LANDSHYPOTEK

INFORMATION REGARDING CAPITAL ADEQUACY AND RISK MANAGEMENT 2011

PILLAR III OF THE BASEL RULES

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1. Introduction

1.1. Introduction and purpose

This report contains information about Landshypotek's risks, risk management and capital adequacy in accordance with Pillar III of the capital adequacy rules.

The purpose of this report is to publish information about material risks for Landshypotek, the management of these risks and the current capital adequacy situation. The report has been prepared in accordance with the requirements stipulated in the Capital Requirements Directive, which are defined more precisely in the Swedish Financial Supervisory Authority's regulations and general guidelines regarding public disclosure of information concerning capital adequacy and risk management (FFFS 2007:5).

The report encompasses the financial Corporate Group Landshypotek and pertains to the circumstances prevailing on 31 December 2011. Landshypotek, ekonomisk förening owns 100 percent of the shares in Landshypotek AB and is the Parent Association of the financial Corporate Group. All borrowers of Landshypotek AB are also members of Landshypotek, ekonomisk förening. Landshypotek AB is the Parent Company of the sub-group, which is also where the majority of business activities are conducted. Other companies in the sub-group are Landshypotek Jordbrukskredit AB and Lantbrukskredit AB, which are both 100-percent owned by Landshypotek AB.

This report is published at the same time as the Annual Report on Landshypotek's website.

Landshypotek's aim with this report is to provide a detailed description of its strategy, and the practical management and governance of the operations' risks and capital adequacy requirement. The information presented is to follow current regulations and otherwise be transparent and structured.

1.2. Capital adequacy rules – Basel II

Sweden has applied the Basel II capital adequacy rules since 2007. The aim of these rules is to increase the stability of the banking system by ensuring that banks have sufficient capital to withstand difficult market conditions. The Basel II rules are based on three different pillars. Pillar I addresses the basic capital requirements calculated for credit risks, market risks and operational risks in accordance with the Swedish Capital Adequacy and Large Exposures Act (2006:1371), the "Capital Adequacy and Large Exposures Act." Pillar II imposes requirements on the banks to calculate capital adequacy requirements, using their own methods and models, that will be sufficient to cover the nature and level of the risks to which the banks are, or may in the future be, exposed. Pillar III stipulates that the banks are to publish information regarding capital adequacy and risk management, which is the purpose of this report.

1.3. The future – Basel III

The most recent financial crisis showed that the current regulations, Basel II, did not sufficiently identify all of the risks in the banks' operations. Accordingly, the Basel Committee has produced a more comprehensive set of rules known as Basel III that will be successively introduced from 2013. These new regulations primarily set out stricter requirements for what is to be included in the capital base and Tier 1 capital, higher capital requirements and new requirements for banks' liquidity.

Diagram 1 Group structure

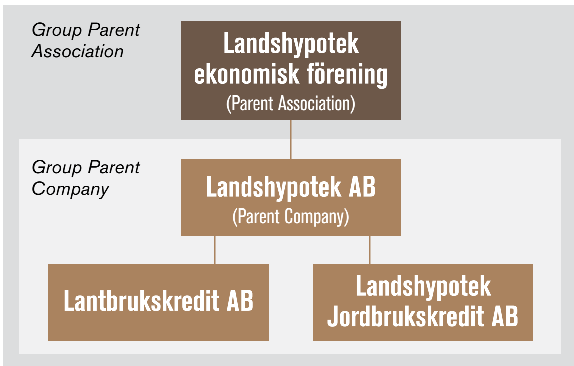


Table 1 Companies that are members of the Landshypotek financial Corporate Group

Companies that are members of the financial Corporate Group	Corporate Registration Number	Domicile
Landshypotek, ekonomisk förening	769600-5003	Stockholm
Landshypotek AB	556500-2762	Stockholm
Landshypotek Jordbrukskredit AB	556263-8808	Stockholm
Lantbrukskredit AB	556095-2896	Stockholm

The minimum capital requirement for Core Tier 1 capital (equity) is expected to increase from 2 percent to 4.5 percent. Furthermore, a capital conservation buffer of an additional 2.5 percent will probably be introduced. In November 2011, the Swedish government also presented its proposed addition to the calculation of capital adequacy ratios for banks that are important to the Swedish system. The proposal includes a discussion on making an addition of 3 percent from 2013 and 5 percent from 2015. The banks that are important to the system are the four largest banks in Sweden. At the same time, it was proposed that the increase in the capital requirement may encompass more banks. Discussions are also being held regarding the possibility of the current level of risk weights for mortgages being reviewed and the floor being set at anywhere between 10 and 20 percent.

Landshypotek monitors international and national discussions, paying attention to the changes that may be incorporated and the companies that in practice will fall under the various proposals in Sweden. Landshypotek has a capital base that mainly comprises equity and, accordingly, believes that adjustments to these new requirements will generally be manageable. These changes are also important for future capital planning.

2. Description of Landshypotek and the operations

2.1. General description

Landshypotek is a member-owned credit institution for financing agriculture and forestry and has 175 years of tradition. The business operations mainly consist of lending against real property as collateral.

Landshypotek is a member-owned credit institution with the task of providing competitive financing for Sweden's farm and forest owners. The company's history dates back to 1836. Landshypotek, ekonomisk förening is the Parent Company of the Landshypotek Group. All borrowers who have loans with property as collateral with Landshypotek automatically become members of the association and thereby also owners of the operations. The association currently has about 50,000 members.

Landshypotek AB is a wholly owned subsidiary of Landshypotek, ekonomisk förening, and accounts for approximately 99 percent of the Group's lending. These operations encompass lending to farm and forest owners against real property as collateral. All borrowing in the Group now takes place in Landshypotek AB.

The subsidiary Landshypotek Jordbrukskredit AB offers other loans to farm and forest owners. The subsidiary Lantbrukskredit AB previously financed agriculturally related businesses, but in December 2011, the loan stock was sold to Landshypotek Jordbrukskredit AB and the process of merging the company with Landshypotek AB is under way.

2.2. Description of business areas and products

The base product that Landshypotek offers its customers is first mortgages with collateral in Swedish forestry and agricultural properties. In addition, Landshypotek offers supplementary products to a certain extent under its own auspices, such as second mortgages, EU loans and savings accounts. The products offered are relatively uncomplicated and thus are simple for both our customers and Landshypotek to understand. This creates excellent conditions for conducting high-quality credit granting and risk management.

In order to offer customers a complete range of financial products, collaborations are in place with partners who provide products that Landshypotek does not offer within the framework of its own business operations. Corporate and private accounts, forest accounts and diverse payment services are offered in partnership with Sparbanken Öresund. Leasing and hire purchase of agricultural and construction machinery, and light and heavy vehicles with the item as collateral are offered in partnership with DNB. Landshypotek's farm insurance is a customised insurance policy in partnership with Gjensidige Försäkringsbolag.

2.3. The future

Landshypotek holds a strong position in the credit market for financing agriculture and forestry. The conditions for operating financial companies are undergoing substantial change in the wake of the 2008 financial crisis. Higher capital requirements, greater liquidity requirements and requirements for balanced and efficient borrowing mean that Landshypotek needs to adjust its operations to continue to fulfil its role in undercutting the market. The company's objectives are to expand the operations and increase market shares. In addition, the product offering will be expanded so as to be able to offer a complete range of financing solutions for agriculture and forestry in the future. These objectives are part of Landshypotek's vision where the aim is to become:

"The preferred choice for financing for agriculture and forestry"

Growth is to take place at low risk and with healthy and stable profitability. To achieve this growth strategy, Landshypotek plans to diversify its refinancing resources by expanding its deposit offering. To conduct efficient deposit operations, Landshypotek plans to join data clearing. The combination of receiving deposits and participating in the general payment systems requires a licence for conducting banking operations. Landshypotek will apply for such a licence. The reason for applying for the licence is, therefore, primarily a formality and will not affect the company's direction. Focus will remain directed to financing agriculture and forestry.

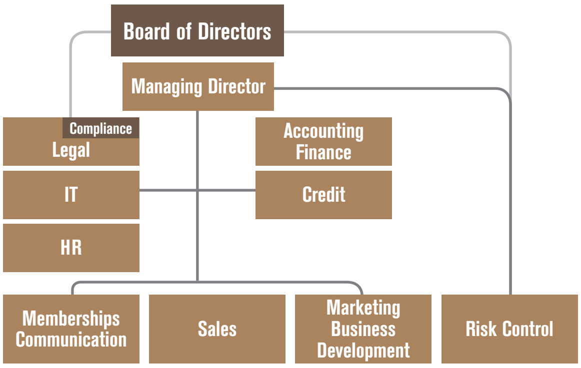
In 2013, the model for profit sharing to members will be changed by basing the profit distributed on the amount of contributed capital that the members have, as opposed to the current model whereby profit is distributed in the form of a refund based on loan interest paid. The main purpose of the change is to create an incentive for the members to contribute more capital (equity) to the operations, which is necessary for expanding lending based on applicable capital adequacy rules (meaning transitional rules).

2.4. Organisation

Landshypotek AB is organised into eight regional office and has 19 sales offices in Sweden. The number of employees amounts to approximately 110. All employees who report to the Managing Director are members of the Management Group. The Group's subsidiaries have no employees. Landshypotek, ekonomisk förening has

100 elected members in ten different regional board of directors whose work duties include appraising properties and participating in regional board work.

Diagram 2 **Organisational chart for Landshypotek AB**



2.5. Corporate governance

Landshypotek, ekonomisk förening, owns the Landshypotek Group and governs Landshypotek AB through the Annual General Meeting, which is the limited liability company's highest decision-making body. Owners' control of Landshypotek AB is also exercised through the Board of Directors and the Managing Director in accordance with the Swedish Companies Act, Articles of Association, adopted policies and instructions.

The Annual General Meeting of Landshypotek AB appoints a Board of Directors and auditors, and also makes decisions on the setting of fees. The Meeting also adopts income statements and balance sheets, and decides on the matter of discharge from liability of the Board of Directors and the Managing Director. In addition, the members of the Election Committee of Landshypotek AB are appointed, and are tasked with preparing election and remuneration issues prior to the next Annual General Meeting. The Election Committee currently comprises three members.

The principle task of the Board of Directors of Landshypotek AB (referred to below as "the Board") is to administer the company's affairs. The Board is ultimately responsible for the organisation and administration of the company. According to the Articles of Association, the Board comprises a minimum of four and maximum of seven members who are elected each year at the Annual General Meeting until the Annual General Meeting the following year. The Board is comprised of seven individuals, four of these are also members of Landshypotek, ekonomisk förening and three are external Board members. The Board's members have extensive experience from trade and industry and/or agriculture and forestry. The Board's work follows the formal work plan adopted annually at the statutory meeting.

The Board has established two committees, the Board's Credit Committee and the Board's Risk and Capital Committee. Minutes are taken of the committees' meetings and submitted to the Board. The Board has adopted a written instruction governing the role and work of the Managing Director. The Managing Director bears responsibility for day-to-day operations pursuant to the Board's instruction and reports regularly to the Board.

The Annual General Meeting appoints external auditors to Landshypotek AB. These auditors must be authorised public accountants. The mandate period of the auditors appointed by the Annual General Meeting is one year. The auditors are responsible for examining the Annual Report and accounts and also the Board's and Managing Director's administration of the company. The auditors report to the Annual General Meeting and, accordingly, are independent in relation to the Board and company management.

The Board of Landshypotek AB has adopted a remuneration policy that specifies the principles behind the Landshypotek AB remuneration system. Information regarding the remuneration system is available on Landshypotek's website. Employees are entitled to remuneration, which may consist of a combination of basic salary, benefits, profit sharing via Landshypotek's profit-sharing trust, bonuses, retirement pension and severance pay. Remuneration in Landshypotek AB is reviewed annually through the employees' salary appraisals. Internal audit is tasked with reviewing how remuneration paid by Landshypotek AB complies with the remuneration policy.

2.5.1. Internal governance and control

It is essential that carefully prepared and clear internal governance and control permeate the organisation in order to manage risks satisfactorily. The Board and Managing Director of Landshypotek AB assume the ultimate responsibility and also have the support of the independent Risk Control and Compliance functions.

The Risk Control function is responsible for control, analysis and reporting on all of Landshypotek's material risks. The work of the function is to follow established instructions and annual action plans. Furthermore, the function administers and validates the credit risk models (IRB models) that Landshypotek has had approved to use to calculate the capital requirement for its credit risks. The Compliance function is responsible for monitoring that operations are conducted in compliance with the laws and regulations applicable for Landshypotek. Both functions report directly to the Board and are independent of the business operations that they control.

The Internal Audit function follows up and examines the internal control and reports directly to the Board. This work has been performed by an independent external party since 2008.

3. Risk management and risk organisation

3.1. Objectives and basis of risk management

Landshypotek's objective is to maintain a low general risk profile. The operations are permeated by a high degree of risk awareness and a low degree of risk assumption. As support, an efficient risk organisation is also in place.

Landshypotek is permeated by a high degree of risk awareness and a low degree of risk assumption. High degree of risk awareness means that each employee understands the risks implied for the company by the individual's work duties, the degree of risk assumption that is acceptable and how the individual needs to behave so as to avoid exceeding the acceptable level of risk. A low degree of risk assumption means that the operations are to be conducted in such a manner that unexpected losses from credit granting, the financing operations and other business activities are minimised. This is achieved through Board support, a distinct decision-making structure with a high level of risk awareness among the staff, shared definitions and assessment principles, as well as sophisticated tools for risk assessment. The operations are to aim for high quality in all of the activities it undertakes, be sensitive to changes in the business environment and understand the impact of these on customers, the value of assumed collateral and its business model.

3.2. General risk profile

Landshypotek's objective is to maintain a low risk profile. This is essential for achieving the business target of offering customers the best conditions in the market for mortgages. A low risk profile contributes to lower borrowing costs and lower loan losses, thereby creating favourable conditions for expanding the operations and increasing market shares.

To maintain a low general risk profile, Landshypotek has identified and classified all material risks so as to be able to optimally understand, manage and potentially quantify each individual risk. Based on the high degree of risk awareness permeating the entire company, Landshypotek can focus on proactively assuming the types of risks that the operations is best able to understand and manage, and actively reduce or avoid risks that are undesirable.

The single largest risk to which Landshypotek is exposed is the credit risk associated with lending to customers. This risk is directly linked to the business concept and is managed throughout the credit process.

It is also necessary to take certain risks in order to conduct the business activities, including such market risks as interest-rate and liquidity risks. A certain level of acceptance for these types of risks must exist, although Landshypotek aims to keep these risks at a low level.

Finally, risks exist that in themselves are undesirable but for which exposure to is unavoidable, for example, operational risks. These types of undesirable risks may have major consequences for the operations and must be managed and minimised to the greatest degree possible.

3.3. Description of risk organisation

The Board is ultimately responsible for Landshypotek's risk management and has established two committees to assist it in its work, the Board's Risk and Capital Committee and the Board's Credit Committee. The primary tasks of the Board's Risk and Capital Committee are to prepare items for the Board and provide the Board with information about internal rules and regulations for risk, compliance, finance and capital adequacy. Regarding risk, the Committee informs the Board of whether the general risk profile of the company and risk management are adequate and effective in respect of credit risks, market risks, liquidity risks and operational risks and whether the risk classification models used are reliable.

The Board's Credit Committee is the highest credit-granting body and makes decisions regarding loans pursuant to the established credit instruction. In addition, the Committee is tasked with preparing items regarding amendments to and/or annual confirmation of credit policy, credit instruction (including credit limits) and valuation instruction prior to the Board's decision. Furthermore, the Committee prepares items regarding the evaluation of portfolio strategies, the transparency of the credit portfolio, the review of valuation, decision and risk classification models as well as existing or new delegation rights.

The Risk Control function is responsible for the control, analysis and reporting of all of Landshypotek's risks. The Chief Risk Control Officer reports directly to the Managing Director and indirectly to the Board and is independent of the business operations. The function also maintains a close dialogue with the Board's Risk and Capital Committee.

The Board is also supported by a further two control functions, Compliance and Internal Audit. The Compliance function is responsible for ensuring that the operations are conducted in accordance with applicable laws and regulations. The Compliance function is subordinate to the Chief Legal Officer, who is directly subordinate to the Managing Director, and works independently of the business operations and reports to the Board as necessary. The Internal Audit function controls the entire Risk Management function, Compliance function and other control functions at Landshypotek and reports directly to the Board.

The risk organisation also comprises three sub-committees: the Risk and Capital Council, the Credit Sub-Committee and the Finance Sub-Committee.

The Risk and Capital Council, chaired by the Chief Risk Control Officer, deals with issues relating to all the risks to which Landshypotek is exposed. The Council also addresses the design of stress tests, the relationship between risk and capital and other capital issues. The Chief Financial Officer and Chief Credit Officer are represented on the Council and the Compliance Officer presents reports to the Council

The Credit Sub-Committee, chaired by the Chief Credit Officer, is responsible for regularly reviewing credit-granting rules and submitting proposal for changes to the Board's Credit Committee. The Finance Sub-Committee, chaired by the Chief Financial Officer, assesses Landshypotek's financial risks and makes decisions concerning borrowing, deposit and lending interest rates.

In the business operations, the Credit Department is responsible for administering and managing the credit approval process. It is also responsible for analysing the credit portfolio and managing insolvency matters. The Chief Credit Officer reports to the Managing Director and present reports on credit matters to the Board's Credit Committee.

The Finance Department is responsible for Landshypotek's financial risk management with regard to borrowing and management of equity, liabilities and liquidity. Operations are regulated by the finance policy established by the Board. The Chief Financial Officer is responsible for the Finance Department and reports to the Managing Director of Landshypotek.

3.4. Risk management process

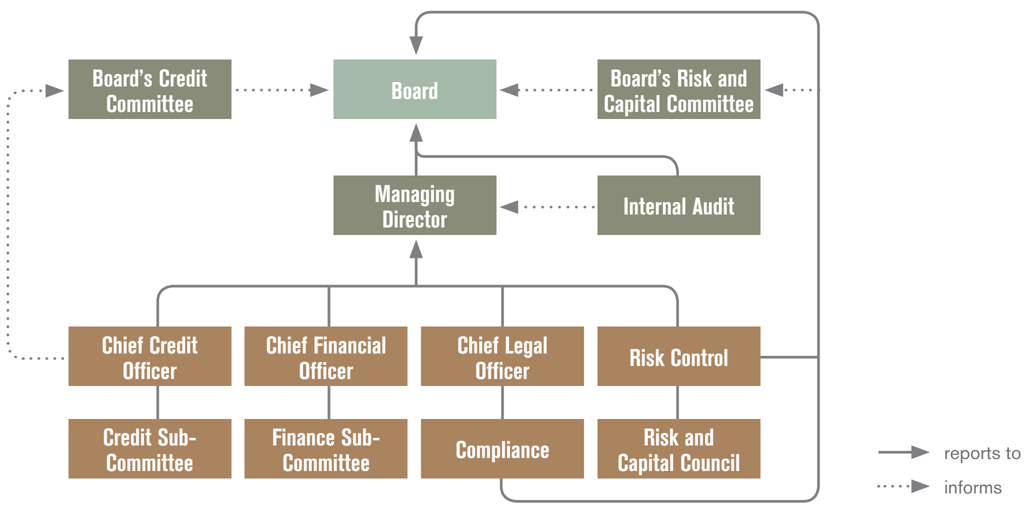
A high degree of risk awareness is to permeate the entire organisation and all employees at Landshypotek are responsible for managing the risks inherent in the operations. The risk management process can be described in terms of three different lines of defence.

The first line of defence consists of the business operations, which is the risk owner. This is where customer contact takes place and the conditions for understanding the related risks are best. The first line of defence's risk management activities are characterised by customer knowledge, well-defined guidelines and procedures, and effective communication with the control functions.

The second line of defence consists of the risk management and compliance functions. These functions are responsible for controlling, monitoring, supporting and analysing the work of the first line of defence with the risks and regulations that encompass Landshypotek. The second line of defence's functions work independently of the business operations and report directly to the Managing Director and Board. The independent control functions comprise expertise in the fields of risk and regulations. Accordingly, a high level of responsibility is assigned to these functions for continuously developing the management of risks and regulations in line with the market, supporting the operations and upholding integrity whenever required.

The third line of defence consists of the Internal Audit function. The tasks of this function include ensuring that Landshypotek's internal governance and control are conducted efficiency by ensuring the appropriateness that company management, the second line of defence's control activities and the understanding and compliance of the rest of the operations. The Internal Audit function works independently of the business operations and is directly subordinate to the Board.

Diagram 3 Risk and control organisation



4. Capital base and capital requirements

The management of risks and the need for adequate capital have become increasingly important. This was made clearer following the financial crisis in 2008/2009 with both proposals for stricter regulations in the international arena and Sweden and expectations from the market and rating agencies. Consequently, each company must assess and ensure that its capital has attained a certain level and quality that corresponds well to the risks and risk profile of the operations and that maintains the trust of stakeholders in the company.

4.1. Capital base

The structure and content of the capital base is clearly regulated and must adhere to both the capital adequacy rules and accounting regulations.

Landshypotek has a capital base that comprises equity (Tier 1 capital) and subordinated loans (Tier 2 capital). Landshypotek's Tier 1 capital comprises only Core Tier 1 capital in the form of issued share capital, profit brought forward and reserves. Landshypotek does not have any capital contributions of any kind. Landshypotek's capital base on 31 December 2011 amounted to MSEK 4,262, of which MSEK 3,762 comprised Tier 1 capital, as shown in table 2.

Changes in value classified as available-for-sale financial assets are excluded in accordance with the Swedish Financial Supervisory Authority's regulations and general guidelines governing capital adequacy and large exposures (FFFS 2007:1) so that these changes do not affect the amount of the capital base. Deductions are made from Tier 1 capital for deferred tax assets. One half of the difference between actual provisions and expected loss are deducted from Tier 1 capital. The other half of the amount reduces Tier 2 capital in accordance with Chapter 3, Section 8 of the Swedish Capital Adequacy and Large Exposures Act. Tier 2 capital comprises subordinated term loans with a nominal value of MSEK 550. After deductions, Tier 2 capital amounted to MSEK 500. Subordinated loans are specified in table 3.

4.2. Capital requirements

The calculation of the capital requirement is based on the minimum rules that encompass credit risk, market risk and operational risk. Most credit risk and its capital requirement are calculated by applying the IRB models that Landshypotek has had approved for internal use, and the remainder by applying the Standardised Approach. Exposures are to be classified based on type of counterparty, which for Landshypotek is almost exclusively retail exposure.

Landshypotek is not exposed to any market risks

Table 2 Capital base, Financial Corporate Group

SEK thousand	31 Dec. 2011	31 Dec. 2010
Tier 1 capital	**3,762,200**	**3,336,852**
Share capital paid in or equivalent, after deduction for cumulative preference shares	1,076,094	1,022,492
Equity component of reserves and profit or loss brought forward from preceding financial year	2,385,114	2,186,294
Net profit for the year	383,003	198,820
Deduction for deferred tax assets	−18,278	−39,478
Deduction for intangible non-current assets	−14,058	-
Deduction in accordance with Chapter 3, Section 8 of the Capital Adequacy and Large Exposures Act	−49,675	−31,276
Tier 2 capital	**500,274**	**518,711**
Subordinated term loans in accordance with Chapter 3, Sections 18-30	549,949	549,988
Deduction in accordance with Chapter 3, Section 8 of the Capital Adequacy and Large Exposures Act	−49,675	−31,277
Capital base	**4,262,474**	**3,855,563**

Table 3 Subordinated loans

Name of loan	Currency	Nominal amount	Outstanding nominal amount	First possible redemption date	Interest rate	Interest rate after first possible redemption date	Due date
FÖRLAG20170615	SEK	350,000,000	350,000,000	16 Jun. 2012	3 M STIBOR+0.33 %	3 M STIBOR+1.83 %	15 Jun. 2017
EMTN31	SEK	200,000,000	200,000,000	8 Jun. 2015	4.60 %	3 M STIBOR+2.30 %	8 Jun. 2020

for which capital adequacy is required in accordance with the definitions for the Pillar I rules. Operational risks are measured and capital adequacy provided via the base method.

Landshypotek's capital requirements are presented in table 4.

4.3. Capital adequacy requirements

A company is, at any point in time, to have a capital base that as a minimum corresponds to the total capital requirements for credit risks, market risks and operational risks. This capital requirement is calculated in accordance with the Capital Adequacy and Large Exposures Act presented in table 4.

It is also the responsibility of each financial enterprise to describe and assess all material risks in addition to those addressed in the capital requirement calculation. The total capital adequacy requirement required is to be evaluated in light of the overall risk for the operations. These analyses and conclusions are to be communicated to the Swedish Financial Supervisory Authority through the Internal Capital Adequacy Assessment Process (ICAAP). Landshypotek's ICAAP is described in section 10. All relevant risks for the operations were assessed in the ICAAP and the total capital adequacy requirement has been estimated. Given the currently prevailing situation, Landshypotek believes that there is no need to reserve additional capital other than that regulated in Pillar I under the transitional rules.

The background for this assessment and standpoint is that, in 2007, Landshypotek obtained permission to apply the Advanced IRB Approach under Basel II. This Approach is used to calculate the capital requirement for credit risks for most lending with forestry and agricultural properties as collateral. These calculations, which have been approved by the Financial Supervisory Authority, indicate that there is an extremely low level of credit risk in lending with collateral in Swedish forestry and agricultural properties.

However, under the current transitional rules, the "floor rule" states that the capital requirement may not fall below 80 percent of the capital requirement calculated with Basel I. In accordance with the Basel I rules, lending with collateral in forestry and agricultural properties has a risk weight of 100 percent, which is just as high as lending against, for example, unsecured loans. In other words, under the "blunt" Basel I rules, Landshypotek's credit risk is overestimated from a capital adequacy standpoint. Under the transitional rules, this would correspond to a capital requirement of at least 6.4 percent of the amount borrowed. This can be compared with lending with collateral in private homes for which the capital requirement must amount to a minimum of 3.2 percent. This difference in capital adequacy does not at all reflect the risk in lending with collateral in Swedish forestry and agricultural properties. On the contrary, statistics clearly show that Swedish farmers have a high repayment capacity and that the value of forestry and agricultural properties are very stable.

As presented in table 4, Landshypotek's capital requirement under Basel II is one fourth compared with the current transitional rules: MSEK 968 compared with MSEK 3,684. Even taking into account Landshypotek's internal capital adequacy assessment, the current capital requirement is not in proportion to the risk assumed by the company. For this reason, Landshypotek sees no need to obtain any more capital than that required by the current transitional rules. This opinion is also reflected in Landshypotek's current relation between its total capital requirement and the amount of its capital base. In the past, this relation has been stable and it is expected that this will continue. Landshypotek does not have complex operations. Volumes and underlying factors can be clearly predicted and continuously controlled.

Table 4 Capital requirement and risk-weighted assets Financial Corporate Group

SEK thousand	31 Dec. 2011 Capital requirement	31 Dec. 2011 Risk-weighted assets	31 Dec. 2010 Capital requirement	31 Dec. 2010 Risk-weighted assets
Credit risk, IRB				
Non credit-obligation assets	1,400	17,498	28,132	351,650
Retail exposure	417,872	5,223,405	290,899	3,636,238
Total IRB	**419,272**	**5,240,903**	**319,031**	**3,987,888**
Credit risk, Standardised Approach				
Corporate exposure	204,453	2,555,662	155,483	1,943,538
Retail exposure	21,488	268,599	39,963	499,538
Institutional exposure	97,296	1,216,196	182,164	2,277,050
Local governments and comparable associations and authorities	0	0	0	0
Non-performing items	3,334	41,677	884	11,050
Exposure to governments and central banks	0	0	0	0
Covered bonds	140,528	1,756,601	0	0
Other items	0	0	0	0
Total Standardised Approach	**467,099**	**5,838,735**	**378,494**	**4,731,175**
Total credit risk	**886,371**	**11,079,638**	**697,525**	**8,719,063**
Trading book	-	-	-	-
Operational risk	**82,017**	**1,025,215**	**60,210**	**752,625**
Currency risk	-	-	-	-
Raw-material risk	-	-	-	-
Total minimum requirements	**968,388**	**12,104,853**	**757,735**	**9,471,688**
Additional requirement in accordance with transitional rules	**2,715,480**	**33,943,500**	**2,675,844**	**33,448,050**
Total capital requirement and RWA including transitional rules	**3,683,868**	**46,048,353**	**3,433,579**	**42,919,738**

Table 5 Capital adequacy, Financial Corporate Group

SEK thousand	2011-12-31	2010-12-31
Tier 1 capital	3,762,200	3,336,852
Tier 2 capital	500,274	518,711
Total capital	**4,262,474**	**3,855,563**
Without transitional rules		
Risk-weighted assets	12,104,853	9,471,688
Tier 1 capital ratio	31.08 %	35.23 %
Capital ratio	35.21 %	40.71 %
Capital adequacy ratio	4.40	5.09
With transitional rules		
Risk-weighted assets	46,048,353	33,448,050
Tier 1 ratio	8.17 %	7.77 %
Capital ratio	9.29 %	8.98 %
Capital adequacy ratio	1.16	1.12

5. Credit risks

Credit risk is the greatest risk in Landshypotek and represents 91 percent of the capital requirement in accordance with Basel II. Accordingly, it is of paramount importance that credit risk management is clear and purposeful throughout the organisation.

5.1. Definition

Landshypotek has defined credit risk as follows:

The risk that Landshypotek does not receive payment as agreed and the risk that the value of the collateral is not adequate and therefore will not cover the outstanding claim. The risk includes all receivables Landshypotek has with customers and includes concentration risk, environmental risk and political risk.

5.2. Credit process

All granting of credit at Landshypotek is to be based on customers' repayment capacity and loans are only granted if, based on sound reasoning, commitments can be expected to be fulfilled. To further protect Landshypotek against loan losses, forestry and agricultural properties are taken as collateral, in addition to other collateral in accordance with the credit instruction. The collateral is to guarantee the loan receivable by a healthy margin. However, collateral of a high value can never replace the requirements imposed on the repayment capacity of the customers. Moreover, credit granting must always be in proportion to the cash flows that are to cover loan payments.

The credit policy provides frameworks and guidelines for the policies applicable, at any time, for granting credit in Landshypotek AB and its subsidiaries. Credit granting is the result of analysis of the individual customer and/or household as a whole when applicable. This results in risk classification being performed on a scale of 1-6 or alternatively A-H (1-6 for private individuals and A-H for legal entities where 1/A represents the highest credit quality and 6/H is for credits in default) for the counterparty in accordance with the risk classification model being applied internally. Furthermore, in addition to the counterparty's/household's total capacity to repay the loan, collateral is analysed (principally real property in the form of agricultural and forestry properties) and any supplemental collateral in the form of any sureties or chattel mortgages that may exist.

To capture the total amount of credit granted to an individual customer or group of counterparties, a credit ceiling is created for the entity, which represents the total amount of credit granted by Landshypotek at any one moment in time. All granting of credit is performed pursuant to a credit mandate matrix approved by the Board, which is governed by parameters such as ceiling amount, risk class and loan-to-value ratio (LTV ratio). All credit decisions are taken by the Credit Sub-Committee utilising a level structure that complies with the aforementioned credit mandate matrix. The Credit Sub-Committee requires that a minimum of two officers jointly form a Committee. The exception is our highest decision-making body for day-to-day credit cases, the Board's Credit Committee, where each case has already been recommended by the Credit Sub-Committee.

5.2.1. Overview of credit portfolio

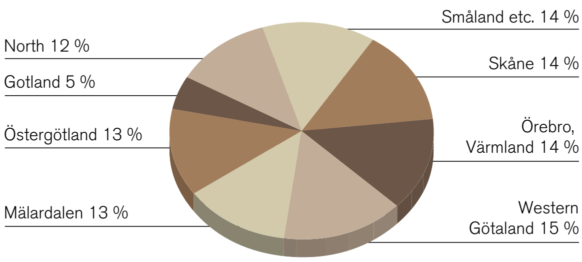
Landshypotek's total loans to customers on 31 December 2011 amounted to slightly more than SEK 55.5 billion. Lending encompasses lending to farm and forest owners against collateral in forestry and agricultural properties. All lending takes place in Sweden. The credit portfolio has grown by SEK 16 billion since 2007, corresponding to average lending growth of 8 percent per year over the past five years. Average lending per customer of Landshypotek AB amounted to MSEK 1.14 on 31 December 2011. The average unweighted LTV ratio on the same date was 22 percent and the exposure-weighted LTV ratio amounted to 43 percent.

Landshypotek divides its customers into two categories: Rural Living (RL) and Rural Enterprise (RE). This categorisation aims to distinguish between those borrowers whose income is mostly derived from business activity (rural enterprise) from those who earn most of their living from employment (rural living). All customers are categorised when they apply for a loan.

Total lending to RL customers amounted to SEK 28 billion and to RE customers to SEK 27 billion on 31 December 2011. The geographic distribution of Landshypotek's credit portfolio presented in diagram 4 shows where the agricultural properties are located in Sweden. The geographic distribution is favourable and is not concentrated to a certain city or district.

Regarding the breakdown of Landshypotek's credit portfolio by industry, half of Landshypotek's lending is

Diagram 4 Geographic distribution of Landshypotek AB's lending portfolio by sales district



lending to customers categorised as RL customers. The repayment capacity of these customers is more dependent on income from employment rather than on any operations that may be conducted on the property. RE customers, which represent the other half of the credit portfolio, conduct various types of agricultural activities. The largest share, slightly more than 20 percent of these RE customers (corresponding to 10 percent of the total portfolio), conducted crop cultivation, followed by dairy farming and forestry. Furthermore, most RE customers (67 percent) have chosen to diversify their operations and thus their incomes from several different types of business activities. Due to the above, the sectorial concentration risk is low, despite Landshypotek lending only to farm and forest owners.

5.2.2. Definition and classification of credit portfolio
One of the fundamental conditions for applying the IRB models to capital requirement calculation is that each counterparty is defined and classified in accordance Basel II rules. The documentation and systems support that have been prepared provide detailed descriptions of the division of exposure class and associated definitions, linking to all accounts where assets can be booked and the sub-portfolios to which these are to be classified

All private individuals are classified in the retail exposure segment, in the sub-group "real property credits" to which the IRB Approach is applied. Landshypotek's legal counterparties are classified as corporate exposure with a risk weight of 100 percent under the Standardised Approach.

The exposure class of "non credit-obligation assets" is also used under the IRB Approach, which Landshypotek is defined as exposure which does not require any deliveries from a counterparty (for example, intangible and tangible non-current assets, real estate holdings, etc.)

Landshypotek reports the vast majority of its assets as retail exposure in the "real property credits" sub-group, which corresponds to exposure including accrued interest of SEK 54 billion. The reason for this

Table 6 Amount of exposure per exposure class

31 December 2011, SEK thousand	Exposure	Of which within the before line conversion factor	Exposure after conversion factor	Of which within the after line conversion factor	Risk weighted assets	Capital requirement	Average risk weight	Expected loss
Credit risk recognised in accordance with IRB Approach								
Retail exposure	53,620,325	488,518	53,758,623	522,714	5,223,405	417,872	10 %	107,980
Non credit-obligation assets	17,498				17,498	1,400	100 %	-
Total credit risk in accordance with IRB Approach	**53,637,823**	**488,518**	**53,758,623**	**522,714**	**5,240,903**	**419,272**	**9,8 %**	**107,980**
Credit risk recognised in accordance with Standardised Approach								
Exposure to governments and central banks	73,715	-	73,715		0	0	0 %	
Exposure to municipalities, similar entities and authorities	1,893,821	-	1,893,821		0	0	0 %	
Institutional exposure	4,223,150	-	4,223,150		1,216,196	97,296	29 %	
Corporate exposure	2,576,406	-	2,555,662		2,555,662	204,453	99 %	
Retail exposure	360,503	-	358,132		268,599	21,488	75 %	
Non-performing items	30,624	-	27,842		41,677	3,334	136 %	
Covered bonds	10,327,261	-	10,327,261		1,756,601	140,528	17 %	
Other items	34	-	34		0	0	0 %	
Total credit risk in accordance with Standardised Approach	**19,485,480**	**0**	**19,459,583**	**0**	**5,838,735**	**467,099**	**29 %**	
Total	**73,123,303**	**488,518**	**73,218,206**	**522,714**	**11,079,638**	**886,371**	**15 %**	

Table 7 **Amount of exposure specified by next date of condition changes**

31 December 2011, SEK thousand	< 3 months	3-12 months	1-5 years	> 5 years
Exposure classes, IRB Approach				
Retail exposur	29,547,264	5,616,543	17,863,959	730,858
Total IRB	**29,547,264**	**5,616,543**	**17,863,959**	**730,858**
Exposure classes, Standardised Approach				
Corporate exposure	1,417,986	177,250	711,533	19,258
Retail exposure	281,639	3,074	68,103	733
Non-performing items	26,513	141	1,017	-
Total Standardised Approach	**1,726,138**	**180,466**	**780,653**	**19,991**

is that Landshypotek's lending takes place against real property as collateral and, accordingly, the estimate of the Loss Given Default (LGD) is affected by recoveries from real property as collateral. Other exposure is assessed based on the Standardised Approach.

The total exposure amount totals SEK 73 billion (see table 6). The risk-weighted assets for these exposures amounts to SEK 11 billion, of which SEK 5.2 billion is recognised in accordance with IRB Approach and the remainder in accordance with the Standardised Approach. The average risk weight for exposure recognised in accordance with the IRB Approach amounts to 9.8 percent and exposure recognised in accordance with the Standardised Approach to 29 percent.

Some 55 percent of the portfolio has less than three months remaining until the next date of condition changes (see table 7).

5.3. Description of credit risk management

All credit decisions are to be preceded by a careful risk assessment and risk classification. Consequently, making a credit decision requires knowledge about regional and industry-specific factors that may impact customers' repayment capacity and/or the value trend of the collateral. Before new products or services are introduced, the operations are to carefully analyse any potential credit risks that these changes may give rise to and ensure that such risks can be satisfactorily managed.

Both the Credit Department and Risk Control function continuously monitor the quality of the credit portfolios. The Credit Department is responsible for ensuring compliance with the internal rule book for credit granting and monitoring individual commitments. In addition to the credit portfolio being monitored in terms of credit quality, the credit portfolio is regularly reviewed from various perspectives: by industry, geographically, by risk class, per limit group, etc. In conjunction with its internal capital adequacy assessment process, Landshypotek has performed in-depth analyses of the credit portfolio. In the course of this effort, Landshypotek has been unable to identify any major concentration to any particular industry or geographic area.

In the business operations, the Credit Department is responsible for the management and governance of the credit approval process. This department is also responsible for analysing credits and managing insolvency cases (see section 5.2.1).

The Risk Control function is responsible for monitoring, analysing and reporting the status of credit risks at portfolio level, district level and, in special cases, for specific credit cases. In addition, the function is to propose changes to the credit policy and credit instruction based on the observations regarding credit management made by the unit.

The Risk Control function is also responsible for measuring and reporting on the status of the portion of the loan portfolio that is not permitted to be included in the collateral base for the covered bonds. Environmental risks and political risks, which are included in the definition of credit risk, are to be analysed and reported to the Board and Management Group as required.

5.4. How is the IRB model used in the credit process

Landshypotek's IRB models are highly integrated into the credit process. The development and management of the IRB models take place in collaboration with the Risk Control function and Credit Department. The risk class of Probability of Default (PD) and the risk class of Loss Given Default (LGD), combined with the customer's/limit group's loan amount determine, the credit decision procedure. Furthermore, the distribution and migration of risk classes influence Landshypotek's credit strategy, the aim of which is to ensure that a well-balanced credit portfolio with low credit risk is maintained.

In addition to the activities above, the Board and Management Group receive regular reports on the status of the credit portfolio, based on such factors

Table 8 Estimate vs. outcome

Default outcome	PD estimate	PD estimate including business cycle adjustment and safety margin	Realised outcome	LGD estimate	LGD estimate including downturn adjustment and safety margin	Realised outcome
Retail exposure	0.47	1.84	0.66	0.67	6.07	0.97

as risk classes, loan-to-value ratios and expected loss. Alongside analysing and presenting the level and status of credit risk, the aim is to draw parallels to the business operations and enable decision makers to make strategic conclusions about risk tolerance, price levels and the profitability of products in relation to risk.

The Board assumes the ultimate responsibility for the IRB system as a whole and its primary components, and is to make decisions on significant changes to them. However, the Risk Control function is also tasked with the responsibility for the ongoing control and validation of the IRB system and its models. Such control is to take into account of how well authentic risks are identified and calculated, and ensure that the operations understand and use the risk classification appropriately.

It is natural that the PD and LGD estimates excluding adjustments for business cycle/downturn underrated the risk in 2011 (see table 8) since interest rates rose during that year, which reduced the repayment capacity of certain customers, while property prices in certain areas fell thus increasing the Loss Given Default. However, the estimate including adjustments for business cycle/downturn and statistical safety margin was significantly higher in 2011 than the actual outcome, which guarantees a conservatively calculated capital requirement.

5.5. Description of the IRB Approach

5.5.1. Method

Landshypotek calculates its own risk estimates PD (Probability of Default), EAD (Exposure at Default) and LGD (Loss Given Default), which are used for the Retail exposure class to calculate capital requirement and expected loss. Probability of Default (PD) is the likelihood that a counterparty defaults within a twelve-month period.

Table 9 LGD-estimate per LGD class

LGD class	Loan-to-value ratio	LGD including downturn adjustment and safety margin
1	0-20 %	0.94 %
2	21-40 %	7.51 %
3	41-60 %	16.21 %
4	61-75 %	36.79 %
5	>75 %	88.93 %

5.5.2. Models

Landshypotek makes use of an internal model for new customers (known as an application model) and an internal model for existing customers. The main difference is that only external information can be used for new customers to assess the risk and the credit rating of the counterparty. The PD model is a statistical model that is used to predict the probability of the customer defaulting, meaning that the customer does not pay within 90 days, one year in the future. The model comprises internal payment history statistics and information from UC AB, the business and credit information provider. The risk classification is performed on a scale of 1-6, where 1 represents the highest credit quality and 6 is for credits in default. For each risk class, Landshypotek estimates the one-year probability of default based on eight years of internal data. As of 31 December 2011, exposure-weighted average PD was 1.99 percent. Diagram 5 illustrates the Retail exposure by PD risk class.

Exposure At Default (EAD) is the amount of exposure that the counterparty is expected to have in the event of a default. EAD is calculated as the outstanding loan debt including unpaid interest and fees. For obligations that lie outside of the balance sheet, unutilised credit ceilings of Landshypotek's flexible first mortgage product, EAD is calculated through the total loan granted to the counterparty multiplied by a Conversion Factor (CF). This Conversion Factor is calculated on the entire credit ceiling of the flexible first mortgage product and amounts to 107 percent

The assessment of how much of the outstanding claim Landshypotek stands to lose in the event of default (LGD, Loss Given Default) is based on internal data gathered during the period 1995 to 2008. LGD classes are divided into five loan-to-value classes. Exposure-weighted LGD on 31 December 2011 amounted to 6.54 percent. Diagram 6 illustrates the Retail exposure by LGD risk class.

The purpose of validating the models and the model development process is to ensure that Landshypotek consistently classifies and estimates credit risk in an appropriate, efficient and stable manner. The models that are annually validated are the PD, LGD and CF models. The estimated values are compared with the actual outcome. The analysis is performed on

Diagram 5 Exposure per PD class

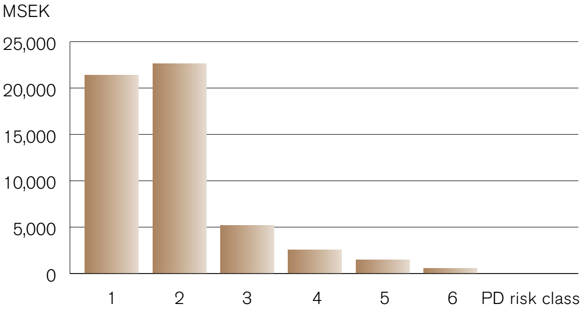
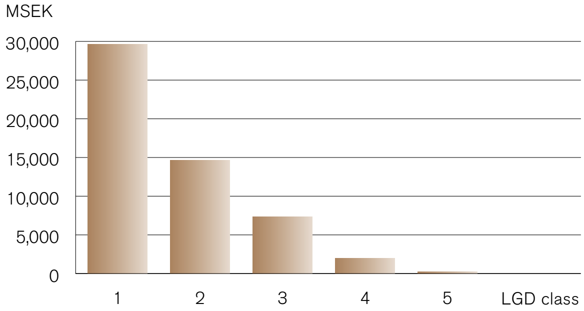


Diagram 6 Exposure per LGD class



the outcome of the most recent period and the outcome for the entire period for which data is available. The analysis results in a validation report that is presented to the Board.

Landshypotek's PD model is essentially short term in the sense that it estimates the probability of default for the next year (Point in Time). The reason for this is that the nature of the model and the underlying information identify the stage of the business cycle that we are currently in. In other words, the model takes into account changes in the business cycle. A factor for business cycle adjustment is applied to achieve stability in the estimate so that it is not affected by the business cycle over time. Furthermore, a safety margin for statistical uncertainties is added, with respect to the fact that the portfolio contains a finite number of counterparties. For the LGD model, the risk estimate takes into account and reflects periods that are exceptionally unfavourable, which means that Landshypotek's internal estimates are stress tested before they form the basis of the capital requirement calculation, and a downturn (losses in a period of economic stress), since the risk weight function does not "stress" LGD in the same manner as PD. In addition, the risk estimate is adjusted by a safety margin that relates to the degree of statistical uncertainty. Finally, administrative expenses and discounting of the recovery cash flows are included in the calculations.

Conservative adjustments and safety margins for PD and LGD mean that estimates, risk weights, expected losses and capital requirements differ between the internal data and the data used as a basis for the capital requirement.

5.6. Collateral

Landshypotek AB and Landshypotek Jordbrukskredit AB lend money against collateral in agricultural and forestry properties. Supplemental collateral may take the form of sureties or chattel mortgages. Landshypotek AB grants loans against mortgage deeds in real property within 75 percent of an internally determined collateral value. This percentage is to represent a sustainable value of the assumed collateral. At Landshypotek Jordbrukskredit AB, loans can be granted against mortgage deeds in real property within 85 percent of the internally determined collateral value.

Table 10 Exposure with amount overdue and individual provisions specified by sales district of Landshypotek AB

31 Dec. 2011, MSEK	Total amount of exposure in lending portfolio	Amount of exposure for receivables overdue	Amount of exposure for exposure with individual provisions	Individual provisions	Total amount of exposures in lending portfolio after individual provisions
Gotland	2,475	86	11	1	2,474
Mälardalen	7,235	25	2	0	7,235
North	6,502	12	26	3	6,499
Småland, etc.	7,939	86	2	2	7,937
Skåne	7,952	45	5	0.9	7,951
Western Götaland	8,447	41	12	3	8,445
Örebro, Värmland	7,478	62	2	1	7,477
Östergötland	7,208	11	-	-	7,208
	55,236	**282**	**59**	**10**	**55,226**

Receivables overdue = interest payments and/or mortgage repayments are late by >90 days.

Regional office employees are assisted in the valuation process by the organisation of representatives of Landshypotek, ekonomisk förening. The network of representatives ensures that all properties are correctly valued and that the valuations are based on documented industry experience and a high degree of familiarity with local conditions. All of the ten regions of Landshypotek, ekonomisk förening have a local Board comprising four to eight members. It is these members that that together comprise the network of representatives in Landshypotek.

5.7. Insolvency management

Landshypotek applies individual valuation of problem loans. An insolvency group is in place within the Credit Department that together with the customer adviser manages problem credits on an operational level. Any need for a provision is made on a case-by-case basis and receivables defined as doubtful or non-performing are examined on an ongoing basis. Subsequent to individual assessment, doubtful receivables are recognised where payments will probably not be forthcoming pursuant to the contract terms and/or where the value of the collateral is probably insufficient to cover the value of the receivable by a satisfactory margin. The management of unsettled commitments and the settlement of credit commitments is performed with the aim of reducing the risk of loss.

At present, Landshypotek utilises two definitions of default “soft” and “technical,” respectively. Soft defaults occur when it is probable that customers will not be able to meet their commitments and Landshypotek will have to foreclose on collateral or take similar measures. Soft defaults are performed through Landshypotek, on becoming aware of new information that has, as yet, not impacted any of the explanation variables in the models, setting a risk class of 6 for customers classed as private individuals and risk class H for customers classed as legal entities. Technical defaults occur automatically when customers’ interest payments and/or mortgage repayments are late by 90 days or more.

5.8. Other counterparty risk

Landshypotek’s counterparty risks comprise, in addition to lending, of credit risks against counterparties of financial transactions. Counterparty risks are a consequence of Landshypotek’s management of liquidity risks, interest-rate risks and currency risks. Risk tolerance is generally low. The counterparties accepted by Landshypotek are reviewed annually and limited.

The term counterparty risk refers to the total exposure that arises from:

- the market value of securities
- monetary deposits
- the exposure of derivative instruments calculated based on the “mark-to-market approach” stipulated in the Swedish Financial Supervisory Authority’s regulations (FFFS 2007:1).

Counterparty risk may only be assumed against:

- public bodies that are assigned 0 percent in risk weight for capital adequacy
- covered bonds issued by financial institutions
- financial institutions.

New counterparties are to be approved and limited by the Finance Sub-Committee. The following aspects are taken into account when approving new counterparties:

- New counterparties for derivative agreements, repurchase agreements and deposits must have a credit rating that is the same as or better than Landshypotek’s rating. ISDA and CSA agreements are to be in place with counterparties for derivative agreements.
- New counterparties for investments must have a long-term rating of at least AA from Standard and Poor´s, or the corresponding level from another rating agency, and the security must meet the requirements for permissible collateral with the Riksbank, Sweden’s central bank.

The counterparties and their credit ceilings are reviewed at least once a year by the Finance Sub-Committee.

Table 11 Derivative instruments and liquidity portfolio specified by rating

SEK thousand	Positive values of derivatives	Municipalities and county councils	Covered bonds in Sweden	Institutions’ investments*
AAA		100,275	10,610,629	1,003,245
AA+		1,803,383		
AA–	8,617			
A+	65,149			
A	106,481			
Total	**180,247**	**1,903,657**	**10,610,629**	**1,003,245**

** Investment in Kommuninvest.*

6. Liquidity risks

Since Landshypotek's operations are naturally exposed to liquidity risks, liquidity risk management is assigned high priority. Tolerance level is low and a liquidity reserve exists that will enable Landshypotek to operate even during extended periods of stressed liquidity.

6.1. Definition

Landshypotek views liquidity risk from several different perspectives and the most important risk measured and managed is refinancing risk:

- Refinancing risk: the risk that Landshypotek is unable to refinance maturing loans.

6.2. Management

Landshypotek's liquidity management is designed based on the fact that the majority of financing is market-financed with predetermined repayment dates. Landshypotek's operations are naturally exposed to liquidity risk since the operations are, to a great extent, dependent on market funding. The management of liquidity risks is a high priority at Landshypotek. The consequences of a lack of liquidity could be considerable if Landshypotek were unable to discharge its payment obligations. Therefore, risk tolerance for liquidity risks is low. Landshypotek endeavours to secure longer terms for its borrowing than its lending. The maturity analysis (table 12) illustrates that Landshypotek's liabilities have longer tenors than its assets based on the date Landshypotek is entitled to request payment or has an obligation or right to make a repayment.

The Chief Financial Officer is responsible for ensuring that liquidity risk management is carried out in the manner stipulated by policies and instructions. The Chief Financial Officer also reports to the Managing Director and Chief Risk Control Officer if disruptions to the supply of liquidity were to arise, which is also the procedure stated in the company's instructions for the management of liquidity risks. The Risk Control function is responsible for daily measurements and reporting of liquidity risks in accordance with the adopted policy and instructions. The function is also responsible for continuous stress testing of Landshypotek's liquidity situation.

In order to maintain good payment capacity, the Board has decided that cash and cash equivalents corresponding to the liquidity requirements of various periods in time must be available. One of the levels is that the liquidity portfolio must be able to cover all payment obligations for the forthcoming 180 days of normal operations without the possibility of refinancing (borrowing in the capital markets). For all of 2011, liquidity exceeded the stipulated level by a healthy margin. At 31 December 2011, the liquidity portfolio was 1.4 times larger than the need for the maturing market refinancing over the next six months.

Landshypotek's holdings in its liquidity portfolio are of the type that may be used as collateral for loans from the Riksbank, Sweden's central bank. In this case, the Riksbank is the "lender of last resort." The portfolio consists of securities issued by Swedish institutions with a high credit rating, primarily in the form of covered bonds and to a certain extent bonds issued by Swedish municipalities and county councils. This liquidity reserve gives Landshypotek the opportunity of bridging temporary strains on liquidity, but also provides the opportunity of procuring the necessary funds at times of severe liquidity crises by selling assets in an orderly fashion, or reducing the financing need by calling in maturing loans. The liquidity reserve amounted to SEK 13.5 billion on 31 December 2011, of which 87 percent comprised securities with an AAA rating.

In 2011, Landshypotek focused on improving its liquidity risk management through the implementation of contingency plans, liquidity strategy and regular stress tests of liquidity risk.

6.3. Stress tests

In addition to daily limit checks, Landshypotek performs continuous stress tests to ensure that liquidity is sufficient even during unfavourable market conditions. Examples of scenarios that are tested include:

- a stop in the borrowing market
- lower market values of the investments in the liquidity portfolio
- customers stop paying interest and repaying their loans
- withdrawal of external credit facilities
- full utilisation of flexible loans.

The stress tests carried out by Landshypotek have indicated an extremely healthy capacity to make payments even if several different events that have a negative effect on liquidity were to occur simultaneously. Tests have shown that Landshypotek is able to meet its payment obligations for more than 180 days. Lower market values of the investments in the liquidity portfolio is the single scenario that has the most significant negative impact on liquidity. Landshypotek believes that the current payment capacity is satisfactory and corresponds well to the established low level of tolerance.

Table 12 Maturity analysis for financial assets and liabilities

31 Dec. 2011, SEK thousand	< 3 months	3-12 months	1-3 years	3-5 years	> 5 years	Total
Financial assets						
Due from financial institutions	186,918					**0**
Loans to customers	30,975,445	6,685,083	15,132,578	4,407,647	784,188	**57,984,942**
Bonds and other interest-bearing securities	82,693	1,947,716	10,430,207	1,346,000	318,000	**14,124,616**
Derivatives	333,049	1,490,619	6,417,014	5,200,215	10,177,398	**23,618,296**
Total	**31,391,187**	**10,123,418**	**31,979,799**	**10,953,863**	**11,279,587**	**95,727,854**
Financial liabilities						
Liabilities till credit institution	162,157					**162,157**
Borrowing/deposits from customers	424,425					**424,425**
Granted credit facilities	530,499					**530,499**
Debt securities in issue	5,730,757	11,293,318	28,121,198	15,580,551	11,078,093	**71,803,918**
Derivatives	339,456	1,382,502	6,352,006	5,051,689	10,493,036	**23,618,689**
Subordinated liabilities	2,732	362,005	18,400	209,200		**592,337**
Total	**6,777,406**	**13,052,825**	**34,491,604**	**20,841,440**	**21,571,129**	**96,734,405**
Net cash flow	**24,613,781**	**−2,929,407**	**−2,511,805**	**−9,887,578**	**−10,291,542**	**−1,006,551**
Unutilised credit facility			750,000			**750,000**
Refinancing risk	24,613,781	−2,929,407	−1,761,805	−9,887,578	−10,291,542	
Accumulated refinancing risk	24,613,781	21,684,374	19,922,569	10,034,991	−256,551	

The above table includes all contracted cash flows. The amounts are not discounted and are recognised during the time slot when Landshypotek is entitled to request payment or has an obligation or right to repay. Future variable rates of interest have been included in the calculation for derivatives and financial liabilities, but not for loans to customers. Future rates of interest are calculated based on forward rates plus any credit spreads.

7. Market risks

The market risks to which Landshypotek's operations are primarily exposed are interest-rate risk and currency risk. These risks are managed by controlling and monitoring credit ceilings and the use of derivative instruments.

7.1. Definition

Landshypotek defines market risk as:

The risk that the value of assets, liabilities and/or financial contracts is affected by changes in general economic conditions or events that affect a large part of the market.

The market risks to which Landshypotek is exposed are interest-rate risks and currency risks.

7.2. Management

The management of market risks is primarily described in Landshypotek's finance policy, which is adopted by the Board. This policy regulates how risks are to be measured and reported and sets the framework for the risk tolerance for market risks in the form of internal limits. The Chief Financial Officer has the overall responsibility for the management of the Group's financial risks, and the Chief Risk Control Officer is responsible for the independent control and reporting of the limits established by the Board.

To manage market risks, Landshypotek also makes use of derivative instruments. These instruments are used to efficiently reduce the effects on assets or liabilities in conjunction with fluctuations in the interest-rate and currency markets.

7.2.1. Interest-rate risks

Interest-rate risks arise when fixed-interest terms or interest bases for assets and liabilities are mismatched. Landshypotek seeks to always have the same fixed-interest term on borrowing as on lending. Due to actual conditions and availability in the capital market, there may be certain instances of imbalance between borrowing and lending, which gives rise to an interest-rate risk for Landshypotek. Interest-rate risk is measured as the change in value that occurs if the interest-rate curve is moved in parallel up or down by one percentage point. The risk is measured in total and divided into different time slots (3 months, 1 year, 2 years, etc.). Landshypotek has limited interest-rate risk based on equity for each time slot and on an aggregated basis. The limits are monitored continuously and reported by the Risk Control function to both the Board and Finance Sub-Committee. The interest-rate risk on 31 December 2011 totalled MSEK 71.1.

As a tool for managing interest-rate risks, Landshypotek can partly alleviate the imbalance by using derivative instruments through entering interest swap agreements. For cases in which the fixed-interest terms of borrowing are longer than the fixed-interest terms of lending, interest swaps are made whereby Landshypotek receives fixed interest and pays variable interest. For cases in which the fixed-interest terms of borrowing are shorter than the fixed-interest terms of lending, interest swaps are made the other way around. These mechanisms are an efficient way for Landshypotek to manage interest-rate risks and maintain this level of risk exposure within the established parameters.

7.2.2. Currency risks

Currency risk entails the risk of losses on borrowed, lent or invested capital when exchange rates fluctuate. Currency risk for Landshypotek arises when certain financing takes place in a currency other than SEK and certain lending, albeit to a limited extent, takes place in EUR.

Landshypotek manages currency risk that arises in conjunction with financing in a currency other than SEK by using derivative instruments to hedge and convert both nominal amounts and cash flows in foreign currency back to SEK.

Table13 Currency exposure, SEK thousand

Currency	Assets	Liabilities	Exposure
CHF	450,000	450,000	0
EUR	556,533	556,600	–67
NOK	7,895,000	7,895,000	0

Nominal amounts in local currency.

Overall, Landshypotek has only marginal currency risk. Limits for currency risk are stipulated in the risk policy and monitored and controlled by the Risk Control function.

Table 14 Fixed-interest terms for the Group's interest-bearing assets and liabilities

31 December 2011, SEK thousand	< 3 months	3-12 months	1-3 years	3-5 years	> 5 years	Total
Assets						
Due from financial institutions	186,918					**186,918**
Loans to customers	30,975,445	6,685,083	15,132,578	4,407,647	784,188	**57,984,942**
Bonds and other interest-bearing securities	82,693	1,947,716	10,430,207	1,346,000	318,000	**14,124,616**
Derivatives						**-**
Total assets	**31,245,057**	**8,632,799**	**25,562,785**	**5,753,647**	**1,102,188**	**72,296,476**
Liabilities						
Liabilities to credit institutions	162,157					**162,157**
Borrowing/deposits from customers	424,425					**424,425**
Debt securities in issue	−35,084,255	−2,532,884	−13,212,519	−10,013,404	−10,960,857	**−71,803,918**
Derivatives						**-**
Total liabilities	**−34,497,673**	**−2,532,884**	**−13,212,519**	**−10,013,404**	**−10,960,857**	**−71,217,336**
TOTAL	**−3,252,617**	**6,099,915**	**12,350,267**	**−4,259,756**	**−9,858,668**	**1,079,140**
Interest-rate sensitivity, net	40,472	−428	−98,885	−43,698	30,814	
Cumulative interest-rate sensitivity		40,044	−58,841	−102,539	−71,725	

The above table includes all contracted cash flows. Nominal amounts are carried under the time slots when interest is reset.

8. Operational risks

Operational risk occurs in all forms of business activities and Landshypotek's operations are no exception. Efficient incident management and general analyses of operational risks have identified the most serious operational risks and manage them accordingly.

8.1. Definition

Landshypotek defines operational risk as:

The risk of loss due to inadequate or failed internal processes, human error, defective systems or external events, which would affect business operations. This definition includes legal risk.

Operational risk is mainly categorised into the following areas:

- Internal fraud
- External fraud
- Employment conditions and safety in the workplace
- Customers, products and business practice
- Damage to tangible assets
- Disruptions to the business operations and defective systems
- Implementation, delivery and process control.

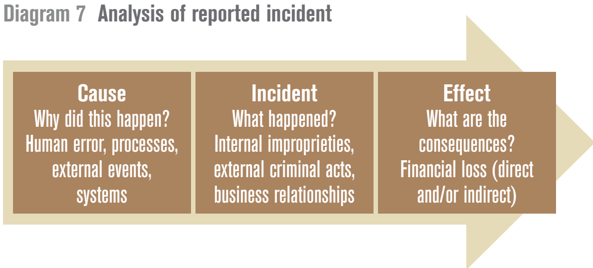
8.2. Management

Operational risk occurs in all of Landshypotek's operations and each manager is responsible for continuously identifying, managing and controlling this risk. In addition to the responsibility borne by each manager for operational risk, a separate position is in place responsible for information security and physical safety who reports directly to the Managing Director. The Risk Control function assumes the overall responsibility for the methods utilised for identifying and quantifying operational risks and for monitoring and reporting these risks to the Board and Management Group.

Landshypotek continuously manages operational risk through a system of incident reporting. All employees have access to a online tool for reporting operational incidents and losses, and have a responsibility for reporting incidents. The Risk Control function is responsible for compiling reported incidents and reporting to the Board and Management Group. Incident management forms the basis of Landshypotek's continuous work on managing operational risks and makes it possible to identify critical problems and take action based on such problems.

Continuous incident reporting is analysed based on the process described in diagram 7. What caused the events, what happened and the consequences of the incident. The specification of reported incidents in 2011 is presented in diagram 8.

Diagram 7 Analysis of reported incident

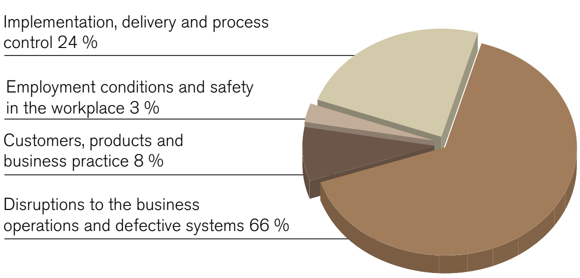


As a complement to the ongoing incident management, a risk analysis of operational risks is carried out every year where participants from all units at Landshypotek come together to discuss potential operational risks. Each risk identified is assessed based on probability and consequence, meaning how likely it is that the risk will occur and the effect of the risk on the operations if it were to occur. The results of this annual risk analysis and proposed actions are presented to the Board and Management Group.

The purpose of the annual risk analysis is, as far as possible, to identify and reduce material operational risks, plan safety activities and generate awareness about operational risks in the business. The annual risk analysis is also an important tool for producing the internal capital adequacy assessment process.

In addition to the ongoing incident management and annual risk analysis, all material changes of products, services and IT systems undergo a risk analysis, which includes operational risks. Contingency plans are also in place for managing serious disruptions to the operations. These contingency plans are reviewed every year.

Diagram 8 Specification of reported incidents 2011



No incidents were reported in other categories.

8.3. Compliance risk

Compliance risk is part of operational risk and can be defined as the risk of paying fines, incurring a loss or having a bad reputation in the market because the operations are not conducted in accordance with applicable regulations for the licensable activities.

The Compliance function identifies compliance risks continuously and analyses, reports and monitors such risks in a structured manner by preparing written compliance reports. Compliance also examines a business activity or part of it, for example, the entire credit process or the limited unit of credit audits, and examines all processes, instructions and legal documents to ensure that they comply with the requirements of internal and external rules.

Compliance works on preventing compliance risks through active advice and governance and by providing support to managers and employees in the daily operations. Compliance assists the business operations in assessing, managing and minimising compliance risks, for example, through control and follow-up systems. The independence of the Compliance function is assured by its non-participation in any business decisions.

Compliance issues information about and monitors developments and provides training in internal and external rules. Compliance is responsible for preparing and updating a list of these sets of regulations on the intranet. Compliance is responsible for ensuring that each unit manager prepares internal governance documents that reflect the requirements imposed on Landshypotek in order for the company to conduct its business operations in accordance with its licence and in accordance with external regulations, and ensure that such governance documents are reviewed following an established plan.

The Board annually adopts a compliance plan that contains an overall assessment of compliance risk based on changes in the analysis of the external environmental, external regulations, such internal reports as the Managing Director report, risk and audit reports, follow-ups, operational risk analysis, any incident reports and planned activities for the year. Each unit manager also submits an annual report to the Compliance function that identifies compliance risks at unit level.

Landshypotek's compliance plan is risk-based and is founded on the Compliance function, in dialogue with Management Group, identifying and ranking material compliance risks that should be addressed in Landshypotek's operations.

8.4. Situation of operational risks 2011

Landshypotek utilises the base method under Pillar I to calculate its capital requirement, which amounted to MSEK 82 in 2011. Landshypotek believes that the capital requirement is sufficient to cover the operational risks to which the company is exposed.

9. Strategic risks

Strategic risks are a natural part of conducting business operations. Landshypotek management is responsible for managing strategic risks and using such tools as a three-year strategic plan to manage such risk.

9.1. Definition

Landshypotek defines strategic risk as follows:

The risk of loss due to changed market conditions and unfavourable business decisions or lack of sensitivity to market changes. The definition of strategic risks includes earning risks, customer behaviour patterns, actions of competitors and changes in laws and regulations.

9.2. Management

Landshypotek manages strategic risks primarily by annually adopting a strategic plan for the next three years. To ensure that the company develops in line with the strategic plan, a number of business targets are also established each year. These business targets are continuously followed up using a traffic-light system.

Strategic risk is the responsibility of Landshypotek's Management Group, which can receive support from the functions that monitor the external environment and the external factors that can be deemed to influence the conditions for achieving the established strategic plan. Both the business operations and the support functions contribute their expertise to these efforts. When the business or the external environment changes, it is important that the organisation considers the need to adjust to the new situation.

In the spring of 2011, Landshypotek produced a new strategic plan that is to develop Landshypotek into an expanding company with high profitability and a healthy capital balance. Accordingly, the strategic plan is to manage the strategic risks to which the company is exposed in the form of lower market shares, narrower customer base, reduced capital in relation to lending and low and volatile profitability.

10. Internal Capital Adequacy Assessment Process

The internal capital adequacy assessment process (ICAAP) is an important tool for identifying, reporting and managing all material risks to which Landshypotek is exposed, and results in a report on the company's risk profile and the capital adequacy requirement needed in relation to the risk profile.

The ICAAP under Pillar II of the Basel rules is to ensure that Landshypotek has internal governance and control that are line with the size and complexity of the operations, and also has sufficient capital taking into account future business operations and expected risk exposure. The ICAAP is adopted by the Board every year. The purpose of the ICAAP is to ensure that Landshypotek has a process for identifying, reporting and managing all risks to which the Group is exposed. The ICAAP results in a detailed report of the current risk profile and the risk profile in the medium term (covering at least the next three years), and forms the basis for the evaluation of the capital adequacy requirement – the capital base – which must be on a par with the chosen risk profile for the company. The capital base constitutes a buffer against unexpected losses.

The process is to include the following:

- Review of the operations' products and customers
- Financial position and capital situation
- Review of all risks
- Risk assessment
- Stress tests
- Capital calculations

The ICAAP includes all types of risks that are believed to have an impact on operations. Besides credit risks, financial risks and operational risks, Landshypotek also actively monitors environmental risks, political risks, reputational risk and strategic risks. Stress tests are based on a series of scenarios and their impact on the risk in the company. The Board's Risk and Capital Committee compile the risks that are to be included in the stress tests and its structure and the assumptions to be made. The Risk Control function is responsible for the documentation and implementation of stress tests/ scenario analyses.

The ICAAP forms the basis for establishing the amount of the capital buffer required, which takes into account the following:

- Expected lending expansion and financing options.
- Larger investments and partnership agreements/ merger plans.
- Landshypotek's risk profile including:
  - identified risks with respect to probability and financial impact.
  - new legislation, actions of competitors and other changes in the external environment.
- Higher capital adequacy requirement calculated using stress tests and scenario analysis that quantify the most critical/relevant risks in the short and long-term.
- Investors' and rating agencies' expectations regarding capital.

The Board and company management have overall responsibility for the capital adequacy assessment. This responsibility means that the Board is responsible for this matter and company management drives the process development and is responsible for integrating the ICAAP into the day-to-day operations. The Board's Risk and Capital Committee is the drafting body responsible for ensuring that the Board has increased access to information regarding compliance of Landshypotek's capital base and capital adequacy with laws and regulations and that the company has an ICAAP that ensures that Landshypotek has the ability to identify, report and manage all risks to which the company is exposed. The Risk Control function is responsible for the annual review of all risks and for preparing the annual compilation of the results of the activities that were carried out under the framework of the ICAAP. The Chief Financial Officer is responsible for the capital strategy.

Landshypotek's ICAAP is to be documented in a manner that allows internal and external auditors, as well as the Financial Supervisory Authority, to examine and evaluate the various elements.

The outcome of the ICAAP is to be documented by the Chief Risk Control Officer, while the capital strategy is documented by the Chief Financial Officer. The report is to describe the scope of the various risks to which Landshypotek is currently exposed and may be exposed to in the future, and include a description of the management of these risks and the level and structure of the capital that will be required to cover such risks.

Addresses

HEAD OFFICE

Landshypotek AB
Box 14092
SE-104 41 Stockholm
+46 (0)8 459 04 00

Lantbrukskredit AB
Box 14092
SE-104 41 Stockholm
+46 (0)8 459 04 32

Landshypotek Jordbrukskredit AB
Box 14092
SE-104 41 Stockholm
+46 (0)8 459 04 00

SALES ORGANISATION

Chief Sales Officer
Bertil Andersson
+46 (0)46 32 75 41
+46 (0)70 344 75 41

REGIONAL OFFICES

Eskilstuna
Munktellstorget 2
SE-633 43 Eskilstuna
Regional Manager
Carl-Gustav Bondesson
+46 (0)16-10 58 70

Falkenberg
Torsholmsvägen 3
Box 289
SE-311 23 Falkenberg
Regional Manager
Mårten Lidfeldt
+46 (0)346-71 82 90

Gävle
Södra Centralgatan 5
Box 1267
SE-801 37 Gävle
Regional Manager
Katarina Johansson
+46 (0)26-13 46 90

Gothenburg
Fabriksgatan 13
Box 5047
SE-402 21 Gothenburg
Regional Manager
Christina Unger-Åfeldt
+46 (0)31-708 36 00

Härnösand
Nybrogatan 10
SE-871 22 Härnösand
Regional Manager
Katarina Johansson
+46 (0)611-53 36 60

Kalmar
Husängsvägen 2
Box 833
SE-391 28 Kalmar
Regional Manager
Mårten Lidfeldt
+46 (0)480-42 65 80

Karlstad
Älvgatan 1
Box 421
SE-651 10 Karlstad
Regional Manager
Robert Liljeholm
+46 (0)54-17 74 90

Kristianstad
Krinova Science Park
Stridsvagnsvägen 14
SE-291 39 Kristianstad
Regional Manager
Stefan Svennefelt
+46 (0)46-32 75 40

Linköping
Vasavägen 5
Box 114
SE-581 02 Linköping
Regional Manager
Stig-Arne Bojmar
+46 (0)13-10 65 10

Lund
S:t Lars väg 42 B, 1 tr
Box 1017
SE-221 04 Lund
Regional Manager
Stefan Svennefelt
+46 (0)46-32 75 40

Skara
Klostergatan 15
Box 66
SE-532 21 Skara
Regional Manager
Christina Unger-Åfeldt
+46 (0)511-34 58 80

Skellefteå
Trädgårdsgatan 8
SE-931 31 Skellefteå
Regional Manager
Katarina Johansson

Stockholm
Strandvägen 1
Box 14092
SE-104 41 Stockholm
Regional Manager
Carl-Gustav Bondesson
+46 (0)8-412 57 00

Uppsala
Kungsgatan 47 A, 3 tr
SE-753 21 Uppsala
Regional Manager
Carl-Gustav Bondesson
+46 (0)8-412 57 00

Visby
Österväg 3B
Box 1102
SE-621 22 Visby
Regional Manager
Erik Olsson
+46 (0)498-20 75 70

Växjö
Kronobergsgatan 9
Box 1205
SE-351 12 Växjö
Regional Manager
Mårten Lidfeldt
+46 (0)470-72 64 50

Örebro
Gustaviksvägen 7
Box 22016
SE-701 02 Örebro
Regional Manager
Robert Liljeholm
+46 (0)19-16 16 30

Östersund
Rådhusgatan 46
Box 505
SE-831 26 Östersund
Regional Manager
Katarina Johansson
+46 (0)63-14 12 70

Loans
+46 (0)771 44 00 20

Rate Information
+46 (0)771 44 00 30

Member Information
+46 (0)771-44 00 40

Internet
www.landshypotek.se

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LANDSHYPOTEK

Landshypotek AB
Box 14092
SE-104 41 Stockholm
+46 (0)8-459 04 00