forestry, the customers' impact on the environment can be both positive and negative. Farming and forestry reduces carbon dioxide in the atmosphere, and contributes to biodiversity, renewable raw materials and food. This requires inputs that may negatively impact the

environment, such as from nitrogen leaching from fields, ammonia from fertilisers and pesticides in food production. Accordingly, the bank carries out sustainability analyses to identify environmental risks in its customer credit appraisals, see above.

Moreover, Landshypotek Bank focuses on growth through digital channels. From an environmental perspective, this is positive at the same time as it is an effective approach for meeting customers' changing requirements and expectations. The bank's savings offering is digital and, since 2017, the bank also offers homeowner mortgages using a fully digital loan application.

### Limited own environmental impact

Landshypotek Bank's direct environmental impact is limited and arises mainly from the bank's premises and business travel. As the bank's customers and its 19 offices are spread across Sweden, a considerable amount of travel is required by operations. Telephone and video are the first choice for meetings and internal communication. The bank's travel guidelines include taking the environment into consideration. Overall, the bank prioritises rail travel, but many of the customers can only be reached by car. In 2018, source separation of waste became a natural part of the office environment.

### Next step

At the end of 2018, the bank conducted a stakeholder analysis, whereby stakeholder target groups including the Board, customers/owners, investors, suppliers and employees were given the opportunity to rank 17 areas in a stakeholder survey of sustainability topics. The respondents were to prioritise the 5 most important of these 17 areas for the bank to work with achieving. The three areas with the highest response rates and thus deemed most important for the bank were: responsible credit granting; a healthy corporate culture and sound values; profitability and creating the prerequisites for growth. The bank will incorporate these findings in the 2019 financial year and they will be included in the bank's continued sustainability work to meet our stakeholders requirements and expectations.

The banks also plans to prepare a supplier code of conduct in 2019. Furthermore, the bank will more closely analyse how the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations can be applied by the bank in future reporting.

In 2019, the bank will continue internal efforts to develop the bank's sustainability analysis in the credit-granting process through actions, including mapping the credit portfolio to showcase its climate impact. This can then be used as a basis for forthcoming climate scenarios.



## Policies and governance documents

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

### Overarching

- Sustainability Policy

### General corporate governance and ethics

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

### Healthy credit granting and transactions

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

### Work environment, employee commitment and societal responsibility

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

## Implementation

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

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

Landshypotek Bank's risk and compliance forum comprises representatives from the bank's business operations and individuals with process responsibility in terms of money laundering and the financing of terrorism, as well as borrowing and lending. The forum is an initial contact point for risk and compliance issues. It drives and supports the update and implementation of applicable policy documents.

## Organisation

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



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# Corporate Governance Report

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

## Foundation for corporate governance at Landshypotek Bank

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

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

## Deviations from the Swedish Corporate Governance Code

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

### *General Meeting*

#### *Code rule 1.1*

There is no publication on the website of information pertaining to general meetings of shareholders and shareholders' right to propose business at the general meetings. The aim of this rule is to provide shareholders with the opportunity to prepare themselves in a timely fashion ahead of the Annual General Meeting and to have business taken up in the notification thereof as well as enable shareholders to partake of the information. A deviation is made as the bank has only one shareholder.

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

#### *Code rules 2.3–2.6*

Instead of following the Code's rules governing Board appointments, nomination issues are prepared pursuant

to an instruction for the Election Committee adopted by the General Meeting. The aim of these rules is to provide all shareholders with, among other things, insight into the nomination process and to prevent major shareholders gaining sole influence over nominations. A deviation is made as the bank has only one shareholder.

### *Board procedures*

#### *Code rule 7.3*

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

## Owners' control

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

### *Owner directive*

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

### *Articles of Association*

The Articles of Association is the fundamental document that defines the framework for the Bank's activities. The Articles of Association contain provisions on the minimum and maximum number of Board members and that the Board members and Chairman of the Board be appointed by the General Meeting. Moreover, no provisions exist governing the appointment or removal of Board members. Any amendment of the Articles of Association requires notification to be issued at the earliest six weeks and at the latest four weeks before the General Meeting that will examine the proposed amendment. Landshypotek Bank has only one shareholder and no limitations apply to the number of votes the shareholder may cast at the General Meeting.

### *Annual General Meeting 2018*

The Annual General Meeting of Landshypotek Bank was held on 19 April 2018. Henrik Toll, Chairman of the bank was the Annual General Meeting's Chairman.



The owner was represented by Per-Olof Hilmér, Chairman of Landshypotek Ekonomisk Förening. The AGM was attended by the majority of the bank's and the association's Board members, the CEO, auditors and members of the Election Committee. The General Meeting elected the Board, Election Committee and auditors for the period until the next AGM. The General Meeting re-elected the following Board members: Anna-Karin Celsing, Hans Heuman, Nils-Fredrik Nyblæus, Henrik Toll, Johan Trolle-Löwen, Synnöve Trygg and Charlotte Önnestedt. At the AGM, Hans Broberg, with Petra Nilsson as deputy, and Helena Andersson, with Anders Nilsson as deputy, were designated as the employee representatives. Henrik Toll was re-elected Chairman of the Board. Furthermore, the authorised auditing firm Öhrlings PricewaterhouseCoopers AB (PwC) was re-elected as auditors. Authorised Public Accountant Helena Kaiser de Carolis was elected Auditor in Charge. The AGM resolved to discharge the Board of Directors and the CEO from liability. Furthermore, resolutions were passed on fees, appropriation of profits and adoption of the annual accounts for 2017. The CEO and Board of Directors presented the work performed in the company and on the company's Board during the year. The Election Committee presented its work during the year and its assessment of the eligibility of Board members on an individual basis as well as collectively. The General Meeting did not authorise the Board of Directors to issue new shares or buy back the company's shares.

### Extraordinary General Meeting

On 30 October 2018, an EGM was held at which Ann Krumlinde Hyléen was elected to the Board.

### Election Committee

The Election Committee is tasked with preparing election and remuneration issues ahead of the next AGM. The Election Committee follows the instruction established for the Committee and the adopted policy regarding Board diversity and for assessing the eligibility of Board members. The 2018 AGM resolved that the Election Committee should comprise: Per-Olof Hilmér, Lars-Johan Merin and Ann-Britt Karlsson. Per-Olof Hilmér represents the owner in his capacity as Chairman of Landshypotek Ekonomisk Förening.

### External auditors

The AGM appoints external auditors to Landshypotek Bank. These auditors must be authorised public accountants. The mandate period of the auditors appointed by the General Meeting is one year. The auditors are responsible for examining the Annual Report, consolidated financial statements and accounts and also the Board's and CEO's administration of the bank. The auditors report the results

of their examination in the auditor's report, which is submitted at the AGM. Furthermore, the auditors examine one of the bank's interim reports and the year-end report, and submit their findings in their notes to the Audit Committee and the Board. To ensure the independence of the external auditor with regard to the audit of the Bank and the Bank's financial statements, the Board has established a policy governing the independence of the external auditor. Fees to the bank's auditors are reported in Note 7.

## Board of Directors

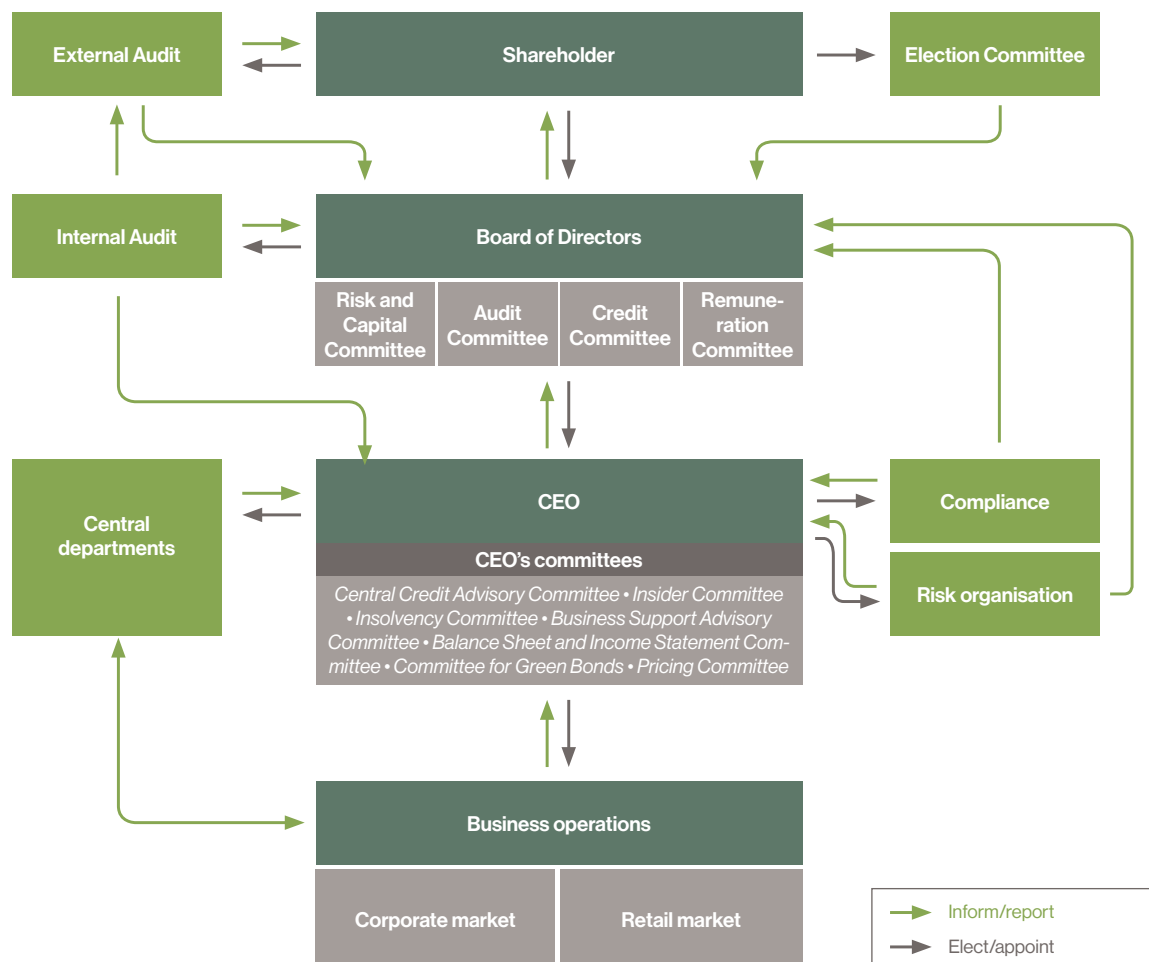
The Board's members are elected by the General Meeting from proposals made by the Election Committee. The Board is responsible for the organisation and administration of the bank affairs.

### The Board's composition and eligibility

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

The Board comprises ten individuals, of which eight were elected at the AGM and two employee representatives – five women and five men. Seven of the Board members are independent in relation to the company and the management of the company. One member is also a Board member of the cooperative association. All of the Board members have extensive experience from trade and industry and/or agriculture and forestry. The composition of the Board ensures that the Board understands the overall picture of the bank's operations and the associated risks. None of the Board members or the CEO hold shares or financial instruments issued by the bank. Through their own or their related parties' membership of Landshypotek Ekonomisk Förening,

## Corporate governance



four of the Board members and the CEO have member contributions in the cooperative association.

## The Board's responsibilities and its procedures

The Board is responsible for the organisation and administration of the bank's affairs. Among other tasks, the Board should also decide issues regarding the bank's overriding goals and strategies, its risk appetite and risk strategy, the internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP), and decide other matters of greater strategic and financial significance. The Board also decides over the bank's business plan and budget, and follows up the bank's performance in relation to these on an ongoing basis. The Board is also tasked with ensuring that internal rules are in place for effective governance and control of the bank, and that a framework for risk management exists that ensures the

bank's management and follow up of risks is satisfactory. The Board is also to perform regular evaluations of whether the bank controls and manages its risks in an efficient and appropriate manner, and ensure the bank complies with the rules applicable for licensable operations. The Board also appoints, evaluates and, if the need arises, dismisses the CEO.

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



to conduct Board work efficiently and check that the Board's decisions are applied efficiently.

The Board's work follows the formal work plan and annual plan adopted at the statutory Board meeting. In 2018, the Board had ten scheduled Board meetings.

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

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

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

Following the statutory meeting in 2018, the members of the Credit Committee were as follows: Henrik Toll (Chairman) and Nils-Fredrik Nyblæus, with Johan Trolle-Löwen and Charlotte Önnestedt as deputies. Credit analysts, the Insolvency Manager or another specially appointed executive presents agenda items. The Credit

Committee takes weekly credit decisions and, in addition, held eight scheduled meetings in 2018.

#### *The Board's Risk and Capital Committee*

The principal task of the Risk and Capital Committee is to prepare items for the Board and, through liaison with internal functions to provide the Board with information about and prepare internal rules, and to monitor, analyse and prioritise risk and capital-related issues.

Following the statutory meeting in 2018, the members of the Committee were as follows: Henrik Toll (Chairman), Anna-Karin Celsing, Hans Heuman and Synnöve Trygg. The Chief Risk Officer or another specially appointed executive presents agenda items. The Committee held six meetings in 2018.

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

The Committee's primary tasks are to be responsible for preparing the Board's work with quality assurance of the financial reporting and to receive the reports from the auditors. In addition, the Committee monitors and reviews the work of internal and external auditors. The Committee meets in conjunction with external financial reports and, otherwise, whenever necessary.

Following the statutory meeting in 2018, the members of the Committee were as follows: Anna-Karin Celsing (Chairman), Nils-Fredrik Nyblæus, Johan Trolle-Löwen and Charlotte Önnestedt. The Chief Financial Officer or another specially appointed executive presents agenda items. The Committee held six meetings in 2018.

### **Board attendance 2018**

Board member	Board meetings	Credit Committee	Risk and Capital Committee	Audit Committee	Remuneration Committee
Henrik Toll	10/10	8/8	5/6		2/2
Anna-Karin Celsing	10/10		6/6	6/6	2/2
Hans Heuman	10/10		6/6		2/2
Ann Krumlinde Hyléen <sup>1)</sup>	1/10				
Johan Trolle-Löwen	10/10			6/6	
Nils-Fredrik Nyblæus	10/10	8/8		6/6	
Synnöve Trygg	9/10		5/6		1/2
Charlotte Önnestedt	10/10			6/6	
Helena Andersson <sup>2)</sup>	9/10				
Hans Broberg	10/10				

<sup>1)</sup> Elected to the Board at the General Meeting of Landshypotek Bank's on 30 October 2018.

<sup>2)</sup> Irene Nordkvist acted as deputy at meeting number 2/2018, 12 March 2018.

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

The main task of the Committee is to act in an advisory role to the Board on issues pertaining to remuneration at the bank. The Committee prepares Board issues regarding the remuneration policy and the overall risk analysis for the company pertaining to the remuneration system.

Following the statutory meeting in 2018, the members of the Remuneration Committee were as follows: Henrik Toll (Chairman), Anna-Karin Celsing, Hans Heuman and Synnöve Trygg. The CEO, HR Manager or other party appointed by the Committee presents agenda items and is responsible for preparing an agenda in consultation with the Chairman for each meeting. The Committee held two meetings in 2018.

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

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

## **Internal control and risk management**

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

The basis for the internal governance and control at Landshypotek Bank consists of the bank's control environment in the form of the organisational structure, decision and reporting pathways, authorities and responsibility. The framework for conducting operations is established through internal policies, guidelines and instructions. Day-to-day operations are tasked with complying with these. The business operations are also responsible for their own risk management and for conducting self-evaluations of their operations. The bank strives to ensure that all operations apply a sound risk culture.

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

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

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

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

The risk organisation and compliance are independent control functions and comprise the second line of defence. These functions monitor the business areas' risk management and regulatory compliance. The second line of defence maintains policies and frameworks for the first line of defence's risk management and validates the first line's methods and models for risk measurement and control.

#### *Risk organisation*

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

#### *Compliance*

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

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

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

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





operational goals. This includes, not least, the evaluation of the effectiveness of the risk management efforts and the work of the control function. The internal audit review initiatives are conducted pursuant to a policy decided by the Board that describes its responsibilities and an annual plan. During 2018, the bank's internal audit was carried out by Deloitte AB.

#### Internal control over financial reporting

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

external regulations for reporting and capital adequacy. Furthermore, Internal Audit is tasked with examining and evaluating the reliability of the financial reporting.

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

#### Remuneration system

The Board has set out the principles for the remuneration system that encompasses all employees at the bank in the remuneration policy. The remuneration policy is aimed at ensuring that the bank has a remuneration system that counters any incentive to accept unsound risks or act with a short-term perspective. The remuneration system should apply market terms, be non-discriminatory and reward good performance as well as ensure that the employees' efforts align with the bank's strategies and policies. Special weighting should be given toward a sound level of risk. The base employee remuneration model consists of a fixed basic salary. The bank has no variable remuneration program. However, the bank

does have a profit-sharing foundation to which the bank allocates part of its profits to benefit its employees. Profit sharing is based on long-term company-wide targets in accordance with targets and the guidelines established by the Board. Variable remuneration in the form of a bonus can, in individual cases, be paid in arrears to reward exceptional performances. The bank is restrictive with benefits over and above those offered to all employees. Remuneration to the CEO, Bank Management and the managers of the control functions is set by the Board. The principle applied for other employees is that decisions on remuneration are always made by the manager together with the manager's immediate superior and the HR Manager. Fixed remuneration is reviewed each year as part of the salary review and, each year, the bank conducts an employee salary survey. Information regarding the remuneration to the Board, the CEO and the Bank Management is presented in Note 7.

## CEO

The CEO is appointed by the Board and is responsible for the administration of the day-to-day operations. Among other tasks, the CEO must monitor the bank's operational and performance trends, and take ongoing decisions regarding the operations, development and control of the business. The CEO is responsible for operational compliance with the internal policies and strategies established by the Board for the bank. The CEO must review and assess the efficiency of the company's organisational structure, procedures, measures, methods and the like decided by the bank, and take appropriate measures to correct any inadequacies with the aforementioned. The CEO also evaluates whether the bank controls and manages its risks in an efficient and appropriate manner. The CEO reports to the Board on an ongoing basis liaises closely with the Chairman. The Board has adopted a written instruction governing the role and work of the CEO. The instruction is a complement to the provisions in the Swedish Companies Act and the bank's Articles of Association. To ensure that the CEO has a good knowledge and understanding of the bank's organisation structure and processes, the bank's operations as well as the nature and scope of the bank's risks, the Board conducts an eligibility assessment of the CEO and evaluates the CEO's performance each year. The evaluation for 2018 will not be conducted until 2019 as the CEO joined the bank in March and therefore has not held the position for a full financial year.

### The Bank Management and committees

The Bank Management supports the CEO in his role with the implementation of the guidelines and instructions decided by the Board and with the day-to-day

operations. The Bank Management has no decision mandate and all decisions are taken by the CEO.

The collective expertise of the Bank Management should contribute to the CEO making good and well-balanced decisions. The Bank Management must ensure that the bank's employees are guided toward the shared goals and contribute to the fulfilment of the bank's strategy.

In addition to the CEO, the following positions are included in the Bank Management: Chief Legal Officer, Chief Financial Officer, Head of Corporates, Head of Retail, HR Manager, Chief Sustainability Officer, Chief Communications Officer, Chief Operations Officer and the Chief Risk Officer.

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

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

## Business

### Business operations

An organisational change was implemented during the year, whereby the business operations were merged to achieve more efficient control and development of the bank's two business areas — the corporate market and the retail market. Each business area manager reports directly to the CEO and has full responsibility for all risks and the operational performance of the entire business area.

The operations include 14 separately appointed risk and compliance managers. These individuals are all tasked with comprising a link between the bank's control functions and its operations, consulting on the preparation of new policies, assisting with the implementation of new regulatory frameworks and participating in new training initiatives. The bank's process managers for countering money laundering and financing terrorism as well as borrowing and lending also participate in the forum.

Each new employee must take part in a regulatory dialogue and receive information about the bank's policies during induction training. Continuously training the

employees comprises another key part of the internal control of operations. The bank has a training programme that is adapted to the respective professional roles. During the year, many employees completed the new SwedSec licence for mortgage loans due to the bank's new business area.

#### Central departments

The bank has a number of staff functions with the primary task of supporting the CEO and business activities.

A number of new policies and follow-up methods were added or updated during the year to support business activities. All of the policies are published on the bank's intranet and are revised according to plan, mainly annually.

Several larger projects were conducted during the year to promote control and follow-up, among other projects, the bank initiated the implementation of the new credit scoring system and a new treasury system. During the year, a new and updated incident reporting system was fully implemented.

### Corporate culture

#### A small bank with a vital mission.

Landshypotek Bank is a unique bank in the Swedish banking market. The bank has a clear assignment for Sweden's farming and forestry sectors and is owned by its farming and forestry loan customers, the bank's objectives, together with the ownership model, are important reasons behind the bank's values-driven organisation and its strong corporate culture.

Active, ongoing efforts are being driven at Landshypotek Bank to develop the bank together with the employees. On a number of occasions in 2018, employees gathered for discussion of the bank's development, in smaller groups and all together. As a small bank with 190 employees, each employee comprises 0.5 percent of the bank and everyone is crucial to the bank's future.

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

### Market disclosures

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





# Employee values

## Customer-centric

- We take responsibility for understanding our customers and developing our business through openness and curiosity, and through asking questions.
- We reflect on the value and the relevance each task has for the customer and the bank.
- We prioritise our activities and ensure that all our actions deliver the highest possible value and relevance for our customers and the bank.
- We keep our promises and strive to complete our task in the best way possible.

## Drive

- We have the courage to drive change.
- We take responsibility for our own work and initiate activities that develop the bank.
- We thereby take responsibility for our own development and the optimal use of our skills.
- We show commitment and inquisitiveness in our actions, by means including suggesting solutions and presenting ideas.
- We act unpretentiously by being open to and leveraging each others' skills.

## Enthusiasm

- We meet each other using open body language.
- We stimulate, leverage ideas and build an open-minded working climate that delivers the preconditions for sharing knowledge.
- We think about how we convey messages and differentiate between the person and the action.
- We give praise and constructive feedback.
- We give each other high fives!

## Together

- We welcome views regarding daily operations to be able to secure improved results.
- We contribute views by acting as sounding boards and through our focus on results and solutions.
- We work together to strengthen creativity and ensure mutual development, and thereby increase value for customers and the bank.



# Leadership values

## Values-driven

- We live by and express our values on a daily basis through our actions, choices and communication.
- We are a bank with a difference, driven to create long-term value for the Swedish countryside. We demonstrate this by securing added value for customers.
- We always show clear commitment to issues affecting the countryside.

## Respectful

- We listen actively to each other.
- We leverage each others' opinions, skills and personalities.
- We create a sense of participation that develops individuals and the organisation.

## Brave

- We demonstrate drive by taking clear, goal-oriented decisions. When necessary, we dare to change previous decisions.
- We delegate responsibility and authorities through trusting our employees.
- We follow up and provide constructive feedback to help each other develop.

## Inspiring

- We clarify the bank's path forward.
- We broaden perspectives by sharing our skills, insights and possibilities.
- We energise, encourage and motivate to leverage employees' inner drive.

## Visible

- We are available and prioritise our leadership roles.
- We attend activities at and outside of the bank.
- We inform about events at the bank.
- We step forward in times of trouble and dare to act as leaders.

# Board members

As of 12 March 2019



**Helena Andersson**

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



**Hans Heuman**

Born: 1952, Tågarp, Director  
Director since: 2013  
Member of the Risk and Capital Committee,  
and the Remuneration Committee.  
Farmer, Reg. Physician, Chairman of AB  
Marsvinsholms Gods AB and AB Gårdstånga  
Nygård, and Vice Chairman of Lantmännens  
Forskningsstiftelse. Director of Landshypotek  
Ekonomisk Förening.



**Hans Broberg**

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



**Ann Krumlinde Hyléen**

Born: 1962, Vadstena, Director  
Director since: 2018  
BSc Economics, Chairman of Bynk AB and  
Moon Bay AB, and Director of Wästgöta  
Finans AB.



**Anna-Karin Celsing**

Born: 1962, Stockholm, Director  
Director since 2014  
Chairman of the Audit Committee and mem-  
ber of the Risk and Capital Committee, and the  
Remuneration Committee.  
MSc. in Business and Economics,  
Chairman of Sveriges Television AB,  
Director of Kungliga Operan AB, Lannebo  
Fonder and OX2 Group AB.



**Nils-Fredrik Nyblæus**

Born: 1951, Nyköping, Director  
Director since: 2011  
Member of the Credit Committee and Audit  
Committee  
MSc. in Business and Economics, Bank  
Director, Vice Chairman of Euroclear Holding  
(Belgium) and Vice Chairman of Euroclear SA  
(Belgium).





**Henrik Toll**

Born: 1954, Sorunda, Chairman  
Director since: 2003  
Chairman of the Credit Committee, Risk and  
Capital Committee, and the Remuneration  
Committee.  
Agrologist, Chairman of Tham Invest AB and  
Fallda AB. Board member of Stora Sundby  
Lantbruks och Fritids AB, Harry Cullbergs  
Fond and Norra Djurgårdsstadens Holding.



**Synnöve Trygg**

Born: 1959, Stockholm, Director  
Director since: 2014  
Member of the Risk and Capital Committee,  
and the Remuneration Committee.  
MSc. in Business and Economics, Director of  
Intrum Justitia AB, Volvo Finans Bank AB and  
Precise Biometrics AB.



**Johan Trolle-Löwen**

Born: 1959, Nyköping, Director  
Director since: 2011  
Member of the Audit Committee  
Graduate engineer, Chairmen of Kopparfors  
Skogar AB, Director of Bergvik Skog AB,  
Firefly AB, Hargs Bruk AB, Boo Egendom AB,  
Limmersvik AB and Sjösa Förvaltnings AB.  
Deputy Director of HäradSkog i Örebro AB.  
Managing Director Sjösa Förvaltnings AB.



**Charlotte Önnestedt**

Born: 1963, Ödeshög, Director  
Director since: 2009  
Member of the Audit Committee  
Agrologist, owner and manager of Åby  
Storgård and Håssleby Gård. Board member  
of Sjötorps Vind AB and Elmia Lantbruk  
Innovation Award.

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

On 30 October 2018, an EGM was held for Landshypotek Bank at which  
Ann Krumlinde Hyléen was elected to the Board.

# Senior Management

As of 12 March 2019



**Per Lindblad**

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



**Fredrik Hahne**

Acting Chief Operations Officer  
Born: 1972  
Education: MBA, Economics  
Previous experience: Quality Assurance & Investigations Manager at AMF, GDPR Program Manager and PMO at FORA, Solution Delivery Responsible at SEB Wealth, Business Developer and Project Manager at Handelsbanken.



**Johan Asklund**

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



**Martin Kihlberg**

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



Jan Lilja

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



Catharina Åbjörnsson Lindgren

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



Tomas Uddin

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

#### Changes in the Bank Management during the year

During the year Catharina Åbjörnsson Lindgren has taken up her role as Chief Commercial Officer. Chief Financial Officer Fredrik Sandberg, Chief Operations Officer Annika Lindström, HR Manager Annelie von Dahn, Head of Retail Erik Henriksson and Head of Business Development Daniel Wahlström have left the Bank Management. Per Lindblad took up his post as CEO in March 2018.





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# Income Statement

SEK thousand	Note	Group		Parent Company	
		2018	2017	2018	2017
Interest income		1,229,383	1,295,831	1,229,383	1,295,831
of which interest income using the effective-interest method		1,227,817	1,270,379	1,227,817	1,270,379
other interest income		1,566	25,452	1,566	25,452
Interest expenses		-430,406	-495,459	-430,057	-495,408
of which fees for deposit insurance		-9,627	-6,777	-9,627	-6,777
of which fees for resolution fund		-74,791	-56,945	-74,791	-56,945
<b>Net interest income</b>	4	<b>798,977</b>	<b>800,372</b>	<b>799,326</b>	<b>800,423</b>
Net result of financial transactions	5	17,255	-48,093	17,255	-48,093
Other operating income	6	5,209	1,875	5,209	1,875
<b>Total operating income</b>		<b>821,441</b>	<b>754,154</b>	<b>821,790</b>	<b>754,205</b>
General administrative expenses	7	-405,687	-388,542	-407,734	-389,948
Depreciation, amortisation and impairment of tangible and intangible assets	8	-16,966	-13,762	-16,966	-13,762
Other operating expenses	9	-3,120	-150	-3,120	-150
<b>Total expenses before credit losses</b>		<b>-425,773</b>	<b>-402,455</b>	<b>-427,819</b>	<b>-403,860</b>
<b>Profit before credit losses</b>		<b>395,668</b>	<b>351,699</b>	<b>393,971</b>	<b>350,345</b>
Net credit losses	10	-8,032	-12,488	-8,032	-12,488
<b>Operating profit</b>		<b>387,636</b>	<b>339,211</b>	<b>385,938</b>	<b>337,857</b>
Tax expense on profit for the year	11	-92,128	-82,846	-91,763	-82,548
<b>Net profit for the year</b>		<b>295,508</b>	<b>256,366</b>	<b>294,175</b>	<b>255,309</b>
Earnings per share, SEK		131.2	113.8	130.6	113.3
Parent Company's portion of net profit for the year		100%	100%	100%	100%



# Statement of Comprehensive Income

SEK thousand	Note	Group		Parent Company	
		2018	2017	2018	2017
<b>Net profit for the year</b>		<b>295,508</b>	<b>256,366</b>	<b>294,175</b>	<b>255,309</b>
<b>Other comprehensive income</b>					
<b>Items to be reclassified to income statement</b>					
Cash-flow hedges		–	8,620	–	8,620
of which change in fair value		–	1,557	–	1,557
of which transfers to the income statement		–	7,063	–	7,063
Available-for-sale financial assets		–	20,907	–	20,907
of which change in fair value		–	21,126	–	21,126
of which transfers to the income statement		–	-219	–	-219
Financial assets at FVTOCI		-26,924	–	-26,924	–
of which change in credit risk		–	–	–	–
Change in cross-currency basis spreads in fair value hedge hedges		-28,987	–	-28,987	–
Tax on items that will be reclassified	11	12,300	-6,496	12,300	-6,496
<b>Total items that will be reclassified</b>		<b>-43,611</b>	<b>23,031</b>	<b>-43,611</b>	<b>23,031</b>
<b>Items that will not be reclassified</b>					
Actuarial changes, defined benefit pensions		5,104	-14,881	–	–
Tax on items that will not be reclassified	11	-1,123	3,274	–	–
<b>Total items that will not be reclassified</b>		<b>3,981</b>	<b>-11,607</b>	<b>–</b>	<b>–</b>
<b>Total other comprehensive income</b>		<b>-39,629</b>	<b>11,424</b>	<b>-43,611</b>	<b>23,031</b>
<b>Comprehensive income for the year</b>		<b>255,879</b>	<b>267,790</b>	<b>250,564</b>	<b>278,340</b>
Parent Company's portion of comprehensive income for the year		100%	100%	100%	100%

# Balance Sheet

SEK thousand	Note	Group		Parent Company	
		2018	2017	2018	2017
ASSETS					
Eligible treasury bills <sup>1)</sup>	12	4,962,394	5,559,234	4,962,394	5,559,234
Loans to credit institutions	13	539,948	393,346	539,722	393,115
Loans to the public	14	72,511,211	68,488,409	72,511,211	68,488,409
Value change of interest-hedged items in portfolio hedges		41,008	63,621	41,008	63,621
Bonds and other interest-bearing securities	15	6,076,015	7,862,707	6,076,015	7,862,707
Derivatives	16	1,303,977	1,466,052	1,303,977	1,466,052
Shares and participations in Group companies	17	–	–	200	200
Intangible assets	18	143,497	99,355	143,497	99,355
Tangible assets					
Equipment	19	5,757	8,300	5,757	8,300
Buildings and land	19	8,994	9,515	8,994	9,515
Other assets	20	14,495	7,099	14,494	7,098
Current tax assets		13,262	–	13,262	–
Deferred tax assets	21	2,635	4,087	400	365
Prepaid expenses and accrued income	22	306,843	435,825	306,843	435,825
TOTAL ASSETS		85,930,037	84,397,550	85,927,774	84,393,796
LIABILITIES, PROVISIONS AND EQUITY					
Liabilities					
Liabilities to credit institutions	23	954,103	424,038	954,103	424,038
Deposits from the public	24	14,149,539	12,675,325	14,149,539	12,675,325
Debt securities issued, etc.	25	62,641,102	62,877,705	62,641,102	62,877,705
Derivatives	26	460,591	705,737	460,591	705,737
Other liabilities	27	251,607	306,405	251,083	305,882
Tax liabilities		–	3,681	–	3,681
Accrued expenses and prepaid income	28	344,452	393,505	344,452	393,505
Provisions	29	12,159	17,712	2,572	1,319
Subordinated liabilities	30	1,200,000	1,200,000	1,200,000	1,200,000
Total liabilities		80,013,553	78,604,109	80,003,442	78,587,192
Equity					
Share capital, number of shares outstanding: 2,253,000 (2,253,000)		2,253,000	2,253,000	2,253,000	2,253,000
Tier 1 capital		700,000	700,000	700,000	700,000
Other contributed equity		1,026,254	1,026,254	1,016,694	1,016,694
Reserves		-5,589	38,022	-5,589	38,022
Actuarial changes		-23,985	-27,966	–	–
Retained earnings		1,743,458	1,424,444	1,738,214	1,420,257
Net profit for the year		295,508	256,366	294,175	255,309
Shareholders' contributions for the year		51,000	256,000	51,000	256,000
Group contributions paid		-123,162	-132,678	-123,162	-132,678
Total equity	31	5,916,484	5,793,441	5,924,332	5,806,604
TOTAL LIABILITIES AND EQUITY		85,930,037	84,397,550	85,927,774	84,393,796

<sup>1)</sup> From 2018, investments in municipal bonds are recognised as eligible treasury bills. Previously, municipal bonds were recognised as Bonds and interest-bearing securities. The comparative figures for 2017 have been restated.

# Statement of changes in equity

Group SEK thousand	Share capital	Other contributed equity	Hedge reserve <sup>1)</sup>	Fair value reserve <sup>1)</sup>	Credit loss allowance	Actuarial gains and losses <sup>1)</sup>	Tier 1 capital	Retained earnings	Total
<b>Equity, 1 January 2017</b>	2 253 000	1,026,254	-6,724	21,715	-	-16,359	-	1,445,583	4,723,470
Comprehensive income for the year			6,724	16,307		-11,607		256,366	267,789
<b>Total change before transactions with owners</b>	-	-	6,724	16,307	-	-11,607	-	256,366	267,789
Tier 1 capital instruments issued							700,000		700,000
Dividend on Tier 1 capital instruments								-21,139	-21,139
Shareholders' contributions								256,000	256,000
Group contributions paid								-170,100	-170,100
Tax on Group contributions paid								37,422	37,422
<b>Equity, 31 December 2017</b>	2,253,000	1,026,254	-	38,022	-	-27,966	700,000	1,804,132	5,793,442
<b>Change on initial transition to IFRS 9</b>				64	-64			-32,481	-32,481
<b>Restated opening balance 1 January 2018</b>	2,253,000	1,026,254	-	38,086	-64	-27,966	700,000	1,771,651	5,760,961

Group SEK thousand	Share capital	Other contributed equity	Cross-cur- rency basis spreads in fair value hedges <sup>1)</sup>	Fair value reserve <sup>1)</sup>	Credit loss allowance	Actuarial gains and losses <sup>1)</sup>	Tier 1 capital	Retained earnings	Total
<b>Restated opening balance 1 January 2018</b>	2,253,000	1,026,254	-	38,086	-64	-27,966	700,000	1,771,651	5,760,961
Comprehensive income for the year			-22,610	-21,001	-	3,981		295,508	255,879
<b>Total change before transactions with own- ers and holders of Tier 1 capital instruments</b>	-	-	-22,610	-21,001	-	3,981	-	295,508	255,879
Dividend on Tier 1 capital instruments								-28,193	-28,193
Shareholders' contributions								51,000	51,000
Group contributions paid								-157,900	-157,900
Tax on Group contributions paid								34,738	34,738
<b>Equity, 31 December 2018</b>	2,253,000	1,026,254	-22,610	17,085	-64	-23,985	700,000	1,966,804	5,916,484

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



# Statement of changes in equity

Parent Company SEK thousand	Share capital	Other contributed equity	Hedge reserve <sup>1)</sup>	Fair value reserve <sup>1)</sup>	Credit loss allowance	Actuarial gains and losses <sup>1)</sup>	Tier 1 capital	Retained earnings	Total
<b>Equity, 1 January 2017</b>	2,253,000	1,016,694	-6,724	21,715	-	-	-	1,441,397	4,726,081
Comprehensive income for the year			6,724	16,307				255,308	278,339
<b>Total change before transactions with owners</b>	-	-	6,724	16,307	-	-	-	255,308	278,339
Tier 1 capital instruments issued							700,000		700,000
Dividend on Tier 1 capital instruments								-21,139	-21,139
Shareholders' contributions								256,000	256,000
Group contributions paid								-170,100	-170,100
Tax on Group contributions paid								37,422	37,422
<b>Equity, 31 December 2017</b>	2,253,000	1,016,694	-	38,022	-	-	700,000	1,798,888	5,806,603
<b>Change on initial transition to IFRS 9</b>				64	-64			-32,481	-32,481
<b>Restated opening balance 1 January 2018</b>	2,253,000	1,016,694	-	38,086	-64	-	700,000	1,766,407	5,774,122

Parent Company SEK thousand	Share capital	Other contributed equity	Cross-cur- rency basis spreads in fair value hedges <sup>1)</sup>	Fair value reserve <sup>1)</sup>	Credit loss allowance	Actuarial gains and losses <sup>1)</sup>	Tier 1 capital	Retained earnings	Total
<b>Restated opening balance 1 January 2018</b>	2,253,000	1,016,694	-	38,086	-64	-	700,000	1,766,407	5,774,122
Comprehensive income for the year			-22,610	-21,000	-			294,175	250,565
<b>Total change before transactions with own- ers and holders of Tier 1 capital instruments</b>	-	-	-22,610	-21,000	-	-	-	294,175	250,565
Dividend on Tier 1 capital instruments								-28,193	-28,193
Shareholders' contributions								51,000	51,000
Group contributions paid								-157,900	-157,900
Tax on Group contributions paid								34,738	34,738
<b>Equity, 31 December 2018</b>	2,253,000	1,016,694	-22,610	17,086	-64	-	700,000	1,960,227	5,924,332

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

# Statement of cash flow

		Group		Parent Company	
SEK thousand	Note	2018	2017	2018	2017
Operating activities					
Interest received	4	1,229,383	1,265,417	1,229,383	1,265,417
Interest paid	4	-430,406	-540,399	-430,057	-540,398
Net receipts of financial transactions	5	7,731	-25,087	7,731	-25,087
Other operating cash receipts		5,209	1,875	5,209	1,875
Administrative expenses paid		-408,807	-390,104	-410,853	-390,103
Recovery of previously confirmed losses		5,818	2,754	5,818	2,754
Income tax paid		-53,150	-49,778	-53,150	-49,777
Change in eligible treasury bills		596,840	–	596,840	–
Change in loans to the public		-4,055,073	-1,985,183	-4,055,073	-1,985,183
Change in bonds and other interest-bearing securities		1,786,692	-700,261	1,786,692	-700,261
Change in other assets		242,378	4,287	237,275	4,286
Change in liabilities to credit institutions		530,065	-578,361	530,065	-578,361
Change in deposits from the public		1,474,214	943,935	1,474,214	943,935
Change in debt securities issued, etc.		-236,603	1,600,363	-236,603	1,600,363
Change in other liabilities		-342,352	33,219	-335,546	33,218
Cash flow from operating activities		351,939	-417,323	351,944	-417,322
Investment activities					
Acquisitions of intangible assets		-57,783	-42,995	-57,783	-42,995
Acquisitions of tangible assets		-260	-1,444	-260	-1,444
Cash flow from investment activities		-58,044	-44,439	-58,044	-44,439
Financing activities					
Shareholders' contributions received		51,000	256,000	51,000	256,000
Tier 1 capital		–	700,000	–	700,000
Interest expense classified as Tier 1 capital dividend (AT1)		-28,193	-21,140	-28,193	-21,140
Dividends and Group contributions paid		-170,100	-175,600	-170,100	-175,600
Subordinated liabilities <sup>1)</sup>		–	-496,223	–	-496,223
Cash flow from financing activities		-147,293	263,037	-147,293	263,037
Cash flow for the year		146,602	-198,725	146,607	-198,724
Change in cash and cash equivalents	37	146,602	-198,725	146,607	-198,724
Cash and cash equivalents at beginning of year		393,346	592,071	393,115	591,839
Cash and cash equivalents at year end		539,948	393,346	539,722	393,115
<sup>1)</sup> Change in debt instruments attributable to financing activities					
Opening balance, subordinated liabilities		1,200,000	1,699,972	1,200,000	1,699,972
New subordinated loans		–	–	–	–
Repayment/repurchase		–	-496,223	–	-496,223
Change in amortised cost		–	-3,749	–	-3,749
Closing balance, debt instruments		1,200,000	1,200,000	1,200,000	1,200,000

# Five-year Summary

Group, SEK million	2018	2017	2016	2015	2014
<b>INCOME STATEMENT</b>					
Net interest income	799.0	800.4	737.2	743.4	649.4
Operating income excl. net interest income	22.5	-46.2	33.5	20.3	161.7
Operating expenses	-408.8	-388.7	-388.4	-367.5	-330.0
Depreciation and amortisation	-17.0	-13.8	-14.0	-19.7	-16.5
Credit losses	-8.0	-12.5	-14.8	-45.9	-79.6
<b>Operating profit</b>	<b>387.6</b>	<b>339.2</b>	<b>353.4</b>	<b>330.6</b>	<b>384.9</b>
<b>BALANCE SHEET</b>					
<b>Assets</b>					
Loans to the public, net	72,511	68,488	66,518	64,501	61,743
Other assets	13,419	15,910	15,663	16,218	20,363
<b>Total assets</b>	<b>85,930</b>	<b>84,398</b>	<b>82,181</b>	<b>80,719</b>	<b>82,106</b>
<b>Liabilities</b>					
Funding	78,945	77,177	76,006	74,216	75,570
Other liabilities	1,069	1,427	1,452	1,946	2,206
Equity	5,916	5,793	4,723	4,557	4,330
<b>Total liabilities and equity</b>	<b>85,930</b>	<b>84,398</b>	<b>82,181</b>	<b>80,719</b>	<b>82,106</b>
<b>Key financial ratios</b>					
Interest margin	1.1%	1.2%	1.1%	1.2%	1.1%
Return on equity	5.0%	4.4%	5.8%	5.7%	7.1%
Credit loss level	0.0%	0.0%	0.0%	0.1%	0.1%



# Alternative performance measures

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

presentation and follow-up of the bank's financial performance over time and when these metrics are deemed by the bank to provide additional valuable information to readers of the financial reports. APMs can be calculated with various approaches and, accordingly, the bank's metrics are not directly comparable with similar metrics presented by other companies. The definitions and aims of the APMs are set out below.

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

# Alternative performance measures

SEK million	Group	
	2018	2017
Change in lending	4,023	1,971
Opening balance, loans outstanding	68,488	66,518
<b>Change in lending, %</b>	<b>5.9</b>	<b>3.0</b>
Net interest income	799	800
Average loans outstanding	70,792	67,351
<b>Interest margin, %</b>	<b>1.13</b>	<b>1.19</b>
Change in deposits	1,474	944
Opening balance deposits	12,675	11,731
<b>Change in deposits, %</b>	<b>11.6</b>	<b>8.0</b>
Costs before credit losses	-426	-402
Total operating income	821	754
<b>C/I ratio including financial transactions</b>	<b>0.52</b>	<b>0.53</b>
Costs before credit losses	-426	-402
Total operating income excluding financial transactions	804	802
<b>C/I ratio excluding financial transactions</b>	<b>0.53</b>	<b>0.50</b>
Net credit losses	-8	-12
Average loans outstanding	70,792	67,351
<b>Credit loss level, %</b>	<b>0.01</b>	<b>0.02</b>
Credit-impaired assets, gross	526	708 <sup>1)</sup>
Less provisions made	-56	-71 <sup>1)</sup>
<b>Credit-impaired assets, net</b>	<b>470</b>	<b>637 <sup>1)</sup></b>
Doubtful credits, net	470	637 <sup>1)</sup>
Loans to the public	72,511	68,520
<b>Net credit-impaired assets after allowances as a percentage of total loans outstanding, %</b>	<b>0.65</b>	<b>0.93 <sup>1)</sup></b>
Profit after tax	296	256
Average equity	5,916	5,793
<b>Return on equity, %</b>	<b>5.0</b>	<b>4.4</b>
Profit after tax	296	256
Number of shares, etc.	2	2
<b>Earnings per share</b>	<b>131.2</b>	<b>113.6</b>

<sup>1)</sup> Pertains to the outcome at 1 January 2018 after the transition to IFRS 9.

# Notes

## Note 1 Accounting policies

### Corporate information

On 12 March 2019, the Board of Directors of Landshypotek Bank AB (publ.), Corporate Registration Number 556500-2762, approved the financial statements. These financial statements will be presented for final adoption by the Annual General Meeting on 7 May 2019.

Landshypotek Bank is owned by Landshypotek Ekonomisk Förening, in which all of the Bank's loan customers in the farming and forestry sector are members. Landshypotek Bank AB is specialised in lending to Swedish farming and forestry and lending for rural living. Landshypotek Bank also offers homeowner mortgages and savings products to the general public. The Group uses the capital market as its primary source of funding but deposits have taken an increasingly significant role. Funding is allocated over a number of loan programmes, adapted to various types of investors. All funding in the Group takes place in Landshypotek Bank.

### Basis for preparing the annual accounts

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

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

### Definitions and comparative data

The Group comprises Landshypotek Bank AB and two dormant subsidiaries: Sveriges Allmänna Hypoteksbank AB and Hypoteksbanken AB. In running text in the Annual Report, "Landshypotek Bank" refers to the Group as defined above. The complete corporate names are used for individual Group

companies. The Parent Company's functional currency and the Group's presentation currency is SEK. All amounts are reported, unless otherwise specified, in SEK thousands. Comparative figures for the preceding year are stated in parentheses

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

IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments. The standard has been adopted by the EU and is to be applied from 1 January 2018. Refer to Note 1 in Landshypotek Bank's 2017 Annual Report for the accounting policies pertaining to the comparative figures for 2017.

There will be three measurement categories for financial assets: amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). An instrument is classified based on the business model and the nature of the instrument.

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

Hedge accounting requirements have been changed — the 80–125% effectiveness rule has been replaced with requirements for an economic relationship between the hedged item and underlying instruments, and the hedge ratio is now the same as that used in the risk management. Moreover, a possibility has been introduced of excluding cross-currency basis spreads in hedging instruments from hedging relationships and, in such cases, recognising the value change in cross-currency basis spreads in other comprehensive income.

A new approach for calculating provisions for credit losses has been implemented and calculations are based on expected credit losses, which comprises the main difference to the previous regulations. Under IAS 39, credit losses are calculated based on incurred credit loss events.

In terms of the application of measurement categories, the standard has not had any material impact on the income statement, balance sheet, equity and capital adequacy. Landshypotek Bank has chosen not to apply the transitional rules in the EU's Capital Requirements Regulation on the introduction of IFRS 9. With regard to provisions for credit losses, compared with IAS 39, higher volatility is expected as a result of fluctuations in the economy.

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

#### • IFRS 16 Leases

For lessees, IFRS 16 will lead to the inclusion of almost all leases in the balance sheet. The right to utilise the leased asset is recognised as an asset and the present value of leasing fees are



recognised as a corresponding liability in the balance sheet for lessees. Exceptions may be made for short-term contracts and low-value contracts. The income statement will be impacted in the form of higher costs at the start of the lease and lower costs toward the end. The standard has been applied since 1 January 2019 and, as a consequence, the bank recognised an asset of SEK 18.5 million together with a corresponding liability at 1 January 2019.

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

### Consolidated accounting

The consolidated financial statements encompass the Parent Company and its subsidiaries. All subsidiaries are 100-percent owned by Landshypotek Bank AB. Subsidiaries are consolidated in accordance with the purchase method of accounting. All companies in the Group are Swedish limited liability companies with SEK as their accounting currency. Landshypotek Bank AB has no associated companies, other joint arrangements or unconsolidated structured entities. The subsidiaries are all companies where the Parent Company exercises a controlling influence. Controlling influence means that the Parent Company is exposed to, or has the right to, returns from subsidiaries and the ability to affect those returns through exercising its influence.

### Operating segments

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

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

### Measurement of receivables and liabilities in foreign currency

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

### Classification and measurement rules for financial assets

Financial assets are divided into the following categories for measurement:

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

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

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

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

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

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

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

### *Financial assets at FVTPL*

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

Financial assets are divided into the following categories for measurement:

- derivatives
- bonds and interest-bearing securities in the liquidity portfolio that on initial recognition were measured at FVTPL to avoid mismatch in the income statement. This applies for holdings in the liquidity portfolio that comprise hedged items in an economic hedge, that are not formally included in a hedging relationship, and where the hedging instrument is recognised at FVTPL.

### Classification and measurement of financial liabilities

Under the main rule, all financial liabilities are classified as measured at amortised cost with certain exceptions, such as derivatives with negative values. The company also has the possibility on initial recognition, to irrevocably identify a financial liability as measured at FVTPL to eliminate or reduce accounting inconsistencies.

Aside from derivatives, Landshypotek recognises all liabilities at amortised cost. Derivatives with negative market values are recognised as financial liabilities at FVTPL.

### Transaction-date or settlement-date accounting

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

### **Intangible assets**

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

### **Tangible assets**

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

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

The depreciation periods for the components of properties are as follows:

- Frame — 150 years
- Foundation — 100 years
- Roof, copper sheeting 80 — years
- Groundworks, lifts 50 — years
- Facade, internal fittings, pipes, heating 40 — years
- Electricity 30 — years
- Air, ventilation, surfaces 25 — years
- Furniture, fixtures and equipment — 5 years
- Electrical heating in drainpipes — 20 years

### **Provisions**

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

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

Interest income and interest expense on financial assets and liabilities are recognised in profit or loss in accordance with the effective-interest method under the heading "Interest income and interest expense." The change in value of financial assets and liabilities at FVTPL is accounted for under the heading "Net result of financial transactions." This is also true for changes in the fair value of financial assets and liabilities included in hedge accounting.

### **Hedge accounting**

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

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

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

#### *Cash-flow hedges*

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

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

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

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

The Group applies hedge accounting for fixed-interest bonds in the liquidity portfolio. The hedge aims to cover any changes in fair value excluding credit spreads. Interest-rate swaps are used for this purpose. Changes in the fair values of derivatives formally identified as hedging instruments, and which fulfil the requirements for hedge accounting, are recognised in profit or loss under the heading "Net result of financial transactions." In addition, changes in fair value, attributable to the hedged risk, of a hedged liability are also recognised under this heading. The credit spread is recognised under Other comprehensive income.

#### *Discontinuation of hedge accounting*

Landshypotek Bank terminates hedge accounting when the hedged item or hedging instrument is sold or expires and when the criteria for hedge accounting are no longer met. Gains or losses, which for cash-flow hedges and fair-value hedges in

investments, were previously recognised in other comprehensive income are transferred to profit or loss in conjunction with divestment of the underlying instrument and recognised there under the heading "Net result of financial transactions." If a fair-value hedge is no longer assessed as effective, the hedging instrument is reclassified as a derivative for trading. The accumulated change in fair value for the hedged item at the point in time when the hedging relationship ends is periodised via net interest income over the hedged item's remaining time to maturity.

#### Commission income

Commission income is attributable to Landshypotek Bank's lending and borrowing. Income attributable to lending is recognised as revenue on notification and income attributable to borrowing is recognised on the transaction date.

#### Net result of financial transactions

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

#### Other income

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

#### Personnel costs

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

#### Pension costs

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

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

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

#### Leasing

The bank is the lessee of premises, computers and video conferencing facilities, for which the contracts are deemed to comprise operational leases.

#### Other operating expenses

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

#### Recognition of loss allowance

The bank recognises expected credit losses for the credit portfolio and the parts of the liquidity portfolio that is classified as financial assets at fair value through other comprehensive income. Each asset is categorised to one of three stages:

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

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.

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

For the credit portfolio, one of the scenarios comprises a forecast of the parameters for interest, GDP and the real estate price index. Parameter projections are made for the first five years and, thereafter, the scenario returns to a long-term expected trend of up till 30 years. To ensure consistency, the risk estimate for the credit portfolio is based on the same calculations as for capital adequacy. ECLs for the bank's liquidity portfolio are calculated based on, inter alia, default rates according to Standard & Poor's rating matrix and on internal historic LGD data from the bank's credits secured by mortgages on immovable property.

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

#### Confirmed credit losses

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



been realised and credited to Landshypotek Bank, or when Landshypotek Bank waives a claim on either legal or voluntary grounds.

Payments received by Landshypotek Bank pertaining to written off financial assets are recognised in income as recoveries.

#### Restructuring of loans

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

#### Tax expenses

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

#### Group contributions

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

#### Estimates and critical assessments

The application of the Group's accounting policies means that, in certain instances, recognised amounts are based on estimates and assumptions about the future. The estimates and assumptions made are always based on company management's best and fairest assessment of the future, and affect the carrying amounts of assets, liabilities and off-balance-sheet exposures, as well as income and costs presented in the Annual Report. Moreover, they are subject to continual review and validation. Despite this, future outcomes may, to a certain extent, differ from the original assumptions made.

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

The bank's expected credit losses are subject to continual assessment at both individual and collective levels. Among other items, estimates are based on:

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

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

## Note 2 Risks

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

Landshypotek Bank strives to achieve a high degree of risk awareness and a low degree of risk undertaking. A high degree of risk awareness means that each employee understands the risks implied for the company by the individual's work duties, the degree of risk undertaking that is acceptable and how the individual needs to behave so as to avoid exceeding the acceptable level of risk.

Low risk undertaking is achieved through a combination of a high degree of risk awareness, a low acceptance level for risk undertaking, a distinct decisionmaking structure, shared definitions and assessment principles, as well as sophisticated tools for risk assessment. The Board specifies the acceptance level for risk undertaking and the CEO ensures that this level of acceptance is implemented in business activities. The main risks to which Landshypotek Bank is exposed are defined below. For further information regarding risks, refer to the Information regarding capital adequacy and risk management, Pillar III.

### Credit risk

#### Definition

Landshypotek Bank defines credit risk as follows:

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

#### Credit risk in the lending portfolio

Landshypotek Bank's loans to the public totalled SEK 72.5 billion at 31 December 2018. Lending encompasses lending to entrepreneurs and homeowners primarily against collateral in agricultural and forest properties. All lending takes place in Sweden.

#### Management of credit risk

##### Credit process

The credit policy, which is set by the Board, sets out the frameworks and fundamental principles for granting credit at Landshypotek Bank. All granting of credit at the bank is to be based on customers' repayment capacity and loans are only granted if, based on sound reasoning, commitments can be expected to be fulfilled. To further protect the bank against credit losses, accepted collateral primarily comprises collateral in immovable property.

##### Credit portfolio monitoring

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

#### Management of problem loans

Operations at Landshypotek Bank bear full responsibility for customer relationships, profitability and risks in all customer commitments. When needed, operations is assisted by the central departments with in-depth analyses and with managing problem customers and insolvency cases. The unit for Special Issues assists with expertise with regard to problem commitments and confirmed insolvency cases. The bank's insolvency unit works primarily with defaulting commitments with the aim of discontinuing the loans with a minimal loss for the bank.

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

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

Counterparties with whom the bank enters into swap contracts are Swedish or international banks with high credit ratings and with whom International Swaps and Derivatives Association (ISDA) agreements and unilateral Credit Support Annexes (CSAs) to Landshypotek Bank's benefit are in place, which reduce counterparty risk. The bank never pledges collateral since the derivative contracts are in the pool for covered bonds.

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

### Liquidity risk

#### Definition

Landshypotek Bank defines liquidity risk as follows:

*The risk of being unable to discharge its payment obligations at the due date.*

#### Liquidity risk

To a great extent, Landshypotek Bank is dependent on market funding and the inability to discharge payment obligations connected to market funding can have immediate and serious consequences for the bank.

#### Management of liquidity risk

To maintain good payment capacity, the Board has decided that a liquidity buffer should be available that corresponds to the forecast, accumulated net cash outflows for the next 180-day period and the outflows of deposits in a stressed scenario, without any possibility of refinancing. At 31 December 2018, the liquidity reserve was 1.9 times larger than the need for refinancing over the next six months.

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

Table 5 Liquidity reserve by rating, measured at fair value, 2018

SEK thousand	Covered bonds	Municipal bonds	Total
AAA	5,774,305	1,934,626	7,708,931
AA+	–	3,329,478	3,329,478
<b>Total</b>	<b>5,774,305</b>	<b>5,264,104</b>	<b>11,038,409</b>

Table 6 Derivative contracts by rating, measured at fair value, 2018

SEK thousand	Positive gross market value	Exposure amount incl. netting gains and collateral received <sup>2,3,4)</sup>
<b>Credit quality stage <sup>1)</sup></b>		
1	582,772	531,169
2	444,157	627,301
3	99,172	14,617
4-6	–	–
<b>Total</b>	<b>1,126,101</b>	<b>1,173,087</b>

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

<sup>2)</sup> Landshypotek received SEK 439,479,000 in cash collateral under derivative contracts. This cash collateral has not been taken into account in the above figures.

<sup>3)</sup> Netting gains amounted to SEK 487,982,000.

<sup>4)</sup> Exposure value of derivative instruments based on the mark-to-market approach stipulated in the CRR.

temporary strains on liquidity, but also provides the opportunity of procuring the necessary funds in times of severe liquidity crisis by borrowing against or selling assets in an orderly fashion to reduce the financing need. The bank also measures the liquidity reserve, based on it covering net outflows over a 30-day significant stress period in accordance with external regulations. At 31 December 2018, the bank's LCR under EU Regulation 575/2013 and Commission Delegated Regulation (EU) 2015/61 was 357 percent for Landshypotek Bank's consolidated situation and 357 percent for Landshypotek Bank.

Landshypotek Bank has started to offer deposits with the aim of diversifying its funding and, thereby, reducing refinancing risk. Deposits amounted to SEK 14.1 billion at 31 December 2018. Landshypotek Bank performs regular stress tests of liquidity risk. These include a decline in value of the liquidity reserve, reduced capital repayments and interest income, lack of new borrowing and withdrawals of deposits. The results of the stress tests demonstrate that Landshypotek Bank has an extremely healthy payment capacity.

### Market risk

#### Definition

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

- **Interest-rate risk** — *The risk that the market value of discounted future inflows and outflows will develop negatively as a result of changes in interest rates.*
- **Currency risk** — *The risk of losses on borrowed, lent or invested capital when exchange rates fluctuate.*
- **Credit-spread risk** — *The risk of decreased market values as a consequence of widened spreads for risk-free interest for assets measured at fair value.*

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

#### Interest-rate risk

Interest-rate risk arises when fixed-interest terms for assets and liabilities are mismatched, and as a consequence of utilising equity to finance fixed-term lending. It is measured, inter alia, as the changes in the market values that occur if there is a parallel shift in the interest-rate curve. The bank utilises interest-rate swaps as a tool for managing interest-rate risks. At 31 December 2018, the total impact of interest-rate risk on the balance sheet's market values for a parallel upward movement of the interest-rate curve of one percentage point amounted to negative SEK 104.1 million. Only a marginal portion of the change in the market values of assets and liabilities is recognised and, therefore, interest-rate risk in net profit for the year amounted to positive SEK 6.1 million.

#### Basis-spread risk and credit-spread risk

Basis-spread risk arises for Landshypotek Bank when the currency and interest-rate risks that arise in conjunction with borrowing in a foreign currency are reduced by swapping payments in foreign currency for payments in Swedish currency through cross-currency interest-rate swaps. However, if Landshypotek Bank does not terminate the swap agreements ahead of time, the net earnings impact on expiry of the swap agreements would be zero. Due to increased volatility in basis spreads, Landshypotek Bank has chosen not to take up any funding in foreign currencies since 2011. Credit-spread risk arises from fluctuations in credit spreads in Landshypotek Bank's liquidity reserve and these also impact earnings. An increase in the credit spread of one basis point (1bp) would lead to a SEK 2.4 million decrease in the value of the liquidity portfolio



and a 1bp movement in basis spreads would lead to a SEK 4.0 million value change in the swaps.

#### Fair-value hedges

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

An economic relationship exists between the hedged item and the hedging instrument, since the terms of the interest-rate swap correspond to those for the hedged item as regards the nominal amount, tenor, and payment and adjustment dates.

#### Ineffectiveness

Ineffectiveness is calculated by comparing the change in fair value of the hedged risk in the hedged item with the change in fair value of the derivative. The hedge is ineffective if the change in fair value of the derivative deviates from the change in value of the hedged item.

The main reason for ineffectiveness in these hedging relationships are value changes in the floating leg of the derivative.

#### Operational risk

##### Definition

Landshypotek Bank defines operational risk as:

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

##### Operational risk

Landshypotek Bank has a low appetite for operational risk. The bank does not conduct operations in areas that generally generate the largest operating losses for banks. The bank conducts no trading operations or operations related to payment services, and conducts relatively uncomplicated operations for a bank.

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

- Lending
- Deposits
- Borrowing
- Cash inflows and outflows

#### Management of operational risk

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

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

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

## Fixed-interest terms for interest-bearing assets and liabilities, 2018

SEK thousand	Group					Total
	<3 months	3–12 months	1–3 years	3–5 years	>5 years	
<b>Assets</b>						
Eligible treasury bills	3,888,000	150,000	725,000	150,000		4,913,000
Loans to credit institutions	539,948					539,948
Loans to the public	49,413,083	9,594,840	9,462,080	3,142,041	389,931	72,001,975
Bonds and other interest-bearing securities	2,100,000		3,000,000	810,000		5,910,000
Derivatives	25,630,780	1,678,378	7,208,673	12,413,403	4,744,032	51,675,266
<b>Total assets</b>	<b>81,571,811</b>	<b>11,423,218</b>	<b>20,395,753</b>	<b>16,515,444</b>	<b>5,133,963</b>	<b>135,040,189</b>
<b>Liabilities</b>						
Liabilities to credit institutions	954,103					954,103
Deposits from the public	14,149,540					14,149,540
Debt securities issued	31,692,000	3,378,378	8,605,950	12,613,403	4,946,754	61,236,485
Derivatives	34,966,430	4,269,000	10,075,000	2,060,000	505,000	51,875,430
Subordinated liabilities	1,200,000					1,200,000
Other liabilities	206,105					206,105
<b>Total liabilities</b>	<b>83,168,178</b>	<b>7,647,378</b>	<b>18,680,950</b>	<b>14,673,403</b>	<b>5,451,754</b>	<b>129,621,663</b>
<b>Net</b>	<b>-1,596,367</b>	<b>3,775,840</b>	<b>1,714,803</b>	<b>1,842,041</b>	<b>-317,791</b>	<b>5,418,526</b>
Interest-rate sensitivity, net	627	-2,944	-29,010	-62,415	25,095	-68,647
Cumulative interest-rate sensitivity	627	-2,317	-31,327	-93,742	-68,647	

## Fixed-interest terms for interest-bearing assets and liabilities, 2017

SEK thousand	Group					Total
	<3 months	3–12 months	1–3 years	3–5 years	>5 years	
<b>Assets</b>						
Loans to credit institutions	393,346					393,346
Loans to the public	41,016,253	11,738,835	10,900,451	4,135,696	621,289	68,412,524
Bonds and other interest-bearing securities	7,448,000	500,000	3,350,000	1,750,000		13,048,000
Derivatives	29,646,200	3,679,530	7,185,085	8,087,958	5,676,563	54,275,335
<b>Total assets</b>	<b>78,503,799</b>	<b>15,918,365</b>	<b>21,435,536</b>	<b>13,973,654</b>	<b>6,297,852</b>	<b>136,129,205</b>
<b>Liabilities</b>						
Liabilities to credit institutions	424,038					424,038
Deposits from the public	12,675,325					12,675,325
Debt securities issued	31,875,000	5,234,530	10,235,085	8,287,958	5,776,563	61,409,136
Derivatives	31,300,650	9,835,000	9,369,000	3,650,000	370,000	54,524,650
Subordinated liabilities	1,200,000					1,200,000
Other liabilities	255,330					255,330
<b>Total liabilities</b>	<b>77,730,343</b>	<b>15,069,530</b>	<b>19,604,085</b>	<b>11,937,958</b>	<b>6,146,563</b>	<b>130,488,479</b>
<b>Net</b>	<b>773,456</b>	<b>848,835</b>	<b>1,831,451</b>	<b>2,035,696</b>	<b>151,289</b>	<b>5,640,726</b>
Interest-rate sensitivity, net <sup>1)</sup>	-8,606	-3,569	-51,515	-66,854	6,804	-123,740
Cumulative interest-rate sensitivity	-8,606	-12,175	-63,690	-130,544	-123,740	

<sup>1)</sup> At the end of 2017, net interest-rate sensitivity for more than five years was incorrectly calculated in the previous year's annual report. The comparative figures for 2017 have been corrected in this report to provide an accurate image of the bank's interest-rate sensitivity.

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

From 2018, investments in municipal bonds are recognised as eligible treasury bills. Previously, municipal bonds were recognised as Bonds and interest-bearing securities.

## Maturity analysis for financial assets and liabilities, 2018

	Group					
SEK thousand	<3 months	3–12 months	1–3 years	3–5 years	>5 years	Total
Financial assets						
Eligible treasury bills	214,975	1,426,319	2,473,342	1,140,984		5,255,620
Loans to credit institutions	539,948					539,948
Loans to the public	49,699,804	9,857,007	9,805,418	3,237,646	437,197	73,037,072
Bonds and other interest-bearing securities	7,328	127,855	4,430,084	1,336,611		5,901,878
Derivatives	46,071	1,585,623	1,662,027	553,648	3,192,030	7,039,399
Total	50,508,126	12,996,804	18,370,871	6,268,889	3,629,227	91,773,917
Liabilities						
Liabilities to credit institutions	954,103					954,103
Borrowing/deposits from the public	14,149,540					14,149,540
Granted credit facilities	592,794					592,794
Debt securities issued	1,858,972	10,564,652	28,297,523	14,619,840	9,710,999	65,051,986
Derivatives	22,495	1,619,304	1,446,920	335,526	2,727,721	6,151,966
Subordinated liabilities	6,864	23,887	1,253,658			1,284,409
Other liabilities	206,105					206,105
Total	17,790,873	12,207,843	30,998,101	14,955,366	12,438,720	88,390,903
Contracted cash flows	32,717,253	788,961	-12,627,230	-8,686,477	-8,809,493	3,383,014

## Maturity analysis for financial assets and liabilities, 2017

	Group					
SEK thousand	<3 months	3–12 months	1–3 years	3–5 years	>5 years	Total
Financial assets						
Loans to credit institutions	393,346					393,346
Loans to the public	41,299,868	12,056,909	11,323,435	4,268,603	702,896	69,651,711
Bonds and other interest-bearing securities	547,562	1,047,701	8,332,396	3,596,743		13,524,402
Derivatives	89,574	2,661,219	2,401,029	1,514,830	3,789,254	10,455,906
Total	42,330,350	15,765,829	22,056,860	9,380,176	4,492,150	94,025,365
Liabilities						
Liabilities to credit institutions	424,038					424,038
Borrowing/deposits from the public	12,675,325					12,675,325
Granted credit facilities	619,307					619,307
Debt securities issued	2,627,799	8,767,498	13,504,216	30,823,726	10,131,329	65,854,568
Derivatives	47,595	2,330,618	2,407,998	1,427,947	3,426,605	9,640,763
Subordinated liabilities	12,982	43,129	145,050	1,275,751		1,476,912
Other liabilities	255,330					255,330
Total	16,662,376	11,141,245	16,057,264	33,527,424	13,557,934	90,946,243
Contracted cash flows	25,667,974	4,624,584	5,999,596	-24,147,248	-9,065,784	3,079,122

The above tables include all contracted cash flows. The amounts are not discounted and are recognised during the time slot when Landshypotek is entitled to request payment or has an obligation or right to repay. Future variable rates of interest have been included in the calculation for derivatives and financial liabilities. Loans to the public are reported until the next date for loan renewal, when the customer can redeem the loan if the customer so desires. Interest-rate derivatives are settled on a net basis, while currency interest-rate derivatives are settled on a gross basis, which is reflected in the above table. This entails that contracted amounts on maturity are only included for currency interest-rate derivatives. All flows are stated net for interest-rate derivatives.

From 2018, investments in municipal bonds are recognised as eligible treasury bills. Previously, municipal bonds were recognised as Bonds and interest-bearing securities.



**Derivatives that comprise hedging instruments for interest and currency risk in fair value and macro hedging 2018**

Group and Parent Company, SEK thousand	<3 months	3–12 months	1–3 years	3–5 years	>5 years	Total
<b>Interest-rate risk</b>						
Interest-rate swaps paying fixed interest and receiving floating interest						
Nominal amount	4,250,000	7,119,000	10,075,000	2,060,000	505,000	24,009,000
Average fixed interest rate %	-0.31	-0.11	0.76	0.84	1.50	
Interest-rate swaps paying floating interest and receiving fixed interest						
Nominal amount		450,000	6,038,000	12,160,000	2,210,000	20,858,000
Average fixed interest rate %		1.46	0.88	0.95	2.87	
<b>Foreign currency risk</b>						
Currency related derivatives SEK/NOK						
Nominal amount		1,474,800	593,150			2,067,950
Average exchange rate		0.8137	0.8430			
Currency related derivatives SEK/EUR						
Nominal amount			666,380	228,250	2,424,070	3,318,700
Average exchange rate			0.0975	0.1095	0.1031	
<b>Total</b>	<b>4,250,000</b>	<b>9,043,800</b>	<b>17,372,530</b>	<b>14,448,250</b>	<b>5,139,070</b>	<b>50,253,650</b>

**Hedging instrument 2018**

Hedging instrument 2018		Carrying amount	
Group and Parent Company, SEK thousand	Balance-sheet item encompassing derivatives	Assets	Liabilities
Interest-rate risk			
Interest-rate swaps paying fixed interest and receiving floating interest	Derivatives	12,241	166,937
Interest-rate swaps paying floating interest and receiving fixed interest	Derivatives	415,673	15,786
Foreign currency risk			
Currency related derivatives SEK/NOK	Derivatives	–	276,557
Currency related derivatives SEK/EUR	Derivatives	876,061	1,310
		1,303,975	460,591

**Hedged items 2018**

Hedged items 2018		Carrying amount	
Group and Parent Company, SEK thousand	Balance-sheet item encompassing the hedged item	Assets	Liabilities
Interest-rate risk			
Fixed-rate loans to the public	Loans to the public	19,213,726	
Fixed-rate liquidity reserve	Eligible treasury bills, Bonds and other interest-bearing securities	4,949,468	
Fixed-rate funding in SEK	Debt securities issued, etc.		21,261,287
Foreign currency risk			
Fixed-rate funding in EUR and NOK	Debt securities issued, etc.		6,030,941
		24,163,194	27,292,228

## Note 3 Capital and capital adequacy

### Total capital ratio

The total capital ratio for the consolidated situation amounted to 18.4 percent (43.8). The total capital ratio for Landshypotek Bank AB amounted to 19.4 percent (43.2). The substantial year-on-year reduction in the capital ratio was attributable to the following actions by the bank during the year:

- I. Implementation of a new IRB approach permission, which entailed the following actions by the bank:
  - a. The migration of around 40 percent of the previously retail exposures to the corporate exposure class and using a foundation IRB approach for corporate exposures. This means using the stipulated LGD value of an average of 35 percent, which is more than twice as high as the previously applied internal LGD estimate. Essentially all (>99 percent) corporate exposures comprise credits secured against immovable property and with an average LTV ratio of 54 percent. Accordingly, the stipulated LGD estimates do not reflect the characteristics and risk scenario of the lending.
  - b. The application of higher weighting for downturn years together with higher margins of conservatism (MoCs) in the bank's PD estimates.
  - c. The alteration of the method for cyclical adjustments, which means the portfolio PD for performing credits is less dependent on the business cycle and is thus more constant over time.
- II. Introduction of the risk-weight floor for the exposure class "Retail – real estate collateral" in Pillar I instead of in Pillar II.
- III. Implementation of a more restrictive interpretation of how large a proportion of the externally issued additional Tier 1 capital and T2 capital instruments in Landshypotek Bank AB may be included in own funds for the consolidated situation. This followed a clarification from the EBA.

### CET1 capital ratio

The CET1 capital ratio for the consolidated situation amounted to 13.9 percent (31.7). The year-on-year reduction in the CET1 capital ratio was also attributable to the changes described under items I–III in the above section.

### Own funds

Own funds for the consolidated situation amounted to SEK 6.2 billion (6.8). The decline was due to the reasons set out in items I–III in the above section.

### Capital requirement and combined buffer requirement

In addition to the minimum capital requirement of 8 percent of the total risk-weighted amount, the capital conservation buffer requirement is 2.5 percent and the countercyclical buffer requirement is 2 percent. These two buffers make up the combined buffer requirement that must be covered by CET1 capital. On 18 September 2018, Finansinspektionen decided to raise the countercyclical buffer to 2.5 percent from 19 September 2019.

### Leverage ratio

The leverage ratio for the consolidated situation amounted to 6.2 percent (6.7). The year-on-year reduction in the leverage ratio was also attributable to the changes described under items I–III in the above section, since these reduced the bank's Tier 1 capital, which is used in the calculation of the bank's Tier 1 capital.

### Internally assessed capital requirement

The internally assessed capital requirement for the consolidated situation was SEK 4.8 billion (5.3). The capital requirement should be compared with own funds for the consolidated situation of SEK 6.2 billion (6.8). The capital adequacy assessment takes into account the minimum capital requirement, the combined buffer requirement and the Pillar II capital requirement. Last year's internally assessed capital requirement included the Pillar II risk-weight floor margin and the estimated impact of the new IRB approach permission for the minimum capital requirement and own funds deductions. Therefore, the differences between own funds and assessed capital requirements vary to a limited degree between the last two years.

<sup>1)</sup> The bank has taken into account the EBA's guidelines (EBA/GL/2017/16), which apply from 2021, regarding MoCs in PD estimates, and Finansinspektionen's memorandum (FI-Ref. 15-13020) regarding the number of downturn years for long-term default rates.

## Capital adequacy analysis

Consolidated situation <sup>1)</sup> SEK thousand	2018	2017
<b>CET1 capital instruments: Instruments and reserves</b>		
Member contributions	1,729,349	1,698,189
Other contributed equity	1,797,796	1,797,796
Tier 1 capital instruments	700,000	700,000
Reserves	-5,589	38,022
Actuarial changes	-23,985	-27,966
Retained earnings	1,604,633	1,542,054
Net profit for the year <sup>2)</sup>	310,086	276,047
<b>Equity in the balance sheet</b>	<b>6,112,290</b>	<b>6,024,142</b>
Deductions related to the consolidated situation and other foreseeable costs	-118,787	-120,962
Deductions for Tier 1 capital instruments classified as equity	-700,000	-700,000
<b>CET1 capital before regulatory adjustments <sup>3)</sup></b>	<b>5,293,503</b>	<b>5,203,180</b>
<b>CET1 capital: regulatory adjustments</b>		
Further value adjustments	-11,038	-55,765
Intangible assets	-143,497	-99,356
Deferred tax assets that rely on future profitability	-2,635	-4,087
Negative amounts resulting from the calculation of expected loss amounts (IRB)	-440,272	-107,327
<b>Total regulatory adjustments to CET1 capital</b>	<b>-597,442</b>	<b>-266,535</b>
<b>CET1 capital</b>	<b>4,696,062</b>	<b>4,936,645</b>
<b>Additional Tier 1 capital: instruments</b>		
Qualifying Tier 1 capital included in consolidated additional Tier 1 capital issued by subsidiaries and held by third parties	567,186	700,000
<b>Tier 1 capital (CET1 capital + Tier 1 capital)</b>	<b>5,263,248</b>	<b>5,636,645</b>
<b>Tier 2 capital: instruments and provisions</b>		
Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third parties	934,598	1,200,000
<b>Tier 2 capital before regulatory adjustments</b>	<b>934,598</b>	<b>1,200,000</b>
<b>Tier 2 capital: regulatory adjustments</b>		
<b>Total regulatory adjustments to Tier 2 capital</b>	<b>-</b>	<b>-</b>
<b>Tier 2 capital</b>	<b>934,598</b>	<b>1,200,000</b>
<b>Own funds (Tier 1 capital + Tier 2 capital)</b>	<b>6,197,846</b>	<b>6,836,645</b>
<b>Total risk-weighted exposure amount</b>	<b>33,664,443</b>	<b>15,595,184</b>
<b>Capital ratios and buffers</b>		
<b>Own funds requirement</b>	<b>2,693,155</b>	<b>1,247,615</b>
CET1 capital ratio (%)	13.9	31.7
Tier 1 capital ratio (%)	15.6	36.1
Total capital ratio (%)	18.4	43.8
Institution-specific CET1 capital requirement including buffer requirements (%)	9.0	9.0
of which capital conservation buffer requirement (%)	2.5	2.5
of which countercyclical buffer requirement (%)	2.0	2.0
CET1 capital available to meet buffers (%) <sup>4)</sup>	9.4	27.2

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

<sup>2)</sup> A decision by Finansinspektionen in February 2018 gave Landshypotek Bank approval, subject to specific terms and conditions in the decision, for using the interim or full-year surplus in own-funds calculations for the institute and also for its consolidated situation.

<sup>3)</sup> This item pertains to the consolidated situation and differs from equity under IFRS in that the proposed dividend's contribution to equity is excluded.

<sup>4)</sup> 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."



## Regulatory capital requirement by risk, approach and exposure class

Consolidated situation 2018 SEK thousand	Exposure value <sup>1)</sup>	Risk-weighted exposure amount <sup>2)</sup>	Own funds requirement <sup>3)</sup>	Average risk weight <sup>4)</sup>
<b>Credit risk – IRB approach</b>	<b>74,231,219</b>	<b>25,317,610</b>	<b>2,025,409</b>	<b>34%</b>
Retail – real estate collateral	45,165,912	6,409,183	512,735	14%
Corporates	29,005,804	18,848,924	1,507,914	65%
Other non-credit-obligation assets	59,504	59,504	4,760	100%
<b>Credit risk – Standardised approach</b>	<b>13,109,929</b>	<b>1,259,684</b>	<b>100,775</b>	<b>10%</b>
Central governments or central banks	16,678	–	–	0%
Regional governments or local authorities	5,267,855	–	–	0%
Institutions	1,756,180	546,061	43,685	31%
Corporates	12,009	12,009	961	100%
Retail	39,937	27,798	2,224	70%
Secured by mortgage liens on immovable property	205,154	91,447	7,316	45%
Exposures in default	843	1,243	99	147%
Covered bonds	5,811,272	581,127	46,490	10%
<b>Operational risk – Basic indicator approach</b>		<b>1,447,606</b>	<b>115,808</b>	
<b>Credit valuation adjustment risk – Standardised approach</b>	<b>1,057,527</b>	<b>754,092</b>	<b>60,327</b>	<b>71%</b>
<b>Additional risk exposure amounts under Article 3 CRR</b>		<b>3,154</b>	<b>252</b>	
<b>Additional stricter prudential requirements based on Article 458 CRR</b>		<b>4,882,295</b>	<b>390,584</b>	
<b>Total</b>	<b>88,398,675</b>	<b>33,664,443</b>	<b>2,693,155</b>	<b>–</b>

Consolidated situation 2017 SEK thousand	Exposure value <sup>1)</sup>	Risk-weighted exposure amount <sup>2)</sup>	Own funds requirement <sup>3)</sup>	Average risk weight <sup>4)</sup>
<b>Credit risk – IRB approach</b>	<b>66,491,392</b>	<b>8,495,282</b>	<b>679,623</b>	<b>13%</b>
Retail – real estate collateral	66,315,621	8,319,511	665,561	13%
Other non-credit-obligation assets	175,771	175,771	14,062	100%
<b>Credit risk – Standardised approach</b>	<b>19,171,983</b>	<b>4,467,812</b>	<b>357,425</b>	<b>23%</b>
Central governments or central banks	46,205	–	–	0%
Regional governments or local authorities	6,211,320	–	–	0%
Institutions	1,645,395	552,289	44,183	34%
Corporates	170,224	169,156	13,532	99%
Retail	57,695	40,573	3,246	70%
Secured by mortgage liens on immovable property	3,734,441	2,964,661	237,173	79%
Exposures in default	7,916	11,255	900	142%
Covered bonds	7,298,786	729,879	58,390	10%
<b>Operational risk – Basic indicator approach</b>		<b>1,366,604</b>	<b>109,328</b>	
<b>Credit valuation adjustment risk – Standardised approach</b>	<b>1,393,580</b>	<b>1,286,858</b>	<b>102,949</b>	<b>92%</b>
<b>Total</b>	<b>86,988,201</b>	<b>15,595,184</b>	<b>1,247,615</b>	<b>–</b>

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

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

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

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

## Capital adequacy analysis

Landshypotek Bank AB SEK thousand	2018	2017
<b>CET1 capital instruments: Instruments and reserves</b>		
Share capital	2,253,000	2,253,000
Other contributed equity	1,016,694	1,016,694
Tier 1 capital instruments	700,000	700,000
Reserves	-5,589	38,022
Retained earnings	1,666,052	1,543,579
Net profit for the year <sup>1)</sup>	294,175	255,309
<b>Equity in the balance sheet</b>	<b>5,924,332</b>	<b>5,806,604</b>
Deductions for Tier 1 capital instruments classified as equity	-700,000	-700,000
<b>CET1 capital before regulatory adjustments</b>	<b>5,224,332</b>	<b>5,106,604</b>
<b>CET1 capital: regulatory adjustments</b>		
Further value adjustments	-11,038	-55,765
Intangible assets	-143,497	-99,356
Deferred tax assets that rely on future profitability	-400	-365
Negative amounts resulting from the calculation of expected loss amounts (IRB)	-440,272	-107,327
<b>Total regulatory adjustments to CET1 capital</b>	<b>-595,207</b>	<b>-262,813</b>
<b>CET1 capital</b>	<b>4,629,125</b>	<b>4,843,790</b>
<b>Additional Tier 1 capital: instruments</b>		
Tier 1 capital instruments classified as equity under applicable accounting standards	700,000	700,000
of which: classified as equity under applicable accounting standards	700,000	700,000
<b>Tier 1 capital (CET1 capital + Tier 1 capital)</b>	<b>5,329,125</b>	<b>5,543,790</b>
<b>Tier 2 capital: instruments and provisions</b>		
Capital instruments and subordinated loans eligible as Tier 2 capital	1,200,000	1,200,000
<b>Tier 2 capital before regulatory adjustments</b>	<b>1,200,000</b>	<b>1,200,000</b>
<b>Tier 2 capital: regulatory adjustments</b>		
<b>Total regulatory adjustments to Tier 2 capital</b>		
<b>Tier 2 capital</b>	<b>1,200,000</b>	<b>1,200,000</b>
<b>Own funds (Tier 1 capital + Tier 2 capital)</b>	<b>6,529,125</b>	<b>6,743,790</b>
<b>Total risk-weighted exposure amount</b>	<b>33,662,773</b>	<b>15,616,557</b>
<b>Capital ratios and buffers</b>		
<b>Own funds requirement</b>	<b>2,693,022</b>	<b>1,249,325</b>
CET1 capital ratio (%)	13.8	31.0
Tier 1 capital ratio (%)	15.8	35.5
Total capital ratio (%)	19.4	43.2
Institution-specific CET1 capital requirement including buffer requirements (%)	9.0	9.0
of which capital conservation buffer requirement (%)	2.5	2.5
of which countercyclical buffer requirement (%)	2.0	2.0
CET1 capital available to meet buffers (%) <sup>2)</sup>	9.3	26.5

<sup>1)</sup> A decision by Finansinspektionen in February 2018 gave Landshypotek Bank approval, subject to specific terms and conditions in the decision, for using the interim or full-year surplus in own-funds calculations for the institute and also for its consolidated situation.

<sup>2)</sup> Calculated as "the bank's CET1 capital less CET1 used to cover the CET1 capital requirement and less any other CET1 items used to cover the tier 1 capital requirement and/or total own funds requirements divided by the total risk-weighted exposure amount."

## Regulatory capital requirement by risk, approach and exposure class

Landshypotek Bank AB 2018 SEK thousand	Exposure value <sup>1)</sup>	Risk-weighted exposure amount <sup>2)</sup>	Own funds requirement <sup>3)</sup>	Average risk weight <sup>4)</sup>
<b>Credit risk – IRB approach</b>	<b>74,229,655</b>	<b>25,316,046</b>	<b>2,025,284</b>	<b>34%</b>
Retail – real estate collateral	45,165,912	6,409,183	512,735	14%
Corporates	29,005,804	18,848,924	1,507,914	65%
Other non-credit-obligation assets	57,940	57,940	4,635	100%
<b>Credit risk – Standardised approach</b>	<b>13,112,561</b>	<b>1,259,579</b>	<b>100,766</b>	<b>10%</b>
Central governments or central banks	16,438	–	–	0%
Regional governments or local authorities	5,271,254	–	–	0%
Institutions	1,755,654	545,955	43,676	31%
Corporates	12,009	12,009	961	100%
Retail	39,937	27,798	2,224	70%
Secured by mortgage liens on immovable property	205,154	91,447	7,316	45%
Exposures in default	843	1,243	99	147%
Covered bonds	5,811,272	581,127	46,490	10%
<b>Operational risk – Basic indicator approach</b>		<b>1,447,606</b>	<b>115,808</b>	
<b>Credit valuation adjustment risk – Standardised approach</b>	<b>1,057,527</b>	<b>754,092</b>	<b>60,327</b>	<b>71%</b>
<b>Additional risk exposure amounts under Article 3 CRR</b>		<b>3,154</b>	<b>252</b>	
<b>Additional stricter prudential requirements based on Article 458 CRR</b>		<b>4,882,295</b>	<b>390,584</b>	
<b>Total</b>	<b>88,399,743</b>	<b>33,662,773</b>	<b>2,693,022</b>	<b>–</b>

Landshypotek Bank AB 2017 SEK thousand	Exposure value <sup>1)</sup>	Risk-weighted exposure amount <sup>2)</sup>	Own funds requirement <sup>3)</sup>	Average risk weight <sup>4)</sup>
<b>Credit risk – IRB approach</b>	<b>66,491,392</b>	<b>8,495,282</b>	<b>679,623</b>	<b>13%</b>
Retail – real estate collateral	66,315,621	8,319,511	665,561	13%
Other non-credit-obligation assets	175,771	175,771	14,062	100%
<b>Credit risk – Standardised approach</b>	<b>19,171,983</b>	<b>4,467,812</b>	<b>357,425</b>	<b>23%</b>
Central governments or central banks	46,205			
Regional governments or local authorities	6,211,320			
Institutions	1,645,395	552,289	44,183	
Corporates	170,224	169,156	13,532	
Retail	57,695	40,573	3,246	
Secured by mortgage liens on immovable property	3,734,441	2,964,661	237,173	
Exposures in default	7,916	11,255	900	
Covered bonds	7,298,786	729,879	58,390	
<b>Operational risk – Basic indicator approach</b>		<b>1,366,604</b>	<b>109,328</b>	
<b>Credit valuation adjustment risk – Standardised approach</b>	<b>1,393,580</b>	<b>1,286,858</b>	<b>102,949</b>	<b>92%</b>
<b>Total</b>	<b>87,056,955</b>	<b>15,616,557</b>	<b>1,249,325</b>	<b>–</b>

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

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

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

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



## Note 4 Net interest income

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
<b>Interest income</b>				
Interest income on loans to credit institutions	-44	-1,699	-44	-1,699
Interest income on loans to the public	1,207,400	1,254,083	1,207,400	1,254,083
Interest income on interest-bearing securities	11,445	31,592	11,445	31,592
of which interest income for financial assets in fair-value hedges	19,916	17,338	19,916	17,338
of which interest income on financial assets at FVTPL	1,566	25,452	1,566	25,452
of which interest income on available-for-sale financial assets	-10,037	-11,199	-10,037	-11,199
Other interest income	10,582	11,855	10,582	11,855
<b>Total interest income</b>	<b>1,229,383</b>	<b>1,295,831</b>	<b>1,229,383</b>	<b>1,295,831</b>
Average interest on loans to the public	1.71%	1.86%	1.71%	1.86%
<b>Interest expenses</b>				
Interest expenses for liabilities to credit institutions — other	7,455	5,109	7,455	5,109
Interest expenses for deposits from the public	-99,206	-87,551	-99,206	-87,551
of which fees for deposit insurance	-9,627	-6,777	-9,627	-6,777
Interest expenses for interest-bearing securities	-427,784	-553,193	-427,783	-553,193
of which interest expenses for financial liabilities in fair value hedges adjusted for the fair value of hedged risk	-550,571	-548,935	-550,571	-548,935
of which interest expenses on interest-bearing securities at amortised cost	-36,627	-85,588	-36,626	-85,588
of which periodisation of the market value created from terminated hedging commitments <sup>1)</sup>	159,414	81,330	159,414	81,330
Interest expenses for subordinated liabilities	-27,258	-34,458	-27,258	-34,458
Interest expenses for derivative instruments	212,428	249,755	212,427	249,755
of which interest expenses on derivatives at FVTPL	25,047	-37,356	25,047	-37,356
of which interest expenses on derivatives identified as hedging instruments	346,795	375,731	346,795	375,731
of which reclassification of terminated hedging relationships <sup>1)</sup>	-159,414	-88,619	-159,415	-88,619
Other interest expenses	-96,041	-75,122	-95,692	-75,070
of which government stabilisation fund fees	-74,791	-56,945	-74,791	-56,945
<b>Total interest expenses</b>	<b>-430,406</b>	<b>-495,459</b>	<b>-430,057</b>	<b>-495,408</b>
<b>Total</b>	<b>798,977</b>	<b>800,372</b>	<b>799,326</b>	<b>800,423</b>

<sup>1)</sup> The item pertains to a reduction in recognised interest expenses from the periodisation of the market value created from hedged risk attributable to fair-value hedging relationships that were terminated in 2013 and 2018. A corresponding amount with a negative impact on earnings, attributable to the decrease in value of hedging instruments (derivatives) in the terminated hedging relationships, has been recognised under Derivatives in Net interest income. The remaining amount to be periodised is SEK 704.7 million, which will continue until May 2031.

All interest income is attributable to the Swedish market

## Note 5 Net result of financial transactions

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
<b>Financial assets at FVTPL</b>				
Realised result of sales of bonds and other interest-bearing securities	-726	10,756	-726	10,756
<b>Available-for-sale financial assets</b>				
Realised result of sales of bonds and other interest-bearing securities	10,305	433	10,305	433
<b>Other financial liabilities</b>				
Realised result on early redemption of own bonds issued	-1,482	-21,613	-1,482	-21,613
<b>Financial liabilities at FVTPL</b>				
Realised result from purchase/sale of derivative contracts	-366	-14,663	-366	-14,663
<b>Total realised result</b>	<b>7,731</b>	<b>-25,087</b>	<b>7,731</b>	<b>-25,087</b>
<b>Financial assets at FVTPL</b>				
Change in value of bonds and other interest-bearing securities	-2,258	-32,445	-2,258	-32,445
Change in value of derivatives with positive market values not included in any hedging relationship	-	-4,072	-	-4,072
<b>Financial liabilities at FVTPL</b>				
Change in value of derivatives with negative market values not included in any hedging relationship	7,265	42,672	7,265	42,672
Of which reclassification of terminated hedging relationships	159,412	89,273	159,412	89,273
<b>Items included in hedging relationships and subject to hedge accounting</b>				
Change in value of bonds in issue included in fair-value hedges	-94,051	294,697	-94,051	294,697
Value change of interest-hedged items in portfolio hedges	-22,613	-45,454	-22,613	-45,454
Change in value of derivatives included in fair-value hedges	300	-10,545	300	-10,545
Change in value of derivatives included in fair-value hedges of which reclassification of terminated hedging relationships <sup>1)</sup>	-38,532	-357,132	-38,532	-357,132
	159,412	83,619	159,412	83,619
<b>Total unrealised result</b>	<b>9,523</b>	<b>-23,006</b>	<b>9,523</b>	<b>-23,006</b>
<b>Total</b>	<b>17,255</b>	<b>-48,093</b>	<b>17,255</b>	<b>-48,093</b>

<sup>1)</sup> The item pertains to a reduction in recognised interest expenses from the periodisation of the market value created from hedged risk attributable to fair-value hedging relationships that were terminated in 2013 and 2018. The remaining amount to be periodised is SEK 704.7 million, which will continue until May 2031.

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

## Note 6 Other operating income

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
Income from property	1,269	1,447	1,269	1,447
Other	3,940	428	3,940	428
<b>Total</b>	<b>5,209</b>	<b>1,875</b>	<b>5,209</b>	<b>1,875</b>

## Note 7 General administrative expenses

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
<b>Personnel costs</b>				
Salaries, etc. to CEO, senior executives and Board of Directors	-19,453	-17,926	-19,453	-17,926
Salaries, etc., to other personnel	-97,449	-93,235	-97,449	-93,235
Provision to profit-sharing foundation	-4,977	-5,346	-4,977	-5,346
Pension costs	-22,208	-20,219	-24,256	-21,625
Social insurance charges	-38,279	-35,121	-38,279	-35,121
Other personnel costs	-8,844	-16,436	-8,844	-16,436
	<b>-191,210</b>	<b>-188,283</b>	<b>-193,258</b>	<b>-189,689</b>
<b>Other administrative expenses</b>				
Travel expenses	-3,160	-3,858	-3,160	-3,858
Telephone and data expenses	-2,246	-2,221	-2,246	-2,221
Office expenses	-3,030	-2,159	-3,030	-2,159
Cost of premises	-18,571	-17,319	-18,571	-17,319
IT expenses	-103,699	-84,442	-103,699	-84,442
Postage	-4,677	-3,871	-4,677	-3,871
Consultants	-41,644	-46,493	-41,679	-46,493
Information expenses	-8,561	-8,199	-8,561	-8,199
Purchased services	-590	-586	-590	-586
Marketing expenses	-21,244	-21,647	-21,244	-21,647
Agencies and associations	-3,291	-3,483	-3,291	-3,483
	<b>-210,713</b>	<b>-194,278</b>	<b>-210,748</b>	<b>-194,278</b>
<b>Fees and expenses to appointed auditors</b>				
Audit assignment	-2,719	-2,763	-2,683	-2,763
Audit activities other than audit assignment	-578	-1,398	-578	-1,398
Tax consultancy	-139	-102	-139	-102
Other services	-328	-1,719	-328	-1,719
	<b>-3,764</b>	<b>-5,982</b>	<b>-3,728</b>	<b>-5,982</b>
<b>Total</b>	<b>-405,687</b>	<b>-388,542</b>	<b>-407,734</b>	<b>-389,948</b>
<b>Specification of pension costs</b>				
Change in provision for pensions	333	5	333	5
Pension premiums	-19,027	-16,437	-19,027	-16,437
of which to senior executives	-3,537	-2,321	-3,537	-2,321
of which to other personnel	-15,490	-14,116	-15,490	-14,116
Directly paid pensions	-948	-961	-948	-961
Payroll and yield taxes attributable to pension costs	-4,615	-4,232	-4,615	-4,232
Defined-benefit pension plans	2,048	1,406	-	-
<b>Total</b>	<b>-22,208</b>	<b>-20,219</b>	<b>-24,256</b>	<b>-21,625</b>

Pension costs in the Group are recognised in accordance with IAS 19, Employee Benefits. Pension costs in Landshypotek Bank AB have been calculated in accordance with the regulations of Sweden's financial supervisory authority.

The company's pension obligations are covered by insurance in Sparinstitutens Pensionskassa and by provisions for pensions covered by credit insurance from FPG (Försäkringsbolaget Pensionsgaranti, mutual). Further information about the pension liability is reported in Note 28.



SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
<b>Number of employees</b>				
Number of male employees	96	91	96	91
Number of female employees	92	91	92	91
<b>Total</b>	<b>188</b>	<b>182</b>	<b>188</b>	<b>182</b>
Average number of salaried employees, including substitutes	190	174	190	174
<b>Directors and senior executives</b>				
Number of directors	10	9	10	9
of whom, men	5	5	5	5
of whom, women	5	4	5	4
Number of senior executives	11	10	11	10
of whom, men	8	7	8	7
of whom, women	3	3	3	3

SEK thousand					
Remuneration and other benefits, 2018	Basic salary/ Board fees	Other benefits	Pension costs	Other com- pensation	Total
Chairman of the Board Henrik Toll	660	–	–	–	660
Board member Hans Heuman	355	–	–	30	385
Board member Johan Trolle Löwen	355	–	–	4	359
Board member Nils-Fredrik Nyblaeus	455	–	–	–	455
Board member Charlotte Önnestedt	355	–	–	–	355
Board member Anna-Karin Celsing	455	–	–	–	455
Board member Synnöve Trygg	355	–	–	1	356
Board member Ann Krumlinde Hyléen	–	–	–	–	0
CEO Per Lindblad	2,898	7	2,535	18	5,458
Acting CEO Catharina Åbjörnsson Lindgren	525	11	218	–	754
Other senior executives (10 persons)	12,647	289	3,537	34	16,507
<b>Total</b>	<b>19,060</b>	<b>307</b>	<b>6,290</b>	<b>86</b>	<b>25,743</b>

Remuneration and other benefits, 2017	Basic salary/ Board fees	Other benefits	Pension costs	Other com- pensation	Total
Chairman of the Board Henrik Toll	678	–	–	–	678
Board member Hans Heuman	355	–	–	32	387
Board member Johan Trolle Löwen	379	–	–	7	386
Board member Nils-Fredrik Nyblaeus	478	–	–	17	495
Board member Charlotte Önnestedt	357	–	–	–	357
Board member Anna-Karin Celsing	465	–	–	–	465
Board member Synnöve Trygg	364	–	–	–	364
CEO Liza Nyberg	1,263	70	435	–	1,768
Acting CEO Catharina Åbjörnsson Lindgren	1,629	31	350	–	2,010
Other senior executives (10 persons)	11,556	201	2,321	43	14,121
<b>Total</b>	<b>17,525</b>	<b>302</b>	<b>3,106</b>	<b>99</b>	<b>21,032</b>

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

A mutual notice period of six months applies for the CEO and Landshypotek Bank. In case of termination by the company, compensation is payable of up to 12-months' remuneration excluding the notice period. In the case of a sale of the business, whereby Landshypotek Bank and the CEO are not in agreement regarding continued employment, compensation of up to 24-months' remuneration is payable excluding the notice period.

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

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

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
<b>Intangible assets</b>				
Amortisation of IT system	-13,641	-10,387	-13,641	-10,387
<b>Tangible non-current assets</b>				
Depreciation of furniture, fixtures and equipment	-2,803	-2,826	-2,803	-2,826
Depreciation of real property	-494	-521	-494	-521
Depreciation of land improvements	-28	-28	-28	-28
Shares				
Impairment of shares in subsidiaries	-	-	-	-
<b>Total</b>	<b>-16,966</b>	<b>-13,762</b>	<b>-16,966</b>	<b>-13,762</b>

## Note 9 Operating expenses

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
Other	-3,120	-150	-3,120	-150
<b>Total</b>	<b>-3,120</b>	<b>-150</b>	<b>-3,120</b>	<b>-150</b>

## Note 10 Net credit losses

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
Change in credit loss allowance, Stage 1	1,092	-	1,092	-
Change in credit loss allowance, Stage 2	11,839	-	11,839	-
of which change in collective credit loss allowance, Stage 2	3,627	-	3,627	-
Collective provisions under IAS 39	-	376	-	376
<b>Net credit losses, non-credit-impaired lending</b>	<b>12,931</b>	<b>376</b>	<b>12,931</b>	<b>376</b>
Change in credit loss allowance, Stage 3	14,666	-	14,666	-
Write-off for the period for confirmed losses	-41,447	-22,802	-41,447	-22,802
Recoveries of previously confirmed losses	5,818	2,754	5,818	2,754
Specific provisions under IAS 39	-	7,184	-	7,184
<b>Net credit losses, credit-impaired lending</b>	<b>-20,963</b>	<b>-12,864</b>	<b>-20,963</b>	<b>-12,864</b>
<b>Total</b>	<b>-8,032</b>	<b>-12,488</b>	<b>-8,032</b>	<b>-12,488</b>

No properties were taken over in foreclosure to protect claims.

### Recognition of loss allowance

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

Each asset is categorised to one of three stages:

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

### Establishing significant increase in credit risk

To establish whether a loan asset has a significantly increased credit risk compared with the credit risk on initial recognition, among other actions, the bank measures how the asset's PD risk class has deteriorated since the asset arose. Classification of an agreement as having a higher risk corresponding to Stage 2 generally requires a risk increase of at least 1–4 PD risk classes. Agreements that were signed at a low level of risk require a greater deterioration in PD risk class to change stages than agreements signed with a higher risk level. Moreover, agreements lacking information regarding the original risk class, and those that are more than 31 days late with a payment are classified as Stage 2. Stage 3 corresponds to default. The bank's definition of default corresponds with that set out in external capital adequacy rules.

### 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 2018). 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.

### 2018 Loans to the public broken down by PD interval

Group and Parent Company, SEK thousand	Stage 1	Stage 2	Stage 3
0.00 to <0.15	13,743,871	3,213,975	–
0.15 to <0.25	17,647,195	1,219,057	–
0.25 to <0.50	17,550,871	959,823	–
0.50 to <0.75	7,065,212	546,981	–
0.75 to <2.50	6,535,663	1,221,492	–
2.50 to <10.00	449,693	1,206,369	–
10.00 to <100	78,441	628,251	–
100 (default)	–	–	525,821
<b>Total</b>	<b>63,070,945</b>	<b>8,995,948</b>	<b>525,821</b>



### Probability weighted macro-economic scenarios

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

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

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

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

Scenario	Expected credit loss
Current loss allowance	SEK 81.5 million
Improved scenario	SEK 80.6 million
Deteriorated scenario	SEK 87.9 million

### Macro scenario assumptions for the next five years

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

Macroeconomic risk factors %	Baseline scenario	Deteriorated scenario	Improved scenario
<b>Interest</b>			
Year 0	-0.58	-0.21	-0.94
Year 1	-0.16	0.47	-0.79
Year 2	0.01	0.82	-0.81
Year 3	0.18	1.14	-0.79
Year 4	0.33	1.43	-0.76
<b>GDP trend</b>			
Year 0	2.80	2.13	3.47
Year 1	2.70	1.75	3.65
Year 2	1.80	0.63	2.97
Year 3	1.50	0.15	2.85
Year 4	1.50	-0.01	3.01
<b>Property index (Value trend since actual valuation)</b>			
Year 0	0.00	0.00	0.00
Year 1	0.00	-5.00	2.00
Year 2	0.00	-9.75	4.04
Year 3	0.00	-14.26	6.12
Year 4	0.00	-18.55	8.24

## Note 11 Income tax on comprehensive income

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
Profit before tax	387,636	339,211	385,938	337,856
Income tax calculated at national tax rates	-85,280	-74,626	-84,906	-74,328
<b>Tax effects of:</b>				
Non-taxable income	102	3	102	3
Non-deductible expenses	-7,066	-8,055	-7,066	-8,055
Adjustment of preceding year's tax expense	116	-167	107	-167
<b>Total income tax related to profit or loss</b>	<b>-92,128</b>	<b>-82,846</b>	<b>-91,763</b>	<b>-82,548</b>
Weighted-average tax rate	23.8%	24.4%	23.8%	24.4%
of which current tax	-91,798	-82,600	-91,798	-82,600
of which deferred tax	-329	-246	35	52
<b>Specification of deferred tax</b>				
Deferred tax relating to pension costs	-364	-298	-	-
Deferred tax relating to depreciation of real property	35	52	35	52
<b>Total change in deferred tax</b>	<b>-329</b>	<b>-246</b>	<b>35</b>	<b>52</b>
The current tax rate for the year was 22 percent (22) for the Group and the Parent Company. Deferred tax amounted to 21.4 percent (22).				
<b>Income tax related to other comprehensive income</b>				
<b>Cross-currency basis spreads in fair value hedges</b>				
Profit/loss before tax	-28,987	-	-28,987	-
Current tax	6,377	-	6,377	-
<b>Profit/loss after tax</b>	<b>-22,610</b>	<b>-</b>	<b>-22,610</b>	<b>-</b>
<b>Fair-value reserve</b>				
Profit/loss before tax	-26,924	20,907	-26,924	20,907
Current tax	5,923	-4,600	5,923	-4,600
<b>Profit/loss after tax</b>	<b>-21,001</b>	<b>16,307</b>	<b>-21,001</b>	<b>16,307</b>
<b>Hedging reserve</b>				
Profit before tax	-	8,620	-	8,620
Deferred tax	-	-1,896	-	-1,896
<b>Profit after tax</b>	<b>-</b>	<b>6,723</b>	<b>-</b>	<b>6,723</b>
<b>Actuarial gains and losses</b>				
Profit/loss before tax	5,104	-14,881	-	-
Deferred tax	-1,123	3,274	-	-
<b>Profit/loss after tax</b>	<b>3,981</b>	<b>-11,607</b>	<b>-</b>	<b>-</b>
<b>Other comprehensive income</b>	<b>-39,629</b>	<b>11,424</b>	<b>-43,611</b>	<b>23,031</b>
Current tax	12,300	-4,600	12,300	-4,600
Deferred tax	-1,123	1,378	-	1,378
<b>Total income tax related to other comprehensive income</b>	<b>11,178</b>	<b>-3,222</b>	<b>12,300</b>	<b>-6,496</b>

## Note 12 Eligible treasury bills

SEK thousand	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Swedish banks	4,962,394	5,559,234	4,962,394	5,559,234
<b>Total</b>	<b>4,962,394</b>	<b>5,559,234</b>	<b>4,962,394</b>	<b>5,559,234</b>
<b>Listed bonds and other interest-bearing securities by category</b>				
Financial assets at FVTPL	–	–	–	–
Financial assets at FVTOCI	4,962,394	5,559,234	4,962,394	5,559,234
<b>Total</b>	<b>4,962,394</b>	<b>5,559,234</b>	<b>4,962,394</b>	<b>5,559,234</b>
<b>Valuation of listed bonds and other interest-bearing securities</b>				
Nominal amount	4,913,000	5,498,000	4,913,000	5,498,000
Amortised cost	4,954,075	5,536,292	4,954,075	5,536,292
Fair value	4,962,394	5,559,234	4,962,394	5,559,234

## Note 13 Loans to credit institutions

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
Loans to banks	539,948	393,346	539,722	393,115
<b>Total</b>	<b>539,948</b>	<b>393,346</b>	<b>539,722</b>	<b>393,115</b>

## Note 14 Loans to the public

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
Loan receivables, stage 1	63,070,945	–	63,070,945	–
Loan receivables, stage 2	8,995,948	–	8,995,948	–
Loan receivables, stage 3	525,821	–	525,821	–
<b>Gross loan receivables</b>	<b>72,592,714</b>	<b>68,537,095</b>	<b>72,592,714</b>	<b>68,537,095</b>
Less credit loss allowance under IFRS 9	-81,503	–	-81,503	–
of which change in collectively measured credit loss allowance	-1	–	-1	–
Less provisions under IAS 39	–	-48,686	–	-48,686
<b>Net loan receivables</b>	<b>72,511,211</b>	<b>68,488,409</b>	<b>72,511,211</b>	<b>68,488,409</b>
<b>Disclosures on overdue loan receivables, gross</b>				
Loan receivables overdue 5–90 days	22,067	4,227	22,067	4,227
Loan receivables overdue more than 90 days	190,692	308,540	190,692	308,540
<b>Total overdue loan receivables, gross</b>	<b>212,759</b>	<b>312,767</b>	<b>212,759</b>	<b>312,767</b>

Group and Parent Company, SEK thousand	Non-credit-impaired lending		Credit- impaired lending	Total
	Stage 1	Stage 2	Stage 3	
<b>Gross loan receivables, 1 Jan. 2018</b>	<b>56,984,968</b>	<b>10,874,585</b>	<b>677,543</b>	<b>68,537,095</b>
Increases in loan receivables due to origination and acquisition	9,759,547	308,913	1,712	10,070,172
Decreases in loan receivables due to derecognition	-4,551,641	-1,151,367	-212,177	-5,915,183
Decrease in loan receivables due to confirmed losses	–	–	-99,370	-99,370
<b>Migration between stages</b>				
from 1 to 2	-1,510,869	1,510,869		–
from 1 to 3	-138,416		138,416	–
from 2 to 1	2,506,988	-2,506,988		–
from 2 to 3		-80,172	80,172	–
from 3 to 2		40,108	-40,108	–
from 3 to 1	20,368		-20,368	–
<b>Gross loan receivables 31 Dec 2018</b>	<b>63,070,945</b>	<b>8,995,948</b>	<b>525,821</b>	<b>72,592,714</b>

Group and Parent Company, SEK thousand	Transi- tion to IFRS 9	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			
Closing provision at 31 Dec 2017 under IAS 39	-48,686						
Reclassification from accrued interest	-20,357						
Remeasurement under IFRS 9	-41,642						
Reclassification under IFRS 9	110,685	-6,917	-33,005	-70,763		-107,134	-3,551
<b>Opening balance at 1 Jan 2018 under IAS 39</b>	<b>–</b>	<b>-6,917</b>	<b>-33,005</b>	<b>-70,763</b>	<b>-110,685</b>	<b>-107,134</b>	<b>-3,551</b>
Increases due to origination and acquisition		-1,207	-2,868	-573	-4,648	-3,701	-947
Decreases due to derecognition		760	6,439	7,689	14,888	12,002	2,887
Decrease in allowance due to write-offs				41,447	41,447	41,447	–
Changes due to change in credit risk		1,591	2,978	-3,213	1,356	1,305	51
Changes due to update in the methodology for estimation		-229	1,294	374	1,439	1,466	-27
<b>Migration between stages</b>							
from 1 to 2		498	-7,754		-7,256	-7,266	10
from 1 to 3		219		-26,077	-25,858	-25,858	–
from 2 to 1		-514	11,265		10,751	10,753	-2
from 2 to 3			964	-5,728	-4,764	-4,764	–
from 3 to 2			-480	486	6	13	-7
from 3 to 1		-26		260	235	235	–
<b>Closing balance 31 Dec 2018</b>	<b>–</b>	<b>-5,825</b>	<b>-21,166</b>	<b>-56,097</b>	<b>-83,088</b>	<b>-81,503</b>	<b>-1,586</b>

The value of the collateral for Stage 3 loan receivables amounted to SEK 1,158,364,000 as of 31 December 2018.



#### Internal Ratings Based (IRB) approach 2018

Group and Parent Company, SEK thousand	Gross loan receivables	Credit loss allowance
<b>Stage 1</b>		
Risk class 1	2,595,840	14
Risk class 2	15,820,845	252
Risk class 3	14,513,961	574
Risk class 4	26,305,682	3,129
Risk class 5	3,576,043	1,416
Risk class 6	250,304	336
Risk class 7	8,271	103
<b>Stage 2</b>		
Risk class 1	1,402,222	57
Risk class 2	2,119,970	223
Risk class 3	858,871	253
Risk class 4	1,703,355	1,294
Risk class 5	1,567,587	5,568
Risk class 6	1,148,380	10,954
Risk class 7	195,563	2,819
<b>Stage 3</b>		
Risk class 8	525,821	56,097
<b>Total</b>	<b>72,592,714</b>	<b>83,088</b>

#### Note 15 Bonds and other interest-bearing securities

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
<b>Listed bonds</b>				
Issued by Swedish municipalities	301,710	624,627	301,710	624,627
Issued by housing finance institutions	5,774,305	7,238,080	5,774,305	7,238,080
of which covered bonds	5,774,305	7,238,080	5,774,305	7,238,080
<b>Total</b>	<b>6,076,015</b>	<b>7,862,707</b>	<b>6,076,015</b>	<b>7,862,707</b>
<b>Listed bonds and other interest-bearing securities by category</b>				
Financial assets at FVTPL	–	322,455	–	322,455
Financial assets at FVTOCI	6,076,015	7,540,252	6,076,015	7,540,252
<b>Total</b>	<b>6,076,015</b>	<b>7,862,707</b>	<b>6,076,015</b>	<b>7,862,707</b>
<b>Valuation of listed bonds and other interest-bearing securities</b>				
Nominal amount	5,910,000	7,550,000	5,910,000	7,550,000
Amortised cost	6,043,776	7,810,171	6,043,776	7,810,171
Fair value	6,076,015	7,862,707	6,076,015	7,862,707

## Note 16 Derivatives

SEK thousand	Group and Parent Company			
	2018		2017	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
<b>Derivatives not included in hedge accounting</b>				
Positive closing value of interest-rate swaps	–	–	800,000	624
Positive closing value of cross-currency interest-rate swaps	–	–	1,375,668	58,493
<b>Total</b>	–	–	<b>2,175,668</b>	<b>59,117</b>
<b>Derivatives included in hedge accounting</b>				
Positive closing value of interest-rate swaps	30,149,780	833,104	15,230,192	865,582
Positive closing value of cross-currency interest-rate swaps	3,114,100	470,873	3,448,036	541,353
<b>Total</b>	<b>33,263,880</b>	<b>1,303,977</b>	<b>18,678,228</b>	<b>1,406,935</b>
<b>Total</b>	<b>33,263,880</b>	<b>1,303,977</b>	<b>20,853,896</b>	<b>1,466,052</b>

## Note 17 Shares and participations in Group companies

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
Hypoteksbanken AB, 1,000 shares with a quotient value of SEK 100	–	–	100	100
Sveriges Allmänna Hypoteksbank AB, 1,000 shares with a quotient value of SEK 100	–	–	100	100
<b>Total</b>	<b>–</b>	<b>–</b>	<b>200</b>	<b>200</b>

All subsidiaries are wholly owned.

Hypoteksbanken, corporate registration number 556370-1100 domiciled in Stockholm.

Sveriges Allmänna Hypoteksbank AB, corporate registration number 556373-4432 domiciled in Stockholm.

## Note 18 Intangible assets

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
Opening accumulated cost	158,222	115,226	158,222	115,226
Purchases during the year	57,783	42,996	57,783	42,996
<b>Closing accumulated cost</b>	<b>216,005</b>	<b>158,222</b>	<b>216,005</b>	<b>158,222</b>
Opening accumulated amortisation	-58,867	-48,479	-58,867	-48,479
Amortisation during the year	-13,641	-10,388	-13,641	-10,388
<b>Closing accumulated amortisation</b>	<b>-72,508</b>	<b>-58,867</b>	<b>-72,508</b>	<b>-58,867</b>
<b>Total</b>	<b>143,497</b>	<b>99,355</b>	<b>143,497</b>	<b>99,355</b>

Intangible non-current assets consist of investments in software.

## Note 19 Tangible assets

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
<b>Equipment</b>				
Opening accumulated cost	31,103	29,259	31,103	29,259
Purchases during the year	260	1,844	260	1,844
<b>Closing accumulated cost</b>	<b>31,363</b>	<b>31,103</b>	<b>31,363</b>	<b>31,103</b>
Opening accumulated depreciation	-22,803	-19,978	-22,803	-19,978
Depreciation during the year	-2,803	-2,825	-2,803	-2,825
<b>Closing accumulated depreciation</b>	<b>-25,606</b>	<b>-22,803</b>	<b>-25,606</b>	<b>-22,803</b>
<b>Total</b>	<b>5,757</b>	<b>8,300</b>	<b>5,757</b>	<b>8,300</b>
<b>Buildings and land</b>				
Opening accumulated cost	15,029	15,429	15,029	15,429
Property foreclosures during the year	-	-	-	-
Sales during the year	-	-400	-	-400
<b>Closing accumulated cost</b>	<b>15,029</b>	<b>15,029</b>	<b>15,029</b>	<b>15,029</b>
Opening accumulated depreciation	-5,514	-4,965	-5,514	-4,965
Depreciation during the year	-521	-549	-521	-549
<b>Closing accumulated depreciation</b>	<b>-6,035</b>	<b>-5,514</b>	<b>-6,035</b>	<b>-5,514</b>
<b>Total</b>	<b>8,994</b>	<b>9,515</b>	<b>8,994</b>	<b>9,515</b>
<b>Total buildings and land</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Operating properties				
Number of properties	1	1	1	1
Estimated fair value	28,000	28,000	28,000	28,000
Properties taken over in foreclosure to protect claims				
Number of properties	-	1	-	1
Estimated fair value	-	400	-	400

## Note 20 Other assets

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
Announced interest and repayments	263	263	263	263
Receivables from Group companies	1,071	3,873	1,071	3,873
Other receivables	13,160	2,963	13,159	2,962
<b>Total</b>	<b>14,495</b>	<b>7,099</b>	<b>14,494</b>	<b>7,098</b>

## Note 21 Deferred tax

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
Deferred tax assets (+)/ liabilities (-)	2,635	4,087	400	365
<b>Total</b>	<b>2,635</b>	<b>4,087</b>	<b>400</b>	<b>365</b>
<b>Specification of deferred tax</b>				
Opening deferred tax receivables on hedging reserve	–	1,896	–	1,896
Change in deferred tax on hedging reserve	–	-1,896	–	-1,896
<b>Closing deferred tax receivables on hedging reserve</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Opening deferred tax on actuarial differences	2,156	-1,118	–	–
Change in deferred tax on actuarial differences	-364	3,274	–	–
<b>Closing deferred tax receivables on actuarial differences</b>	<b>1,792</b>	<b>2,156</b>	<b>–</b>	<b>–</b>
Opening deferred tax receivables on pensions under IAS 19	1,565	1,863	–	–
Change in deferred tax on pensions under IAS 19	-1,122	-298	–	–
<b>Closing deferred tax receivables on pensions under IAS 19</b>	<b>443</b>	<b>1,565</b>	<b>–</b>	<b>–</b>
Opening deferred tax on depreciation of real property	365	313	365	313
Change in deferred tax on depreciation of real property	35	52	35	52
<b>Closing deferred tax on depreciation of real property</b>	<b>400</b>	<b>365</b>	<b>400</b>	<b>365</b>
<b>Total deferred tax assets (+)/liabilities (-)</b>	<b>2,635</b>	<b>4,087</b>	<b>400</b>	<b>365</b>

Deferred tax was calculated using a tax rate of 21.4 percent (22). All items are expected to be settled later than within 12 months.

## Note 22 Prepaid expenses and accrued income

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
Prepaid expenses	27,287	24,091	27,287	24,091
Accrued interest on loans to the public	980	74,143	980	74,143
Accrued interest on interest-bearing instruments	40,595	64,394	40,595	64,394
Accrued interest on derivatives	234,347	269,839	234,347	269,839
Other accrued income	3,636	3,358	3,636	3,358
<b>Total</b>	<b>306,843</b>	<b>435,825</b>	<b>306,843</b>	<b>435,825</b>

## Note 23 Liabilities to credit institutions

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
Swedish banks	514,624	23,906	514,624	23,906
Non-Swedish banks	439,479	400,132	439,479	400,132
<b>Total</b>	<b>954,103</b>	<b>424,038</b>	<b>954,103</b>	<b>424,038</b>

## Note 24 Deposits from the public

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
Deposits from the public	14,149,539	12,675,325	14,149,539	12,675,325
<b>Total</b>	<b>14,149,539</b>	<b>12,675,325</b>	<b>14,149,539</b>	<b>12,675,325</b>



## Note 25 Debt securities issued, etc.

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
Bond loans	62,641,102	62,877,705	62,641,102	62,877,705
<b>Total</b>	<b>62,641,102</b>	<b>62,877,705</b>	<b>62,641,102</b>	<b>62,877,705</b>
<b>Debt securities issued — hedged items in fair-value hedges</b>				
Amortised cost	27,059,054	25,394,210	27,059,054	25,394,210
Fair value adjusted for the change in the fair value of hedged risk	28,335,585	26,368,664	28,335,585	26,368,664

### Fair-value hedges

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

### Cash-flow hedges

The Group hedges parts of its exposure to interest-rate risk, in floating interest financial liabilities, against changes in future cash flows due to interest-rate changes. Interest-rate swaps and cross-currency interest-rate swaps are used for this purpose. All cash-flow hedges were settled in 2017.

## Note 26 Derivatives

SEK thousand	Group and Parent Company			
	2018		2017	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
<b>Derivatives not included in hedge accounting</b>				
Negative closing value of interest-rate swaps	–	–	785,000	34,929
Negative closing value of cross-currency interest-rate swaps	–	–	196,524	4,997
<b>Total</b>	<b>–</b>	<b>–</b>	<b>981,524</b>	<b>39,926</b>
<b>Derivatives included in hedge accounting</b>				
Negative closing value of interest-rate swaps	16,339,000	182,723	30,239,000	331,324
Negative closing value of cross-currency interest-rate swaps	2,272,550	277,868	2,200,880	334,487
<b>Total</b>	<b>18,611,550</b>	<b>460,591</b>	<b>32,439,880</b>	<b>665,811</b>
<b>Total</b>	<b>18,611,550</b>	<b>460,591</b>	<b>33,421,404</b>	<b>705,737</b>

## Note 27 Other liabilities

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
Liabilities to Group companies	198,488	231,245	198,488	231,245
Accounts payable	7,617	24,085	7,617	24,085
Other liabilities	45,502	51,075	44,978	50,552
<b>Total</b>	<b>251,607</b>	<b>306,405</b>	<b>251,083</b>	<b>305,882</b>

## Note 28 Accrued expenses and prepaid income

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
Accrued interest on debt securities issued	248,008	278,239	248,008	278,239
Accrued interest on derivatives	54,537	93,091	54,537	93,091
Other accrued expenses	40,395	20,638	40,395	20,638
Deferred income	1,512	1,537	1,512	1,537
<b>Total</b>	<b>344,452</b>	<b>393,505</b>	<b>344,452</b>	<b>393,505</b>

## Note 29 Provisions

SEK thousand

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

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

The plan is secured through the purchase of occupational pension insurance with the insurance company SPK (Sparinstitutens PensionsKassa). SPK administers pensions and manages assets for pension purposes both for Landshypotek Bank and other employers. Therefore, the Group must establish its share of the plan assets held at SPK. Landshypotek

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

The scope of the saving and risk premiums that SPK will invoice for are determined by the premium assumptions applied by SPK. These include assumptions pertaining to mortality, interest rates, operating and safety supplements, etc. Landshypotek does not itself apply any matching strategy between the assets and liabilities since its ownership of the assets is indirect through its share in the collective investment assets in SPK.

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

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
<b>Balance-sheet obligations pertaining to:</b>				
Defined-benefit pension plans	10,906	17,712	986	1,319
of which, present value of funded obligations	372,849	363,176	–	–
of which, fair value of plan assets	-361,943	-345,464	–	–
<b>Asset (-)/liability (+) in the balance sheet<sup>1)</sup></b>	<b>10,906</b>	<b>17,712</b>	<b>986</b>	<b>1,319</b>
<b>Recognitions in operating profit pertaining to:</b>				
Defined-benefit pension plans	1,702	1,356		
<b>Total <sup>2)</sup></b>	<b>1,702</b>	<b>1,356</b>		
<b>Remeasurement of actuarial gain/loss in other comprehensive income pertaining to:</b>				
Defined-benefit pension plans	-5,104	14,881		
<b>Total</b>	<b>-5,104</b>	<b>14,881</b>		

<sup>1)</sup> Surpluses are recognised under other assets; refer to Note 20.

<sup>2)</sup> Recognitions in operating profit include service costs for the current year, interest expenses, fees/premiums and payroll tax.

SEK thousand	Present value of the obligation	Fair value of plan assets	Total
<b>Opening balance, 1 January 2017</b>	<b>353,168</b>	<b>-348,975</b>	<b>4,193</b>
Service costs for 2017	4,320	–	4,320
Interest expenses/(income)	9,118	-9,068	50
Service costs for previous years and gains and losses from settlements	1,662	–	1,662
<b>Total Costs</b>	<b>368,268</b>	<b>-358,043</b>	<b>10,225</b>
<b>Remeasurements:</b>			
Return on plan assets	14,985	-104	14,881
<b>Total remeasurements</b>	<b>14,985</b>	<b>-104</b>	<b>14,881</b>
<b>Fees</b>			
Employer	–	-5,760	-5,760
<b>Payments from the plan</b>			
Benefits paid	-20,077	18,443	-1,634
<b>Closing balance, 31 December 2017</b>	<b>363,176</b>	<b>-345,464</b>	<b>17,712</b>
<b>Opening balance, 1 January 2018</b>	<b>363,176</b>	<b>-345,464</b>	<b>17,712</b>
Service costs for 2018	4,724	–	4,724
Interest expenses/(income)	8,853	-8,507	346
Service costs for previous years and gains and losses from settlements	–	–	–
<b>Total Costs</b>	<b>376,753</b>	<b>-353,971</b>	<b>22,782</b>
<b>Remeasurements:</b>			
Return on plan assets	14,021	-19,125	-5,104
<b>Total remeasurements</b>	<b>14,021</b>	<b>-19,125</b>	<b>-5,104</b>
<b>Fees</b>			
Employer	–	-5,086	-5,086
<b>Payments from the plan</b>			
Benefits paid	-17,925	16,239	-1,686
<b>Closing balance, 31 December 2018</b>	<b>372,849</b>	<b>-361,943</b>	<b>10,906</b>

Budgeted fees under the plan for 2019 amount to SEK 4,819 million.

	2018	2017
Total gain/loss (+/-), obligation	-14,021	-14,985
of which gain/loss (+/-), experience-based effects	5,582	-4,271
of which gain/loss (+/-), changed demographic assumptions	–	-3,647
of which gain/loss (+/-), changed financial assumptions	-19,603	-7,067
Gain/loss (+/-), plan assets	19,125	104
<b>Actuarial gain/loss (+/-) during the period</b>	<b>5,104</b>	<b>-14,881</b>

**The key actuarial assumptions were as follows:**

	2018	2017
Discount rate	2.2%	2.5%
Salary increases	3.6%	3.6%
Pension increases	1.8%	1.8%

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

SEK thousand	2018	2017
<b>Retirement at the end of the reporting period:</b>		
Men	22	22
Women	24	24
<b>Retirement 20 years after the end of the reporting period:</b>		
Men	22	22
Women	24	24

The sensitivity of the defined-benefit obligation to changes in significant weighted assumptions is a change of one percentage point assuming all other factors are unchanged.

Assumptions	Present value of the obligation, 2018	Increase
Baseline scenario	372,849	
A 0.5 percentage point decrease in the discount rate	403,921	8.3%
A 0.5 percentage point increase in expected indexing of benefits	403,106	8.1%
A 0.5 percentage point increase in expected future salary increases	379,595	1.8%
A 20 percent decrease in mortality intensity	401,442	7.7%
Increase in the expected utilization rate for early retirement under the pension agreement from 20 to 40 percent.	374,805	0.5%

Distribution of the present value of the obligation, SEK thousand	2018	2017
Active members	84,600	72,537
Deferred members	76,890	64,531
Retired plan members	211,359	226,108
<b>Total</b>	<b>372,849</b>	<b>363,176</b>

Number of individuals included in the valuation	2018	2017
Active members	35	40
Deferred members	138	138
Retired plan members	120	126
<b>Total</b>	<b>293</b>	<b>304</b>

#### Maturity analysis undiscounted cash flows

Pension payments and payment of special payroll tax pertaining to the latent payroll tax liability. Pertaining to pension entitlement earned as per the balance sheet date under IAS 19.

At 31 December 2018	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Later than 5 years	Total
Pension payments	15,209	14,799	45,982	462,005	537,995
Special payroll tax (only pertaining to the latent payroll tax liability)	585	567	1,603	5,834	8,589
<b>Total</b>	<b>15,794</b>	<b>15,366</b>	<b>47,585</b>	<b>467,839</b>	<b>546,584</b>

At 31 December 2017	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Later than 5 years	Total
Pension payments	16,670	15,421	45,850	472,240	550,181
Special payroll tax (only pertaining to the latent payroll tax liability)	716	684	1,873	6,019	9,292
<b>Total</b>	<b>17,386</b>	<b>16,105</b>	<b>47,723</b>	<b>478,259</b>	<b>559,473</b>

Weighted average duration of pension obligations, years	2018	2017
Weighted average duration of pension obligations	17.8	17.7

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

#### Allocation of plan assets

Note that Landshypotek owns the assets in SPK indirectly through insurance agreements. The allocation of investment assets in SPK follow, below.

Share by asset class	2018	2017
Shares	19.8%	19.5%
Interest-bearing, incl. cash funds	55.9%	63.3%
Alternative investments, real assets and derivatives	24.3%	17.2%



## Note 30 Subordinated liabilities

SEK thousand			Group		Parent Company	
			2018	2017	2018	2017
<b>Due date</b>	<b>Nominal amount</b>	<b>Interest</b>				
2021/2026	1,200,000,000	3M STIBOR + 2.70%	1,200,000	1,200,000	1,200,000	1,200,000
<b>Total</b>			<b>1,200,000</b>	<b>1,200,000</b>	<b>1,200,000</b>	<b>1,200,000</b>

## Note 31 Changes in Equity

SEK thousand		Group		Parent Company	
		2018	2017	2018	2017
<b>Change in hedging reserve</b>					
Hedging reserve, opening balance		–	-6,723	–	-6,723
Change in fair value over the year		–	1,557	–	1,557
Transfer to profit or loss		–	7,063	–	7,063
Deferred tax on change for the year		–	-1,896	–	-1,896
<b>Hedging reserve, closing balance</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Cross-currency basis spreads in fair value hedges</b>					
Cross-currency basis spreads in fair value hedges, opening balance		–	–	–	–
Change in fair value over the year		-28,987	–	-28,987	–
Transfer to profit or loss		–	–	–	–
Tax on change for the year		6,377	–	6,377	–
<b>Cross-currency basis spreads in fair value hedges, closing balance</b>		<b>-22,610</b>	<b>–</b>	<b>-22,610</b>	<b>–</b>
<b>Change in fair-value reserve</b>					
Fair-value reserve, opening balance		38,022	21,714	38,022	21,714
Change in fair value over the year		-29,062	21,126	-29,062	21,126
Transfer to profit or loss		2,138	-219	2,138	-219
Tax on change for the year		5,923	-4,600	5,923	-4,600
<b>Fair-value reserve, closing balance</b>		<b>17,021</b>	<b>38,022</b>	<b>17,021</b>	<b>38,022</b>
<b>Actuarial gains and losses</b>					
Actuarial gains and losses, opening balance		-27,965	-16,358	–	–
Change for the year		5,104	-14,881	–	–
Tax on change for the year		-1,123	3,274	–	–
<b>Actuarial gains and losses, closing balance</b>		<b>-23,984</b>	<b>-27,965</b>	<b>–</b>	<b>–</b>
<b>Total reserves at year end</b>		<b>-29,573</b>	<b>10,057</b>	<b>-5,589</b>	<b>38,022</b>

## Note 32 Pledged assets, contingent liabilities and other obligations

SEK thousand		Group		Parent Company	
		2018	2017	2018	2017
<b>Pledged assets</b>		<b>None</b>	<b>None</b>	<b>None</b>	<b>None</b>
<b>Contingent liabilities</b>					
Försäkringsbolaget Pensionsgaranti, FPG		20	26	20	26
Bank guarantees		30,426	65,981	30,426	65,981
<b>Total</b>		<b>30,446</b>	<b>66,007</b>	<b>30,446</b>	<b>66,007</b>
<b>Other obligations</b>					
Flexible first lien mortgage loans, granted unutilised amount		562,368	553,326	562,368	553,326
<b>Total</b>		<b>562,368</b>	<b>553,326</b>	<b>562,368</b>	<b>553,326</b>

## Note 33 Financial assets and liabilities by category

SEK thousand	Group					
	Financial assets at amortised cost	Financial assets at FVTPL	Financial assets at FVTOCI	Financial liabilities at amortised cost	Financial liabilities at FVTPL	Derivatives identified as hedging instruments
<b>2018</b>						
<b>Assets</b>						
Eligible treasury bills, etc.			4,962,394			
Loans to credit institutions	539,948					
Loans to the public	72,511,211					
Bonds and other interest-bearing securities			6,076,015			
Derivatives						1,303,977
<b>Total financial assets</b>	<b>73,051,159</b>	<b>-</b>	<b>11,038,409</b>	<b>-</b>	<b>-</b>	<b>1,303,977</b>
<b>Liabilities</b>						
Liabilities to credit institutions				954,103		
Deposits from the public				14,149,539		
Debt securities issued, etc.				62,641,102		
Derivatives						460,591
Subordinated liabilities				1,200,000		
Other liabilities				206,105		
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>79,150,850</b>	<b>-</b>	<b>460,591</b>

SEK thousand	Group					
	Measured at FVTPL	Available-for-sale financial assets	Loans and receivables	Other financial liabilities	Liabilities in fair-value hedges adjusted for the fair value of hedged risk	Derivatives identified as hedging instruments
<b>2017</b>						
<b>Assets</b>						
Eligible treasury bills, etc.		5,559,234				
Loans to credit institutions			393,346			
Loans to the public			68,488,409			
Bonds and other interest-bearing securities	322,455	7,540,252				
Derivatives	59,117					1,406,935
<b>Total financial assets</b>	<b>381,572</b>	<b>13,099,486</b>	<b>68,881,755</b>	<b>-</b>	<b>-</b>	<b>1,406,935</b>
<b>Liabilities</b>						
Liabilities to credit institutions				424,038		
Deposits from the public				12,675,325		
Debt securities issued, etc.				36,509,041	26,368,664	
Derivatives	39,926					665,811
Subordinated liabilities				1,200,000		
Other liabilities				255,330		
<b>Total financial liabilities</b>	<b>39,926</b>	<b>-</b>	<b>-</b>	<b>51,063,734</b>	<b>26,368,664</b>	<b>665,811</b>

SEK thousand	Parent Company					
	Financial assets at amortised cost	Financial assets at FVTPL	Financial assets at FVTOCI	Financial liabilities at amortised cost	Financial liabilities at FVTPL	Derivatives identified as hedging instruments
<b>2018</b>						
<b>Assets</b>						
Eligible treasury bills, etc.			4,962,394			
Loans to credit institutions	539,722					
Loans to the public	72,511,211					
Bonds and other interest-bearing securities			6,076,015			
Derivatives						1,303,977
<b>Total financial assets</b>	<b>73,050,933</b>	<b>–</b>	<b>11,038,409</b>	<b>–</b>	<b>–</b>	<b>1,303,977</b>
<b>Liabilities</b>						
Liabilities to credit institutions				954,103		
Deposits from the public				14,149,539		
Debt securities issued, etc.				62,641,102		
Derivatives						460,591
Subordinated liabilities				1,200,000		
Other liabilities				206,105		
<b>Total financial liabilities</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>79,150,850</b>	<b>–</b>	<b>460,591</b>

SEK thousand	Parent Company					
	Measured at FVTPL	Available-for-sale financial assets	Loans and receivables	Other financial liabilities	Liabilities in fair-value hedges adjusted for the fair value of hedged risk	Derivatives identified as hedging instruments
<b>2017</b>						
<b>Assets</b>						
Eligible treasury bills, etc.		5,559,234				
Loans to credit institutions			393,115			
Loans to the public			68,488,409			
Bonds and other interest-bearing securities	322,455	7,540,252				
Derivatives	59,117					1,406,935
<b>Total financial assets</b>	<b>381,572</b>	<b>13,099,486</b>	<b>68,881,524</b>	<b>–</b>	<b>–</b>	<b>1,406,935</b>
<b>Liabilities</b>						
Liabilities to credit institutions				424,038		
Deposits from the public				12,675,325		
Debt securities issued, etc.				36,509,041	26,368,664	
Derivatives	39,926					665,811
Subordinated liabilities				1,200,000		
Other liabilities				255,330		
<b>Total financial liabilities</b>	<b>39,926</b>	<b>–</b>	<b>–</b>	<b>51,063,734</b>	<b>26,368,664</b>	<b>665,811</b>

## Note 34 Fair value disclosures

SEK thousand	Group			
	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Eligible treasury bills	4,962,394	4,962,394	5,559,234	5,559,234
Loans to credit institutions	539,948	539,948	393,346	393,346
Loans to the public	72,511,211	73,879,725	68,488,409	69,520,140
Bonds and other interest-bearing securities	6,076,015	6,076,015	7,862,707	7,862,707
Derivatives	1,303,977	1,303,977	1,466,052	1,466,052
<b>Total assets</b>	<b>85,393,546</b>	<b>86,762,059</b>	<b>83,769,748</b>	<b>84,801,479</b>
<b>Liabilities and provisions</b>				
Liabilities to credit institutions	954,103	954,103	424,038	424,038
Deposits from the public	14,149,539	14,149,539	12,675,325	12,675,325
Debt securities issued, etc.	62,641,102	63,293,652	62,877,705	63,933,290
Derivatives	460,591	460,591	705,737	705,737
Subordinated liabilities	1,200,000	1,241,088	1,200,000	1,271,340
Other liabilities	206,105	206,105	255,330	255,330
<b>Total liabilities</b>	<b>79,611,440</b>	<b>80,305,078</b>	<b>78,138,135</b>	<b>79,265,060</b>

SEK thousand	Parent Company			
	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Eligible treasury bills	4,962,394	4,962,394	5,559,234	5,559,234
Loans to credit institutions	539,722	539,722	393,115	393,115
Loans to the public	72,511,211	73,879,725	68,488,409	69,520,140
Bonds and other interest-bearing securities	6,076,015	6,076,015	7,862,707	7,862,707
Derivatives	1,303,977	1,303,977	1,466,052	1,466,052
<b>Total assets</b>	<b>85,393,320</b>	<b>86,761,833</b>	<b>83,769,517</b>	<b>84,801,248</b>
<b>Liabilities and provisions</b>				
Liabilities to credit institutions	954,103	954,103	424,038	424,038
Deposits from the public	14,149,539	14,149,539	12,675,325	12,675,325
Debt securities issued, etc.	62,641,102	63,293,652	62,877,705	63,933,290
Derivatives	460,591	460,591	705,737	705,737
Subordinated liabilities	1,200,000	1,241,088	1,200,000	1,271,340
Other liabilities	206,105	206,105	255,330	255,330
<b>Total liabilities</b>	<b>79,611,440</b>	<b>80,305,078</b>	<b>78,138,135</b>	<b>79,265,060</b>

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



## Note 35 Fair-value hierarchy for financial instruments

SEK thousand	Group							
	2018				2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets at FVTPL</b>								
Bonds and other interest-bearing securities				–	322,455			322,455
Interest-rate swaps				–		624		624
Cross-currency interest-rate swaps				–		58,493		58,493
<b>Financial assets at FVTOCI</b>								
Eligible treasury bills, etc.	4,962,394			4,962,394				–
Bonds and other interest-bearing securities	6,076,015			6,076,015				–
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		833,104		833,104		865,582		865,582
Cross-currency interest-rate swaps		470,872		470,872		541,353		541,353
<b>Available-for-sale financial assets</b>								
Eligible treasury bills, etc.				–	5,559,234			5,559,234
Bonds and other interest-bearing securities				–	7,540,252			7,540,252
<b>Total assets measured at fair value</b>	<b>11,038,409</b>	<b>1,303,976</b>	<b>–</b>	<b>12,342,385</b>	<b>13,421,941</b>	<b>1,466,052</b>	<b>–</b>	<b>14,887,993</b>
<b>Financial liabilities at FVTPL</b>								
Interest-rate swaps				–		34,929		34,929
Cross-currency interest-rate swaps				–		4,997		4,997
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		182,723		182,723		331,324		331,324
Cross-currency interest-rate swaps		277,868		277,868		334,487		334,487
<b>Total liabilities measured at fair value</b>	<b>–</b>	<b>460,591</b>	<b>–</b>	<b>460,591</b>	<b>–</b>	<b>705,737</b>	<b>–</b>	<b>705,737</b>

SEK thousand	Parent Company							
	2018				2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets at FVTPL</b>								
Bonds and other interest-bearing securities				–	322,455			322,455
Interest-rate swaps				–		624		624
Cross-currency interest-rate swaps				–		58,493		58,493
<b>Financial assets at FVTOCI</b>								
Eligible treasury bills, etc.	4,962,394			4,962,394	5,559,234			5,559,234
Bonds and other interest-bearing securities	6,076,015			6,076,015	7,540,252			7,540,252
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		833,104		833,104		865,582		865,582
Cross-currency interest-rate swaps		470,872		470,872		541,353		541,353
<b>Available-for-sale financial assets</b>								
Eligible treasury bills, etc.				–				–
Bonds and other interest-bearing securities				–				–
<b>Total assets measured at fair value</b>	<b>11,038,409</b>	<b>1,303,976</b>	<b>–</b>	<b>12,342,385</b>	<b>13,421,941</b>	<b>1,466,052</b>	<b>–</b>	<b>14,887,993</b>
<b>Financial liabilities at FVTPL</b>								
Interest-rate swaps				–		34,929		34,929
Cross-currency interest-rate swaps				–		4,997		4,997
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		182,723		182,723		331,324		331,324
Cross-currency interest-rate swaps		277,868		277,868		334,487		334,487
<b>Total liabilities measured at fair value</b>	<b>–</b>	<b>460,591</b>	<b>–</b>	<b>460,591</b>	<b>–</b>	<b>705,737</b>	<b>–</b>	<b>705,737</b>

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 36 Assets and liabilities by significant currencies

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
<b>Assets</b>				
Loans to credit institutions – EUR	416,554	400,133	416,554	400,133
<b>Total assets</b>	<b>416,554</b>	<b>400,133</b>	<b>416,554</b>	<b>400,133</b>
<b>Liabilities</b>				
Liabilities to credit institutions – EUR	416,554	400,133	416,554	400,133
Debt securities issued – CHF	–	1,689,677	–	1,689,677
Debt securities issued – EUR	4,159,980	3,639,883	4,159,980	3,639,883
Debt securities issued – NOK	1,788,220	2,340,693	1,788,220	2,340,693
<b>Total liabilities</b>	<b>6,364,754</b>	<b>8,070,386</b>	<b>6,364,754</b>	<b>8,070,386</b>

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

### Note 37 Change in cash and cash equivalents

SEK thousand	Group		Parent Company	
	2018	2017	2018	2017
Loans to credit institutions at beginning of year	393,346	592,071	393,115	591,839
Loans to credit institutions at year end	539,948	393,346	539,722	393,115
<b>Total change in cash and cash equivalents</b>	<b>146,602</b>	<b>-198,725</b>	<b>146,607</b>	<b>-198,724</b>

## Note 38 Offsetting disclosures

SEK thousand

Group and Parent Company

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

	Group and Parent Company				Net amounts 31 Dec 2018
	Amount recognised in the balance sheet 31 Dec 2018	Financial instruments subject to ISDA agreements	Paid (+) Received (-) collateral – securities	Paid (+) Received (-) cash – collateral	
<b>Assets</b>					
Derivatives, fair value	1,303,977	-259,445			
Derivatives, accrued interest	185,644	-40,234			
<b>Derivatives, total value including accrued interest</b>	<b>1,489,621</b>	<b>-299,679</b>	<b>–</b>	<b>-439,479</b>	<b>750,463</b>
<b>Reverse repos</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Liabilities</b>					
Derivatives, fair value	-460,591	259,445			
Derivatives, accrued interest	-5,835	40,234			
<b>Derivatives, total value including accrued interest</b>	<b>-466,426</b>	<b>299,679</b>	<b>–</b>	<b>–</b>	<b>-166,747</b>
<b>Reverse repos</b>	<b>-514,624</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>-514,624</b>

	Group and Parent Company				Net amounts 31 Dec 2017
	Amount recognised in the balance sheet 31 Dec 2017	Financial instruments subject to ISDA agreements	Paid (+) Received (-) collateral – securities	Paid (+) Received (-) cash – collateral	
<b>Assets</b>					
Derivatives, fair value	1,466,052	-401,405			
Derivatives, accrued interest	269,839	-93,088			
<b>Derivatives, total value including accrued interest</b>	<b>1,735,891</b>	<b>-494,493</b>	<b>–</b>	<b>-379,760</b>	<b>861,638</b>
<b>Reverse repos</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Liabilities</b>					
Derivatives, fair value	-705,737	401,405			
Derivatives, accrued interest	-93,088	93,088			
<b>Derivatives, total value including accrued interest</b>	<b>-798,825</b>	<b>494,493</b>	<b>–</b>	<b>–</b>	<b>-304,332</b>
<b>Reverse repos</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

### Amount recognised in the balance sheet

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

### Financial instruments

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

### Cash collateral received

Under contracted International Swaps and Derivatives Association (ISDA) agreements, Landshypotek has the right to receive cash collateral for positive market values from counterparties

whose ratings fall below a minimum agreed level. Moreover, Landshypotek is obliged to collect cash collateral from all counterparties for positive market values on derivative contracts entered into after 1 March 2017. Such collateral is paid in cash to Landshypotek Bank's bank account and is recognised as a liability to the respective counterparty in the balance sheet. Paid-in collateral eliminates risk in positive exposures. If the counterparty defaults, Landshypotek Bank will utilise the paid-in cash collateral.

### Net amounts

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



## Note 39 Related-party disclosures

SEK thousand
<b>Lending to key personnel</b>
CEO and senior executives
Board of Directors
<b>Total</b>

Group			
2018		2017	
Lending	Interest income	Lending	Interest income
2,411	15	6,171	12
114,297	2,007	115,015	2,019
<b>116,708</b>	<b>2,022</b>	<b>121,186</b>	<b>2,031</b>

SEK thousand
<b>Deposits from key personnel</b>
CEO and senior executives
Board of Directors
<b>Total</b>

Group			
2018		2017	
Deposits	Interest expense	Deposits	Interest expense
3,563	23	2,592	16
13,429	70	12,705	58
<b>16,992</b>	<b>93</b>	<b>15,297</b>	<b>74</b>

SEK thousand
<b>Lending to key personnel</b>
CEO and senior executives
Board of Directors
<b>Total</b>

Parent Company			
2018		2017	
Lending	Interest income	Lending	Interest income
2,411	15	6,171	12
114,297	2,007	115,015	2,019
<b>116,708</b>	<b>2,022</b>	<b>121,186</b>	<b>2,031</b>

SEK thousand
<b>Deposits from key personnel</b>
CEO and senior executives
Board of Directors
<b>Total</b>

Parent Company			
2018		2017	
Deposits	Interest expense	Deposits	Interest expense
3,563	23	2,592	16
13,429	70	12,705	58
<b>16,992</b>	<b>93</b>	<b>15,297</b>	<b>74</b>

### Lending

Permanent employees of Landshypotek are able to borrow money at advantageous terms. The types of loans include both secured and unsecured loans. All lending is subject to customary credit approval processes and the highest amount for which advantageous terms are available is SEK 4 million. Credit information is obtained from Upplysningscentralen (UC). These loans may be subject to taxation as benefits. Since June 2017, unsecured loans have not been available. Loans taken prior to that date will expire at the end of the loan term. The interest rate is 0.37% for 2018. Loans of up to 75% of the LTV ratio are granted against collateral in agricultural properties, houses, tenant-owned apartments and holiday homes. Capital repayment plans apply for these loans over a maximum period of 40 years. The fixed-rate periods are one, two, three, four and five years. The applicable interest rates are:

- 1 year 0.37%
- 2 years 0.51%
- 3 years 0.69%
- 4 years 0.86%
- 5 years 1.01%

### Deposits

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

## Note 40 Transition to IFRS 9

Classification and measurement SEK thousand	IAS 39		IFRS 9	
	Measurement category	Carrying amount	Measurement category	Carrying amount
<b>Financial assets</b>				
Eligible treasury bills, etc.	Available-for-sale financial assets	5,559,234	Financial assets at FVTOCI	5,559,234
Loans to credit institutions	Loans and receivables	393,346	Financial assets at amortised cost	393,346
Loans to the public	Loans and receivables	68,488,409	Financial assets at amortised cost	68,520,205
Prepaid expenses and accrued income <sup>1)</sup>	Loans and receivables	435,825	Financial assets at amortised cost	362,387
Bonds and other interest-bearing securities	Financial assets at FVTPL	322,455	Financial assets at FVTPL	322,455
	Available-for-sale financial assets	7,540,252	Financial assets at FVTOCI	7,540,252
Deferred tax assets		4,087		13,248
Derivatives	Financial assets at FVTPL	59,117	Financial assets at FVTPL	59,117
Derivatives	Derivatives identified as hedging instruments	1,406,935	Derivatives identified as hedging instruments	1,406,935

<sup>1)</sup> Provisions for credit losses pertaining to interest, IAS 39

### Summary of balance-sheet items

SEK thousand	Carrying amount IAS 39 31 Dec 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 1 Jan 2018
<b>Amortised cost</b>				
<b>Loans to the public</b>				
Closing balance IAS 39	68,488,409			
Provisions for credit losses		-20,357 <sup>1)</sup>	-41,642	
Interest-bearing receivables overdue		93,795		
<b>Opening balance IFRS 9</b>				<b>68,520,205</b>
<b>Deferred tax assets</b>				
Closing balance IAS 39	4,087			
Tax effect of provisions for credit losses			9,161	
<b>Opening balance IFRS 9</b>				<b>13,248</b>
<b>Prepaid expenses and accrued income</b>				
Closing balance IAS 39	435,925			
Provisions for credit losses		20,357		
Interest-bearing receivables overdue		-93,795		
<b>Opening balance IFRS 9</b>				<b>362,387</b>
<b>Total financial assets at amortised cost</b>	<b>68,928,421</b>	<b>-</b>	<b>-32,481</b>	<b>68,895,840</b>

<sup>1)</sup> Provisions for credit losses pertaining to interest, IAS 39

### Tax effect of provisions for credit losses

SEK thousand	Carrying amount IAS 39 31 Dec 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 1 Jan 2018
<b>Amortised cost</b>				
Loans to the public	-48,686	-20,357	-41,642	-110,685
Prepaid expenses and accrued income	-20,357	20,357		-
<b>Total financial assets at amortised cost</b>	<b>-69,043</b>	<b>-</b>	<b>-41,642</b>	<b>-110,685</b>
<b>Financial assets at FVTOCI</b>				
Bonds and other interest-bearing securities	-		-82	-82
<b>Total financial assets at FVTOCI</b>	<b>-</b>	<b>-</b>	<b>-82</b>	<b>-82</b>

## Note 41 Appropriation of earnings

### SEK

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

Retained earnings	1,783,625,006
Group contributions	-157,900,000
Tax effect of Group contribution	34,738,000
Net profit for the year	294,175,004
	<b>1,954,638,010</b>

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

To be carried forward	1,954,638,010
	<b>1,954,638,010</b>

Conditional on the approval of the Annual General Meeting, a Group contribution has been paid in the amount of SEK 157,900,000, which has reduced unrestricted equity as of the balance sheet date by SEK 123,162,000 after taking the tax effect into account. Unrealised changes in the value of assets

and liabilities measured at fair value had a net negative impact on equity of SEK 151,547,454.

The Board of Directors is of the opinion that the proposed dividend, in the form of a Group contribution, does not compromise the company's or the Group's ability to discharge its obligations in the short and long term, nor to make any necessary investments. The proposed transfer of value can therefore be justified considering that stated in Chapter 17, Section 3, paragraphs 2–3 of the Swedish Companies Act. The Board of Directors proposes that the year's funds at the disposal of the Annual General Meeting, SEK 1,954,638,010, be carried forward.

The Board of Directors and CEO hereby certify that the consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and provide a fair representation of the Group's position and performance.

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

Stockholm, 12 March 2019

Henrik Toll  
*Chairman*

Anna-Karin Celsing  
*Member*

Hans Heuman  
*Member*

Ann Krumlinde Hyléen  
*Member*

Nils-Fredrik Nyblæus  
*Member*

Johan Trolle-Löwen  
*Member*

Synnöve Trygg  
*Member*

Charlotte Önnestedt  
*Member*

Helena Andersson  
*Member/Employee Representative*

Hans Broberg  
*Member/Employee Representative*

Per Lindblad  
*CEO*

Our auditor's report was submitted on 12 March 2019  
Öhrlings PricewaterhouseCoopers AB

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

Sofie Nordenborg  
*Authorised Public Accountant*

# Auditor's report (unofficial translation)

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

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### Opinions

We have audited the annual accounts and consolidated accounts of Landshypotek Bank AB (publ) for the year 2018 except for the corporate governance statement and the statutory sustainability report on pages 39–53 and 31–38 respectively. The annual accounts and consolidated accounts of the company are included on pages 25–112 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the Parent Company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the Group as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not cover the corporate governance statement and the statutory sustainability report on pages 39–53 and 31–38 respectively. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the Parent Company and the Group.

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

### Basis for Opinions

#### Basis for Opinions

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

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

### Audit scope

#### Our audit approach

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

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

#### Materiality

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

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

### Key audit matters

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



*Provision for credit losses*

The provision for expected credit losses is highly dependent on the company's assessments and estimates. Loans are allocated to three separate categories depending on the level of credit risk or change in credit risk for each individual loan. For loans with no material credit impairment, stage 1, the expected credit loss (ECL) is calculated for expected default events within the next 12 months. For loans with a material credit impairment, stage 2, or loans in default, stage 3, the ECL is calculated for lifetime incurred and expected default events.

The ECLs are calculated as a function of the probability of default, exposure at default, loss given default and the timing of default. These calculations are central to the assessment of any impairment need for loans to customers.

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

Our audit included a combination of tests of internal controls regarding the financial reporting and substantive procedures. Our examination of controls included the company's procedures for monitoring and duality as well as the key controls in the provisions for credit losses process.

We have assessed the company's calculation models to be able to assess the values of the ECLs for each of the categories. Moreover, we have analysed the outcomes of these calculations. For stage 3, we have also conducted a spot check of loan receivables and, for these receivables, compiled the company's documentation, assessed the company's judgments using the available information, verified the calculation of the impairment amount and checked this against the accounts.

Furthermore, we have examined the financial effects and disclosures related to the implementation of IFRS 9.

*Measurement of financial instruments - derivatives*

The derivative portfolio comprises interest and cross-currency interest-rate swaps traded on the OTC market.

The derivatives are valued based on established valuation models based on observable market data. The valuation includes a certain degree of subjectivity regarding, primarily, the valuation of the credit risk component and the interpolation of market data with longer tenors.

Refer to the Annual Report, Note 1 Accounting policies, Note 15 and Note 25 Derivatives, Note 34 Fair value disclosures and Note 2 regarding Market Risk.

Our audit has included both tests of the internal control of the valuation process regarding derivatives and substantive procedures regarding the valuation.

In our audit of internal controls in the valuation process, the following key controls applied by the company have been tested:

- Price validation against counterparty prices
- Validation of market data
- Model validation
- General IT controls in the finance system

We have also examined the valuation of the credit risk component.

## Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–24 and in the sustainability report on pages 31–38. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

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

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal

control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

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

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

## Auditor's responsibility

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

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Landshypotek Bank AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

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

### Basis for Opinions

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

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

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

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the Group's type of operations, size and risks place on the size of the Parent Company's and the Group's equity, consolidation requirements, liquidity and position in general.

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

### Auditor's responsibility

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

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

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions

or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

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

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

The Board of Directors is responsible for that the corporate governance statement on pages 39–53 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

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

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

The Board of Directors is responsible for the statutory sustainability report on pages 33–38, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

Öhrlings PricewaterhouseCoopers AB, 113 97 Stockholm, was appointed auditor of Landshypotek Bank AB (publ) by the general meeting of the shareholders 19 April 2018. We have been the company's auditor since the company obtained its license to operate. According to the transition rules in the Audit Regulation (537/2014) Öhrlings PricewaterhouseCoopers AB cannot be re-elected after the annual general meeting 2024.

Stockholm, 12 March 2019  
Öhrlings PricewaterhouseCoopers AB

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

Sofie Nordenborg  
Authorised Public Accountant

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

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