



# Landshypotek Bank AB Year-end report 2019

January – December 2019

## Per Lindblad, CEO of Landshypotek Bank, comments on the full-year 2019:

Through 2019, we continued to grow our lending to farmers and foresters as well as mortgage customers. Moreover, we stabilised deposits at a healthy level. Our results were satisfactory but were affected by rising borrowing costs and increasing competition. We take a long-term approach to banking and to business, to increase and improve customer relations. We are becoming an increasingly popular and better bank. Landshypotek Bank starts the 2020s as a broader, better and safer bank than the credit institution that entered the previous decade.

### January – December 2019

compared with January – December 2018

- Operating profit amounted to SEK 418 million (386). Operating profit for the year included a capital gain of SEK 55 million attributable to the sale of a property.
- The underlying operating profit, excluding the net result of financial transactions, was SEK 420 million (369).
- Net interest income amounted to SEK 815 million (799).
- Costs totalled SEK 461 million (428).
- Net credit losses positively impacted earnings by SEK 3 million (negative: 8).
- Loans to the public amounted to SEK 76.4 billion (72.5).
- Deposits from the public amounted to SEK 14.4 billion (14.1).

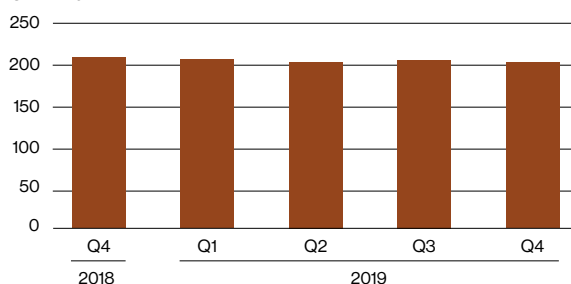
### October – December 2019

compared with July – September 2019

- Operating profit amounted to SEK 74 million (158). Operating profit for the previous quarter included a capital gain of SEK 55 million attributable to the sale of a property.
- The underlying operating profit, excluding the net result of financial transactions, was SEK 79 million (152).
- Net interest income amounted to SEK 202 million (205).
- Costs totalled SEK 127 million (107).
- Net credit losses positively impacted earnings by SEK 3 million (negative: 3).
- Loans to the public amounted to SEK 76.4 billion (75.4).
- Deposits from the public amounted to SEK 14.4 billion (14.6).

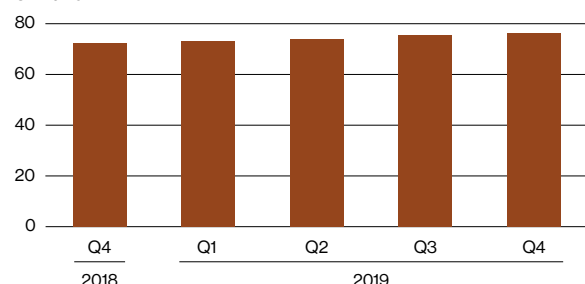
#### Net interest income

SEK million



#### Loans to the public

SEK billion



# Landshypotek Bank

Landshypotek Bank is a bank for borrowing and for saving. Loans are offered to farmers and foresters, and homeowners across the country. Our savings products are open to Sweden's general public and to companies. The bank has a long history dating back to 1836, with lending focused on ownership and cultivation of farms and forests; since autumn 2017, homeowner mortgages are also offered. The bank is growing with more customers and customer groups. The bank's focus outside of the major cities means it presents itself as a bank for all of Sweden.

Landshypotek Bank is a wholly owned subsidiary of Landshypotek Ekonomisk Förening. Historically, lending has been primarily against collateral in the form of farming and forestry real estate, but in autumn 2017, the bank started to offer homeowner mortgages and is establishing itself in the mortgage market. In terms of the volume of loans outstanding, Landshypotek Bank is one of the ten largest banks in Sweden. Given its major significance for financing Sweden's farming and forestry sectors, the Swedish National Debt Office deems the bank systemically important from a resolution perspective.

The bank's 38,000 farming and forestry borrowers own the bank through the cooperative association. They are thereby responsible for its equity capital, and share in its earnings. However, all business and licensable activities are conducted within the bank, which has almost 200 employees nationwide.

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

- *Promoting a sustainable countryside:* A living countryside, where fields and forests are cultivated, and thereby create growth and jobs. The country's sustainable development rests on the conditions for living and working throughout Sweden. Landshypotek Bank enables rural living and investments in rural enterprise. This lays the foundation for a future for the cities and the countryside.
- *The bank's brand promise:* "For a richer life in the countryside," which is interwoven throughout the bank's and its employees' work days. The bank's surplus is disbursed to its owners in farming and forestry, and comprises another key principle for the values-driven operation that is Landshypotek Bank.
- *Close to farming and forestry customers:* Landshypotek Bank is the only bank in the Swedish banking market with full focus on farming and forestry. The bank's close links to farming and forestry are part of its strength in terms of financing these sectors. Many account managers around the country have backgrounds in agriculture and forestry, and banking and financing expertise. The bank's close customer relationships and insight into their operations are complemented by elected representatives in the cooperative association.
- *Strength of the member organisation:* The bank is owned by its loan customers in farming and forestry. The cooperative

association strengthens ties, commitment and the long-term perspective for the bank's operations. The cooperative association is responsible for member relationships.

- *The force of employee commitment:* The bank is developing together with its employees. Satisfied employees mean satisfied customers. The four employee values — Customer-centric focus, Drive, Enthusiasm and Together — were drawn up by the employees and inspire all work at Landshypotek Bank.
- *Digital development:* Landshypotek Bank's history extends more than 180 years, but it is also developing quickly. In 2017, a new platform was launched to enable convenient online mortgage applications. In 2018, a new credit management system laid the foundations for more efficient customer administration. In June 2019, the bank made it possible for farming and forestry customers to apply for loans online. In this manner, digitisation improves the customer interface and creates the preconditions for more efficient work.
- *A challenger as a mortgage bank:* Though relatively recent, the mortgage venture is for the long term. Landshypotek Bank wants to help more people discover a bank with a difference that offers considerable security and extensive experience, and with an eye for potential nationwide. The bank applies competitive interest rates and transparent pricing without any requirements for upselling or full customer offers.

## Landshypotek Bank — in brief

- Founded in 1836.
- Has 84,000 customers in the farming and forestry sector, as well as mortgage borrowers and savers.
- Has lending of some SEK 69.4 billion to farming and forestry in Sweden and SEK 7.0 billion in homeowner mortgages.
- Has savings customers with total savings of SEK 14.4 billion.
- Owned by some 38,000 members of the cooperative association active in farming and forestry. In 2019, a dividend of SEK 138 million was distributed directly to the members.
- Has 198 employees. The bank's employees meet farming and forestry customers locally across the country, digitally and by phone. Relationships with savers and homeowner mortgage customers are managed online and by telephone.



# Customer relationships build a sustainable bank

Each year the weather gives rise to new challenges and possibilities for everyone involved in agriculture and forestry. Our owners, farming and forestry customers, have a fantastic ability to adapt and find ways forward in a continuously changing environment.

Being part of nature's cycle and operating in different conditions that are beyond your own control is part of being an entrepreneur in agriculture and forestry. The daily efforts of all farmers and foresters create the prerequisites for a sustainable future and a richer life countryside.

Working over the short term while aiming for long-term sustainability is inspiring. Landshypotek Bank starts the 2020s as a significantly safer and better bank than the credit institution that entered the previous decade.

We are now a bank with more products and are open to more customer groups who wish to lend and save within farming and forestry. We are also here for mortgage borrowers as well as savers in general. We now have many more customers, have doubled our earnings capacity over the last ten years, have vigorously expanded our lending and our deposits from the public have grown to SEK 14 billion.

Over the decade, we have made extensive investments in our IT environments and, thereby, taken a substantial leap forward from diverse obsolete systems to a modern, well-developed IT environment. We have become a bank, changed our brand, altered our profile and are present at many locations where existing and prospective customers can meet us.

We have nurtured Landshypotek's fundamentals while advancing considerably with becoming an increasingly popular and better bank. Now we are picking up the pace for these developments with customers. Improving on a daily basis for increasing numbers of customers is exactly what is required for the future and a long-term sustainable bank.

2019 was stimulating as well as challenging. Our results were satisfactory. But our earnings capacity has been clearly impacted by market interest rate changes. The Riksbank has hiked the repo rate. The short-term market rates that affect our borrowing costs have risen further. However, intense competition in the market means that customer interest rates have not kept pace with these changes and

net interest income has declined. Our relatively high level of market borrowing in relation to deposits entails a clear impact on earnings for our bank. At the start of this year, we adjusted our rates given the considerable changes in short-term market rates. However, the bank is bearing an increasing share of the increase in borrowing costs.

But we have been operating for more than 180 years and have a long-term approach. We are developing to be able to accept more customers and to use the bank's infrastructure and experience to offer savings and lending to more customers. During the year, we started digital applications for farming and forestry customers, which has created a natural digital portal that we previously lacked.

Our growth within mortgage lending is healthy. We offer competitive prices, but increasingly customers are becoming aware that they are with a bank that offers more than just the price. We are developing the bank to increase availability for and facilitate relationships with all customers. While operating a bank has become increasingly complex, it must be easier to be a customer.

Employees are ambassadors for our unique culture and enable our performance as a bank. We aim to be even better at harnessing employees' energy. Over the year, we have changed the roles and tasks of many of our employees – to become more customer-centric and to promote more relationship creating meetings.

We have a strong foundation in our values, with roots in our history and close to our owners. Each day, we get up to continue our mission for Swedish farming and forestry. In this we are unique. Now we are making ourselves more available for more customers. At Landshypotek Bank, you will meet a bank with a difference. A bank not focused on short-term yield requirements, but a bank focused on creating value for its customers and society. This is apparent when meeting Landshypotek.

Per Lindblad  
CEO of Landshypotek Bank

# Events at Landshypotek Bank in 2019

Landshypotek Bank is continuing to develop – and continuing to improve the prerequisites that make it a better bank for customers. Digital applications were launched for farming and forestry customers during the year. We have been highly active in the market and raised our profile. The organisation has changed to better meet more customers. The bank continues to grow as a mortgage bank.

## Two years as a mortgage bank

At the end of 2017, the bank also started lending to homeowners. Many have discovered and appreciate a bank with a difference. In two years, slightly more than SEK 7 billion has been lent net to homeowners across the country, of which a net SEK 3 billion in 2019.

## 100 driven agricultural entrepreneurs contribute new insights.

A few times each year through the bank's Lantbrukspanelen, some 100 larger and driven entrepreneurs give their views on working as an entrepreneur in agriculture and forestry. This spring's Lantbrukspanel showed great awareness and considerable commitment to sustainability issues. A Novus survey at the start of the year found that support for Swedish agriculture and understanding of farmers' key role for society had increased following the dry summer in 2018. More Swedes demand food produced in Sweden and are prepared to pay for it.

## Substantial interest in the new green bond.

In 2018, Landshypotek Bank was the first in the world to issue a covered bond denominated in SEK that was exclusively backed by Swedish forests and the sustainable forestry that customers stand for. In November 2019, it was time to do it again. This time, a green bond was presented with underlying properties representing a forest area the size of Öland. Landshypotek showed how forests on properties bind around 750,000 tons of carbon dioxide to the soil, while concurrently saving biodiversity. Investor interest was considerable and the bank raised funding of SEK 3 billion through the bond.

## 142 farms competed with their business concepts

Enterprise in agriculture and forestry is alive and highly diverse. This was showcased by Landshypotek Bank in the "Your farm — Your opportunity" competition. There was record interest in this year's competition. In the spring, 142 farms from north to south shared their

## Summary Landshypotek Bank

SEK million	Q4 2019	Q4 2018	Q3 2019	Full-year 2019	Full-year 2018
Net interest income	202	209	205	815	799
Operating profit	74	89	158	418	386
Profit after tax	55	67	134	332	294
Loans to the public	76,367	72,511	75,356	76,367	72,511
Change in loans to the public, %	1.3	1.4	2.0	5.3	5.9
Interest margin, LTM, %	1.10	1.13	1.12	1.10	1.13
Deposits from the public	14,449	14,150	14,583	14,449	14,150
Change in deposits from the public, %	-0.9	3.3	-0.3	2.1	11.6
C/I ratio including financial transactions	0.64	0.50	0.40	0.53	0.52
C/I ratio excluding financial transactions	0.63	0.50	0.41	0.53	0.53
Credit loss level, % <sup>1)</sup>	–	0.09	0.01	–	0.01
Total capital ratio, %	19.2	19.4	18.9	19.2	19.4
Rating, long-term					
Standard & Poor's, Covered bonds	AAA	AAA	AAA	AAA	AAA
Standard & Poor's	A-	A-	A-	A-	A-
Fitch	A	A	A	A	A
Average number of employees, LTM	198	190	194	198	190

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



business concepts and businesses. Close to 40,000 people voted for their favourites. Many of the competing farms can be found on “*Gilla landet*” – the bank’s online guide to more than 200 natural experiences, locally produced flavours and exciting farm visits.

#### **Note taken of Swedish views on living and finances**

On several occasions during the year, the findings from the Boendebarmetern were presented, whereby the bank investigates consumer sentiment in terms of housing and financing. Clear differences were noted between those living in major cities and those in the countryside.

#### **New insurance partnership with Dina Försäkringar**

In the summer, Landshypotek started a partnership with Dina Försäkringar. Landshypotek refers customers seeking farming and forestry insurance solutions to Dina Försäkringar. Both Landshypotek Bank and Dina Försäkringar are well-versed in agriculture and forestry, customer-owned, available nationwide and have considerable knowledge of farming.

#### **EU proposal poses dire risk for forestry**

In the autumn, a new classification system to define what should be considered green and sustainable was proposed for the EU. Landshypotek Bank strongly and publicly pointed out that the proposal risked hindering the development of sustainable forestry in Sweden.

#### **Many meeting formats and new meeting places**

Landshypotek Bank is active in efforts to meet new and existing customers in various ways. Regional meetings

are held in March at 11 locations across the country and the year’s major meeting format for the bank’s customers who are farmers and foresters or live on farms. The bank has also invited customers to many appreciated meetings with themes such as forestry and generational transitions run by the bank together with various partners over the year. Participation at expos, trade fairs, harvest festivals and other events are also key meeting places for dialogue, networking and marketing. A new partnership was started during the year with Dansbandsveckan in Malung.

#### **Revised organisation for enhanced customer focus in farming and forestry**

Over the year, the bank has developed its organisation for direct meetings with customers. The innate strength from local offices across the country has been retained, but complemented by greater collaboration within the organisation on a customer segment perspective. All aimed at enhanced customer relationships.

#### **First with a digital loan application for farming and forestry customers**

Farmers and foresters can now apply for loans online. Landshypotek Bank is the first bank to enable digital loan applications for customers who live or run companies on farming and forest properties, thereby increasing customer benefit and availability for those seeking finance for farming and forestry. The digital application was developed in close dialogue with customers to be able to meet customers’ needs and desires in terms of simplicity, speed and functionality.

# Our operating environment

In 2019, the financial market was dominated by low interest rates and a buoyant stock market, despite increased concern regarding global growth in a world of political risks and clear signs of an economic slowdown. Record harvests and bark beetle infestations were key elements when summing up the year for the farming and forestry sectors.

## Developments in the financial market

In 2019, the financial market was marked by record low, long interest rates, despite the Riksbank's interest rate hike, and buoyant stock markets, despite concern regarding global growth. The US and European central banks cut their key interest rates during the year with the aim of countering an expected slowdown in growth.

### Fears of a US economic slowdown

Signals of a US economic slowdown emerged in the form of unexpected major declines in PMIs for the manufacturing sector and, toward the end of the year, also for the service sector. Despite the above, the US labour market has continued to strengthen, with unemployment falling to 3.5 percent.

Fears of economic slowdown led the US central bank to choose to cut interest rate to stimulate to the economy. The rate was cut by 25 bps on three occasions during the year. At the end of the year, two of the year's causes of concern were partially dispelled: the US–China trade conflict and Brexit. This resulted in falling long-term interest rates, which closed the year down on the start of 2019. The Dow Jones index rose almost 23 percent in 2019.

### Slowdown in European growth

Growth in Europe has gradually declined over the year, with PMIs remaining in the low 50s. Germany's PMI has been weaker than the European average. The index declined to 41.7 for German industry in September, its lowest score in more than a decade.

Following the UK election in December, the Conservative Party now holds a majority in the House of Commons. The country will now leave the EU on 31 January 2020. The plan is to negotiate a new trade agreement which is to be in place by the end of 2020.

The economic slowdown in Europe led to the ECB catching the market by surprise with a softer message at the start of the year. Later in the year, the SCB lowered the rate by 10 bps and expanded its credit facilities. The ECB has repeatedly pointed out that financial policy must take more responsibility and act without delay.

### Swedish interest rate hikes

The year started well in Sweden with high stable growth in the first quarter of 2.1 percent, but overall, growth and GDP were weak in 2019. In the third quarter, GDP growth decreased to 1.6 percent and, over the year, inflation expectations declined. The CPIF has fallen from an annualised 2.2 percent to 1.7 percent (November). On the other hand, housing prices have risen over the past 12 months, with tenant-owned apartments rising 4.2 percent and houses increasing 4.7 percent.

The stock exchange in Stockholm started 2019 on a rising trend before fluctuating widely both up and down in the second and third quarters. The OMXS30 closed 2019 up 28 percent on December 2018.

In 2019, the Riksbank's interest rate decisions gave rise to large market movements. The year closed with a 25 bps hike in the repo rate, which means that Sweden now appears to have exited the negative interest rate environment. The Riksbank chose to hike rates despite a declining inflation trend and signals of a weaker macro environment. The repo rate forecast is unchanged and the rate is expected to remain around zero for the next few years.

Despite the repo rate hike, new liquidity risk regulations have raised interbank rates with a consequent impact on banks' financing costs. A cost increase that has not been passed on to customers.

From a historic perspective, interest rates have been low for loan customers. In the autumn, bank customers could fix interest rates for longer periods at lower levels than for short interest rates.

## Operating environment in 2019 for farming and forestry

Forestry operations noted a slight economic downturn, where bark beetle infestation in Central Europe had a significant impact. In Sweden, the industry increased collaboration to minimise damage. The year for agriculture was marked by a recovery following the 2018 drought with considerably larger harvests. Globally, the outbreak of African swine fever had a major impact on markets for many agricultural products.

### Recovery following 2018 drought

The estimated total cereal harvest in Sweden was 6.1 million tonnes in 2019, up almost 90 percent year-on-year. The oilseed harvest is expected to rise 74 percent. The year's total harvest in Sweden was one of the largest ever over the past few decades.

Large volumes in Sweden combined with increased international competition resulted in pressure on cereal prices. Price levels for this year's harvest were down 20–40 percent on 2018. Price declines were largest for feed cereals and organic cereals. However, compared with the previous five-year average, the level for conventional cereal was up in 2019. Price levels for organic cereals were down on the previous five-year average. Oilseed prices have followed a more stable trend.

As a result of the 2018 drought, the year started with high feed prices, which have fallen following this year's harvest. Overall, the 2019 silage harvest entailed large volumes of normal quality. The lack of silage following the 2018 drought resulted in an increase in beef cattle slaughter in 2019. Settlement prices for beef were down somewhat over the year, but still above the EU average. The beef market followed a similar trend in the EU, with falling per capita consumption and prices. The market was also affected by Brexit uncertainty, not least because the UK has extensive trade in beef and live animals with Ireland.

The protracted Brexit negotiations have also delayed the process for the EU's long-term budget and, accordingly, the design of the EU's common agricultural policy for the forthcoming period. Uncertainty hinders companies in planning their operations.

Brexit has also led to some uncertainty in the dairy market, which has contributed to EU production being held back. Otherwise, the global dairy market has been impacted by the drought in Australia and environmental restrictions in several countries have lowered production. Altogether, conditions resulted in a stable offering from the major exporters. In parallel, the market has been affected by the outbreak of African swine fever, with lower demand for feed by-products. This resulted in unusually stable settlement prices for dairy companies in the EU and in Sweden.

The market for pigmeat is largely affected by the outbreak of African swine fever. China and other parts of Southeast Asia have suffered severe outbreaks. These countries are also areas with a relatively high consumption of pigmeat. Among other effects, this has resulted in increased exports of pigmeat from the EU, with robustly rising carcass prices in exporting EU countries. This has also led to rising piglet prices. In Sweden, the price rise came

later and was weaker for both pigmeat and piglets. The delayed price increase in Sweden resulted in the average pigmeat price in the EU being higher than in Sweden for most of 2019.

Demand for poultry posted a continued rising trend in the EU and in Sweden. Swedish consumers have continued the trend of preferring Swedish origin. This healthy demand has stimulated increased production. Price levels in Sweden were up slightly on last year, with a softly declining trend at the end of the year. A similar price trend was posted for eggs.

Expectations of a weaker economy have impacted demand for forest raw materials. At the same time, there is a considerable supply of forest raw materials, primarily spruce following extensive bark beetle infestations in Central Europe, which negatively affected the market balance. In Sweden, bark beetle infestations were also relatively large in 2019. The Swedish Forest Agency estimates that affected areas amount to around 7 million cubic metres in the southern and central parts of the country were affected. Infestations were fewer in Norrland, but more extensive in Götaland and Svealand. This has resulted in a relatively high level of harvesting and larger stocks. Increased supply and weaker demand have intensified competition and entailed falling prices for forest raw materials in the second half of the year in Sweden. It is likely that infestations will also be extensive in 2020.

### Agricultural and forest properties are perceived as long-term investments

Interest in purchasing agricultural and forest properties remains substantial and stable. Prices continued to rise for forest properties in southern Sweden in 2019. Parts of the north and central regions of the country noted a slight slowdown and to some extent falling prices for forest properties. Statistics from Jordbruksverket (the Swedish Board of Agriculture) indicated rising prices for arable land. Compared with last year, prices rose 8 percent for the country as a whole. However, variations remain large within the country.

# Our financial performance

Landshypotek Bank posted growth in volumes and the bank's earnings remain strong. Moreover, the bank posted a year-on-year improvement in operating profit, which was mainly attributable to the sale of one property that resulted in a capital gain of SEK 55 million. The market was marked by weaker credit growth and intensified competition with declining margins. Loans to the public increased SEK 3.9 billion over the year. Credit losses continued to be very low.

## Financial report 2019

The bank's operating profit amounted to SEK 418 million (386), down SEK 32 million year-on-year. Excluding the net result of financial transactions, operating profit amounted to SEK 420 million (369). The change in earnings was mainly attributable to the sale of one property that resulted in a capital gain of SEK 55 million.

### Net interest income and volumes

Net interest income was SEK 815 million (799), up SEK 16 million. Interest income totalled SEK 1,351 million (1,229), up SEK 122 million as a result of increased lending and higher market interest rates.

Interest expenses amounted to SEK 536 million (430), up SEK 106 million year-on-year. As a result of rising market interest rates, the new financing was arranged at higher interest rate levels than the previous financing that matured. Interest expenses included fees to the Swedish National Debt Office's resolution fund, which amounted to SEK 48 million (75).

### Other operating income

Other operating income was SEK 60 million (22), up SEK 48 million mainly due to the sale of one property and to a lower net result of financial transactions. The net result of financial transactions amounted to negative SEK 1 million for the year, where unrealised losses amounted to SEK 7 million and realised gains to SEK 6 million.

### Costs

Costs amounted to SEK 461 million (428), up SEK 33 million year-on-year. Costs have increased in terms of the number of employees and due to expanded business development activities. This follows the plan, which aims in part to manage the bank's growth and in part to continue strengthening the bank as a whole. The bank has also implemented a new credit scoring system and write-downs attributable to this system negatively impacted earnings in the period.

### Credit losses and credit-impaired assets

Net credit losses amounted to SEK 3 million (losses: 8), of which net credit losses for non-credit-impaired assets had a positive earnings impact of SEK 4 million and credit-impaired assets had a negative earnings impact of SEK 1 million that was attributable to a few individual commitments.

The total credit loss allowance for non-credit-impaired assets amounted to SEK 23 million (27).

Gross credit-impaired assets amounted to SEK 634 million (526) and the credit loss allowance to SEK 52 million (56). The provisions for credit-impaired assets pertained to individual commitments within varying types of farming and geographic locations. For more information, refer to Note 3 and Note 4.

## Operating profit

SEK million	Full-year 2019	Full-year 2018
Net interest income	815	799
Other operating income	60	22
of which net result of financial transactions	-1	17
Costs	-461	-428
C/I ratio including financial transactions	0.53	0.52
C/I ratio excluding financial transactions	0.53	0.53
Net recognised credit losses	3	-8
Credit loss level, % <sup>1)</sup>	-	0.01
Operating profit	418	386
Operating profit excluding the net result of financial transactions	420	369

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

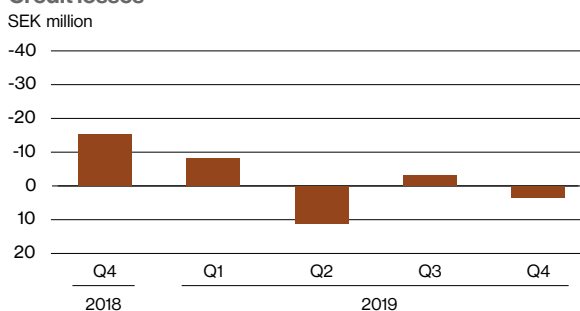


## Balance Sheet

Assets, SEK million	31 Dec 2019
Eligible treasury bills	3,998
Loans to credit institutions	501
Loans to the public	76,367
Bonds and other interest-bearing securities	5,850
Derivatives	1,647
Tangible and intangible assets	175
Other assets	349
<b>Total assets</b>	<b>88,887</b>

Liabilities and equity, SEK million	31 Dec 2019
Liabilities to credit institutions	1,475
Deposits from the public	14,449
Debt securities issued, etc.	64,790
Derivatives	192
Subordinated liabilities	1,200
Other liabilities	672
Equity	6,111
<b>Total liabilities and equity</b>	<b>88,887</b>

### Credit losses



### Other comprehensive income

Other comprehensive income amounted to an expense of SEK 10 million (expense: 44). Financial assets at fair value had a negative effect of SEK 7 million (negative: 21) on other comprehensive income and cross-currency basis spreads in fair value hedges had a negative impact of SEK 3 million (negative: 23) on other comprehensive income.

### Capital and capital adequacy

The total capital ratio for the consolidated situation amounted to 18.2 percent (17.8 percent at 30 September 2019) and the CET1 capital ratio was 13.9 percent (13.4 percent at 30 September 2019). The internally assessed capital requirement for the consolidated situation was SEK 5.0 billion (5.0 at 30 September 2019). The capital requirement should be compared with estimated own funds of SEK 6.3 billion (6.2 at 30 September 2019). The capital adequacy assessment takes into account the minimum capital requirement, the combined buffer requirement and the Pillar II capital requirement. Refer to Note 1 for further information.

## Assets

The largest asset item in the balance sheet is Loans to the public, which increased SEK 1.0 billion to SEK 76.4 billion during the quarter and where the largest part of the increase was attributable to mortgage operations. The increase corresponded to lending growth of 1.3 percent (1.4) over the quarter. The geographic distribution of lending is stable over time.

At 31 December 2019, Landshypotek Bank's liquidity portfolio totalled SEK 9.8 billion (11.0). 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. At 31 December 2019, the liquidity portfolio was 1.9 times (2.9) larger than refinancing requirements for the next six months. The ratio is affected by the allocation of maturing debt for longer than six months and can, therefore, change between measurement periods.

The Group comprises Landshypotek Bank AB and two dormant subsidiaries: Sveriges Allmänna Hypoteksbank AB and Hypoteksbanken AB.

## 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. In the fourth quarter of 2019, covered bonds to a value of SEK 3.5 billion and senior bonds to a value of SEK 0.7 billion were issued. Moreover, the bank completed its first issue of debt classified under own funds and eligible liabilities for SEK 1.0 billion. At the same time, bonds matured or were repurchased to a value of SEK 2.8 billion, of which

## Funding

SEK million	In issue 31 Dec 2019	Limit	In issue 31 Dec 2018
Swedish commercial paper	–	10,000	–
MTN programme	42,898	60,000	41,002
EMTN programme	16,582	104,982 <sup>1)</sup>	16,788
Registered covered bonds	3,571		3,446
Subordinated loans	1,900		1,900

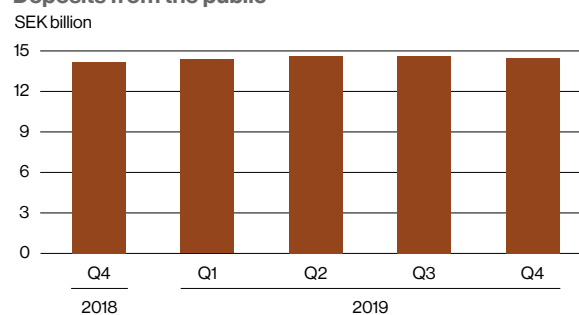
<sup>1)</sup> EUR 10,000 million.

SEK 2.2 billion pertained to covered bonds and SEK 0.6 billion to senior bonds. The finance market for Nordic banks functioned smoothly over the quarter and demand for the bank's bonds has been favourable.

### Deposits from the public

Deposits from the public totalled SEK 14.4 billion (14.1) and declined SEK 0.1 billion in the quarter.

### Deposits from the public



## Comparison with the third quarter of 2019

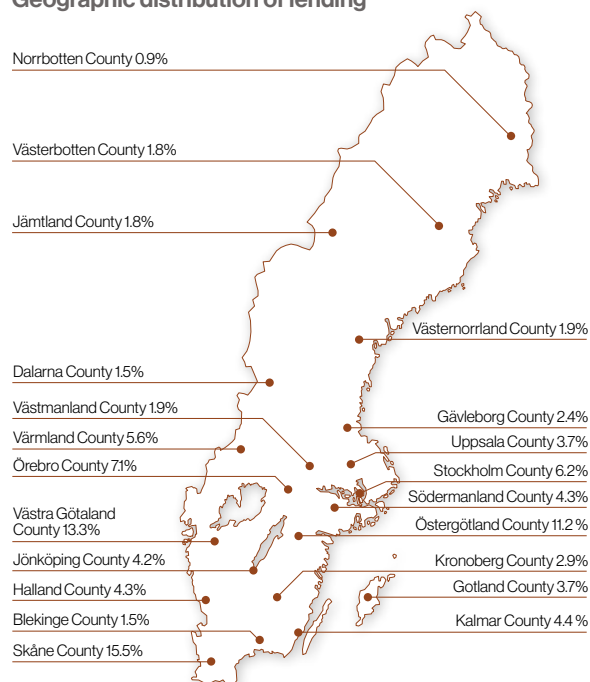
Operating profit amounted to SEK 74 million (158) for the quarter. Excluding the net result of financial transactions, operating profit amounted to SEK 79 million (153) for the quarter, down SEK 74 million. The downturn was mainly due to the sale of one property during the third quarter. Costs have risen as planned, with the aim of managing the bank's growth and continuing to strengthen the bank as a whole.

## Rating

Landshypotek Bank has credit ratings from two different rating agencies, Standard & Poor's and Fitch. No changes in the bank's ratings were forthcoming during the year.

Rating	Long	Short
S&P covered bonds	AAA	
S&P	A-	A-2, K1
Fitch	A	F1

## Geographic distribution of lending



## Group structure

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

## Events after the end of the period

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

Stockholm, 28 January 2020

Per Lindblad  
Chief Executive Officer



## Accounting policies

This interim report has been prepared in accordance with IAS 34. From 1 January 2019, lease agreements are recognised in line with IFRS 16 Leases. For lessees, IFRS 16 has led to the inclusion of almost all leases in the balance sheet. The right to utilise the leased asset is recognised as an asset and the present value of leasing fees are recognised as a corresponding liability in the balance sheet for lessees. The earnings impact encompasses the transfer of costs from general administrative expenses to depreciation, amortisation and impairment of tangible and intangible assets, and interest expenses. As a consequence, the bank recognised tangible non-current assets of SEK 18.2 million together with a corresponding lease liability at 1 January 2019.

In other regards, accounting policies, calculation methods and risk management are unchanged compared with the last annual report, refer to Note 1 in the Annual Report for 2018 ([www.landshypotek.se/en/about-landshypotek/investor-relations/](http://www.landshypotek.se/en/about-landshypotek/investor-relations/)).

# Income Statement

SEK million	Note	Q4 2019	Q4 2018	Q3 2019	Full-year 2019	Full-year 2018
Interest income		342	308	342	1,351	1,229
of which interest income using the effective-interest method		342	308	342	1,351	1,228
of which other interest income		-	0	-	-	2
Interest expenses		-141	-99	-137	-536	-430
of which fees for deposit insurance		-5	-3	-4	-15	-10
of which fees for resolution fund		-11	-17	-11	-48	-75
<b>Net interest income</b>	2	<b>202</b>	<b>209</b>	<b>205</b>	<b>815</b>	<b>799</b>
Net result of financial transactions		-5	0	5	-1	17
Other operating income		1	1	57	62	5
<b>Total operating income</b>		<b>198</b>	<b>210</b>	<b>268</b>	<b>876</b>	<b>822</b>
General administrative expenses		-115	-99	-95	-419	-408
Depreciation, amortisation and impairment of tangible and intangible assets		-12	-4	-12	-41	-17
Other operating expenses		0	-3	-1	-1	-3
<b>Total expenses before credit losses</b>		<b>-127</b>	<b>-106</b>	<b>-107</b>	<b>-461</b>	<b>-428</b>
<b>Profit before credit losses</b>		<b>70</b>	<b>104</b>	<b>160</b>	<b>415</b>	<b>394</b>
Net credit losses	3	3	-15	-3	3	-8
<b>Operating profit</b>		<b>74</b>	<b>89</b>	<b>158</b>	<b>418</b>	<b>386</b>
Tax expense for the period		-19	-22	-24	-86	-92
<b>Net profit for the period</b>		<b>55</b>	<b>67</b>	<b>134</b>	<b>332</b>	<b>294</b>

# Statement of Comprehensive Income

SEK million	Q4 2019	Q4 2018	Q3 2019	Full-year 2019	Full-year 2018
<b>Net profit for the period</b>	<b>55</b>	<b>67</b>	<b>134</b>	<b>332</b>	<b>294</b>
<b>Other comprehensive income</b>					
<b>Items to be reclassified to income statement</b>					
Financial assets at FVTOCI	-6	-24	-19	-9	-27
Cross-currency basis spreads in fair value hedges	-4	4	-1	-4	-29
Income tax related to other comprehensive income	2	4	4	3	12
<b>Total items that will be reclassified</b>	<b>-8</b>	<b>-16</b>	<b>-16</b>	<b>-10</b>	<b>-44</b>
<b>Total other comprehensive income</b>	<b>-8</b>	<b>-16</b>	<b>-16</b>	<b>-10</b>	<b>-44</b>
<b>Comprehensive income for the period</b>	<b>48</b>	<b>51</b>	<b>118</b>	<b>322</b>	<b>251</b>

# Balance Sheet

SEK million	Note	31 Dec 2019	30 Sep 2019	31 Dec 2018
<b>Assets</b>				
Cash and balances with central banks		43	-	-
Eligible treasury bills		3,998	4,293	4,962
Loans to credit institutions		501	652	540
Loans to the public	4	76,367	75,356	72,511
Value change of interest-hedged items in portfolio hedges		6	107	41
Bonds and other interest-bearing securities		5,850	6,846	6,076
Derivatives		1,647	2,140	1,304
Shares in Group entities		-	0	0
Intangible assets		149	156	143
Tangible assets		26	27	15
Other assets		6	5	14
Current tax assets		9	3	13
Deferred tax assets		-	0	0
Prepaid expenses and accrued income		285	360	307
<b>Total assets</b>	5, 6	<b>88,887</b>	<b>89,946</b>	<b>85,928</b>
<b>Liabilities and equity</b>				
Liabilities to credit institutions		1,475	4,098	954
Deposits from the public		14,449	14,583	14,150
Debt securities issued, etc.		64,790	62,804	62,641
Derivatives		192	458	461
Other liabilities		312	142	251
Accrued expenses and prepaid income		358	483	344
Provisions		2	2	3
Subordinated liabilities		1,200	1,200	1,200
<b>Total liabilities</b>		<b>82,777</b>	<b>83,771</b>	<b>80,003</b>
<b>Total equity</b>		<b>6,111</b>	<b>6,176</b>	<b>5,924</b>
<b>Total liabilities and equity</b>	5, 6	<b>88,887</b>	<b>89,946</b>	<b>85,928</b>

# Statement of cash flow

SEK million	Full-year 2019	Full-year 2018
<b>Opening cash and cash equivalents</b>	<b>540</b>	<b>393</b>
Cash flow from operating activities	156	352
Cash flow from investment activities	37	-58
Cash flow from financing activities	-189	-147
<b>Cash flow for the period</b>	<b>4</b>	<b>147</b>
<b>Closing cash and cash equivalents</b>	<b>544</b>	<b>540</b>

# Statement of changes in equity

January – December 2018 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, equity</b>	2,253	1,017	38	–	700	1,766	5,774
Comprehensive income for the period			-21	-23		294	251
<b>Total change before transactions with owners and holders of Tier 1 capital instruments</b>	–	–	-21	-23	–	294	251
Dividend on Tier 1 capital instruments						-28	-28
Shareholders' contributions						51	51
Group contributions paid						-158	-158
Tax on Group contributions paid						35	35
<b>Closing balance, equity</b>	2,253	1,017	17	-23	700	1,960	5,924

January – December 2019 SEK million	Share capital	Other contributed equity	Fair value reserve	Cross-currency basis spreads in fair value hedges	Tier 1 capital	Retained earnings	Total
<b>Opening balance, equity</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, equity</b>	2,253	1,017	10	-26	700	2,157	6,111

# Notes

## Note 1 Capital and capital adequacy

The total capital ratio for the consolidated situation amounted to 18.2 percent compared with 17.8 percent at 30 September 2019 and the CET1 capital ratio was 13.9 percent (13.4). At Landshypotek Bank AB, the total capital ratio amounted to 19.2 percent (18.9) and the CET1 capital ratio was 13.7 percent (13.5). Own funds for the consolidated situation increased SEK 137 million to SEK 6,346 million during the quarter. The increase derives mainly from member contributions and earnings during the quarter. The minimum capital requirement rose SEK 4 million to SEK 2,790 million.

In addition to the minimum capital requirement of 8 percent of the total risk-weighted amount, the combined buffer requirement (capital conservation buffer and the countercyclical buffer) is 5 percent. The combined buffer requirement must be covered by CET1 capital.

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

The internally assessed capital requirement for the consolidated situation was SEK 5.0 billion (5.0) at 31 December 2019. The capital requirement should be compared with estimated own funds of SEK 6.3 billion.

continued Note 1 Capital adequacy analysis

SEK million	Consolidated situation <sup>1)</sup> 31 December 2019	Landshypotek Bank AB 31 December 2019
<b>CET1 capital: Instruments and reserves</b>		
Member contributions	1,767	-
Share capital	-	2,253
Other contributed equity	1,798	1,017
Tier 1 capital instruments	700	700
Reserves	-16	-16
Actuarial changes	-48	0
Retained earnings	1,745	1,825
Net profit for the year <sup>2)</sup>	341	332
<b>Equity in the balance sheet</b>	<b>6,287</b>	<b>6,111</b>
Deductions related to the consolidated situation and other foreseeable costs <sup>3)</sup>	-116	0
Deductions for Tier 1 capital instruments classified as equity	-700	-700
<b>CET1 capital before regulatory adjustments</b>	<b>5,471</b>	<b>5,411</b>
<b>CET1 capital: regulatory adjustments</b>		
Further value adjustments	-10	-10
Intangible assets	-149	-149
Deferred tax assets that rely on future profitability	-8	0
Fair value reserves related to gains or losses on cash-flow hedges	0	0
IRB deductions <sup>4)</sup>	-468	-468
Defined-benefit pension plans	0	0
<b>Total regulatory adjustments to CET1 capital</b>	<b>-634</b>	<b>-626</b>
<b>CET1 capital</b>	<b>4,836</b>	<b>4,785</b>
<b>Additional Tier 1 capital: instruments</b>		
Tier 1 capital instruments	-	700
of which: classified as equity under applicable accounting standards	-	700
Qualifying Tier 1 capital included in consolidated additional Tier 1 capital issued by subsidiaries and held by third parties	572	-
<b>Tier 1 capital (CET1 capital + Tier 1 capital)</b>	<b>5,408</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
Positive amounts resulting from the calculation of expected loss amounts (IRB)	-	-
Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third parties	939	-
<b>Tier 2 capital before regulatory adjustments</b>	<b>939</b>	<b>1,200</b>
<b>Tier 2 capital: regulatory adjustments</b>		
<b>Total regulatory adjustments to Tier 2 capital</b>	<b>-</b>	<b>-</b>
<b>Tier 2 capital</b>	<b>939</b>	<b>1,200</b>
<b>Own funds (Tier 1 capital + Tier 2 capital)</b>	<b>6,346</b>	<b>6,685</b>
<b>Total risk-weighted exposure amount</b>	<b>34,876</b>	<b>34,880</b>
<b>Capital ratios and buffers</b>		
<b>Own funds requirement</b>	<b>2,790</b>	<b>2,790</b>
CET1 capital ratio (%)	13.9	13.7
Tier 1 capital ratio (%)	15.5	15.7
Total capital ratio (%)	18.2	19.2
Institution-specific CET1 capital requirement including buffer requirements (%)	9.5	9.5
of which: capital conservation buffer requirement (%)	2.5	2.5
of which: countercyclical buffer requirement (%)	2.5	2.5
CET1 capital available to meet buffers (%) <sup>5)</sup>	9.4	9.2

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

<sup>2)</sup> A decision by Finansinspektionen in March 2019 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> This item pertains to the expected dividend.

<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 31 December 2019	Landshypotek Bank AB, 31 December 2019
<b>Internally assessed capital requirement<sup>1)</sup></b>		
Pillar I capital requirement	2,790	2,790
Percentage of total risk-weighted exposure amount	8.0	8.0
Pillar II capital requirement	509	509
Percentage of total risk-weighted exposure amount	1.5	1.5
Combined buffer requirement	1,744	1,744
Percentage of total risk-weighted exposure amount	5.0	5.0
<b>Total capital requirement</b>	<b>5,043</b>	<b>5,044</b>
<b>Percentage of total risk-weighted exposure amount</b>	<b>14.5</b>	<b>14.5</b>
<b>Own funds (Tier 1 capital + Tier 2 capital)</b>	<b>6,346</b>	<b>6,685</b>
<b>Percentage of total risk-weighted exposure amount</b>	<b>18.2</b>	<b>19.2</b>
<b>Capital requirement as assessed by Finansinspektionen<sup>2)</sup></b>		
Pillar I capital requirement	2,790	2,790
Percentage of total risk-weighted exposure amount	8.0	8.0
Pillar II capital requirement	648	648
Percentage of total risk-weighted exposure amount	1.9	1.9
Combined buffer requirement	1,744	1,744
Percentage of total risk-weighted exposure amount	5.0	5.0
<b>Total capital requirement</b>	<b>5,182</b>	<b>5,182</b>
<b>Percentage of total risk-weighted exposure amount</b>	<b>14.9</b>	<b>14.9</b>
<b>Own funds (Tier 1 capital + Tier 2 capital)</b>	<b>6,346</b>	<b>6,685</b>
<b>Percentage of total risk-weighted exposure amount</b>	<b>18.2</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 2019) and the combined buffer requirement pursuant to the Capital Buffers Act (2014:966).

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

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

Consolidated situation 31 December 2019 SEK million	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>

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

Landshypotek Bank AB, 31 December 2019 SEK million	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	Q4 2019	Q4 2018	Q3 2019	Full-year 2019	Full-year 2018
<b>Interest income</b>					
Interest income on loans to credit institutions	0	0	0	0	0
Interest income on loans to the public	329	301	328	1,296	1,207
Interest income on interest-bearing securities	11	5	12	44	11
Other interest income	3	2	3	11	11
<b>Total interest income</b>	<b>342</b>	<b>308</b>	<b>342</b>	<b>1,351</b>	<b>1,229</b>
<b>Interest expenses</b>					
Interest expenses for liabilities to credit institutions	2	2	2	5	7
Interest expenses for deposits from the public	-26	-27	-27	-106	-99
of which fees for deposit insurance	-5	-3	-4	-15	-10
Interest expenses for interest-bearing securities	-128	-97	-134	-521	-428
Interest expenses for subordinated liabilities	-8	-7	-8	-32	-27
Interest expenses for derivative instruments	36	52	46	187	212
Other interest expenses	-17	-23	-15	-69	-96
of which fees for resolution fund	-11	-17	-11	-48	-75
<b>Total interest expenses</b>	<b>-141</b>	<b>-99</b>	<b>-137</b>	<b>-536</b>	<b>-430</b>
<b>Total net interest income</b>	<b>202</b>	<b>209</b>	<b>205</b>	<b>815</b>	<b>799</b>

All interest income is attributable to the Swedish market

## Note 3 Net credit losses

SEK million	Q4 2019	Q4 2018	Q3 2019	Full-year 2019	Full-year 2018
Change in credit loss allowance, Stage 1	1	0	0	0	1
Change in credit loss allowance, Stage 2	3	5	-3	4	12
of which change in collective credit loss allowance, Stage 2	0	3	0	0	4
<b>Net credit losses, non-credit-impaired lending</b>	<b>4</b>	<b>5</b>	<b>-3</b>	<b>4</b>	<b>13</b>
Change in credit loss allowance, Stage 3	-1	-20	1	4	15
Write-off for the period for confirmed losses	0	-2	-2	-11	-41
Recoveries of previously confirmed losses	1	1	1	6	6
<b>Net credit losses, credit-impaired lending</b>	<b>0</b>	<b>-21</b>	<b>0</b>	<b>-1</b>	<b>-21</b>
<b>Total net credit losses</b>	<b>3</b>	<b>-15</b>	<b>-3</b>	<b>3</b>	<b>-8</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.

- The expected maturity matches the term of the agreement, limited to not longer than 30 years.

In the majority of the credit portfolio agreements, PD and LGD are based on internal historical data and utilise the bank's capital adequacy IRB models (see description in Landshypotek Bank's Information regarding capital adequacy and risk management 2018). The estimates have been recalibrated to capture the current financial position. For agreements in the bank's liquidity portfolio, ECLs are estimated based on, inter alia, the default rates in the rating matrices from an international rating agency.

In estimating the future risk, PD and LGD are affected by forecasts for future economic development through macroeconomic 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 74 million
Improved scenario	SEK 73 million
Deteriorated scenario	SEK 79 million

## Note 4 Loans to the public

SEK million	31 Dec 2019	30 Sep 2019	31 Dec 2018
Loan receivables, stage 1	67,949	66,552	63,071
Loan receivables, stage 2	7,859	8,284	8,996
Loan receivables, stage 3	634	597	526
<b>Gross loan receivables</b>	<b>76,441</b>	<b>75,433</b>	<b>72,593</b>
Less credit loss allowance	-74	-77	-82
of which change in collectively measured credit loss allowance	-	-	-
<b>Net loan receivables</b>	<b>76,367</b>	<b>75,356</b>	<b>72,511</b>
<b>Disclosures on overdue loan receivables, gross</b>			
Loan receivables overdue 5–90 days	43	-	22
Loan receivables overdue more than 90 days	253	254	191
<b>Total overdue loan receivables, gross</b>	<b>296</b>	<b>254</b>	<b>213</b>

Gross loan receivables SEK million	Non-credit-impaired lending		Credit-impaired lending	Total
	Stage 1	Stage 2	Stage 3	
<b>Opening balance 1 Jan 2018</b>	<b>56,985</b>	<b>10,875</b>	<b>678</b>	<b>68,537</b>
Increases in loan receivables due to origination and acquisition	9,760	309	2	10,070
Decreases in loan receivables due to derecognition	-4,552	-1,151	-212	-5,915
Decrease in loan receivables due to confirmed losses	-	-	-99	-99
<b>Migration between stages</b>				
from 1 to 2	-1,511	1,511	-	-
from 1 to 3	-138	-	138	-
from 2 to 1	2,507	-2,507	-	-
from 2 to 3	-	-80	80	-
from 3 to 2	-	40	-40	-
from 3 to 1	20	-	-20	-
<b>Closing balance 31 Dec 2018</b>	<b>63,071</b>	<b>8,996</b>	<b>526</b>	<b>72,593</b>
<b>Opening balance 1 Jan 2019</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	-	-239	239	-
from 3 to 2	-	22	-22	-
from 3 to 1	40	-	-40	-
<b>Closing balance 31 Dec 2019</b>	<b>67,949</b>	<b>7,859</b>	<b>634</b>	<b>76,441</b>

*continued* Loans to the public

Credit loss allowance SEK million	Non-credit-impaired lending		Credit-impaired lending	Total credit loss allowance lending	Of which credit loss allowance for balance-sheet assets	Of which provisions for off-balance- sheet exposures
	Stage 1	Stage 2	Stage 3			
<b>Opening balance 1 Jan 2018</b>	-7	-33	-71	-111	-107	-4
Increases due to origination and acquisition	-1	-3	-1	-5	-4	-1
Decreases due to derecognition	1	6	8	15	12	3
Increases due to origination and acquisition	-	-	41	41	41	-
Decreases due to derecognition	2	3	-3	1	1	0
Decrease in allowance due to write-offs	0	1	0	1	1	0
<b>Migration between stages</b>						
from 1 to 2	0	-8	-	-7	-7	0
from 1 to 3	0	-	-26	-26	-26	0
from 2 to 1	-1	11	-	11	11	0
from 2 to 3	-	1	-6	-5	-5	0
from 3 to 2	-	0	0	0	0	0
from 3 to 1	0	-	0	0	0	0
<b>Closing balance 31 Dec 2018</b>	<b>-6</b>	<b>-21</b>	<b>-56</b>	<b>-83</b>	<b>-82</b>	<b>-2</b>
<b>Opening balance 1 Jan 2019</b>	<b>-6</b>	<b>-21</b>	<b>-56</b>	<b>-83</b>	<b>-82</b>	<b>-2</b>
Increases due to origination and acquisition	-1	-1	0	-2	-2	0
Decreases due to derecognition	1	3	6	9	8	1
Increases due to origination and acquisition	-	-	11	11	11	-
Decreases due to derecognition	2	-3	-8	-9	-9	0
Decrease in allowance due to write-offs	-	-	-	0	-	-
<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 31 Dec 2019</b>	<b>-5</b>	<b>-17</b>	<b>-52</b>	<b>-74</b>	<b>-73</b>	<b>-1</b>

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

## Note 5 Fair-value hierarchy for financial instruments

SEK million	31 December 2019				31 December 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets at FVTOCI</b>								
Eligible treasury bills, etc.	3,998			3,998	4,962			4,962
Bonds and other interest-bearing securities	5,850			5,850	6,076			6,076
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		1,021		1,021		833		833
Cross-currency interest-rate swaps		626		626		471		471
<b>Total assets measured at fair value</b>	<b>9,848</b>	<b>1,647</b>	<b>-</b>	<b>11,495</b>	<b>11,038</b>	<b>1,304</b>	<b>-</b>	<b>12,342</b>
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		139		139		183		183
Cross-currency interest-rate swaps		53		53		278		278
<b>Total liabilities measured at fair value</b>	<b>-</b>	<b>192</b>	<b>-</b>	<b>192</b>	<b>-</b>	<b>461</b>	<b>-</b>	<b>461</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	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Eligible treasury bills	3,998	3,998	4,962	4,962
Loans to credit institutions	501	501	540	540
Loans to the public	76,367	77,737	72,511	73,880
Bonds and other interest-bearing securities	5,850	5,850	6,076	6,076
Derivatives	1,647	1,647	1,304	1,304
<b>Total assets</b>	<b>88,364</b>	<b>89,734</b>	<b>85,393</b>	<b>86,762</b>
<b>Liabilities and provisions</b>				
Liabilities to credit institutions	1,475	1,475	954	954
Deposits from the public	14,449	14,449	14,150	14,150
Debt securities issued, etc.	64,790	65,445	62,641	63,294
Derivatives	192	192	461	461
Subordinated liabilities	1,200	1,233	1,200	1,241
<b>Total liabilities</b>	<b>82,105</b>	<b>82,794</b>	<b>79,405</b>	<b>80,099</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 rele-

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

Definitions of APMs	Aim
<b>Increase in lending, %:</b> The percentage increase in loans to the public during the period.	The aim is to illustrate the growth in the lending 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>Increase in deposits, %:</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	Q4 2019	Q4 2018	Q3 2019	Full-year 2019	Full-year 2018
Change in loans to the public	1,012	979	1,456	3,856	4,022
Opening balance, loans to the public	75,356	71,532	73,900	72,511	68,488
<b>Change in lending, %</b>	<b>1.3</b>	<b>1.4</b>	<b>2.0</b>	<b>5.3</b>	<b>5.9</b>
Net interest income, accumulated LTM	815	799	822	815	799
Average loans to the public, LTM	74,235	70,792	73,261	74,235	70,792
<b>Interest margin, LTM, %</b>	<b>1.10</b>	<b>1.13</b>	<b>1.12</b>	<b>1.10</b>	<b>1.13</b>
Change in deposits from the public	-134	448	-38	299	1,474
Opening balance deposits from the public	14,583	13,702	14,622	14,449	12,675
<b>Change in deposits, %</b>	<b>-0.9</b>	<b>3.3</b>	<b>-0.3</b>	<b>2.1</b>	<b>11.6</b>
Costs before credit losses	-127	-106	-107	-461	-428
Total operating income	198	210	268	876	822
<b>C/I ratio including financial transactions</b>	<b>0.64</b>	<b>0.50</b>	<b>0.40</b>	<b>0.53</b>	<b>0.52</b>
Costs before credit losses	-127	-106	-107	-461	-428
Total operating income excluding financial transactions	203	210	262	877	805
<b>C/I ratio excluding financial transactions</b>	<b>0.63</b>	<b>0.50</b>	<b>0.41</b>	<b>0.53</b>	<b>0.53</b>
Net credit losses calculated on a full-year basis	14	-61	-10	3	-8
Average loans to the public, LTM	74,235	70,792	73,261	74,235	70,792
<b>Credit loss level, %<sup>1</sup></b>	<b>-</b>	<b>0.09</b>	<b>0.01</b>	<b>-</b>	<b>0.01</b>
Credit-impaired assets, gross	634	526	565	634	526
Less provisions made	-52	-56	-51	-52	-56
<b>Credit-impaired assets, net</b>	<b>582</b>	<b>470</b>	<b>514</b>	<b>582</b>	<b>470</b>
Credit-impaired assets, net	582	470	514	582	470
Loans to the public	76,367	72,511	75,356	76,367	72,511
<b>Net credit-impaired assets after allowances as a percentage of total loans outstanding, %</b>	<b>0.76</b>	<b>0.65</b>	<b>0.68</b>	<b>0.76</b>	<b>0.65</b>
Profit after tax				332	294
Equity				6,111	5,924
<b>Return on equity, %</b>				<b>5.4</b>	<b>5.0</b>
Profit after tax				332	294
Number of shares, million				2	2
<b>Earnings per share, SEK</b>				<b>147.4</b>	<b>130.6</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)*

Annual Report 2019	13 March 2020
General Meeting	22 April 2020
Association Meeting	22 April 2020
Interim Report Q1	29 April 2020

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