

# Landshypotek Bank AB

## Interim report Q2 2020

January – June 2020

### Per Lindblad, CEO of Landshypotek Bank comments on the first six months of 2020

The first six months of 2020 have been dominated by the fight against Covid-19. Despite the uncertainties in our operating environment and a cautious borrowing market, the trend posted by Landshypotek Bank's credit portfolio underscores the high credit quality of the bank's customers and the low-risk nature of the bank's operations thereby leading to a secure and stable bank. Following a cautious spring and more limited growth, we are pleased to note increased activity and rising interest in the market. This is a sign of strength. We have a secure business and our model is resilient to stress. Moreover, during this exceptional period, we are constantly and actively working for our customers – and to grow with more customers.

### January – June 2020

compared with January – June 2019

- Operating profit amounted to SEK 175 million (187).
- The underlying operating profit, excluding the net result of financial transactions, was SEK 183 million (189).
- Net interest income amounted to SEK 421 million (409).
- Costs totalled SEK 244 million (226).
- Net credit losses positively impacted earnings by SEK 4 million (2).
- Loans to the public amounted to SEK 78.2 billion (73.9).
- Deposits from the public totalled SEK 14.6 billion (14.6).

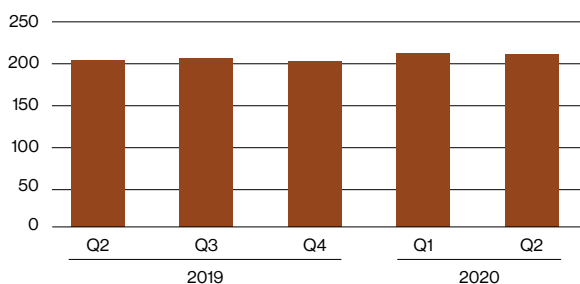
### April – June 2020

compared with January – March 2020

- Operating profit amounted to SEK 76 million (99).
- The underlying operating profit, excluding the net result of financial transactions, was SEK 90 million (93).
- Net interest income amounted to SEK 210 million (211).
- Costs totalled SEK 124 million (120).
- Net credit losses positively impacted earnings by SEK 2 million (2).
- Loans to the public amounted to SEK 78.2 billion (77.1).
- Deposits from the public amounted to SEK 14.6 billion (14.1).

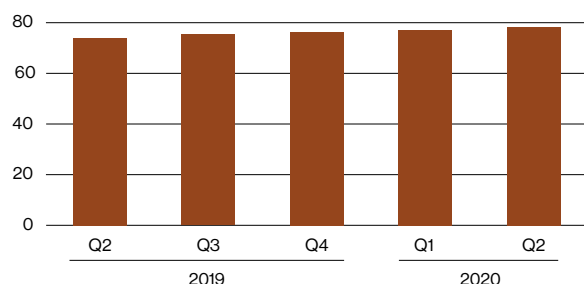
#### Net interest income

SEK million



#### Loans to the public

SEK billion



## CEO's Statement

# Focus on growth even in strange times



No year is the same as another. But this year really has been different. The fight to stop Covid-19 that has impacted the economy and society has, naturally, also affected us. But this has not led us to pause in any way with our long-term and continuous work for our customers, nor with growing with yet more customers.

The year started with the aftermath of the repo rate adjustment. As usual, when interest rates are hiked, the market stalls, which impacted us. We had a good start in January, but were then met by increasingly cautious loan customers due to the new interest rates. This was followed by the steps taken to counter Covid-19 and, accordingly, more uncertainty. But of late, it feels like conditions have changed. We have noted increased activity and rising interest, which translates into more business. A pleasing state of affairs.

Despite the uncertainties in our operating environment and a cautious borrowing market, the trend posted by Landshypotek Bank's credit portfolio underscores the high credit quality of the bank's customers and the low-risk nature of the bank's operations thereby leading to a secure and stable bank. Our farming customers have also been affected less than businesses in other sectors by the Covid-19 restrictions. I believe that the farming and forestry sectors may benefit over time. Locally grown, Swedish origin, self-sufficiency and contingency stocks are expressions that are becoming used increasingly often in current societal debate.

Growing in terms of customer numbers is our single most important issue now when we are building for future centuries as a key bank for the farming and forestry sectors. We were pleased to note increased inflows in Q2. One reason behind this is that we are a strong, long-term bank with a credit quality that remains robust despite the extensive pandemic.

Over the last decade we have developed our bank to become safer and better for customers. Moreover, we have substantially expanded contact channels and portals to the bank, both analogue and digital, for customers wishing to save and borrow. Our infrastructure at the bank now supports many more customers. Though our customer base is growing daily, it remains small. We need to continue growing the bank and to thereby secure a higher level of earnings.

Attracting more customers means being more visible to them, through marketing and a presence in various

locations. As the core of our development moving forward, we will continue to develop digital interfaces that are simple, comprehensible and easily accessible for customers and potential customers. We also need to increase our relevance for more customers. Submarkets from the first lien mortgage loans we currently offer for housing and for the farming and forestry sectors can be opened. We currently limit our accessible market by excluding tenant-owner apartments. Our development could also entail the development of other products, more partnerships to reach more customers and creating more offers together with a partner.

Given that growth is the most important factor for our development, we are not completely satisfied with the first six months. We don't just need to grow for the future, we also need to grow here and now. We can do better!

Our costs are rising, some of which were unforeseen. We are continuing to simplify the systems we have launched as a result of our own and government agency initiatives. This has required more follow-on investments as part of our efforts to improve on our predictions ahead of the year. Some investments for data protection and to meet cyber threats have also been brought forward. The area requires constant development in pace with the digitalisation of society – and more will be carried out by us. Investment is still required for us to be the secure bank that we wish, and ought, to be for customers.

The Covid-19 countermeasures have already given society a strong push forward in terms of digitalisation and some sectors are noting clear structural changes. Customer expectations in terms of digitalisation have increased substantially, which increases the need for investment in data security. If it was not the case before, digitalisation is now essentially a hygiene factor.

We are constantly evolving to meet the expectations of our business environment. There are no clear start or finish lines for today's changes. The need for change will never end, but the rate of change will keep accelerating. As a small bank we need to be wise and to make the right investments. Standing still is not an alternative.

At Landshypotek, we create value by being active, straightforward and proud! Harnessing all our power to change and customer focus, we are moving full speed ahead.

Per Lindblad  
Chief Executive Officer

# Events at Landshypotek Bank in the second quarter of 2020

## Change and responsibility in a special time

Like others, Landshypotek Bank has had to adapt to the special circumstances prevailing in society due to the Covid-19 pandemic. While much has needed to be done differently, it has remained possible to conduct well-functioning operations. During the quarter, the bank has, inter alia, strengthened its customer dialogue and completed its first digital general meeting. Development of the customer dialogue has been supplemented with offers including in-depth advice in partnership with Ludvig & Co.

## General meetings in 2020

Ann Krumlindé has now taken over as Chairman of Landshypotek Bank. She joined the Board in 2018, and succeeds Henrik Toll, who was Chairman of the bank since 2011. Ole Laurits Lønnum and Lars-Johan Merin joined Landshypotek Bank's Board as new members.

At the digital Association Meeting of Landshypotek ekonomisk förening, which was postponed and held on 17 June, a cooperative code was adopted that will essentially act as a guide for operations. Due to the uncertain socio-economic conditions and the clear guidance from government agencies, the Meeting decided to defer

decision on the distribution of a dividend to the members. At the same time, the Association Board opened for an extraordinary general meeting in the autumn to decide on a dividend.

## Farmers' thoughts on the future

Agricultural entrepreneurs believe the greatest impact on their operations over the next five years will stem from the actions of politicians and authorities. Next came the impact of changed consumption patterns and climate change. These were the findings of a survey presented by Landshypotek Bank during the quarter and which attracted media notice.

## Farmers call for more commitment to Swedish food production

The coronavirus crisis has shone a new spotlight on Sweden's food supply. The findings from Landshypotek's most recent Lantbrukspanel in the spring shone further light on the issue. A large proportion of the panel, which gathers some 100 agricultural entrepreneurs, believes that in practice real commitment to Swedish food production is lacking among a broad spectrum of decision makers in both the public and private sectors.

## Summary Landshypotek Bank

| SEK million                                | Q2 2020 | Q2 2019 | Q1 2020 | Jan–Jun 2020 | Jan–Jun 2019 | Full-year 2019 |
|--|---------|---------|---------|--------------|--------------|----------------|
| Net interest income                        | 210     | 203     | 211     | 421          | 409          | 815            |
| Operating profit                           | 76      | 100     | 99      | 175          | 187          | 418            |
| Profit after tax                           | 56      | 77      | 75      | 132          | 143          | 332            |
| Loans to the public                        | 78,189  | 73,900  | 77,078  | 78,189       | 73,900       | 76,367         |
| Change in loans to the public, %           | 1.4     | 0.9     | 0.9     | 1.4          | 0.9          | 5.3            |
| Interest margin, LTM, %                    | 1.09    | 1.14    | 1.09    | 1.09         | 1.14         | 1.10           |
| Deposits from the public                   | 14,570  | 14,622  | 14,138  | 14,570       | 14,622       | 14,449         |
| Change in deposits from the public, %      | 3.1     | 1.8     | -2.2    | 0.8          | 3.3          | 2.1            |
| C/I ratio including financial transactions | 0.63    | 0.56    | 0.55    | 0.59         | 0.55         | 0.53           |
| C/I ratio excluding financial transactions | 0.59    | 0.55    | 0.57    | 0.58         | 0.55         | 0.53           |
| Credit loss level, % <sup>1)</sup>         | –       | –       | –       | –            | –            | –              |
| Total capital ratio, %                     | 21.0    | 18.7    | 19.3    | 21.0         | 18.7         | 19.2           |
| Rating, long-term                          |         |         |         |              |              |                |
| Standard & Poor's, Covered bonds           | AAA     | AAA     | AAA     | AAA          | AAA          | AAA            |
| Standard & Poor's                          | A       | A-      | A       | A            | A-           | A-             |
| Fitch                                      | A       | A       | A       | A            | A            | A              |
| Average number of employees, LTM           | 200     | 191     | 198     | 200          | 191          | 198            |

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



**Boendebarmometer shows the public's views on housing**

Landshypotek's latest Boendebarmometer shows the continued attractiveness of living in a house. A house in the countryside has been unchallenged at the top of Swedes' dream homes since 2018.

Landshypotek Bank continued to deliver competitive average mortgage rates through the second quarter and was often quoted in the media as a good alternative as a challenger to the major banks when addressing the subject of reviewing mortgage costs.

**Many farmers and foresters now apply digitally for loans**

Landshypotek Bank has continued to invest in digital applications for farmers and foresters by expanding digital marketing, which has driven traffic to the website. In parallel, the bank has continued to focus on its national front office organisation for smaller agricultural customers. In June, a new record was set for loans disbursed on digital loan applications.

# Our operating environment

Landshypotek Bank and its customers are impacted by developments in the financial market and the macroeconomy. For farming and forestry customers, the respective development within the different sectors is of considerable importance. The second quarter of the year was heavily impacted by the socio-economic effects of the Covid-19 pandemic. Signs of recovery have been noted in pace with the relief of restrictions and the effects of support measures. The farming and forestry sectors have been much less affected by the pandemic and its countermeasures than many other sectors. Self-sufficiency discussions have continued to boost interest in food produced in Sweden.

## Developments in the financial market

The start of the quarter saw Wuhan reopen in China, which acted as the trigger for a gradual reopening of economies around the globe. Hopes of a forthcoming vaccine and enormous support packages from central banks were positive for financial markets. Forward-looking indicators, such as the Purchasing Managers Index and sentiment indicators, have changed direction during the quarter and are sending positive signals, which indicate a recovery. However, the signals also indicate continued low economic activity.

Stock markets have priced in a V-shaped scenario, in other words a rapid recovery, which continues to support positive share prices. Measures by central banks to support liquidity have had positive impacts and the banks are more willing to release their liquidity surplus, which has led to declining interbank rates. The US–China trade conflict and the Brexit negotiations remain as clouds on the horizon. Moreover, concerns exist regarding a second wave of the pandemic, which could lead to market turbulence.

## USA

In the US, the quarter opened with a sharp decline in the labour market and rising unemployment, before the labour market posted an unexpected rapid recovery in May and June. After peaking at almost 15 percent in April, unemployment dropped to 11.1 percent in June. Clear testimony that the US labour market is continuing to improve as the economy reopens. The purchasing managers index (PMI) posted a clear recovery in the quarter. The combined PMI rose more than expected to 46.8 in June, compared with 37.0 last month. The PMI for the manufacturing industry also noted a recovery in June.

The US central bank, the Federal Reserve, kept its key interest rate unchanged. This is a clear indicator that it does not believe in negative interest rates and that financial policy is effective in the current circumstances. More bond purchases and lending to banks are likely to remain among the Fed's preferred measures. The Fed has expanded its asset purchases to include purchases

of corporate bonds up to USD 750 billion. For companies that are too small to raise credit market funding themselves, the Fed is offering a total of USD 600 billion in five-year loans that are amortisation-free for two years and interest-free for one year.

## Europe

The PMIs for the two largest economies in Europe, Germany and France, show a clear recovery and indicate that the economic low point of the Covid-19 crisis has been passed. The preliminary June figure for Germany's PMI was 45.8, up from 32.3 in May. Both the industrial and service sectors appear to have passed the worst period, but remain far from full capacity. France also noted a considerable recovery in June and the PMI rose to 51.3, compared with 32.1 in May.

The ECB expanded its Covid-19-related asset purchases with EUR 600 billion, which will continue at least until the middle of next year. The ECB's asset purchase programme thereby amounts to a total of EUR 1,350 billion or 11 percent of the euro area's GDP.

## Sweden

The PMI for June rose in Sweden showing signs of a recovery. The PMI for industry rose from 39.2 in May to 47.3 in June and for the service sector from 41.6 to 49.2. It is encouraging that the order intake sub-index rose from 34.8 to 50.9.

The Economic Tendency Survey increased from 64.4 to 75.2. Despite broad increases in June, conditions are much weaker than normal. One of the effects of the Covid-19 pandemic was the rapid downturn in companies' turnover. Retail has recovered but remains far below normal. In construction and civil engineering, sentiment remains considerably weaker and the order intake is very low.

Households have become less pessimistic about the development of Sweden's economy. However, the number of new registrations with the Swedish Public Employment Service have risen and unemployment is at 9 percent. Unemployment is rising particularly fast among young people.

The government has decided to implement a number of measures, including a further SEK 15 billion in support to municipalities and regions, expansion of the furlough programme and introduced support for turnover. Moreover, Finansinspektionen (Sweden's financial supervisory authority) has enabled all mortgagors to apply for a temporary exemption from mortgage amortisation.

The Riksbank, Sweden's central bank, has introduced a raft of measures to avoid an economic downturn and inflation becoming unnecessarily protracted. The asset purchase framework has been expanded in terms of volume and duration. The Riksbank has also announced purchases of corporate bonds and extended the duration of loans to the banks for onward lending to companies. Measures by the Riksbank to support liquidity have had a positive impact and the banks are more willing to release their liquidity surplus. Stibor has posted historic lows in relation to the repo rate. At the start of July the Riksbank left the repo rate unchanged at 0 percent and signalled low interest rates for the foreseeable future.

## Developments in farming and forestry

The economic downturn resulting from Covid-19 with increased uncertainty in terms of demand following the shutdowns and restrictions has, inter alia, affected logistics and trade flows as well as changed consumption behaviour. This has also been reflected, to some extent, in farming and forestry activities, which are long-term by nature. Agriculture is a stable basic industry that has only been marginally affected by the pandemic. Demand uncertainty has been well managed by forestry. After a period dominated by Covid-19, sustainability has also come back into focus, which has contributed to stable demand for products from Swedish farming and forestry, among other effects.

### Foresters managed the first six months better than expected

Forestry exited the last few months relatively unscathed. The sector is heavily export-dependent and in 2019, prior to the pandemic, it was in an economic slowdown following a prolonged period of healthy demand and high prices, partly as an effect of the oversupply of spruce in Europe as a consequence of bark beetle infestations.

Domestic demand for wood products, among others, appears relatively stable. Exports have noted a positive trend. Compared with competitor countries, the Swedish forest industry benefitted partly from society and industry in Sweden not being shut down to the same extent as in other countries, and partly from the exchange rate. This

has resulted, inter alia, in more sawmills having normal rates of production and furloughs being withdrawn.

Despite a late spring, our assessment is that the risk of bark beetle infestations remains high. In parallel, collaboration is ongoing between the forestry industry and government agencies to limit and counter the damage through various tools and activities. Further uncertainty prevailed regarding access to foreign labour for planting and forest management. However, seasonal forestry workers are exempted from the temporary ban to entry as a result of Covid-19.

### Stable basic industry in an uncertain macroeconomy

Forestry in Sweden was also affected by the Covid-19 pandemic. However, compared with many other sectors, the effect is less apparent for a basic industry with food production. The economic downturn has put downward pressure on prices for some products. In parallel, prices have declined for several input goods, resulting in stable profitability.

Weather conditions in Sweden were relatively favourable for arable farming, with record-high acreages sown in the autumn. The mild winter was also favourable for crops. Plentiful precipitation in the autumn and winter improved groundwater levels. At the same time, the spring was dry with tillage started early in the spring. In some areas, autumn-sown crops were adversely affected by under-nutrition due to the dry spring and early summer. The first hay harvest showed preliminary good quality, but volumes were slightly below normal in some areas.

The dairy market was also impacted by uncertainty in demand, rising production in the major exporting regions and increased stockpiles. However, the market recovered following low prices being noted for milk powder, butter, cheese and whey in March/April. However, price levels in Europe are down on the end of 2019. This has led to settlement prices for milk being reduced in the spring and early summer, however the price level is up on the corresponding period last year. Similar trends have been noted in other EU countries.

Since the start of the year, all beef categories have posted positive price trends in Sweden. In recent weeks, prices were 4.5–6.0 percent up year-on-year. The price trend in other EU countries was negative over the same period, although prices have recovered somewhat in recent weeks. The different price trend in Sweden was partly due to a lower supply of animals as a result of the relatively large slaughter following the 2018 drought.

Pigmeat and piglets followed a similar price trend, with a stable price trend since the end of 2019 in Sweden, unlike the rest of the EU. In recent weeks, piglet prices were



around 14 percent up year-on-year and 15 percent above the average for the corresponding periods in the last three years. Over the last few weeks, piglet prices were up around 23 percent higher year-on-year. The market for pork and piglets was partly affected by Covid-19, but also by African swine fever, which led the EU to increase exports 8.2 percent in the period from January–April.

#### **Increased sustainability focus**

In several aspects, focus on the sustainability of farming and forestry has increased due to the pandemic. It has become clear that logistics flows, trade and the availability of input goods are vulnerable. The importance of food security has also been made topical. The pandemic has

strengthened the trend toward food produced in Sweden, which has received increased media and public attention.

Public policy has devoted greater focus to sustainability in farming and forestry due to the pandemic. In May, two proposals were presented for sub-strategies for the European Green Deal that pertain to farming and forestry. There is now also a new proposed long-term budget in the EU that supports a stronger focus on sustainability as part of future agricultural policy. Moreover, maxims such as stability, predictability and sustainability are being applied to the review of trade policy, partly in the wake of Covid-19.

# Our financial performance

Landshypotek Bank posted continued growth in volumes as well as satisfactory earnings. The bank posted a year-on-year decrease in operating profit, which was attributable to a lower net result of financial transactions and higher costs. The bank's loans to the public increased SEK 1.1 billion over the quarter.

## H1 2020 compared with H1 2019

The bank's operating profit amounted to SEK 175 million (187). Excluding the net result of financial transactions, operating profit amounted to SEK 183 million (189). The change in earnings was mainly due to a lower net result of financial transactions and higher costs, which were partly offset by an improvement in net interest income.

### Net interest income

Net interest income amounted to SEK 421 million (409). Interest income totalled SEK 722 million (667), up as a result of increased lending and higher interest rates. Interest expenses amounted to SEK 301 million (257). As a result of rising market interest rates, the new financing was arranged at higher interest rate levels than the previous financing that matured. Interest expenses included fees of SEK 16 million (26) to the Swedish National Debt Office's resolution fund.

### Other operating income

Other operating income amounted to an expense of SEK 6 million (income: 1), with the change mainly due to a lower net result of financial transactions. The net result of financial transactions amounted to a loss of SEK 8 million, where unrealised losses amounted to SEK 7 million and realised losses to SEK 1 million.

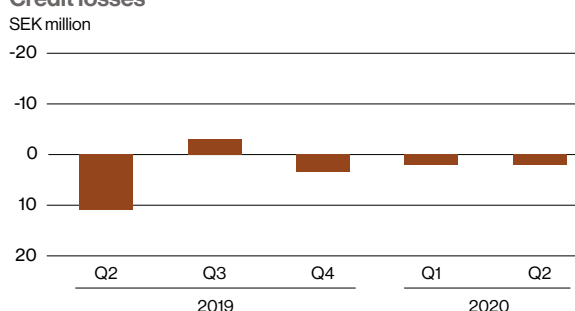
### Costs

Costs amounted to SEK 244 million (226). The cost increase was partly an effect of putting investments into operation, but also due to necessary planned improvements to new systems and higher amortisation and depreciation as a result of the bank implementing a new credit scoring system in the third quarter of 2019.

### Credit losses and credit-impaired assets

Net credit losses amounted to recoveries of SEK 4 million (recoveries: 2), of which net credit losses for non-credit-impaired assets had a positive earnings impact of SEK 2 million and credit-impaired assets had a positive earnings impact of SEK 2 million that was

### Credit losses



## Operating profit

| SEK million   | Jan–Jun 2020 | Jan–Jun 2019 | Full-year 2019 |
|---|--------------|--------------|----------------|
| Net interest income   | 421          | 409          | 815            |
| Other operating income  | -6           | 1            | 60             |
| of which net result of financial transactions                       | -8           | -2           | -1             |
| Costs   | -244         | -226         | -461           |
| C/I ratio including financial transactions                          | 0.59         | 0.55         | 0.53           |
| C/I ratio excluding financial transactions                          | 0.58         | 0.55         | 0.53           |
| Net recognised credit losses  | 4            | 2            | 3              |
| Credit loss level, % <sup>1)</sup>                                  | -            | -            | -              |
| Operating profit  | 175          | 187          | 418            |
| Operating profit excluding the net result of financial transactions | 183          | 189          | 420            |

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



## Balance Sheet

| Assets, SEK million                         | 30 Jun 2020   |
|---|---------------|
| Eligible treasury bills                     | 3,866         |
| Loans to credit institutions                | 468           |
| Loans to the public                         | 78,189        |
| Bonds and other interest-bearing securities | 6,368         |
| Derivatives                                 | 1,825         |
| Tangible and intangible assets              | 186           |
| Other assets                                | 466           |
| <b>Total assets</b>                         | <b>91,368</b> |

| Liabilities and equity, SEK million | 30 Jun 2020   |
|-------------------------------------|---------------|
| Liabilities to credit institutions  | 5,542         |
| Deposits from the public            | 14,570        |
| Debt securities issued, etc.        | 62,924        |
| Derivatives                         | 263           |
| Subordinated liabilities            | 1,200         |
| Other liabilities                   | 658           |
| Equity                              | 6,211         |
| <b>Total liabilities and equity</b> | <b>91,368</b> |

attributable to recoveries of a few individual commitments.

The total credit loss allowance for non-credit-impaired assets amounted to SEK 20 million (24).

Gross credit-impaired assets amounted to SEK 646 million (651) and the credit loss allowance to SEK 31 million (52). The provisions for credit-impaired assets pertained to individual commitments within varying types of farming and geographic locations. The bank continued to post extremely good credit quality with continued credit recoveries. For more information, refer to Note 3 and Note 4.

### Other comprehensive income

Other comprehensive income amounted to an expense of SEK 15 million (income: 14). Financial assets at fair value had a negative effect of SEK 14 million (positive: 13) on other comprehensive income and cross-currency basis spreads in fair-value hedges had a negative impact of SEK 1 million (positive: 1) on other comprehensive income.

### Capital and capital adequacy

The total capital ratio for the consolidated situation amounted to 18.8 percent (18.2 at 31 December 2019) and the CET1 capital ratio was 15.1 percent (13.9 at 31 December 2019). The internally assessed capital requirement for the consolidated situation was SEK 3.9 billion (5.0 at

31 December 2019). The capital requirement should be compared with own funds of SEK 6.0 billion (6.3 at 31 December 2019). The capital adequacy assessment takes into account the minimum capital requirement, the Pillar II capital requirement and the combined buffer requirement. Refer to Note 1 for further information.

## Assets

The largest asset item in the balance sheet is loans to the public, which amounted to SEK 78.2 billion (76.4 at 31 December 2019) and where the largest part of the increase was attributable to mortgage operations. The increase amounted to SEK 1.1 billion and corresponded to lending growth of 1.4 percent over the quarter. The geographic distribution of lending is stable over time.

Landshypotek Bank's liquidity portfolio totalled SEK 10.2 billion (9.8 at 31 December 2019). The portfolio comprises Swedish covered bonds with the highest credit rating and bonds issued by Swedish municipalities. The holding of interest-bearing securities functions as a liquidity reserve. The liquidity portfolio was 2.3 times (1.9 at 31 December 2019) larger than refinancing requirements for the next six months. The ratio is affected by the allocation of maturing debt for longer than six months and can, therefore, change between measurement periods.

## Funding

| SEK million              | In issue<br>30 Jun 2020 | Limit                 | In issue<br>31 Dec 2019 |
|--------------------------|-------------------------|-----------------------|-------------------------|
| Swedish commercial paper | –                       | 10,000                | –                       |
| MTN programme            | 38,505                  | 60,000                | 42,898                  |
| EMTN programme           | 23,842                  | 104,683 <sup>1)</sup> | 16,582                  |
| Registered covered bonds | 3,455                   |                       | 3,571                   |
| Subordinated loans       | 1,900                   |                       | 1,900                   |

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

## Liabilities

### Funding

Landshypotek Bank actively raises funds via the capital markets, and as far as possible always strives to meet investors' wishes regarding tenors and interest-rate structures. Investor relations are of major importance as part of ensuring that investors' levels of awareness and interest are maintained in Landshypotek Bank. During the quarter, covered bonds to a value of SEK 6.0 billion and senior bonds to a value of SEK 1.4 billion were issued. The majority of covered bonds issued in the quarter are held by the bank as collateral for loans with the Riksbank. During the quarter, bonds matured or were repurchased to a value of SEK 5.4 billion, of which SEK 4.7 billion pertained to covered bonds and SEK 0.7 billion to senior bonds.

### Deposits from the public

Deposits from the public totalled SEK 14.6 billion (14.4 at 31 December 2019).

## Q2 2020 compared with Q1 2020

Operating profit amounted to SEK 76 million (99) for the quarter. Excluding the net result of financial transactions, operating profit for the quarter was SEK 90 million (93). The change in the period was driven by a lower net result of financial transactions and higher costs.

## Impact of Covid-19

### Loans to the public

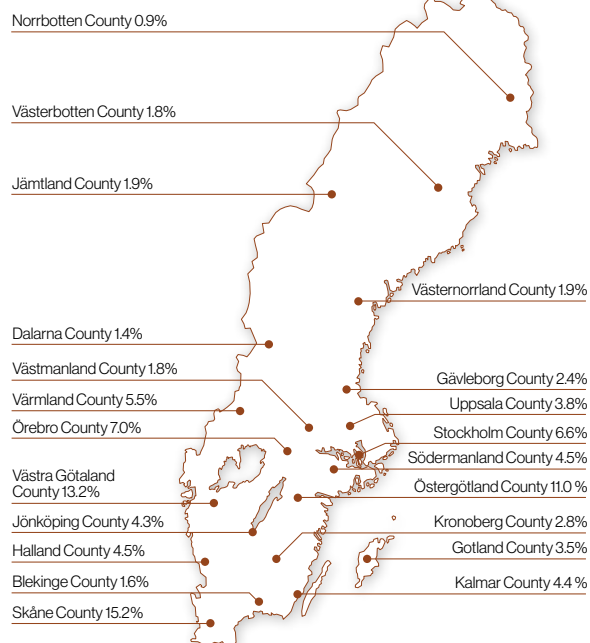
Landshypotek Bank encourages customers to take early contact with the bank if they believe the effects of Covid-19 will affect their future payment capacity. The bank maintains ongoing dialogues with customers who could be impacted and follows Finansinspektionen's guidelines for temporary amortisation relief.

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

### Funding

The financial markets functioned well for most types of bond issues. Landshypotek Bank issued both covered and senior bonds. The senior bonds were well-received, if somewhat more expensive than prior to the Covid-19

## Geographic distribution of lending

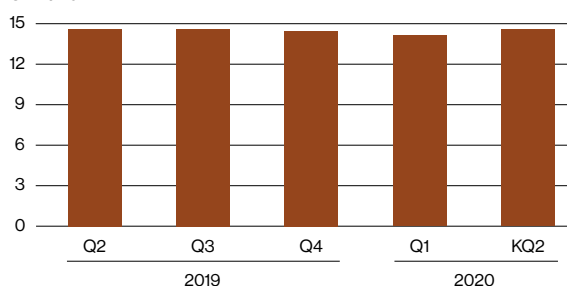


outbreak. The Riksbank's continued purchases of covered bonds have helped keep credit spreads low and they have now fallen to pre-outbreak levels.

Measures by the central banks to support liquidity have had positive impacts and the banks are more willing to release their liquidity surplus. Stibor stabilised at the end of the quarter at historic lows in relation to the repo rate. The bank's main source of funding is covered bonds, which are increasingly viewed as stable from a market perspective. With a now-functioning market for issuances and the possibility of refinancing via the Riksbank, the bank's funding possibilities remain stable.

## Deposits from the public

SEK billion



## Rating

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

| Rating            | Long | Short |
|-------------------|------|-------|
| S&P covered bonds | AAA  |       |
| S&P               | A    | A-1   |
| Fitch             | A    | F1    |

## Group structure

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

## Events after the end of the period

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

Stockholm, 17 July 2020

Per Lindblad  
Chief Executive Officer

## Accounting policies

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

# Income Statement

| SEK million   | Note | Q2<br>2020  | Q2<br>2019  | Q1<br>2020  | Jan–Jun<br>2020 | Jan–Jun<br>2019 | Full-year<br>2019 |
|---|------|-------------|-------------|-------------|-----------------|-----------------|-------------------|
| Interest income   |      | 362         | 339         | 360         | 722             | 667             | 1,351             |
| of which interest income using the effective-interest method                |      | 362         | 339         | 360         | 722             | 667             | 1,351             |
| of which other interest income  |      | –           | –           | –           | –               | –               | –                 |
| Interest expenses   |      | -152        | -136        | -149        | -301            | -257            | -536              |
| of which fees for deposit insurance   |      | -4          | -3          | -4          | -7              | -6              | -15               |
| of which fees for resolution fund   |      | -8          | -11         | -8          | -16             | -26             | -48               |
| <b>Net interest income</b>  | 2    | <b>210</b>  | <b>203</b>  | <b>211</b>  | <b>421</b>      | <b>409</b>      | <b>815</b>        |
| Net result of financial transactions  |      | -14         | -2          | 6           | -8              | -2              | -1                |
| Other operating income  |      | 2           | 2           | 1           | 3               | 3               | 62                |
| <b>Total operating income</b>   |      | <b>198</b>  | <b>203</b>  | <b>217</b>  | <b>415</b>      | <b>410</b>      | <b>876</b>        |
| General administrative expenses   |      | -112        | -105        | -108        | -219            | -209            | -419              |
| Depreciation, amortisation and impairment of tangible and intangible assets |      | -12         | -9          | -13         | -25             | -17             | -41               |
| Other operating expenses  |      | 0           | 0           | 0           | 0               | 0               | -1                |
| <b>Total expenses before credit losses</b>                                  |      | <b>-124</b> | <b>-114</b> | <b>-120</b> | <b>-244</b>     | <b>-226</b>     | <b>-461</b>       |
| <b>Profit before credit losses</b>  |      | <b>74</b>   | <b>89</b>   | <b>97</b>   | <b>171</b>      | <b>185</b>      | <b>415</b>        |
| Net credit losses   | 3    | 2           | 11          | 2           | 4               | 2               | 3                 |
| <b>Operating profit</b>   |      | <b>76</b>   | <b>100</b>  | <b>99</b>   | <b>175</b>      | <b>187</b>      | <b>418</b>        |
| Tax expense for the period  |      | -20         | -23         | -24         | -43             | -43             | -86               |
| <b>Net profit for the period</b>  |      | <b>56</b>   | <b>77</b>   | <b>75</b>   | <b>132</b>      | <b>143</b>      | <b>332</b>        |

# Statement of Comprehensive Income

| SEK million   | Q2<br>2020 | Q2<br>2019 | Q1<br>2020 | Jan–Jun<br>2020 | Jan–Jun<br>2019 | Full-year<br>2019 |
|---|------------|------------|------------|-----------------|-----------------|-------------------|
| <b>Net profit for the period</b>                    | <b>56</b>  | <b>77</b>  | <b>75</b>  | <b>132</b>      | <b>143</b>      | <b>332</b>        |
| <b>Other comprehensive income</b>                   |            |            |            |                 |                 |                   |
| <b>Items to be reclassified to income statement</b> |            |            |            |                 |                 |                   |
| Financial assets at FVTOCI                          | 8          | 0          | -26        | -18             | 16              | -9                |
| Cross-currency basis spreads in fair value hedges   | -5         | 2          | 4          | -1              | 1               | -4                |
| Income tax related to other comprehensive income    | -1         | 0          | 5          | 4               | -4              | 3                 |
| <b>Total items that will be reclassified</b>        | <b>3</b>   | <b>1</b>   | <b>-17</b> | <b>-15</b>      | <b>14</b>       | <b>-10</b>        |
| <b>Total other comprehensive income</b>             | <b>3</b>   | <b>1</b>   | <b>-17</b> | <b>-15</b>      | <b>14</b>       | <b>-10</b>        |
| <b>Comprehensive income for the period</b>          | <b>59</b>  | <b>78</b>  | <b>58</b>  | <b>117</b>      | <b>157</b>      | <b>322</b>        |

# Balance Sheet

| SEK million   | Note | 30 Jun 2020   | 31 Mar 2020   | 31 Dec 2019   | 30 Jun 2019   |
|---|------|---------------|---------------|---------------|---------------|
| <b>Assets</b>   |      |               |               |               |               |
| Cash and balances with central banks                      |      | 81            | –             | 43            | –             |
| Eligible treasury bills                                   |      | 3,866         | 3,582         | 3,998         | 4,851         |
| Loans to credit institutions                              |      | 468           | 523           | 501           | 522           |
| Loans to the public                                       | 4    | 78,189        | 77,078        | 76,367        | 73,900        |
| Value change of interest-hedged items in portfolio hedges |      | 108           | 49            | 6             | 97            |
| Bonds and other interest-bearing securities               |      | 6,368         | 6,355         | 5,850         | 8,598         |
| Derivatives   |      | 1,825         | 1,953         | 1,647         | 1,910         |
| Shares in Group entities                                  |      | –             | –             | –             | 0             |
| Intangible assets   |      | 134           | 141           | 149           | 164           |
| Tangible assets   |      | 52            | 4             | 4             | 25            |
| Other assets  |      | 2             | 4             | 6             | 15            |
| Current tax assets  |      | 2             | 6             | 9             | 6             |
| Deferred tax assets                                       |      | –             | –             | –             | 0             |
| Prepaid expenses and accrued income                       |      | 273           | 306           | 285           | 309           |
| <b>Total assets</b>                                       | 5, 6 | <b>91,368</b> | <b>90,054</b> | <b>88,887</b> | <b>90,396</b> |
| <b>Liabilities and equity</b>                             |      |               |               |               |               |
| Liabilities to credit institutions                        |      | 5,542         | 2,275         | 1,475         | 937           |
| Deposits from the public                                  |      | 14,570        | 14,138        | 14,449        | 14,622        |
| Debt securities issued, etc.                              |      | 62,924        | 65,326        | 64,790        | 66,579        |
| Derivatives   |      | 263           | 220           | 192           | 469           |
| Other liabilities   |      | 248           | 308           | 312           | 92            |
| Tax liabilities   |      | –             | –             | –             | –             |
| Accrued expenses and prepaid income                       |      | 408           | 425           | 358           | 430           |
| Provisions  |      | 2             | 2             | 2             | 2             |
| Subordinated liabilities                                  |      | 1,200         | 1,200         | 1,200         | 1,200         |
| <b>Total liabilities</b>                                  |      | <b>85,156</b> | <b>83,894</b> | <b>82,777</b> | <b>84,330</b> |
| <b>Total equity</b>                                       |      | <b>6,211</b>  | <b>6,161</b>  | <b>6,111</b>  | <b>6,066</b>  |
| <b>Total liabilities and equity</b>                       | 5, 6 | <b>91,368</b> | <b>90,054</b> | <b>88,887</b> | <b>90,396</b> |

# Statement of cash flow

| SEK million                              | Jan–Jun 2020 | Jan–Jun 2019 | Full-year 2019 |
|--|--------------|--------------|----------------|
| <b>Opening cash and cash equivalents</b> | <b>544</b>   | <b>540</b>   | <b>540</b>     |
| Cash flow from operating activities      | 22           | 191          | 156            |
| Cash flow from investment activities     | –            | -35          | 37             |
| Cash flow from financing activities      | -16          | -173         | -189           |
| <b>Cash flow for the period</b>          | <b>5</b>     | <b>-18</b>   | <b>4</b>       |
| <b>Closing cash and cash equivalents</b> | <b>549</b>   | <b>522</b>   | <b>544</b>     |

# Statement of changes in equity

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

| January – June 2020<br>SEK million  | Share capital | Other contributed equity | Fair value reserve | Cross-currency basis spreads in fair value hedges | Tier 1 capital | Retained earnings | Total |
|---|---------------|--------------------------|--------------------|---|----------------|-------------------|-------|
| <b>Opening balance</b>  | 2,253         | 1,017                    | 10                 | -26   | 700            | 2,157             | 6,111 |
| Comprehensive income for the period   |               |                          | -14                | -1  |                | 132               | 117   |
| <b>Total change before transactions with owners and holders of Tier 1 capital instruments</b> | -             | -                        | -14                | -1  | -              | 132               | 117   |
| Dividend on Tier 1 capital instruments  |               |                          |                    |   |                | -16               | -16   |
| <b>Closing balance</b>  | 2,253         | 1,017                    | -4                 | -26   | 700            | 2,272             | 6,211 |

# Notes

## Note 1 Capital and capital adequacy

The total capital ratio for the consolidated situation was 18.8 percent compared with 18.2 percent at 31 September 2019 and the CET1 capital ratio was 15.1 percent (13.9 at 31 December 2019). At Landshypotek Bank AB, the total capital ratio amounted to 21.0 percent (19.2 at 31 December 2019) and the CET1 capital ratio was 15.1 percent (13.7 at 31 December 2019). Own funds for the consolidated situation decreased SEK 331 million to SEK 6,015 million during the year. The reduction in own funds was due to the consolidated situation being subject to provisions that limit how large a share of externally issued additional Tier 1 capital and T2 capital instruments in Landshypotek Bank AB may be included in own funds for the consolidated situation. The share that can be included is affected, inter alia, by the size of the bank's surplus capital. This increased significantly in the year, mainly due to Finansinspektionen lowering the countercyclical buffer requirement on 16 March 2020 from 2.5 percent to zero percent. Moreover, new rules extending the so-called SME discount entered force in the second quarter, which reduced the capital requirement for lending to SMEs. The repayment of member contributions has also reduced own funds in the consolidated situation. The minimum capital requirement decreased SEK 234 million to SEK 2,556 million during the year.

In addition to the minimum capital requirement of 8 percent of the total risk-weighted amount, the combined buffer requirement is 2.5 percent. The combined buffer requirement, which as of 30 June 2020 solely comprised the capital conservation buffer, must be covered by CET1 capital. Finansinspektionen lowered the countercyclical buffer requirement in March 2020 to ensure a well-functioning credit supply during the economic downturn in the wake of the Covid-19 pandemic.

The leverage ratio for the consolidated situation was 5.8 percent (6.1 at 31 December 2019).

The internally assessed capital requirement for the consolidated situation was SEK 3.9 billion (5.0 at 31 December 2019). The capital requirement has decreased, mainly as a result of the lowered countercyclical buffer requirement and the above rules reducing the capital requirement for lending to SMEs. The capital requirement should be compared with own funds of SEK 6.0 billion (6.3 at 31 December 2019).

continued Note 1 Capital adequacy analysis

| SEK million   | Consolidated situation <sup>1)</sup> |                  |
|---|--------------------------------------|------------------|
|   | 30 June 2020                         | 31 December 2019 |
| <b>CET1 capital: Instruments and reserves</b>   |                                      |                  |
| Member contributions  | 1,712                                | 1,767            |
| Share capital   | –                                    | –                |
| Other contributed equity  | 1,798                                | 1,798            |
| Tier 1 capital instruments  | 700                                  | 700              |
| Reserves  | -30                                  | -16              |
| Actuarial changes   | -50                                  | -48              |
| Retained earnings   | 2,070                                | 1,745            |
| Net profit for the year <sup>2)</sup>   | 125                                  | 341              |
| <b>Equity in the balance sheet</b>  | <b>6,324</b>                         | <b>6,287</b>     |
| Deductions related to the consolidated situation and other foreseeable costs <sup>3)</sup>                                    | -170                                 | -116             |
| Deductions for Tier 1 capital instruments classified as equity  | -700                                 | -700             |
| <b>CET1 capital before regulatory adjustments</b>   | <b>5,454</b>                         | <b>5,471</b>     |
| <b>CET1 capital: regulatory adjustments</b>   |                                      |                  |
| Further value adjustments   | -10                                  | -10              |
| Intangible assets   | -134                                 | -149             |
| Deferred tax assets that rely on future profitability   | -9                                   | -8               |
| IRB deductions <sup>4)</sup>  | -487                                 | -468             |
| <b>Total regulatory adjustments to CET1 capital</b>   | <b>-640</b>                          | <b>-634</b>      |
| <b>CET1 capital</b>   | <b>4,815</b>                         | <b>4,836</b>     |
| <b>Additional Tier 1 capital: instruments</b>   |                                      |                  |
| Tier 1 capital instruments  | –                                    | –                |
| of which: classified as equity under applicable accounting standards  | –                                    | –                |
| Qualifying Tier 1 capital included in consolidated additional Tier 1 capital issued by subsidiaries and held by third parties | 442                                  | 572              |
| <b>Tier 1 capital (CET1 capital + Tier 1 capital)</b>   | <b>5,257</b>                         | <b>5,408</b>     |
| <b>Tier 2 capital: instruments and provisions</b>   |                                      |                  |
| Capital instruments and subordinated loans eligible as Tier 2 capital   | –                                    | –                |
| Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third parties     | 759                                  | 939              |
| <b>Tier 2 capital before regulatory adjustments</b>   | <b>759</b>                           | <b>939</b>       |
| <b>Tier 2 capital</b>   | <b>759</b>                           | <b>939</b>       |
| <b>Own funds (Tier 1 capital + Tier 2 capital)</b>  | <b>6,015</b>                         | <b>6,346</b>     |
| <b>Total risk-weighted exposure amount</b>  | <b>31,950</b>                        | <b>34,876</b>    |
| <b>Capital ratios and buffers</b>   |                                      |                  |
| <b>Own funds requirement</b>  | <b>2,556</b>                         | <b>2,790</b>     |
| CET1 capital ratio (%)  | 15.1                                 | 13.9             |
| Tier 1 capital ratio (%)  | 16.5                                 | 15.5             |
| Total capital ratio (%)   | 18.8                                 | 18.2             |
| Institution-specific CET1 capital requirement including buffer requirements (%)   | 7.0                                  | 9.5              |
| of which: capital conservation buffer requirement (%)   | 2.5                                  | 2.5              |
| of which: countercyclical buffer requirement (%)  | 0.0                                  | 2.5              |
| CET1 capital available to meet buffers (%) <sup>5)</sup>  | 10.5                                 | 9.4              |

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

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

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

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

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



continued Note 1 capital requirements

| SEK million   | Consolidated situation |                  |
|---|------------------------|------------------|
|   | 30 June 2020           | 31 December 2019 |
| <b>Internally assessed capital requirement<sup>1)</sup></b>               |                        |                  |
| Pillar I capital requirement  | 2,556                  | 2,790            |
| Percentage of total risk-weighted exposure amount                         | 8.0                    | 8.0              |
| Pillar II capital requirement   | 544                    | 509              |
| Percentage of total risk-weighted exposure amount                         | 1.7                    | 1.5              |
| Combined buffer requirement   | 799                    | 1,744            |
| Percentage of total risk-weighted exposure amount                         | 2.5                    | 5.0              |
| <b>Total capital requirement</b>  | <b>3,898</b>           | <b>5,043</b>     |
| <b>Percentage of total risk-weighted exposure amount</b>                  | <b>12.2</b>            | <b>14.5</b>      |
| <b>Own funds (Tier 1 capital + Tier 2 capital)</b>                        |                        |                  |
|   | <b>6,015</b>           | <b>6,346</b>     |
| <b>Percentage of total risk-weighted exposure amount</b>                  | <b>18.8</b>            | <b>18.2</b>      |
| <b>Capital requirement as assessed by Finansinspektionen<sup>2)</sup></b> |                        |                  |
| Pillar I capital requirement  | 2,556                  | 2,790            |
| Percentage of total risk-weighted exposure amount                         | 8.0                    | 8.0              |
| Pillar II capital requirement   | 648                    | 648              |
| Percentage of total risk-weighted exposure amount                         | 2.0                    | 1.9              |
| Combined buffer requirement   | 799                    | 1,744            |
| Percentage of total risk-weighted exposure amount                         | 2.5                    | 5.0              |
| <b>Total capital requirement</b>  | <b>4,003</b>           | <b>5,182</b>     |
| <b>Percentage of total risk-weighted exposure amount</b>                  | <b>12.5</b>            | <b>14.9</b>      |
| <b>Own funds (Tier 1 capital + Tier 2 capital)</b>                        |                        |                  |
|   | <b>6,015</b>           | <b>6,346</b>     |
| <b>Percentage of total risk-weighted exposure amount</b>                  | <b>18.8</b>            | <b>18.2</b>      |

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

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

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

| 30 June 2020<br>SEK million  | Consolidated situation       |   |                                     |                                   |
|--|------------------------------|---|-------------------------------------|-----------------------------------|
|  | 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>78,702</b>                | <b>22,679</b>                               | <b>1,814</b>                        | <b>29%</b>                        |
| Retail – real estate collateral  | 47,515                       | 6,452                                       | 516                                 | 14%                               |
| Corporates   | 31,096                       | 16,135                                      | 1,291                               | 52%                               |
| Other non-credit-obligation assets   | 92                           | 92  | 7                                   | 100%                              |
| <b>Credit risk – Standardised approach</b>                                       | <b>12,892</b>                | <b>1,354</b>                                | <b>108</b>                          | <b>11%</b>                        |
| Central governments or central banks   | 158                          | 0   | 0                                   | 0%                                |
| Regional governments or local authorities  | 5,084                        | 0   | 0                                   | 0%                                |
| Institutions   | 2,196                        | 691   | 55                                  | 31%                               |
| Corporates   | 14                           | 14  | 1                                   | 100%                              |
| Retail   | 35                           | 23  | 2                                   | 68%                               |
| Secured by mortgage liens on immovable property                                  | 221                          | 104   | 8                                   | 47%                               |
| Exposures in default   | 2                            | 3   | 0                                   | 150%                              |
| Covered bonds  | 5,183                        | 518   | 41                                  | 10%                               |
| <b>Operational risk – Basic indicator approach</b>                               |                              | <b>1,470</b>                                | <b>118</b>                          |                                   |
| <b>Credit valuation adjustment risk – Standardised approach</b>                  | <b>1,463</b>                 | <b>1,020</b>                                | <b>82</b>                           | <b>70%</b>                        |
| <b>Additional risk exposure amount under Article 458 CRR (risk-weight floor)</b> |                              | <b>5,427</b>                                | <b>434</b>                          |                                   |
| <b>Total</b>   | <b>93,057</b>                | <b>31,950</b>                               | <b>2,556</b>                        | <b>–</b>                          |

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

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

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

continued Note 1 Capital adequacy analysis

| SEK million   | Landshypotek Bank AB |                  |
|---|----------------------|------------------|
|   | 30 June 2020         | 31 December 2019 |
| <b>CET1 capital: Instruments and reserves</b>   |                      |                  |
| Member contributions  | –                    | –                |
| Share capital   | 2,253                | 2,253            |
| Other contributed equity  | 1,017                | 1,017            |
| Tier 1 capital instruments  | 700                  | 700              |
| Reserves  | -30                  | -16              |
| Actuarial changes   | –                    | –                |
| Retained earnings   | 2,140                | 1,825            |
| Net profit for the year <sup>1)</sup>   | 132                  | 332              |
| <b>Equity in the balance sheet</b>  | <b>6,211</b>         | <b>6,111</b>     |
| Deductions related to the consolidated situation and other foreseeable costs <sup>2)</sup>                                    | -62                  | –                |
| Deductions for Tier 1 capital instruments classified as equity  | -700                 | -700             |
| <b>CET1 capital before regulatory adjustments</b>   | <b>5,449</b>         | <b>5,411</b>     |
| <b>CET1 capital: regulatory adjustments</b>   |                      |                  |
| Further value adjustments   | -10                  | -10              |
| Intangible assets   | -134                 | -149             |
| Deferred tax assets that rely on future profitability   | –                    | –                |
| IRB deductions <sup>3)</sup>  | -487                 | -468             |
| <b>Total regulatory adjustments to CET1 capital</b>   | <b>-631</b>          | <b>-626</b>      |
| <b>CET1 capital</b>   | <b>4,818</b>         | <b>4,785</b>     |
| <b>Additional Tier 1 capital: instruments</b>   |                      |                  |
| Tier 1 capital instruments  | 700                  | 700              |
| of which: classified as equity under applicable accounting standards  | 700                  | 700              |
| Qualifying Tier 1 capital included in consolidated additional Tier 1 capital issued by subsidiaries and held by third parties | –                    | –                |
| <b>Tier 1 capital (CET1 capital + Tier 1 capital)</b>   | <b>5,518</b>         | <b>5,485</b>     |
| <b>Tier 2 capital: instruments and provisions</b>   |                      |                  |
| Capital instruments and subordinated loans eligible as Tier 2 capital   | 1,200                | 1,200            |
| Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third parties     | –                    | –                |
| <b>Tier 2 capital before regulatory adjustments</b>   | <b>1,200</b>         | <b>1,200</b>     |
| <b>Tier 2 capital</b>   | <b>1,200</b>         | <b>1,200</b>     |
| <b>Own funds (Tier 1 capital + Tier 2 capital)</b>  | <b>6,718</b>         | <b>6,685</b>     |
| <b>Total risk-weighted exposure amount</b>  | <b>31,953</b>        | <b>34,880</b>    |
| <b>Capital ratios and buffers</b>   |                      |                  |
| <b>Own funds requirement</b>  | <b>2,556</b>         | <b>2,790</b>     |
| CET1 capital ratio (%)  | 15.1                 | 13.7             |
| Tier 1 capital ratio (%)  | 17.3                 | 15.7             |
| Total capital ratio (%)   | 21.0                 | 19.2             |
| Institution-specific CET1 capital requirement including buffer requirements (%)   | 7.0                  | 9.5              |
| of which: capital conservation buffer requirement (%)   | 2.5                  | 2.5              |
| of which: countercyclical buffer requirement (%)  | 0.0                  | 2.5              |
| CET1 capital available to meet buffers (%) <sup>4)</sup>  | 10.6                 | 9.2              |

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

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

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

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

continued Note 1 Capital requirements

| SEK million   | Landshypotek Bank AB |                  |
|---|----------------------|------------------|
|   | 30 June 2020         | 31 December 2019 |
| <b>Internally assessed capital requirement<sup>1)</sup></b>               |                      |                  |
| Pillar I capital requirement  | 2,556                | 2,790            |
| Percentage of total risk-weighted exposure amount                         | 8.0                  | 8.0              |
| Pillar II capital requirement   | 544                  | 509              |
| Percentage of total risk-weighted exposure amount                         | 1.7                  | 1.5              |
| Combined buffer requirement   | 799                  | 1,744            |
| Percentage of total risk-weighted exposure amount                         | 2.5                  | 5.0              |
| <b>Total capital requirement</b>  | <b>3,899</b>         | <b>5,044</b>     |
| <b>Percentage of total risk-weighted exposure amount</b>                  | <b>12.2</b>          | <b>14.5</b>      |
| <b>Own funds (Tier 1 capital + Tier 2 capital)</b>                        |                      |                  |
|   | <b>6,718</b>         | <b>6,685</b>     |
| <b>Percentage of total risk-weighted exposure amount</b>                  | <b>21.0</b>          | <b>19.2</b>      |
| <b>Capital requirement as assessed by Finansinspektionen<sup>2)</sup></b> |                      |                  |
| Pillar I capital requirement  | 2,556                | 2,790            |
| Percentage of total risk-weighted exposure amount                         | 8.0                  | 8.0              |
| Pillar II capital requirement   | 648                  | 648              |
| Percentage of total risk-weighted exposure amount                         | 2.0                  | 1.9              |
| Combined buffer requirement   | 799                  | 1,744            |
| Percentage of total risk-weighted exposure amount                         | 2.5                  | 5.0              |
| <b>Total capital requirement</b>  | <b>4,003</b>         | <b>5,182</b>     |
| <b>Percentage of total risk-weighted exposure amount</b>                  | <b>12.5</b>          | <b>14.9</b>      |
| <b>Own funds (Tier 1 capital + Tier 2 capital)</b>                        |                      |                  |
|   | <b>6,718</b>         | <b>6,685</b>     |
| <b>Percentage of total risk-weighted exposure amount</b>                  | <b>21.0</b>          | <b>19.2</b>      |

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

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

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

| 30 June 2020<br>SEK million  | Landshypotek Bank AB         |   |                                     |                                   |
|--|------------------------------|---|-------------------------------------|-----------------------------------|
|  | 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>78,705</b>                | <b>22,682</b>                               | <b>1,815</b>                        | <b>29%</b>                        |
| Retail – real estate collateral  | 47,515                       | 6,452                                       | 516                                 | 14%                               |
| Corporates   | 31,096                       | 16,135                                      | 1,291                               | 52%                               |
| Other non-credit-obligation assets   | 95                           | 95  | 8                                   | 100%                              |
| <b>Credit risk – Standardised approach</b>                                       | <b>12,887</b>                | <b>1,354</b>                                | <b>108</b>                          | <b>11%</b>                        |
| Central governments or central banks   | 156                          | 0   | 0                                   | 0%                                |
| Regional governments or local authorities  | 5,084                        | 0   | 0                                   | 0%                                |
| Institutions   | 2,194                        | 691   | 55                                  | 31%                               |
| Corporates   | 14                           | 14  | 1                                   | 100%                              |
| Retail   | 35                           | 23  | 2                                   | 68%                               |
| Secured by mortgage liens on immovable property                                  | 221                          | 104   | 8                                   | 47%                               |
| Exposures in default   | 2                            | 3   | 0                                   | 150%                              |
| Covered bonds  | 5,183                        | 518   | 41                                  | 10%                               |
| <b>Operational risk – Basic indicator approach</b>                               |                              | <b>1,470</b>                                | <b>118</b>                          |                                   |
| <b>Credit valuation adjustment risk – Standardised approach</b>                  | <b>1,463</b>                 | <b>1,020</b>                                | <b>82</b>                           | <b>70%</b>                        |
| <b>Additional risk exposure amount under Article 458 CRR (risk-weight floor)</b> |                              | <b>5,427</b>                                | <b>434</b>                          |                                   |
| <b>Total</b>   | <b>93,056</b>                | <b>31,953</b>                               | <b>2,556</b>                        | <b>–</b>                          |

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

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

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

## Note 2 Net interest income

| SEK million  | Q2<br>2020  | Q2<br>2019  | Q1<br>2019  | Jan–Jun<br>2020 | Jan–Jun<br>2019 | Full-year<br>2019 |
|--|-------------|-------------|-------------|-----------------|-----------------|-------------------|
| <b>Interest income</b>                                   |             |             |             |                 |                 |                   |
| Interest income on loans to credit institutions          | 0           | 0           | 0           | 0               | 0               | 0                 |
| Interest income on loans to the public                   | 347         | 325         | 346         | 693             | 640             | 1,296             |
| Interest income on interest-bearing securities           | 12          | 12          | 11          | 23              | 22              | 44                |
| Other interest income                                    | 3           | 3           | 3           | 6               | 5               | 11                |
| <b>Total interest income</b>                             | <b>362</b>  | <b>339</b>  | <b>360</b>  | <b>722</b>      | <b>667</b>      | <b>1,351</b>      |
| <b>Interest expenses</b>                                 |             |             |             |                 |                 |                   |
| Interest expenses for liabilities to credit institutions | 0           | 1           | 0           | 1               | 2               | 5                 |
| Interest expenses for deposits from the public           | -24         | -27         | -24         | -48             | -53             | -106              |
| of which fees for deposit insurance                      | -4          | -3          | -4          | -7              | -6              | -15               |
| Interest expenses for interest-bearing securities        | -148        | -136        | -144        | -292            | -259            | -521              |
| Interest expenses for subordinated liabilities           | -9          | -8          | -8          | -17             | -15             | -32               |
| Interest expenses for derivative instruments             | 40          | 49          | 41          | 81              | 105             | 187               |
| Other interest expenses                                  | -11         | -16         | -14         | -25             | -37             | -69               |
| of which fees for resolution fund                        | -8          | -11         | -8          | -16             | -26             | -48               |
| <b>Total interest expenses</b>                           | <b>-152</b> | <b>-136</b> | <b>-149</b> | <b>-301</b>     | <b>-257</b>     | <b>-536</b>       |
| <b>Total net interest income</b>                         | <b>210</b>  | <b>203</b>  | <b>211</b>  | <b>421</b>      | <b>409</b>      | <b>815</b>        |

All interest income is attributable to the Swedish market

## Note 3 Net credit losses

| SEK million   | Q2 2020   | Q2 2019   | Q1 2019   | Jan-Jun 2020 | Jan-Jun 2019 | Full-year 2019 |
|---|-----------|-----------|-----------|--------------|--------------|----------------|
| Change in credit loss allowance, Stage 1              | -1        | 0         | 1         | 0            | 0            | 0              |
| Change in credit loss allowance, Stage 2              | -1        | 4         | 4         | 3            | 4            | 4              |
| <b>Net credit losses, non-credit-impaired lending</b> | <b>-1</b> | <b>4</b>  | <b>4</b>  | <b>3</b>     | <b>4</b>     | <b>4</b>       |
| Change in credit loss allowance, Stage 3              | 22        | 10        | -2        | 21           | 4            | 4              |
| Write-off for the period for confirmed losses         | -20       | -6        | -1        | -21          | -9           | -11            |
| Recoveries of previously confirmed losses             | 2         | 2         | 0         | 2            | 4            | 6              |
| <b>Net credit losses, credit-impaired lending</b>     | <b>3</b>  | <b>6</b>  | <b>-2</b> | <b>2</b>     | <b>-1</b>    | <b>-1</b>      |
| <b>Total net credit losses</b>                        | <b>2</b>  | <b>11</b> | <b>2</b>  | <b>4</b>     | <b>2</b>     | <b>3</b>       |

No properties were taken over in foreclosure to protect claims.

### Recognition of loss allowance

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

Each asset is categorised to one of three stages:

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

### Establishing significant increase in credit risk

To establish whether a loan asset has a significantly increased credit risk compared with the credit risk on initial recognition, among other actions, the bank measures how the asset's PD risk class has deteriorated since the asset arose. If the risk classification exceeds the bank's limits for increased credit risk, the asset is classified as Stage 2.

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

### Individually assessed stage 3 credits

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

### Measurement

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

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

The most important input data used to measure ECLs is:

- Probability of Default (PD) – estimates the probability of an agreement entering into default.
- Loss Given Default (LGD) – the assessment of how much of the exposure value that Landshypotek Bank stands to lose in the event of default.

- Exposure At Default (EAD) – an estimated credit exposure at a future default date after taking into account expected changes in credit exposure in the form of, inter alia, limit utilisation, extra capital repayments, early redemption and expected risk of default; and
- The expected maturity matches the term of the agreement, limited to not longer than 30 years.

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

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

### Probability weighted macro-economic scenarios

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

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

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

An example follows of what the bank's credit loss allowance would look like if the respective improved or the deteriorated scenarios were assigned a probability of 100 percent, which would impact the mechanically calculated credit loss allowances (individually assessed stage 3 credits have not been included). For more information, refer to Note 4.

| Scenario               | Expected credit loss |
|------------------------|----------------------|
| Current loss allowance | SEK 51 million       |
| Improved scenario      | SEK 48 million       |
| Deteriorated scenario  | SEK 57 million       |

## Note 4 Loans to the public

| SEK million   | 30 Jun 2020   | 31 Mar 2020   | 31 Dec 2019   | 30 Jun 2019   |
|---|---------------|---------------|---------------|---------------|
| Loan receivables, stage 1                             | 70,014        | 69,029        | 67,949        | 65,009        |
| Loan receivables, stage 2                             | 7,579         | 7,442         | 7,859         | 8,315         |
| Loan receivables, stage 3                             | 646           | 678           | 634           | 651           |
| <b>Gross loan receivables</b>                         | <b>78,239</b> | <b>77,149</b> | <b>76,441</b> | <b>73,975</b> |
| Less credit loss allowance                            | -51           | -71           | -74           | -75           |
| <b>Net loan receivables</b>                           | <b>78,189</b> | <b>77,078</b> | <b>76,367</b> | <b>73,900</b> |
| <b>Disclosures on overdue loan receivables, gross</b> |               |               |               |               |
| Loan receivables overdue 5–90 days                    | 48            | 20            | 43            | -             |
| Loan receivables overdue more than 90 days            | 222           | 306           | 253           | 324           |
| <b>Total overdue loan receivables, gross</b>          | <b>270</b>    | <b>326</b>    | <b>296</b>    | <b>324</b>    |

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

| Gross loan receivables<br>January – June 2020<br>SEK million     | Non-credit-impaired lending |              | Credit-impaired lending | Total         |
|--|-----------------------------|--------------|-------------------------|---------------|
|  | Stage 1                     | Stage 2      | Stage 3                 |               |
| <b>Opening balance</b>   | <b>67,949</b>               | <b>7,859</b> | <b>634</b>              | <b>76,441</b> |
| Increases in loan receivables due to origination and acquisition | 5,982                       | 129          | 25                      | 6,135         |
| Decreases in loan receivables due to derecognition               | -3,631                      | -598         | -87                     | -4,317        |
| Decrease in loan receivables due to confirmed losses             | -                           | -            | -20                     | -20           |
| <b>Migration between stages</b>                                  |                             |              |                         |               |
| from 1 to 2  | -944                        | 944          | -                       | -             |
| from 1 to 3  | -47                         | -            | 47                      | -             |
| from 2 to 1  | 692                         | -692         | -                       | -             |
| from 2 to 3  | -                           | -93          | 93                      | -             |
| from 3 to 2  | -                           | 31           | -31                     | -             |
| from 3 to 1  | 13                          | -            | -13                     | -             |
| <b>Closing balance</b>   | <b>70,014</b>               | <b>7,580</b> | <b>646</b>              | <b>78,239</b> |



continued Loans to the public

| Credit loss allowance<br>January – December 2019<br>SEK million | Non-credit-impaired<br>lending |         | Credit-impaired<br>lending | Total credit<br>loss allowance<br>lending | Of which credit loss<br>allowance for balance-<br>sheet assets | Of which provisions<br>for off-balance-<br>sheet exposures |
|---|--------------------------------|---------|----------------------------|---|--|--|
|   | Stage 1                        | Stage 2 | Stage 3                    |   |  |  |
| <b>Opening balance</b>  | -6                             | -21     | -56                        | -83                                       | -82  | -2   |
| Increases due to origination and acquisition                    | -1                             | -1      | 0                          | -2  | -2   | 0  |
| Decreases due to derecognition                                  | 1                              | 3       | 6                          | 9   | 8  | 1  |
| Decrease in allowance due to write-offs                         | -                              | -       | 11                         | 11  | 11   | -  |
| Changes due to change in credit risk                            | 2                              | -3      | -8                         | -9  | -9   | 0  |
| Changes due to update in the methodology<br>for estimation      | -                              | -       | -                          | -   | -  | -  |
| <b>Migration between stages</b>                                 |                                |         |                            |   |  |  |
| from 1 to 2   | 0                              | -5      | -                          | -5  | -5   | 0  |
| from 1 to 3   | 0                              | -       | 0                          | 0   | 0  | 0  |
| from 2 to 1   | 0                              | 7       | -                          | 7   | 7  | 0  |
| from 2 to 3   | -                              | 3       | -4                         | -1  | -1   | 0  |
| from 3 to 2   | -                              | 0       | 0                          | 0   | 0  | 0  |
| from 3 to 1   | 0                              | -       | 0                          | 0   | 0  | 0  |
| <b>Closing balance</b>  | -5                             | -17     | -52                        | -74                                       | -73  | -1   |

| Credit loss allowance<br>January – June 2020<br>SEK million | Non-credit-impaired<br>lending |         | Credit-impaired<br>lending | Total credit<br>loss allowance<br>lending | Of which credit loss<br>allowance for balance-<br>sheet assets | Of which provisions<br>for off-balance-<br>sheet exposures |
|---|--------------------------------|---------|----------------------------|---|--|--|
|   | Stage 1                        | Stage 2 | Stage 3                    |   |  |  |
| <b>Opening balance</b>                                      | -5                             | -17     | -52                        | -74                                       | -73  | -1   |
| Increases due to origination and acquisition                | -1                             | -1      | 0                          | -1  | -1   | 0  |
| Decreases due to derecognition                              | 0                              | 2       | 10                         | 12  | 12   | 0  |
| Decrease in allowance due to write-offs                     | -                              | -       | 21                         | 21  | 21   | -  |
| Changes due to change in credit risk                        | 1                              | 3       | -12                        | -8  | -8   | 0  |
| Changes due to update in the methodology<br>for estimation  | -1                             | 0       | 3                          | 2   | 2  | -  |
| <b>Migration between stages</b>                             |                                |         |                            |   |  |  |
| from 1 to 2   | 0                              | -3      | -                          | -3  | -3   | 0  |
| from 1 to 3   | 0                              | -       | -1                         | -1  | -1   | 0  |
| from 2 to 1   | 0                              | 2       | -                          | 2   | 2  | 0  |
| from 2 to 3   | -                              | 1       | -1                         | 0   | 0  | 0  |
| from 3 to 2   | -                              | 0       | 0                          | 0   | 0  | 0  |
| from 3 to 1   | 0                              | -       | 0                          | 0   | 0  | 0  |
| <b>Closing balance</b>                                      | -6                             | -14     | -31                        | -51                                       | -50  | -1   |

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

## Note 5 Fair-value hierarchy for financial instruments

| SEK million  | 30 June 2020  |              |          |               | 30 June 2019  |              |          |               |
|--|---------------|--------------|----------|---------------|---------------|--------------|----------|---------------|
|  | Level 1       | Level 2      | Level 3  | Total         | Level 1       | Level 2      | Level 3  | Total         |
| <b>Financial assets at FVTOCI</b>                    |               |              |          |               |               |              |          |               |
| Eligible treasury bills, etc.                        | 3,866         |              |          | 3,866         | 4,851         |              |          | 4,851         |
| Bonds and other interest-bearing securities          | 6,368         |              |          | 6,368         | 8,598         |              |          | 8,598         |
| <b>Derivatives identified as hedging instruments</b> |               |              |          |               |               |              |          |               |
| Interest-rate swaps                                  |               | 1,219        |          | 1,219         |               | 1,217        |          | 1,217         |
| Cross-currency interest-rate swaps                   |               | 606          |          | 606           |               | 693          |          | 693           |
| <b>Total assets measured at fair value</b>           | <b>10,235</b> | <b>1,825</b> | <b>-</b> | <b>12,060</b> | <b>13,449</b> | <b>1,910</b> | <b>-</b> | <b>15,359</b> |
| <b>Derivatives identified as hedging instruments</b> |               |              |          |               |               |              |          |               |
| Interest-rate swaps                                  |               | 212          |          | 212           |               | 278          |          | 278           |
| Cross-currency interest-rate swaps                   |               | 51           |          | 51            |               | 191          |          | 191           |
| <b>Total liabilities measured at fair value</b>      | <b>-</b>      | <b>263</b>   | <b>-</b> | <b>263</b>    | <b>-</b>      | <b>469</b>   | <b>-</b> | <b>469</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 6 Fair Value Disclosures

| SEK million                                 | 30 June 2020    |               | 30 June 2019    |               |
|---|-----------------|---------------|-----------------|---------------|
|   | Carrying amount | Fair value    | Carrying amount | Fair value    |
| <b>Assets</b>                               |                 |               |                 |               |
| Eligible treasury bills                     | 3,866           | 3,866         | 4,851           | 4,851         |
| Loans to credit institutions                | 468             | 468           | 522             | 522           |
| Loans to the public                         | 78,189          | 79,863        | 73,900          | 75,062        |
| Bonds and other interest-bearing securities | 6,368           | 6,368         | 8,598           | 8,598         |
| Derivatives                                 | 1,825           | 1,825         | 1,910           | 1,910         |
| <b>Total assets</b>                         | <b>90,716</b>   | <b>92,390</b> | <b>89,780</b>   | <b>90,943</b> |
| <b>Liabilities and provisions</b>           |                 |               |                 |               |
| Liabilities to credit institutions          | 5,542           | 5,542         | 937             | 937           |
| Deposits from the public                    | 14,570          | 14,570        | 14,622          | 14,622        |
| Debt securities issued, etc.                | 62,924          | 63,470        | 66,579          | 67,349        |
| Derivatives                                 | 263             | 263           | 469             | 469           |
| Subordinated liabilities                    | 1,200           | 1,212         | 1,200           | 1,237         |
| <b>Total liabilities</b>                    | <b>84,498</b>   | <b>85,056</b> | <b>83,806</b>   | <b>84,613</b> |

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

# Alternative performance measures

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

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

| Definitions of APMs  | Aim  |
|--|--|
| <b>Change in loans to the public, %</b> The percentage increase in loans to the public during the period.  | The aim is to illustrate the growth in the credit portfolio, which comprises a key parameter for future income.  |
| <b>Interest margin, LTM, %:</b> Net interest income over the last 12 months in relation to average lending during the period.  | The aim is to describe the bank's margin on net interest income in relation to lending to the public, which describes the earnings capacity. Cumulative LTM net interest income is used to provide comparable APMs for the period.     |
| <b>Change in deposits from the public, %:</b> The percentage increase in deposits from the public during the period.   | This metric aims to illustrate the growth in the bank's deposits from the public and thereby part of the bank's financing.   |
| <b>C/I ratio including financial transactions:</b> Costs in relation to income including the net result of financial transactions.   | The aim is to clarify costs in relation to income, which demonstrates the level of cost-efficiency. This metric includes the net result of financial costs.  |
| <b>C/I ratio excluding financial transactions:</b> Costs in relation to income excluding the net result of financial transactions.   | The aim is to clarify costs in relation to income, which demonstrates the level of cost-efficiency. This metric excludes the net result of financial costs.  |
| <b>Credit loss level, %:</b> Net credit losses for the period restated on an annualised basis in relation to average lending during the period.  | The aim is to clarify the scope of credit losses in relation to lending. In the quarterly APMs, the results for the quarter have been restated at full-year outcomes to provide comparable APMs for the period.                        |
| <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. |

| SEK million  | Q2<br>2020  | Q2<br>2019  | Q1<br>2019  | Jan-Jun<br>2020 | Jan-Jun<br>2019 | Full-year<br>2019 |
|--|-------------|-------------|-------------|-----------------|-----------------|-------------------|
| Change in loans to the public  | 1,110       | 628         | 711         | 1,821           | 1,388           | 3,856             |
| Opening balance, loans to the public   | 77,078      | 73,272      | 76,367      | 76,367          | 72,511          | 72,511            |
| <b>Change in loans to the public, %</b>  | <b>1.4</b>  | <b>0.9</b>  | <b>0.9</b>  | <b>2.4</b>      | <b>1.9</b>      | <b>5.3</b>        |
| Net interest income, accumulated LTM   | 827         | 822         | 821         | 827             | 822             | 815               |
| Average loans to the public, LTM   | 76,204      | 72,417      | 75,186      | 76,204          | 72,417          | 74,235            |
| <b>Interest margin, LTM, %</b>   | <b>1.09</b> | <b>1.14</b> | <b>1.09</b> | <b>1.09</b>     | <b>1.14</b>     | <b>1.10</b>       |
| Change in deposits from the public   | 432         | 265         | -311        | 121             | 472             | 299               |
| Opening balance deposits from the public   | 14,138      | 14,357      | 14,449      | 14,449          | 14,150          | 14,150            |
| <b>Change in deposits from the public, %</b>   | <b>3.1</b>  | <b>1.8</b>  | <b>-2.2</b> | <b>0.8</b>      | <b>3.3</b>      | <b>2.1</b>        |
| Costs before credit losses   | -124        | -114        | -120        | -244            | -226            | -461              |
| Total operating income   | 198         | 203         | 217         | 415             | 410             | 876               |
| <b>C/I ratio including financial transactions</b>  | <b>0.63</b> | <b>0.56</b> | <b>0.55</b> | <b>0.59</b>     | <b>0.55</b>     | <b>0.53</b>       |
| Costs before credit losses   | -124        | -114        | -120        | -244            | -226            | -461              |
| Total operating income excluding financial transactions  | 212         | 205         | 211         | 424             | 412             | 877               |
| <b>C/I ratio excluding financial transactions</b>  | <b>0.59</b> | <b>0.55</b> | <b>0.57</b> | <b>0.58</b>     | <b>0.55</b>     | <b>0.53</b>       |
| Net credit losses calculated on a full-year basis  | 8           | 43          | 9           | 8               | 5               | 3                 |
| Average loans to the public, LTM   | 76,204      | 72,417      | 75,186      | 76,204          | 72,417          | 74,235            |
| <b>Credit loss level, %<sup>1)</sup></b>   | <b>-</b>    | <b>-</b>    | <b>-</b>    | <b>-</b>        | <b>-</b>        | <b>-</b>          |
| Credit-impaired assets, gross  | 646         | 651         | 678         | 646             | 651             | 634               |
| Less provisions made   | -51         | -52         | -53         | -51             | -52             | -52               |
| <b>Credit-impaired assets, net</b>   | <b>596</b>  | <b>599</b>  | <b>625</b>  | <b>596</b>      | <b>599</b>      | <b>582</b>        |
| Credit-impaired assets, net  | 596         | 599         | 625         | 596             | 599             | 582               |
| Loans to the public  | 78,189      | 73,900      | 77,078      | 78,189          | 73,900          | 76,367            |
| <b>Net credit-impaired assets after allowances as a percentage of total loans outstanding, %</b> | <b>0.76</b> | <b>0.81</b> | <b>0.81</b> | <b>0.76</b>     | <b>0.81</b>     | <b>0.76</b>       |
| Profit after tax   |             |             |             |                 |                 | 332               |
| Equity   |             |             |             |                 |                 | 6,111             |
| <b>Return on equity, %</b>   |             |             |             |                 |                 | <b>5.4</b>        |
| Profit after tax   |             |             |             |                 |                 | 332               |
| Number of shares, million  |             |             |             |                 |                 | 2                 |
| <b>Earnings per share, SEK</b>   |             |             |             |                 |                 | <b>147.4</b>      |

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

## Reporting calendar 2020

Landshypotek Bank's reports are available at:  
[www.landshypotek.se/om-landshypotek](http://www.landshypotek.se/om-landshypotek)

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