



Landshypotek Bank

Annual Report 2019

For a richer life in the countryside

Contents

Landshypotek Bank – For a richer life countryside	1
2019	3
CEO's Statement	4
2019 in figures	6
An overview of the year	7
Events in 2019	8
A bank with a difference	10
A sustainable bank for ventures nationwide	13
Becoming an increasingly popular and better bank	14
Employees who make the difference	16
A bank with a distinguished history	18
Our operating environment 2019	20
Administration Report	23
Sustainability Report	29
Corporate Governance Report	41
Financial statements and notes	57
Addresses	108

Reporting calendar

General Meeting of Shareholders	22 April
Interim Report Q1	29 April
Interim Report Q2	20 July
Interim Report Q3	28 October

For a richer life countryside

Landshypotek Bank wants to promote a richer life countryside. While other banks focus on the major cities and their prevailing economic conditions – we lift our gaze beyond Stockholm, Gothenburg and Malmö. We want to give everyone in Sweden opportunities to live richer lives. We want the Swedish countryside to continue to develop.

This is our vision today. We have promoted and believed in this vision since 1836.

Landshypotek Bank is owned by some 38,000 farmers and foresters across the country and the bank's surplus

is distributed to them. Over the years, we have financed hundreds of thousands of investments in a living and sustainable countryside – in open landscapes, well-kept forests and locally produced food. But we are not here solely for green entrepreneurs in the countryside. Loans are offered to homeowners in the countryside as well as to homeowners across the country. Our savings products are open to Sweden's general public and to companies.

Together with our customers, Landshypotek Bank generates growth in Sweden. We are a small bank with a vital mission – to promote a richer life countryside.





2019

SEK **815** million

Net interest income amounted to SEK 815 million.

SEK **418** million

Operating profit amounted to SEK 418 million.

SEK **76.4** billion

Lending amounted to SEK 76.4 billion.

SEK **14.4** billion

Deposits amounted to SEK 14.4 billion.

198

198 people work at Landshypotek Bank. 32 new employees began working with us during the year – 18 women and 14 men.

84,000

Landshypotek Bank has 84,000 customers who borrow to finance farms, forests and houses, as well as savers.

An increasingly popular and better bank

Landshypotek entered the 2020s considerably different to the credit institution that entered the previous decade. Through robust development we have created a safer and better bank that is increasingly popular for customers. Our customer relationships build on what we are – a unique, member-owned bank with a difference in the Swedish banking market. We enhance our customers' lives by focusing primarily on that which we know best: lending to people living on farms or who run farming and forestry businesses as well as to homeowners.

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.

Our customers' approach to managing 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 that provides more services and welcomes more customer groups who wish to lend and save. We are also here for mortgage borrowers as well as savers in general.

We now have many more customers and have doubled our earnings capacity over the last decade, have vigorously expanded our lending and our deposits from the public have grown to SEK 14 billion.

Extensive investments in our IT environments mean we have taken a substantial leap forward from diverse obsolete systems to a modern, well-developed IT environment. This has already proven to give us increased efficiency and a competitive edge when designing new saving and borrowing solutions for customers.

We have become a bank, changed our brand, altered our profile and are present at many more locations where existing and prospective customers can meet us and our values.

At the same time as we have nurtured Landshypotek's fundamentals, we have advanced considerably with becoming an increasingly popular and better bank.

And we are not stopping here. We are increasing the pace of development with the aim of making contact

and meeting with more customers in more places, both through physical and digital channels. Our aim is to improve on a daily basis for increasing numbers of customers and in terms of being a long-term sustainable bank.

We are not growing based on a profuse and growing range of products; we are growing through more people finding out who we are and what we already have. This pertains primarily to our lending. We offer savings accounts, complementary services both inhouse and through partners, but for more than 180 years, our core has been our lending.

Classic first lien mortgage loans are fundamental to banking relationships and the most important loans for most banking customers. Through our lending for houses, farms and forests, we provide possibilities. We are part of the fundamental possibilities in many people's lives in terms of their homes, employment and entrepreneurship – and a country where life thrives from north to south.

2019 was stimulating as well as challenging. Given the prevailing conditions, our performance was 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 therefore, 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 the 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 strengthened the front office part of our organisation and also made digital loan applications



possible for farming and forestry customers. They had previously been without this possibility, which had been available in other parts of the banking market. We have now created another natural, digital portal to us that we and our customers previously lacked.

As the farmers' and foresters' bank, we have a special responsibility to identify financial opportunities for agriculture and forestry. Naturally, Landshypotek has a voice in the agriculture and forestry sectors, primarily through our elected representatives in the cooperative association. In 2018, we showcased Sweden's sustainable forestry for investors and issued the world's first green covered bond entirely backed by Swedish forests, and the ownership and work of Swedish forest owners. During the year, we issued our second green bond.

As part of this work, we have also reacted strongly to proposals discussed at EU level during the year that risk defining Sweden's forests as non-sustainable for green investments. Many forestry sector participants and others have encouraged and followed our reaction to the proposal.

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, we have to ensure it is easier to be a customer.

In the mortgage market, we and other challengers have benefited customers. We have opened the doors to competition and completely different interest rates at the

same time as we have transformed transparency compared with the level formerly offered by the major banks. Our entry is good for our customers as well as customers in general in the market.

At Landshypotek Bank, our 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 – and would be so bold as to claim that no other bank in Sweden does this.

Our development is about reaching, meeting and attracting more customers, identifying methods to work together efficiently, and to do so in a culture that positively sets us apart, both for us working at the bank and for our customers.

At Landshypotek Bank, you will meet a bank with a difference, a bank not focused on short-term yield requirements, but on creating value for its customers and owners through the pursuit of long-term benefit ahead of short-term profit.

Per Lindblad
Chief Executive Officer

2019 in figures

Through 2019, we continued to increase our lending to farmers and foresters as well as mortgage customers. We have also stabilised deposits at healthy levels. Our results for the year were satisfactory but were affected by rising borrowing costs and increasing competition. However, we take a long-term approach to banking and to business. We have advanced further in our development through new ways of meeting customers, for example. Based on the services we offer and the bank that we are, we are gradually becoming an increasingly popular and better bank with full focus on improving customer relationships even more in 2020. Our focus is on creating values for customer that enable the growth we need in an intensely competitive market. Landshypotek Bank starts the 2020s as a broader, better and safer bank than the credit institution that entered the previous decade.

Per Lindblad, CEO

- 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 one 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).
- Lending amounted to SEK **76.4** billion (72.5).
- Deposits amounted to SEK **14.4** billion (14.1).

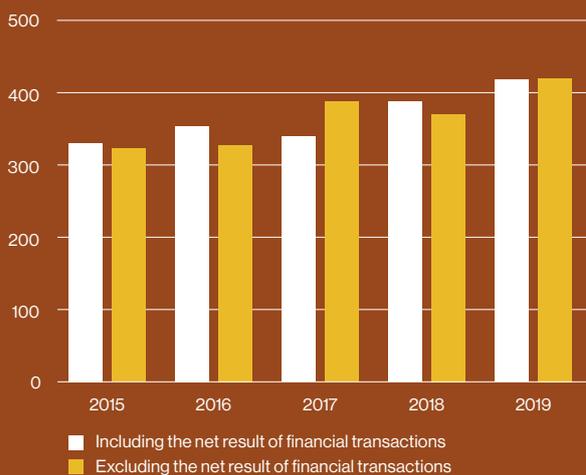
SEK million	2019	2018
Net interest income	815	799
Operating profit	418	386
Profit after tax	332	294
Loans to the public	76,367	72,511
Change in loans to the public, %	5.3	5.9
Interest margin, LTM, %	1.10	1.13
Deposits from the public	14,449	14,150
Change in deposits from the public, %	2.1	11.6
C/I ratio including financial transactions	0.53	0.52
C/I ratio excluding financial transactions	0.53	0.53
Credit loss level, % ¹⁾	–	0.01
Total capital ratio, %	19.2	19.4
Rating, long-term		
Standard & Poor's, Covered bonds	AAA	AAA
Standard & Poor's	A-	A-
Fitch	A	A
Average number of employees, LTM	198	190

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

An overview of the year

Operating profit

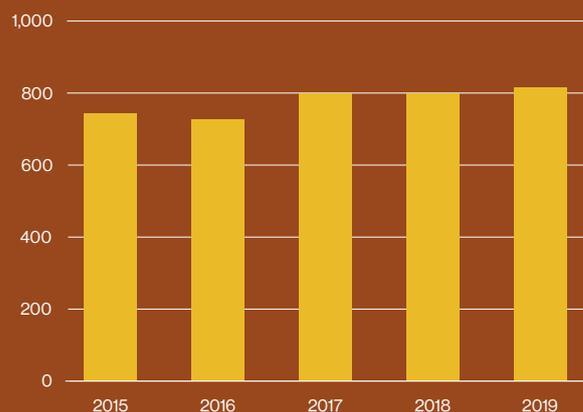
SEK million



Operating profit for 2019 totalled SEK 418 million. Operating profit excluding the net result of financial transactions was SEK 420 million.

Net interest income

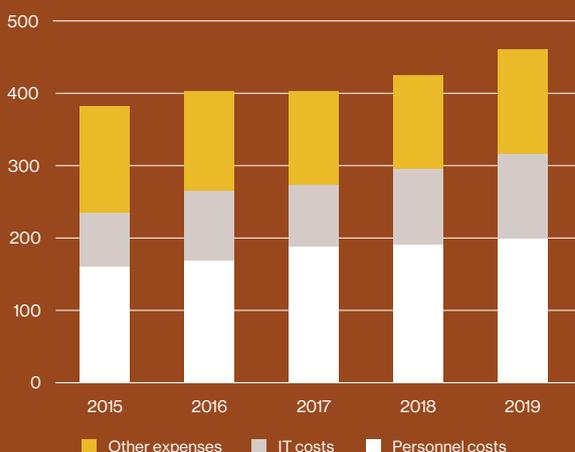
SEK million



Net interest income for 2019 totalled SEK 815 million. The amount of net interest income is determined primarily by the volume of loans outstanding and the margin between the interest rates on borrowing and lending.

Costs

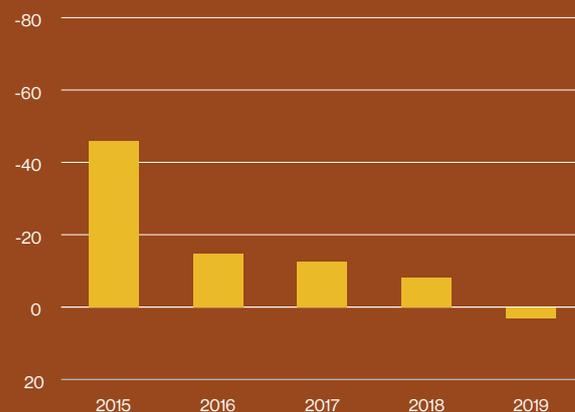
SEK million



Costs for 2019 totalled SEK 461 million. Costs have risen as planned, partly with the aim of creating the preconditions for the bank to grow and partly to continue strengthening the bank as a whole.

Net loan losses

SEK million



Net credit losses for 2019 positively impacted earnings with SEK 3 million.

Events in 2019

Landshypotek Bank is continuing to develop – and continuing to become a better bank for customers. During the year, the bank launched a new digital loan application for farmers and foresters. The organisation has changed to better meet more customers. We have been highly active in the market. The bank continues to grow as a mortgage bank and has raised its profile.

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 for simplicity, speed and functionality.

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 just over 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

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 Lantbrukspanelen showed great awareness and considerable commitment to sustainability issues. In autumn 2019, we posed a new survey to the panel. The survey focused on the preconditions, challenges and possibilities for food produced in Sweden. The results will be presented in a report in spring 2020.

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 contribute an estimated climate benefit of around 750,000 tons of carbon dioxide, 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 business concepts and businesses. Close to 40,000 people voted for their favourites. Many of the competing farms can now 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

An insurance partnership was initiated in the summer, whereby 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, are 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

At Landshypotek Bank, we are active in meeting 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. Moreover, 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 front office organisation for meeting customers has been developed further. The innate strength of local offices across the country has been retained, but complemented by greater collaboration within the organisation. All aimed at enhancing the customer experience.

A bank with a difference

Landshypotek Bank is a bank for borrowing and for saving. Loans are offered to farmers and foresters, those living on farms as well as homeowners across the country. Our savings products are open to Sweden's general public and to companies. The bank has a long history dating back to 1836, with lending focused on ownership and cultivation of farms and forests. The pace of development is rapid and more customer groups are being added. Since 2017, homeowner mortgages are also offered. The bank's focus outside of the major cities means it defines itself as a bank for all of Sweden.

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

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

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 aim of operations – for a richer life in the countryside

The aim of our operations is the basis of all we do and 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 lending to 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 association accounts for a great part of the values on which the bank is built.

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. The bank opened savings accounts for the general public through a new digital platform. 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. 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. At year end, the bank passed the milestone of SEK 7 billion in lending to homeowners across Sweden.



**A small bank with
a vital mission**



A sustainable bank for ventures nationwide

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

The bank's sustainability perspective is based on where customers come from and their operations. A living countryside, where fields and forests are sustainably cultivated and thereby create growth and jobs. According to Landshypotek Bank, the country's sustainable development rests on the conditions for living and working throughout Sweden.

Sustainability at Landshypotek Bank is about viewing the bank's operations and role in the greater societal development and, in parallel, showcasing several aspects of the bank's operations from a long-term and responsible perspective.

Therefore, the bank's sustainability efforts permeate operations and affect all of the bank's stakeholders, such as its customers, employees, owners, association members and investors. Since the bank is owned by its farming and forestry loan customers, the bank's business model contributes to an economically and socially sustainable society. During the year, Landshypotek Bank followed up its historic initiative in 2018 with another green covered bond backed by Sweden's sustainable forestry's contribution to reducing carbon dioxide in Earth's atmosphere and to maintaining biodiversity.

Read more about Landshypotek Bank's sustainability work in the Sustainability Report on pages 30–40.

About Landshypotek Bank

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

The bank's some 38,000 farming and forestry borrowers own the bank through the cooperative association, are responsible for its capital and share in its earnings. Each member has a vote at the annual regional meetings. The 43 Board members appointed from the respective regions then represent the members at

the Association Meeting. All business and licensable activities are conducted within the bank, which has almost 200 employees nationwide. Read more about Landshypotek Bank's operations and organisation in the Corporate Governance Report on pages 41–52.

The bank's customers and services

Landshypotek Bank has customers who save, live or run businesses across the country. The bank focuses on services within lending and saving.

The bank's customers are:

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

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

Becoming an increasingly popular and better bank

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

Strategic development is the subject of ongoing dialogue at Landshypotek Bank. Participation significantly empowers change. Over the last few years, the bank has changed considerably and modernised through, among other things:

- The change of IT platform. The bank has migrated from a 70s system to a modern system. The initiative was rolled out in 2012. In some areas the bank has started to harvest a return on the investment, inter alia, on savings solutions and the new home mortgages. From the perspective of our operating environment, the new system offers a strong competitive advantage. Gradually, resources in terms of system skills have been substantially strengthened, including both development and management.
- The fulfilment of growing and amended regulatory capital requirements. Considerable work has been invested in strengthening these efforts and bank initiatives with issues such as risk, capital and regulatory frameworks. This applies to both the strengthening of resources in terms of numbers of employees and budget, as well as building competence, processes, the organisation and the process for managing issues.
- New brand platform. Strategic choices have been made to leave our focus on the few to becoming open to many. Without losing our edge, this broadening is ultimately expressed as being a bank for the entire country. The bank's communication has changed considerably and activity has increased.
- Clear definition of roles and division between bank and association. The dividend policy has changed, which has led to stronger commitment and increased contributed capital. The owner directive has clarified the owners' intentions for the bank. The association is being strengthened as a member organisation and the elected representatives are developing as ambassadors.

Landshypotek Bank adopted a new strategic direction in 2015. The transition involves moving towards growth through a broadened customer base. The bank's focus on professional farmers has been supplemented with

the clear aim of serving more customer groups. The number of services offered by the bank has only been marginally impacted. The bank is niched as a bank to save with and borrow from, and these services are being offered, packaged and modified for more customers. This development leverages the strength of the brand with a difference, closeness to customers and the commitment to enabling opportunities across the country. The bank is now presenting itself in more places to communicate and enhance its relevance to more and more customer groups.

In 2019, new preconditions were created for meeting increasing numbers of customers through digitisation, changes in the front office and more efficient marketing. The innate strength from local offices across the country has been retained, but complemented by greater collaboration within the organisation from a customer segment perspective. All aimed at enhancing relationships with many customers through more channels.

Methods for meeting the market's and the customer's needs are now being adapted generally at Landshypotek. We use different ways to meet customers to ensure the best customer experience and efficiency for the target group as well as best use of our distinctive culture in the market.

Landshypotek Bank has chosen a market position as being competitively priced and, through considerable understanding for customers' circumstances and needs, can quickly resolve customers' financing needs through mortgages. The bank has historically had efficient working methods for credits and close relationships with customers.

The pace of change is fast for customers and the bank. The bank is maintaining its strength by being efficient and customer-centric in this new market environment.

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



Reaching and attracting **more customers.**

Through continuous improvement **in combination** with **simpler** procedures for our work at Landshypotek Bank.

In a **culture** that encourages and harnesses employees' energy and that differentiates us in the market.

Employees who make the difference

Landshypotek Bank has some 200 employees across the country. This is where the tasks of a major bank are combined with the personal approach of a small bank. There are no hard boundaries between departments or functions in terms of organisation. Instead, close collaboration is encouraged to thereby identify the best solutions. Many employees around the country have backgrounds in agriculture and forestry, as well as banking and financing expertise. The bank's brand promise: *"For a richer life in the countryside,"* unites all.



Magnus Larsson and Linda Semrén

In the autumn, Landshypotek Bank celebrated two years as a mortgage bank. Magnus and Linda both work at Mortgage services in Linköping and they have been onboard from the start. They are pleased that so many householders across the country have found and appreciate a bank with a difference.

"Together with our colleagues at Mortgage services, we meet and receive positive responses from many new houseowner customers who hadn't previously heard of Landshypotek Bank."

What makes your job so enjoyable?

"First, we make a great team and enjoy working together. Second, the job itself is also enjoyable. No one application is the same as another. Always trying to find solutions that improve things for customers is something I like about my job," says Linda.

"Mortgages are right up my street. I think the entire process is fun. It is rewarding to have been involved from the start and to build something new. We are always trying to

develop and improve with the aim of making the process as smooth as possible for the customer," continues Magnus.

Customers apply for a mortgage digitally through the website, couldn't that seem a little impersonal?

Not at all, according to Magnus and Linda. "Most people find it simpler to apply for a mortgage from home and not need to visit a bank branch. It's easy for customers to enter their details and upload the necessary documents, or just email supplementary information to us.

"Many customers are impressed by how quick and simple it is to apply for a mortgage at Landshypotek, and they like our values. You notice this when they talk about us. We can see this sometimes when we find ourselves granting loans to several properties in the same street," explains Linda.

Magnus adds that customers appreciate that we don't behave like other banks – demand that you move all your accounts and cards to the bank. Still, many people open a savings account when they take out a mortgage.



Karin Westman

Karin Westman is an agronomist, with a focus on business. She joined Landshypotek in 2014, when she started as account manager for farming and forestry customers in the Östgöta Plain area. In the autumn, she took on a new role as team leader for a group focused on customers who live on, rather than run larger operations on, their farm or forest property.

"My work entails great variety and my wonderful colleagues and I are at our best when trimming procedures and processes for taking the best care of our customers who live on farms across Sweden."

What do you think sets Landshypotek Bank apart as a workplace?

"Landshypotek has a soul and a heart that truly beats for those who live and work in the countryside, in its fields and in its forests. The culture is very helpful. 'One' and 'someone' don't work here. The feeling of working together as a team makes it possible for us to be flexible and gradually adapt ourselves to demands from customers and our business environment. We all take responsibility and ensure we solve issues together. Landshypotek Bank is on an exciting journey of development and it's rewarding to contribute, together with colleagues, on a daily basis."

Could you describe a normal working day?

"We work closely with our customers at the same time as increased digitisation makes it easier to contact us irrespective of where customers live in the country. The job entails understanding customers' needs and then meeting these in the best way possible. And it's important that everyone feels welcome, even if we don't meet them personally. The response to our opening for online applications for loans for farming and forest properties has been extremely positive. Digital loan applications mean we can increase efficiency and speed up answer processing."

Niklas Ringborg

Niklas Ringborg has a degree in Forest Science and grew up on a farm in Valdemarsvik. Just over five years ago, he started at Landshypotek Bank as an account manager in the Mälardalen region, before rising to regional manager for Östergötland County. Since the autumn, his role has been to coordinate customer contacts with professional farmers and large companies.

"It's both exciting and enjoyable to be part of the bank's front office meeting customers. As a team, we focus on more complex transactions and meet customers with extensive operations in the best way possible, irrespective of their geographic location."

Could you describe a day at Landshypotek?

"No single day is the same as another. Customer relationships are very important. They require time, resources and competence to nurture and develop. We work continuously with optimising coordination between collaboration and processes to ensure that the bank's entire competence is at its best and can be experienced as such by our customers."

What do you appreciate most about your job?

"The best thing about working for a bank focused on Swedish forestry and agriculture is that we can make a difference by financing many entrepreneurial dreams and investments in the countryside."



A bank with a distinguished history

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

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

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

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

1986 The bond market was deregulated, which also entailed increased competition.

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

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

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

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

2018 Landshypotek issues the world's first green bond backed entirely by sustainable Swedish forestry.

2019 Landshypotek Bank is the first bank to enable digital loan applications for customers who live or run companies on farming and forest properties.



Our operating environment 2019

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 an economic slowdown led the US central bank to choose to cut the interest rate to stimulate 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, at the same time as PMIs remained 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 and the country has now left the EU as of 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 fully 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

Brexit, trade conflicts and political uncertainty have impacted markets for farming and forestry. Globally, the outbreak of African swine fever also had a major impact on markets for many agricultural products. In Sweden, agriculture was marked by a strong recovery following the 2018 drought, with considerably larger harvests.

Recovery following 2018 drought

Globally, the 2019/2020 harvest year is expected to post a relatively good balance for cereals and oilseed, despite uncertainty regarding trade policies and the outbreak of African swine fever. 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 increase approximately 75 percent. The year's total harvest in Sweden was one of the largest ever over the past few decades. The large volumes entailed higher turnover despite lower prices compared with last year. Compared with the preceding five-year period, prices and turnover were above average.

Higher feed prices and reduced consumption of meat

As a result of the 2018 drought, the year started for livestock farmers 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 contributed to an increase in beef cattle slaughter in 2019. Settlement prices in Sweden were up slightly over the year and remain above the EU average. The beef market in Sweden followed a similar trend in the EU, with falling per capita consumption. Another concurrent trend in Sweden is a rising demand for beef of Swedish origin.

Stable dairy market

Uncertainty regarding the effects of Brexit have led 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 increase in demand was weaker due to 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.

Pigmeat market impacted by African Swine fever

The market for pigmeat was 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 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 price rises occurred at the same time as Swedish pigmeat continued to capture larger shares of the Swedish market.

High demand for poultry

Demand for poultry posted a continued rising trend in the EU and in Sweden. Swedish consumers continue to increasingly prefer 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.

Less advantageous market balance for forest raw materials

Concerns of an economic slowdown have depressed demand for forest raw materials. At the same time, supply is large, which negatively affected the market balance. Storms and extensive bark beetle infestations in Central Europe have resulted in damage to an estimated 70 million cubic metres of forest. Increased supply and weaker demand have intensified competition and entailed falling prices for forest raw materials in the second half of the year. The weak exchange rate has, however, helped offset the price decline in Sweden. This was after a relatively long economic upturn.

In Sweden, bark beetle infestations were also relatively large in 2019. The Swedish Forest Agency estimates that around 7 million cubic metres in the southern and central parts of the country were affected. Infestations were fewer in Norrland, and more extensive in Götaland and Svealand. The forestry industries have increased their collaboration with government agencies with the aim of minimising damage. Bark beetle infestations have resulted in relatively large levels of harvesting and increased stockpiles, which at the end of 2019 were at their largest for 12 years.

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. Prices for arable land also trended positively, albeit with variations between different parts of the country.



Administration Report

Administration Report	24
Financial report	24
Net interest income and volumes	24
Other operating income	24
Costs	24
Credit losses and doubtful credits	24
Other comprehensive income	25
Financial structure	25
Assets	25
Liabilities	25
Rating	26
Capital and capital adequacy	27
Group contributions	27
Sustainability report pursuant to the Annual Accounts Act	27
Proposed appropriation of profits	27

Administration Report

Landshypotek Bank posted growth in volumes and the bank's earnings remain stable. 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.

Operating profit

SEK million	2019	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, % ¹⁾	-	0.01
Operating profit	418	386
Operating profit excluding the net result of financial transactions	420	369

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

Financial report

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 negative 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 10 and Note 14.

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.

Financial structure

Assets

The largest asset item in the balance sheet is loans to the public, which amounted to SEK 76.4 billion (72.5). Loans to the public increased SEK 3.9 billion over the year and the largest part of the increase was attributable to the new mortgage operations. More information about Landshypotek Bank's loans to the public can be found in Note 14.

Landshypotek Bank's liquidity portfolio totalled SEK 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. 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.

Landshypotek Bank uses derivatives for the purpose of managing the difference in terms of fixed interest and currency risks between assets and liabilities. The market value of Landshypotek Bank's holding of derivatives contracts with positive market values amounted to SEK 1.6 billion (1.3). The nominal value of the derivative assets totalled SEK 43.3 billion (33.3). More information about Landshypotek Bank's derivative assets can be found in Note 16.

Tangible and intangible assets amounted to SEK 175 million (158), up SEK 17 million over the year. The increase mainly pertained to the implementation of IFRS 16 Leases, where the right to use the leased asset is recognised as a right-of-use asset.

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.

Covered bonds are bonds that carry a preferential right in a defined cover pool. Covered bonds outstanding totalled SEK 55.6 billion (51.5). Assets in the cover pool corresponding to SEK 76.5 billion (72.4) are in place as collateral for these bonds.

Landshypotek Bank has one programme for issuing covered bonds, an international EMTN programme with a limit corresponding to around SEK 105.0 (35.5) billion. Over the year, registered covered bonds have increased due to changes in the exchange rate, but no new funding has been arranged.

During the year, covered bonds to a value of approximately SEK 12.1 billion (6.2) and one green covered bond to a value of SEK 3.0 billion (5.3) were issued. Moreover, the bank issued senior bonds to a value of SEK 2.9 billion (5.0) and completed its first issue of debt classified under own funds and eligible liabilities for SEK 1.0 billion. Over the year, bonds matured or were repurchased to a value of SEK 14.6 billion (8.2), of which SEK 8.1 billion (7.1) pertained to covered bonds and SEK 6.5 billion (1.1) to senior bonds.

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

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

The credits in Landshypotek Bank's cover pool have an LTV of 42.5 percent (42.6). The LTV or loan-to-value ratio shows loan amounts in relation to the value of the collateral. Accordingly, this means that Landshypotek Bank's customers' loans amount to an average value of 42.5 percent (42.6) of the value of their properties. Landshypotek Bank has around 44,000 farming and forestry customers as well as mortgages and some 34,000 pledged properties. In many cases, the difference is attributable to more than one individual jointly pledging their shared property. The number of loans amounts to about 99,000.

The market value of the Group's holding of derivatives contracts with positive market values amounted to SEK 0.2 billion (0.5). The nominal value of the derivative liabilities totalled SEK 18.4 billion (18.6). More information about Landshypotek Bank's derivative liabilities can be found in Note 26.

Cover pool and covered bonds, SEK million		
Cover pool		
Loans		72,021
Supplemental collateral		4,454
Total cover pool		76,475
Covered bonds		
Issued in SEK		51,648
Issued in foreign currency		3,912
Total covered bonds		55,560
Excess collateral	37.7%	20,915

Key figures, cover pool, SEK million	
LTV – Loan-to-value ratio	
Average volume-weighted LTV	42.5%
Number of pledged properties	33,980
Number of borrowers	43,649
Number of loans	99,230

Lending volume in the cover pool per LTV interval	
<10%	30%
10–20%	23%
20–30%	18%
30–40%	14%
40–50%	9%
50–60%	6%
60–70%	1%
70–75%	0%

Of Landshypotek Bank's lending, 53 percent takes place against collateral where the loan amount is less than 20 percent of the value of the collateral. Only 1 percent of lending is against collateral where the loan amount is 60 percent or more of the value of the collateral.

Deposits from the public

Deposits from the public totalled SEK 14.4 billion (14.2). Growth totalled SEK 0.2 billion during the year.

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
Fitch	A	F1

Capital and capital adequacy

The total capital ratio for the consolidated situation amounted to 18.2 percent (18.4) and the CET1 capital ratio was 13.9 percent (13.9). The internally assessed capital requirement for the consolidated situation was SEK 5.0 billion (4.8), as compared with own funds which amounted to SEK 6.3 billion (6.2).

The total capital ratio for Landshypotek Bank amounted to 19.2 percent (19.4). The internally assessed capital requirement for Landshypotek Bank was SEK 5.0 billion (4.8), as compared with own funds which amounted to SEK 6.7 billion (6.5).

The capital adequacy assessment takes into account the minimum capital requirement, the combined buffer requirement and the Pillar II capital requirement. Refer to Note 3 for further information.

Group contributions

Contingent upon the approval of the General Meeting, a Group contribution will be paid by Landshypotek Bank AB in the amount of SEK 162.4 million (157.9) to Landshypotek Ekonomisk Förening.

Sustainability report pursuant to the Annual Accounts Act

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

The sustainability report is available on pages 29–40.

Proposed appropriation of profits

SEK	
The following unrestricted equity is at the disposal of the Annual General Meeting:	
Retained earnings	1,952,229,265
Group contribution	-162,400,000
Tax effect of Group contribution	34,753,600
Net profit for the year	332,132,629
	2,156,715,494

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

To be carried forward	2,156,715,494
	2,156,715,494

Conditional on the approval of the Annual General Meeting, a Group contribution has been paid in the amount of SEK 162,400,000, which has reduced unrestricted equity as of the balance sheet date by SEK 127,646,400 after taking the tax effect into account. Unrealised changes in the value of assets and liabilities measured at fair value had a net negative impact on equity of SEK 110,547,486.

The Board of Directors is of the opinion that the proposed dividend, in the form of a Group contribution, does not compromise the company's or the Group's ability to discharge its obligations in the short and long term, nor to make any necessary investments. The proposed transfer of value can therefore be justified considering that stated in Chapter 17, Section 3, paragraphs 2–3 of the Swedish Companies Act. The Board of Directors proposes that the year's funds at the disposal of the Annual General Meeting, SEK 2,156,715,494, be carried forward.

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

SEK million
Swedish commercial paper
MTN programme
EMTN programme
Registered covered bonds
Subordinated loans

Issued 31 December 2019	Limit	Issued 31 December 2018
–	10,000	–
42,898	60,000	41,002
16,582	104,982 ¹⁾	16,788
3,571		3,446
1,900		1,900

¹⁾ EUR 10,000 million



Sustainability Report

To promote sustainable development countrywide	30
The bank's contribution to sustainable development	30
Customers and the offering	31
Employees working for all of Sweden	33
Business ethics and anti-corruption	35
Climate and the environment	36
Swedish agriculture and forestry perform well in terms of the climate	37
Policies and governance documents	40
Implementation	40
Organisation	40

To promote sustainable development countrywide

Landshypotek Bank enables people to run companies, realise their dreams and to live countrywide. Through the strong commitment of the bank's owners, customers, investors and employees, the bank strives daily to develop our unique bank. Landshypotek Bank believes in wise, long-term investments that continue over generations. The bank has been around for more than 180 years and plans to be here for at least as long again.

The bank's contribution to sustainable development

A living countryside, where fields and forests are cultivated, creates growth and jobs. These create the preconditions for a well-developed business community and Swedish welfare across the country. Sustainable development countrywide rests on the conditions for living and working throughout Sweden. Landshypotek Bank uses sound and responsible credit granting to enable rural living and investments in rural enterprise.

This lays the foundation for a future for the cities and the countryside. In this way, the bank contributes to sustainable societal development – socially, environmentally and economically.

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

Swedish farms and agriculture maintain high standards for animal husbandry, environmental adjustment and food quality. Agriculture has considerable potential to contribute to reducing CO₂ emissions. The use of forests and cultivated land also contributes to biodiversity, nature management and variety in the Swedish countryside.

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

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

Sweden's member-owned bank

Farming and forestry borrowers become members of Landshypotek Ekonomisk Förening and, thereby, owners of Landshypotek Bank. With some 38,000 members, the association is one of the country's largest cooperative associations.

The association's purpose is to benefit its customers and members. The owner directive sets out that Landshypotek Bank is to promote the members' financial interests by offering competitive financing for farming and forestry. The bank acts to promote a richer life countrywide. This

2015	Landshypotek Bank participates in Finansinspektionen's mapping of environmental and sustainability perspectives in credit granting to companies
2016	Landshypotek Bank participates in sector initiatives in the Swedish Bankers' Association to maintain <i>Sustainability overview for credit granting to companies</i> The CEO of Landshypotek Bank appoints a Chief Sustainability Officer who is included in the bank's Management Group
2017	Landshypotek Bank's first <i>Sustainability overview</i> is published
2018	Sustainability analysis instruction updated The sustainability report is prepared and published for the first time The bank's green bond framework is prepared and published Landshypotek Bank issues a green covered bond Landshypotek Bank participates in Finansinspektionen's mapping of environmental and sustainability perspectives in credit granting to companies
2019	Green Bond Impact Report prepared for the first time A second green covered bond is issued A first analysis of the bank's credit portfolio's impact on climate- and environment-related risks is carried out The bank starts reporting pursuant to the GHG protocol



means a direct assignment to strengthen and contribute to societal sustainability – socially, economically and environmentally. By extension, this entails the bank making it possible to provide food security, a healthy environment, well-kept forests and open landscapes through strengthening the preconditions for active farmers and foresters, entrepreneurs in the countryside and residents of rural areas.

The bank's actions in pursuit of this owner directive are reported on an ongoing basis to the Board of Directors of Landshypotek Ekonomisk Förening.

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

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

Impact on key issues

Over the year, the bank has engaged in and monitored the formulation of the EU directive on sustainable investments and finance, and more specifically, how forestry is classified in the underlying taxonomy. The bank's assessment is that Sweden's forestry comprises a basis for sustainable investment and has therefore engaged in comments to the proposal to promote its inclusion. The

bank has also published contributions in external media to showcase the significance of Sweden's forestry from a sustainable investment perspective. The bank is monitoring the negotiations regarding design and implementation since, by extension, these could impact the bank's funding. From a wider perspective, we believe that Swedish forestry must have long-term game rules to continue to develop and contribute to societal benefit, knowledge and innovation – in Sweden and internationally.

Customers and the offering

Landshypotek Bank's customers

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

The bank's customers include a large portion of the country's large-scale production agriculture, many smaller farmers and foresters as well as mortgage customers since the bank widened its customer offering in 2017. For natural reasons, the customers' relationships with the bank are longstanding and often continue across generations, since farming and forestry are capital intensive, long-term businesses.



Proximity and networks

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

Sound and sustainable lending

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

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

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

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

Credit appraisal including sustainability analysis

Landshypotek Bank's credit appraisals are based on customers' repayment capacity. A sustainability analysis is always included in the credit appraisal for large and medium-sized companies and all legal entities. A sustainability analysis is also conducted if separate environmental risks could arise or if it is deemed appropriate in individual cases. The bank's account managers conduct a sustainability analysis to review whether operations are linked to a quality assurance system, if it is checked by a third-party, if self-assessments are conducted as well

as the results of any checks performed. If these checks are missing, the bank conducts a more thorough review. Read more about risks and risk management in Note 2.

Preventive insolvency management

The bank works actively with preventive insolvency management. This entails early contact by the bank with customers who have or who could have difficulties in meeting their interest or amortisation payments. Many situations can arise in life that could change a person's repayment capacity. It is therefore important that the bank takes early contact with customers and prepares individual plans to enable them to get on top of their payments. The bank owns the entire insolvency process, which is highly material to the ability to follow customers irrespective of the situation. If the bank succeeds with early identification and can start a good dialogue, this often leads to good outcomes for our customers as well as the bank.

Investments

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

Greener funding

In 2018, Landshypotek Bank prepared a green framework for issuing green bonds. The aims included being able to promote a more sustainable financial market as well as to meet demand from the bank's investors. The bank's green bond framework is based on sustainable forestry practices, renewable energy and energy-efficient buildings. The framework is aligned with the Green Bond Principles prepared by the International Capital Market Association. The framework was awarded a Dark Green rating from the Center for International and Environmental Research – Oslo (CICERO), which is the highest rating for green bonds.

In May 2018, the bank issued its first green covered bond under the green bond framework. In 2019, the bank issued an additional green covered bond. The funds raised by the bonds are used exclusively to finance sustainable forestry. The total volume issued was SEK 8.25 billion. As per one of the obligations under the bank's green bond framework, the first impact report for green bonds was prepared and published on the bank's website during the year. Read the full report on the bank's website under investor relations.

Employees working for all of Sweden

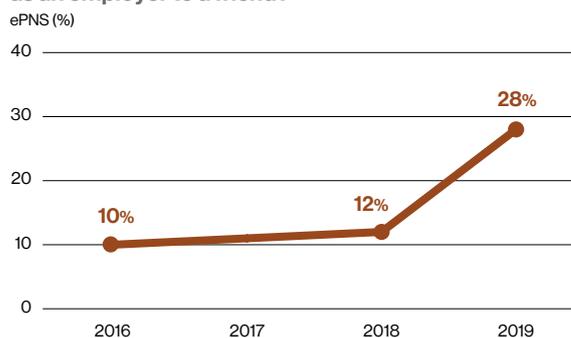
Landshypotek Bank comprises around 198 (190) employees at 19 offices. Many of the bank's account managers, the bank's customer-facing front office, have backgrounds in agronomy, forestry, agrology or similar fields in addition to their banking expertise. The bank's account managers who work with mortgage loans have SwedSec licences. Together, the bank's staff work to promote a richer life countrywide.

Employee-ship our way

The bank's foremost assets are its employees, culture and commitment. All of the employees have participated in creating the bank's employee values (read more about these on page 50). The employees are also the bank's main brand carrier; the aim is for all employees to enjoy their daily work and feel motivated by, and pride in, their employer.

During the year, all employees were given the opportunity to respond to an employee survey aimed at capturing commitment, perspectives and views regarding the bank's development. The response rate was 87 percent, which is high and ensures that the survey provides an accurate image of employees' views and feelings. The same survey measured the eNPS for the year and posed the following question, "How likely are you to recommend Landshypotek Bank as an employer to a friend?"

How likely are you to recommend Landshypotek Bank as an employer to a friend?



The graph shows that the likelihood of recommending the bank as an employer has risen among employees over the last few years. eNPS (%) is the portion who responded 9–10 minus those that responded 1–6 on a scale of 1–10, where 10 represents most likely. Responses in the 7–8 range are treated as neutral. The question was asked in 2017, but due to a technical fault when sending out the survey the response rate was so low that the figures are not relevant.

The insights gained from the survey comprise the foundation for the bank's continued development and shared efforts to strengthen employee-ship and the culture that permeates the bank.

Small bank – Huge commitment

Each employee accounts for around half a percent of the bank, which means that each individual's commitment is highly important. Employees are involved in numerous projects and are part of how the bank is developed. Over the year, the entire bank has gathered on two occasions to discuss the bank's transition and to make new contacts within the bank. In 2019, many employees have driven and participated in a number of dialogues in conjunction with a major change project within the organisation.

Skills and development

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

Under the "knowledge at lunch" concept, the bank's employees are able to share their expertise while their colleagues can broaden their skillsets. Six lunches were conducted by the bank's employees during the year: external regulatory frameworks and regulatory requirements; digital marketing and presence; arable farming; covered bonds; forestry and capital adequacy.

Rights and conditions at work

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

The bank strives to achieve sound and fair pay scales that ignore background and gender. The bank adheres to the legislation in this area, which entails the bank conducting an annual salary review within the organisation with the aim of identifying, addressing and preventing unjustified salary differences between genders. The analysis found that the pay scales were fair and that no unjustified salary differences existed between genders.

The ILO's Core Conventions apply to the bank's operations:

Human rights are always respected and the bank adheres to the legislation that applies to its operations. Labour law requires that employment is voluntary and that no form of discrimination, harassment or child labour may occur. Salaries are paid directly to the employees and any overtime is always compensated. The bank's employees have the right to organise and collective agreements are always respected. The bank complies with national environmental requirements. The operations are conducted with high moral standards and ethics to ensure sound professionalism. All forms of corruption, extortion and bribes are unacceptable.

	No. of employees who underwent training		
	2019	2018	2017
GDPR training	44 (new employees and consultants)	All	–
Credit training	–	75	72
Anti-money laundering training (annual)	99.5% ¹⁾	All	All
SwedSec licencing (employees with active licences)	64	52	26
Training in credit scoring system and process (new)	93	–	–
Advanced credit training	21	51	35
Valuation training	–	77	–

Due to the implementation of a new credit scoring system, "Credit training" was replaced this year by obligatory training in the new credit scoring system and updated credit regulations for all employees who work with credit scoring at the bank.

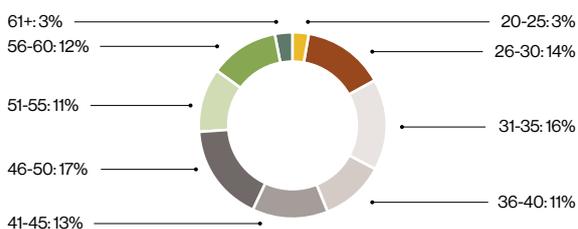
¹⁾ One employee who finished at the bank at the beginning of January 2020 did not complete the training.

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

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

Age distribution

The figures are based on the total number of employees at 31 December 2019



The bank has a broad age distribution. The bank has a broad age distribution, with the most common age interval among the bank's employees being 46-50 (41-45). One in six employees are in this interval, and the youngest and oldest intervals (20-25 and 61+) are the least represented.

Gender balance in percent, women/men

The figures are based on the total number of employees at 31 December 2019



The distribution between women and men is even at the bank. At 31 December 2019, the percentage distribution between men and women was 51/49 (50/50), among managers 33/67 (40/60), in the management 13/87 (33/67) and 33/67 (50/50) on the Board. The distribution does not meet the desired gender balance among managers, management and the Board. The business is aware of the above disparity and is actively working to achieve change, particularly with new recruitments.

Business ethics and anti-corruption

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

Acting ethically and correctly

Respect for human rights is essential for the conduct of sound and sustainable enterprise and something that the bank always adheres to in its own operations and in relation to customers, suppliers or other business partners. Given the operations of the bank and the bank's requirements of suppliers and business partners, the bank's assessment is that there are no significant risks linked to human rights.

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

Prevention of financial crime

Money laundering and terrorism financing comprise serious threats to society in Sweden and the rest of the world. The bank does not tolerate and does not participate in money laundering or terrorism financing. The bank takes all reasonable measures to prevent the bank being used for money laundering or terrorism financing. The Board and CEO are ultimately responsible for the bank's operations taking the necessary precautions to prevent money laundering or terrorism financing, for the bank's internal rules complying with external regulatory requirements and that said rules are appropriate, well implemented and complied with in operations. As part of its organisation to prevent money laundering and terrorism financing, the bank has created the following roles and functions: Designated Supervisor, Central Function Manager, Operational AML Manager and Independent Auditor (the function is often conducted within the bank by internal audit). The bank has also established a separate AML function at Board level. Read more about Landshypotek Bank's risks and risk management in Note 2.

Administration and internal regulatory compliance

Landshypotek Bank's ethics policy states that operations should apply sound values and professionalism;

that customers', employees' and the owner's interests at an overall level should be taken into account in all decisions, and that external and internal rules should always be complied with.

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

Business ethics are included in various employee training courses, including induction training for new employees. If employees are unsure about how to apply the ethics policy, the first resort is to contact their immediate manager. Furthermore, the bank's compliance function can be contacted for advice and support. Finally, the bank has a whistle-blower process. Anyone who suspects serious misconduct can use the whistle-blower service anonymously.

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

During the year, the bank has changed to using WhistleB as the supplier of its whistle-blower service.

Suppliers and business partners

The bank has mainly outsourced activities in terms of IT. In support of the bank's outsourcing, procurement and monitoring, the bank has a number of policy documents that set requirements for the bank's outsourcing agreements. The bank is also subject to Finansinspektionen's requirements for outsourcing agreements as defined in FFFS 2014:1. The bank monitors suppliers on an ongoing basis, which also encompasses an ESG perspective. All IT equipment purchased by the bank is TCO certified (fixed-line telephones are not included as no environmental classification is in place for telephones). TCO certification means that sustainability requirements are set, which include driving social and environmental responsibility over the product's lifecycle. The requirements extend beyond the industry standards and legislation that drive the development of sustainable IT products.

Climate and the environment

Landshypotek Bank's main environmental impact is at customer level. The bank's core business is the financing of Sweden's agricultural and forestry sector. Many of the bank's core customers, run operations that affect and are affected by the climate and the environment. Climate change can have a direct and indirect impact on our customers' operations and, thus, also on the bank's credit risk.

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

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

Climate- and environment-related risk and opportunities within the framework of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

In 2019, Landshypotek Bank has identified climate- and environment-related risks and opportunities to be able to map these and to identify their short- and long-term effects on the bank's credit risk. The identified risks and opportunities primarily affect the bank's credit risk toward farming and forestry, which is also the segment toward which the bank has its largest exposure. In the first step, the bank has highlighted the physical risks and opportunities in its operating environment that impact the bank.

Overarching: Landshypotek Bank finances entrepreneurship and living in houses on agricultural properties. Agriculture is one of the sectors of society that is most clearly impacted by climate change. Arable farming and animal husbandry need to be constantly adapted to their environment. In the same manner, the risks and opportunities posed by a changed climate need to mark and permeate the entire bank

Governance: Climate-related risks and opportunities for the bank's operations, today and in the future, are always on the bank's customers' agendas. In the same manner, this is incorporated as a natural part of the bank's governance and operations. The bank's position is strengthened through a focus on and awareness of these risks and opportunities.

Strategy: The bank finances agriculture, forestry and houses that builds on long-standing customer relationships. The majority of the bank's lending finances agriculture – a sector of society that is clearly impacted by climate change. The bank wants to be part of the solution and provide financial solutions for transitioning and adapting agriculture to changed conditions, but also with the aim of making it more sustainable. Changes that require investment in new facilities, land and new energy solutions are areas that the bank has identified as development opportunities.

Risk management: Over the year, the bank started identifying climate-related risks, which can be categorised as: physical risks (acute and systemic) and transition risks linked to the bank's lending. The largest risks for the bank will be physical risks in terms of the collateral accepted by the bank and where customers conduct their operations, in other words farm and forest properties.

Swedish agriculture and forestry perform well in terms of the climate

From a global perspective, Swedish agriculture and forestry perform relatively well in terms of the climate. The main reason is good natural access to water. Access to water is the major challenge in other parts of the world as the climate warms, and which makes cultivation significantly more difficult. It is likely that we will have a warmer climate with more precipitation in Sweden. Precipitation may vary between the winter and the summer, with more precipitation during the winter. This scenario will result in drier summers and as a natural consequence, increased evaporation. A changed climate will result in extreme weather such as intense rainfall, flooding and long dry periods becoming more normal. In parallel, the growing season will become longer, which could allow more and larger harvests. This will also create scope for animals to be outside longer to graze.

Swedish agriculture produces food with a relatively low climate impact. In terms of beef and eggs, Sweden is best in class in the EU; in milk production, Sweden is second best in delivering milk with a low climate footprint. In terms of pigmeat and chicken production, emissions are slightly lower than the EU average. Sweden's arable farming is characterised by high productivity in terms of yield per hectare and per added kilogram of fertiliser (nitrogen). However, Sweden has the potential to raise yields and total harvests without using any new land (avoiding deforestation), which is one of the primary climate impacting factors that Swedish food consumption causes abroad.

Sweden's natural climate has colder winters that generally result in lower pressure from different pests. If this balance is changed, it could have negative consequences for Swedish farming, with more insect and fungal infestations. The winter and its accompanying ground frost create a natural pause in growing for crops as well as weeds. The lack of a protective snow covering increases the risk of frost damage at the same time as milder winters could lead to less damage to overwintering crops.

Expected quantities of precipitation and the lack of ground frost in the winter could lead to waterlogged soil. This would make access to fields with heavy machinery more difficult with consequent difficulties for the earlier growing season. However, in terms of autumn sown crops, such as autumn wheat and autumn rapeseed, these could benefit from changed precipitation patterns.



Thesis on the bank's credit portfolio's carbon footprint

In 2019, Landshypotek Bank took in a thesis student as an intern from the Royal Institute of Technology to investigate the carbon footprint from the majority of the bank's credit portfolio. The thesis aimed to examine the bank's role in a more climate-neutral economy on a deeper plane. For this purpose, the thesis contained calculations of the carbon footprint from the underlying collateral in the bank's lending against farms and forests. The calculation method used was based on the IPCC Guidelines for Greenhouse Gas Inventories and only included carbon dioxide emissions and removals linked to land use. It investigated the carbon footprint derived from the bank's lending against farms and forests, and was analysed using a sensitivity analysis to understand the bank's role in a more fossil-free economy. The study's findings showed that in the carbon footprint from lending against farms and forests, removals outweighed emissions in terms of the land use of the underlying collateral. The study also found that the calculated carbon footprint is very dependent on assumptions and delimitations, which mean that it may be difficult to attain comparability for the results. However, it was possible to note that the forests in the bank's credit portfolio generate a considerable climate benefit through binding substantial quantities of carbon dioxide.

Metrics and targets: The bank's direct environmental impact is measured and will diminish over time (refer to the section covering the bank's environmental impact).

SMHI (the Swedish Meteorological and Hydrological Institute) has been tasked by the bank with starting to identify and analyse the physical risks and climate indicators most relevant to farming and forestry and, accordingly, for the bank. Two scenarios are used in the analysis: RCP 4.5 and RCP 8.5 as defined by the UN's Intergovernmental Panel on Climate Change (IPCC). The indicators assessed by SMHI as most relevant for farming and forestry are: temperature, length of the growing season, heat waves, precipitation, total ten-year water flows, soil moisture, snow cover, sea levels, fire risk and wind gusts. The results of the analysis will be published in 2020 and included in next year's sustainability report.

Examples of climate-related risks and opportunities, agriculture: poorer harvests due to reduced or increased precipitation; lower production due to drought or flooding; plant infestations and the spread of diseases as a result of a warmer climate; increased heat stress for plants and animals as a result of a sustained high pressure; and increased competition between crops and weeds. Global market prices for agricultural products and input materials will likely fluctuate substantially as an effect of the increased frequency and intensity of natural disasters – nationally and globally. A warmer climate extends the growing season with higher and/or more harvests. Plant and climate zones move, which creates scope for more cultivation alternatives.

Examples of climate-related risks and opportunities, forestry: A warmer climate leads to a longer growing season and increased forest growth. Plant and climate zones shift, which affects the choice of tree in forestry and means that new species create new competitive conditions. The risk of fires will increase, primarily in southern Sweden. A warmer climate improves conditions for vermin and insect pests. Mild winters and no frost will make forestry operations more difficult and increase the risk of driving damage.

Special control of coastal properties

Within the framework of identifying climate- and environment-related risks, the bank has identified coastal properties pledged as collateral in the bank's credit portfolio for farming and forestry. A coastal exposure entails a raised risk of acute (flooding) and systemic (higher sea levels) risks for the bank, since the properties' values could be affected as could the future repayment capacity. The underlying properties have been checked against Lantmäteriet's (the Swedish mapping, cadastral and land registration authority) register and SMHI's map function for future sea levels based on the IPCC's climate scenarios (2050 and 2100). The global average sea levels will have their greatest impact on sea levels in southern Sweden, where the isostatic uplift will not compensate for higher sea levels. The control shows that 2 percent of the bank's total exposure is to coastal farm and forest properties that could be affected to some degree by higher sea levels.

The bank's own environmental impact

Landshypotek Bank's direct environmental impact is limited and arises mainly from the bank's premises and business travel. As the bank's customers and its 19 offices are spread across Sweden, a considerable amount of travel is required by operations. Telephone and video are the first choice for meetings and internal communication. The bank's travel guidelines include taking the environment into consideration. Overall, the bank prioritises rail travel, but many of the customers can only be reached by car. For the first time, in 2019, the bank calculated the impact of the operations on the environment pursuant to the GHG protocol. Data for the past three years has been collected to see the change over time.

Emissions broken down by scope

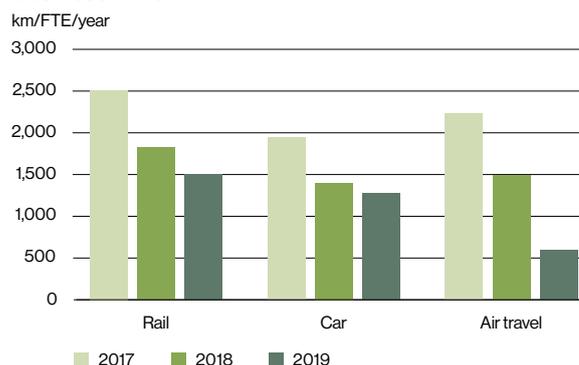
Emissions, tonne CO ₂ e	2019	2018	2017
Scope 1	0	0	0
Scope 2	63.9	76.1	84.8
Scope 3	67.1	118.1	156.8
Total	131.1	194.1	241.6

The bank's direct environmental impact has declined 32 percent year-on-year, mainly driven by less business travel (see diagram, Business travel). Emission sources included in the calculations are: district heating, district cooling and electricity consumption at office premises (scope 2) as well as business travel by rail, car and air (scope 3). The scope 2 calculations are based on real data from suppliers and pertain to the consumption at the office in Stockholm. Consumption per FTE in Stockholm, the bank's largest office, forms the basis for calculations for the bank's other offices. The electricity calculations used the Nordic residual mix (2018) for the entire consumption even though green electricity agreements are in place for many offices. The residual mix for 2018 was used as the emission factor for 2019, since the factor for 2019 is being published after the preparation of this report. The figures will be updated with the correct emission factor in next year's follow-up.

The scope 3 calculations are based on real data from the bank's travel suppliers and pertain to employee mileage allowances for business travel by car. Scope 3 does not include travel in conjunction with the bank's annual winter meeting, since these were booked by another supplier. Air travel in 2019 to and from the winter meeting in Åre were climate compensated. Scope 1 emissions were zero, as the bank has no manufacturing operations and owns no vehicles.



Business travel



Over the last three years, business travel per km per FTE and year has declined, with air travel accounting for the largest decrease.

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

Next step

The bank intends to continue working with climate- and environment-related risks in 2020 and the objective is to include the risks in daily operations through, for example, the bank's credit granting. A follow-up of the stakeholder analysis completed in 2018 will be carried out to ensure the bank works in line with and to promote the expectations and demands of its stakeholders.

Policies and governance documents

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

Overarching

- Sustainability Policy

General corporate governance and ethics

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

Healthy credit granting and transactions

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

Work environment, employee commitment and societal responsibility

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

Implementation

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

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

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

Organisation

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



Corporate governance

Foundation for corporate governance at Landshypotek	42
Deviations from the Swedish Corporate Governance Code	42
Owners' control	42
Owner directive	42
Articles of Association	42
Annual General Meeting 2019	42
Election committee	43
External auditors	43
The Board of Directors	43
The Board's composition and eligibility	43
The Board's responsibilities and its procedures	43
Evaluation of the Board of Directors	46
Internal control and risk management	46
The first line of defence – business operations	46
The second line of defence – independent control functions	46
Third line of defence – internal audit	46
Internal control over financial reporting	47
Remuneration system	47
CEO	48
The Bank Management and committees	48
Business	48
Business operations	48
Corporate culture	49
Market disclosures	49
Employee values	50
Leadership values	51
Board members	52
Senior management	54

Corporate Governance Report

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

Foundation for corporate governance at Landshypotek Bank

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

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

Deviations from the Swedish Corporate Governance Code

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

General Meeting

Code rule 1.1

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

Election and remuneration of the Board and auditor

Code rules 2.3–2.6

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

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

Board procedures

Code rule 7.3

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

Owners' control

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

Owner directive

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

Articles of Association

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

Annual General Meeting 2019

The Annual General Meeting of Landshypotek Bank was held on 7 May 2019. Kjell Nilsson was the Annual General Meeting's Chairman. The owner was represented by Per-Olof Hilmér, Chairman of Landshypotek Ekonomisk Förening. The AGM was attended by the majority of the bank's and the association's Board members, the CEO, auditors and members of the Election Committee. The General Meeting elected the Board, Election Committee and auditors for the period until the next AGM. The General Meeting re-elected the following Board members: Anna-Karin Celsing, Hans Heuman, Nils-Fredrik Nyblæus, Henrik Toll, Johan Trolle-Löwen and Ann Krumlinde. Gunilla Aschan was elected as a new member of the Board. At the AGM, Hans Broberg, with Petra Nilsson as deputy, and Anders Nilsson, with Helena Andersson as deputy, were designated as the employee representatives. Henrik Toll was re-elected Chairman of the Board. Furthermore, the authorised auditing firm Öhrlings PricewaterhouseCoopers AB (PwC) was re-elected as auditors. Authorised Public Accountant Helena Kaiser de Carolis was elected Auditor in Charge. The AGM resolved to discharge the Board of Directors and the CEO from liability. Furthermore, resolutions were passed on fees, appropriation of profits and adoption of the annual accounts for 2018. The CEO and Board of Directors presented the work performed in the company and on the company's Board during the year. The Election Committee presented its work during the year and its assessment of the eligibility of Board members on an individual basis as well as collectively. The General Meeting did not authorise the Board of Directors to issue new shares or buy back the company's shares.

Election Committee

The Election Committee is tasked with preparing election and remuneration issues ahead of the next AGM. The Election Committee follows the instruction established for the Committee and the adopted policy regarding Board diversity and for assessing the eligibility of Board members. The 2019 AGM resolved that the Election Committee should comprise: Per-Olof Hilmér, Lars-Johan Merin and Ann-Britt Karlsson. Per-Olof Hilmér represents the owner in his capacity as Chairman of Landshypotek Ekonomisk Förening.

External auditors

The AGM appoints external auditors to Landshypotek Bank. These auditors must be authorised public accountants. The mandate period of the auditors appointed by the General Meeting is one year. The auditors are responsible for examining the Annual Report and

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

Board of Directors

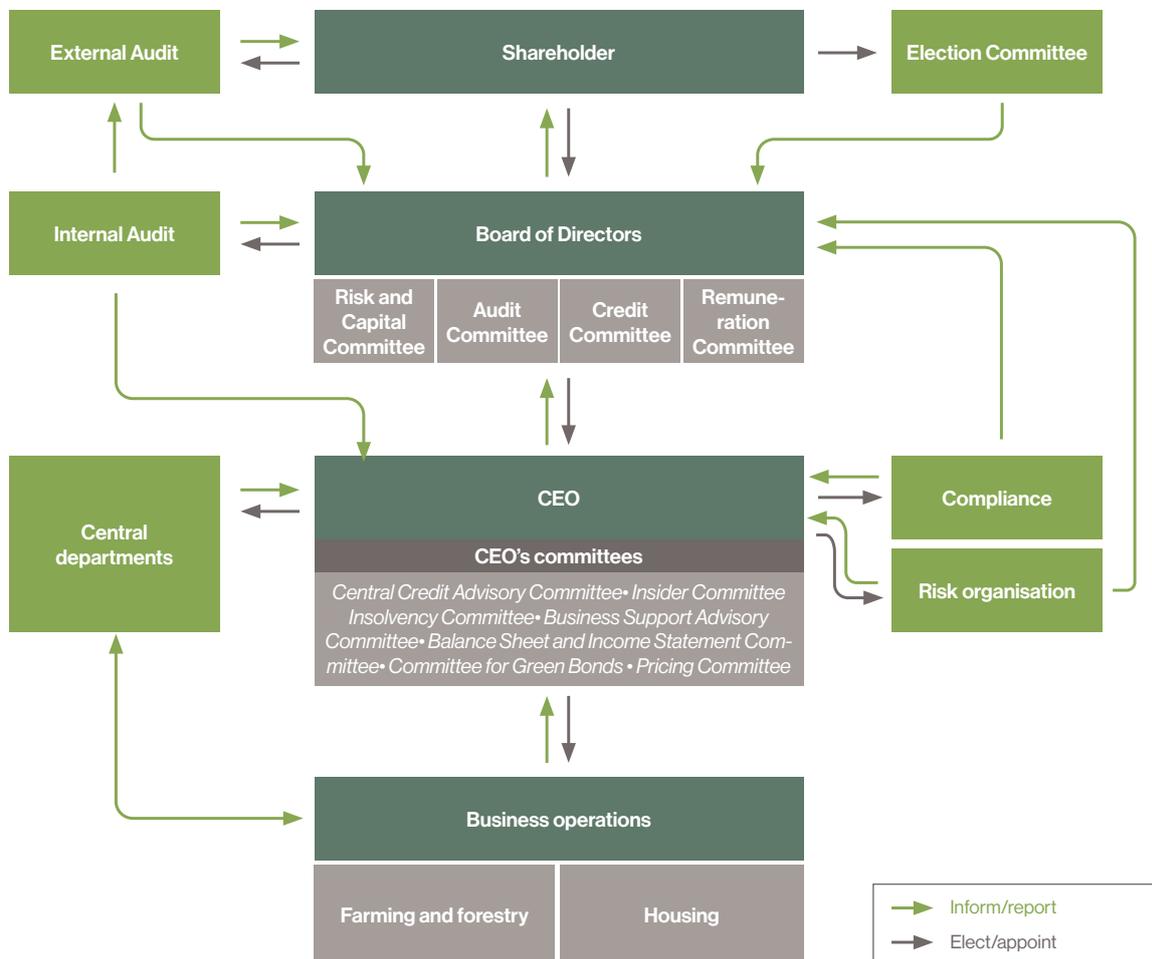
The Board's members are elected by the General Meeting from proposals made by the Election Committee. The Board is responsible for the organisation and administration of the bank affairs.

The Board's composition and eligibility

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

The Board comprises nine individuals, of which seven were elected at the AGM and two of which are employee representatives – three women and six men. Seven of the Board members are independent in relation to the company and the management of the company. One member is also a Board member of the cooperative association. All of the Board members have extensive experience from trade and industry and/or agriculture and forestry. The composition of the Board ensures that the Board understands the overall picture of the bank's operations

Corporate Governance



and the associated risks. None of the Board members or the CEO hold shares or financial instruments issued by the bank. Through their own or their related parties' membership of Landshypotek Ekonomisk Förening, four of the Board members and the CEO have member contributions in the cooperative association.

The Board's responsibilities and its procedures

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

tasked with ensuring that internal rules are in place for effective governance and control of the bank, and that a framework for risk management exists that ensures the bank's management and follow up of risks is satisfactory. The Board is also to perform regular evaluations of whether the bank controls and manages its risks in an efficient and appropriate manner, and ensure the bank complies with the rules applicable for licensable operations. The Board also appoints, evaluates and, if the need arises, dismisses the CEO

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

for their work by the CEO on an ongoing basis and that Board members receiving the required training to conduct Board work efficiently and check that the Board's decisions are applied efficiently.

The Board's work follows the formal work plan and annual plan adopted at the statutory Board meeting. In 2019, the Board had ten scheduled Board meetings.

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

The Board's Credit Committee

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

Following the statutory meeting in 2019, the members of the Credit Committee were as follows: Henrik Toll (Chairman) and Nils-Fredrik Nyblæus, with Johan Trolle-Löwen and Ann Krumlinde as deputies. Credit analysts, the Insolvency Manager or another specially appointed executive presents agenda items. The Credit Committee takes weekly credit decisions and, in addition, held five scheduled meetings in 2019.

The Board's Risk and Capital Committee

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

Following the statutory meeting in 2019, the members of the Committee were as follows: Henrik Toll (Chairman), Anna-Karin Celsing, Hans Heuman and Ann Krumlinde. The Chief Risk Officer or another specially appointed executive presents agenda items. The Committee held eight meetings in 2019.

The Board's Audit Committee

The Audit Committee's primary tasks are to be responsible for preparing the Board's work with quality assurance of the financial reporting and to receive the reports from the auditors. In addition, the Committee monitors and reviews the work of internal and external auditors as well

Board attendance 2019

Board member	Board meetings	Credit Committee	Risk and Capital Committee	Audit Committee	Remuneration Committee
Henrik Toll	10/10	5/5	7/8		1/2
Ann Krumlinde	10/10		4/8		1/2
Anna-Karin Celsing	10/10		8/8	6/6	2/2
Charlotte Önnestedt ¹⁾	4/10			3/6	
Hans Heuman	10/10		8/8		2/2
Gunilla Aschan ²⁾	6/10			3/6	
Johan Trolle-Löwen	10/10			6/6	
Nils-Fredrik Nyblæus	9/10	5/5		6/6	
Synnöve Trygg ³⁾	3/10		4/8		1/2
Helena Andersson ⁴⁾	2/10				
Anders Nilsson ⁵⁾	7/10				
Hans Broberg	9/10				
Petra Nilsson	1/10				

¹⁾ Stepped down on 7 May 2019.

²⁾ Elected to the Board at the General Meeting of Landshypotek Bank on 7 May 2019.

³⁾ Stepped down on 7 May 2019.

⁴⁾ Stepped down as a Board member on 7 May 2019 and became a deputy Board member in conjunction with the General Meeting of Landshypotek Bank on 7 May 2019.

⁵⁾ Elected to the Board at the General Meeting of Landshypotek Bank on 7 May 2019.

Helena Andersson participated in her capacity as deputy at meeting No. 5/2019, Petra Nilsson participated in her capacity as deputy at meeting No. 5/2019.

as compliance and the work of the data protection officer. The Audit Committee is also tasked with preparing questions pertaining to measures for counteracting money laundering and financing of terrorism. The Committee meets in conjunction with external financial reports and, otherwise, whenever necessary.

Following the statutory meeting in 2019, the members of the Committee were as follows: Anna-Karin Celsing (Chairman), Nils-Fredrik Nyblæus, Johan Trolle-Löwen and Gunilla Aschan. The Chief Financial Officer or another specially appointed executive presents agenda items. The Committee held six meetings in 2019.

The Board's Remuneration Committee

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

Following the statutory meeting in 2019, the members of the Remuneration Committee were as follows: Henrik Toll (Chairman), Anna-Karin Celsing, Hans Heuman and Ann Krumlinde. The CEO, HR Manager or other party appointed by the Committee presents agenda items and is responsible for preparing an agenda in consultation with the Chairman for each meeting. The Committee held two meetings in 2019.

Evaluation of the Board of Directors

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

Internal control and risk management

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

The basis for the internal governance and control at Landshypotek Bank consists of the bank's control environment in the form of the organisational structure, decision and reporting pathways, authorities and responsibility. The framework for conducting operations is established through internal policies, guidelines and instructions.

Day-to-day operations are tasked with complying with these. The business operations are also responsible for their own risk management and for conducting self-evaluations of their operations. The bank strives to ensure that all operations apply a sound risk culture.

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

The first line of defence – business operations

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

The second line of defence – independent control functions

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

Risk organisation

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

Compliance

Compliance is tasked with advising and supporting the CEO and employees with ensuring that the bank's operations are conducted pursuant to the regulatory frameworks



that govern licensable activities and to identify and report compliance risks. The work is conducted pursuant to a policy decided by the Board that describes its responsibilities and an annual plan. The Compliance unit is independent from business operations and the Chief Compliance Officer reports directly to the CEO and Board.

Third line of defence – internal audit

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

Internal Audit aims to examine and evaluate internal governance and controls as well as provide an image of how well processes and procedures contribute to the operational goals. This includes, not least, the evaluation of the effectiveness of the risk management efforts and the work of the control function. The internal audit review initiatives are conducted pursuant to a policy decided by the Board that describes its responsibilities and an annual plan. During 2019, the bank's internal audit was carried out by Deloitte AB.

Internal control over financial reporting

The bank's financial department is responsible for managing internal control over financial reporting to ensure

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

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

Remuneration system

The Board has set out the principles for the remuneration system that encompasses all employees at the bank in the remuneration policy. The remuneration policy is aimed at ensuring that the bank has a remuneration system that counters any incentive to accept unsound risks or act with a short-term perspective. The remuneration system should apply market terms, be non-discriminatory and reward good performance as well as ensure that the employees' efforts align with the bank's strategies and policies. Special weighting should be given toward a sound level of risk. The base employee remuneration model consists of a fixed basic salary. The bank has no variable remuneration program. However, the bank does have a profit-sharing foundation to which the bank allocates part of its profits to benefit its employees. Profit sharing is based on long-term company-wide targets in accordance with targets and the guidelines established by the Board. Variable remuneration in the form of a bonus can, in individual cases, be paid in arrears to reward exceptional performances. The bank is restrictive with benefits over and above those offered to all employees. Remuneration to the CEO, Bank Management and the managers of the control functions is set by the Board. The principle applied for other employees is that decisions on remuneration are always made by the manager together with the manager's immediate superior and the HR Manager. Fixed remuneration is reviewed each year as part of the salary review and, each year, the bank conducts an employee salary survey. Information regarding the remuneration to the Board, the CEO and the Bank Management is presented in Note 7.

CEO

The CEO is appointed by the Board and is responsible for the administration of the day-to-day operations. Among other tasks, the CEO must monitor the bank's operational and performance trends, and take ongoing decisions regarding the operations, development and control of the business. The CEO is responsible for operational compliance with the internal policies and strategies established by the Board for the bank. The CEO must review and assess the efficiency of the company's organisational structure, procedures, measures, methods and the like decided by the bank, and take appropriate measures to correct any inadequacies with

the aforementioned. The CEO also evaluates whether the bank controls and manages its risks in an efficient and appropriate manner. The CEO reports to the Board on an ongoing basis liaises closely with the Chairman. The Board has adopted a written instruction governing the role and work of the CEO. The instruction is a complement to the provisions in the Swedish Companies Act and the bank's Articles of Association. To ensure that the CEO has a good knowledge and understanding of the bank's organisation structure and processes, the bank's operations as well as the nature and scope of the bank's risks, the Board conducts an eligibility assessment of the CEO and evaluates the CEO's performance each year.

The Bank Management and committees

The Bank Management supports the CEO in his role with the implementation of the guidelines and instructions decided by the Board and with the day-to-day operations. The Bank Management has no decision mandate and all decisions are taken by the CEO.

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

In addition to the CEO, the following positions are included in the Bank Management: the chief commercial officers, General Counsel and Chief Sustainability Officer, Chief Operations Officer, Chief Financial Officer, Head of Marketing, Communications and HR and the Chief Risk Officer.

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

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

Business

Business operations

The bank has organised its operations into two commercial areas: farms and forestry, and housing. The farms and forestry commercial area is driven by employees organised into four regions and 19 offices across the country. Proximity to customers is strengthened by the regional member organisation. The housing commercial area is mainly run digitally and by telephone. In addition, a customer service organisation is in place that handles customers across all business. Each chief commercial officer reports directly to the CEO and has full responsibility for all risks and the operational performance of the entire business area.

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

Each new employee must take part in a regulatory dialogue and receive information about the bank's policies during induction training. Continuously training the employees comprises another key part of the internal control of operations. The bank has a training programme that is adapted to the respective professional roles. All of the policies are published on the bank's intranet and are revised according to plan, mainly annually.

Several projects were conducted during the year to promote control and follow-up; among other projects, the bank implemented a new credit scoring system. In June 2019, the bank enabled digital applications for loans in the farming and forestry sector. In September 2019, the bank implemented changes within the framework of PSD2, the EU's Revised Payment Services Directive. The bank has thereby opened the digital interface for savings account data between the bank, other banks and third-party actors. The bank's customers can now permit other financial institutions to compile account data and initiate account transfers from their savings accounts at Landshypotek.

Corporate culture

A small bank with a vital mission.

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

Active, ongoing efforts are being driven at Landshypotek Bank to develop the bank together with the employees. On a number of occasions in 2019, employees gathered to discuss the bank's development, in smaller groups and all together. As a small bank with 200 employees, each employee comprises 0.5 percent of the bank and everyone is crucial to the bank's future.

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

Market disclosures

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



Employee values

Customer-centric

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

Drive

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

Enthusiasm

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

Together

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



Leadership values

Values-driven

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

Respectful

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

Brave

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

Inspiring

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

Visible

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

Board members

As of 12 March 2020



Henrik Toll
Born: 1954, Sorunda, Chairman
Director since: 2003
Chairman of the Credit Committee, Risk and Capital Committee, and the Remuneration Committee.
Agrologist, Chairman of Biz Apartment AB, Bårsta fastighetsförvaltning AB, Djurgårdstadens Fastigheter AB, Grand Green AB, Guldslingan Holding AB, På Dal Förvaltnings AB, Tham Invest AB, Ädelmannen AB and Östra Borgaren AB, and Director of Edmåla Skog AB, Fallda AB and Harry Cullbergs Fond.



Anna-Karin Celsing
Born: 1962, Stockholm, Director
Director since 2014
Chairman of the Audit Committee and member of the Risk and Capital Committee, and the Remuneration Committee.
MSc. in Business and Economics,
Chairman of Sveriges Television AB, Director of Lannebo Fonder AB, Peas Industries AB, OX2 AB, and SERNEKE Group AB, stiftelsen Beckmans Designhögskola, stiftelsen Tim Bergling Foundations and Volati AB.



Gunilla Aschan
Born: 1960, Linköping, Director
Director since 2019
Member of the Audit Committee.
Agronomist, Director of Ellen Keys Stiftelse Strand, Fyrklövern ekonomi och juridik AB, Lantmännen ekonomisk förening, and Torseröds Vindkraftpark AB.



Hans Heuman
Born: 1952, Tågarp, Director
Director since: 2013
Member of the Risk and Capital Committee, and the Remuneration Committee.
Farmer, Reg. Physician, Chairman of AB Gårdstånga Nygård and Aktiebolaget Marsvinsholm Gård. Director of Elico AB, Messis Jordbruks Aktiebolag and Pasta Skåne AB. Director of Landshypotek Ekonomisk Förening.



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



Ann Krumlinde
Born: 1962, Vadstena, Director
Director since: 2018
Member of the Risk and Capital Committee, and the Remuneration Committee.
MSc Economics, Chairman of Bynk AB and Skabersjö Gods AB. Director of Moon Bay AB and Väderstad AB.



Anders Nilsson

Born: 1966, Östersund, Director
Employee Representative for SACO.
Director since: 2019
Officer of Landshypotek Bank.



Johan Trolle-Löwen

Born: 1959, Nyköping, Director
Director since: 2011
Member of the Audit Committee.
MSc in Engineering, Chairman of Kopparfors
Skogar AB. Director of Bergvik Skog AB, Fire-
fly AB and Hargs Bruk AB. Deputy Director of
HäradSkog i Örebro AB. CEO and Director of
Sjösa Förvaltnings AB and Limmersvik AB.



Nils-Fredrik Nyblæus

Born: 1951, Nyköping, Director
Director since: 2011
Member of the Credit Committee and Audit
Committee
MSc. in Business and Economics, Bank
Director, Vice Chairman of Euroclear plc (UK)
and of Euroclear SA (Belgium). Director of
Alfaros Aktiebolag and Tunabergs Konsult AB.

Senior Management

As of 12 March 2020



Per Lindblad

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



Fredrik Hahne

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



Johan Asklund

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



Karl Högstedt

Chief Financial Officer
Born: 1975
Employed in: 2019
Education: MSc. in Industrial Economics
Previous experience: CFO Forex Bank, Finance Manager Forex Bank, Finance Director Intrum Justitia Finans.



Martin Kihlberg

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



Tomas Uddin

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



Jan Lilja

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



Catharina Åbjörnsson Lindgren

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

Changes in the Bank Management during the year

During the year, Karl Högstedt took up his role as Chief Financial Officer. Tomas Uddin's role as Chief Communications Officer has been changed to also include HR.



Financial statements and notes

Income statement	58
Statement of comprehensive income	58
Balance sheet	59
Statement of changes in equity	60
Statement of cash flow	61
Five-year summary	62
Alternative performance measures	63
Notes	65
Note 1 Accounting policies	65
Note 2 Risks	69
Note 3 Capital and capital adequacy	76
Note 4 Net interest income	83
Note 5 Net result of financial transactions	84
Note 6 Other operating income	84
Note 7 General administrative expenses	85
Note 8 Depreciation, amortisation and impairment of intangible and tangible non-current assets	87
Note 9 Operating expenses	87
Note 10 Net credit losses	87
Note 11 Income tax on comprehensive income	90
Note 12 Eligible treasury bills, etc.	91
Note 13 Loans to credit institutions	91
Note 14 Loans to the public	91
Note 15 Bonds and other interest-bearing securities	94
Note 16 Derivatives	94
Note 17 Shares and participations in Group companies	94
Note 18 Intangible assets	94
Note 19 Tangible assets	95
Note 20 Other assets	95
Note 21 Deferred tax	96
Note 22 Prepaid expenses and accrued income	96
Note 23 Liabilities to credit institutions	96
Note 24 Deposits from the public	96
Note 25 Debt securities issued, etc.	97
Note 26 Derivatives	97
Note 27 Other liabilities	97
Note 28 Accrued expenses and prepaid income	97
Note 29 Provisions	98
Note 30 Subordinated liabilities	98
Note 31 Changes in Equity	98
Note 32 Pledged assets, contingent liabilities and other obligations	98
Note 33 Financial assets and liabilities by category	99
Note 34 Fair value disclosures	100
Note 35 Fair-value hierarchy for financial instruments	100
Note 36 Assets and liabilities by significant currencies	101
Note 37 Change in cash and cash equivalents	101
Note 38 Offsetting disclosures	102
Note 39 Related-party disclosures	103
Note 40 Transition to IFRS 16	103
Note 41 Appropriation of earnings	104
Auditor's Report	105

Income Statement

SEK million	Note	2019	2018
Interest income		1,351	1,229
of which interest income using the effective-interest method		1,340	1,228
of which other interest income		11	2
Interest expenses		-536	-430
of which fees for deposit insurance		-15	-10
of which fees for resolution fund		-48	-75
Net interest income	4	815	799
Net result of financial transactions	5	-1	17
Other operating income	6	62	5
Total operating income		876	822
General administrative expenses	7	-419	-408
Depreciation, amortisation and impairment of tangible and intangible assets	8	-41	-17
Other operating expenses	9	-1	-3
Total expenses before credit losses		-461	-428
Profit before credit losses		415	394
Net credit losses	10	3	-8
Operating profit		418	386
Tax expense on profit for the year	11	-86	-92
Net profit for the year		332	294
Earnings per share, SEK		147.4	130.6
Parent Company's portion of net profit for the year		100%	100%

Statement of Comprehensive Income

SEK million	Note	2019	2018
Net profit for the year		332	294
Other comprehensive income			
Items to be reclassified to income statement			
Financial assets at FVTOCI		-9	-27
Change in cross-currency basis spreads in fair value hedge hedges		-4	-29
Tax on items that will be reclassified	11	3	12
Total items that will be reclassified		-10	-44
Total other comprehensive income		-10	-44
Comprehensive income for the year		322	251
Parent Company's portion of comprehensive income for the year		100%	100%

Balance Sheet

SEK million	Note	2019	2018
ASSETS			
Cash and balances with central banks		43	–
Eligible treasury bills	12	3,998	4,962
Loans to credit institutions	13	501	540
Loans to the public	14	76,367	72,511
Value change of interest-hedged items in portfolio hedges		6	41
Bonds and other interest-bearing securities	15	5,850	6,076
Derivatives	16	1,647	1,304
Shares and participations in Group companies	17	0	0
Intangible assets	18	149	143
Tangible assets	19	26	15
Other assets	20	6	14
Current tax assets		9	13
Deferred tax assets	21	0	0
Prepaid expenses and accrued income	22	285	307
TOTAL ASSETS		88,887	85,928
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	23	1,475	954
Deposits from the public	24	14,449	14,150
Debt securities issued, etc.	25	64,790	62,641
Derivatives	26	192	461
Other liabilities	27	312	251
Accrued expenses and prepaid income	28	358	344
Provisions	29	2	3
Subordinated liabilities	30	1,200	1,200
Total liabilities		82,777	80,004
Equity			
Share capital, number of shares outstanding: 2,253,000 (2,253,000)		2,253	2,253
Tier 1 capital		700	700
Other contributed equity		1,017	1,017
Reserves		-16	-6
Retained earnings		1,929	1,738
Net profit for the year		332	294
Shareholders' contributions for the year		23	51
Group contributions paid		-128	-123
Total equity	31	6,111	5,924
TOTAL LIABILITIES AND EQUITY		88,887	85,928

Statement of changes in equity

2018 SEK million	Share capital	Other contributed equity	Fair value reserve ¹⁾	Cross-currency basis spreads in fair value hedges ¹⁾	Tier 1 capital	Retained earnings	Total
Opening balance	2,253	1,017	38	-	700	1,766	5,774
Comprehensive income for the year			-21	-23		294	251
Total change before transactions with owners and holders of Tier 1 capital instruments	-	-	-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
Closing balance	2,253	1,017	17	-23	700	1,960	5,924

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

¹⁾ See Note 3f.

Statement of cash flow

SEK million	Note	2019	2018
Operating activities			
Interest received	4	1,351	1,229
Interest paid	4	-536	-430
Net receipts of financial transactions	5	6	8
Other operating cash receipts		2	5
Administrative expenses paid		-434	-411
Recovery of previously confirmed losses		6	6
Income tax paid		-41	-53
Change in eligible treasury bills		964	597
Change in loans to the public		-3,824	-4,055
Change in bonds and other interest-bearing securities		226	1,787
Change in other assets		-333	237
Change in liabilities to credit institutions		521	530
Change in deposits from the public		299	1,474
Change in debt securities issued, etc.		2,148	-237
Change in other liabilities		-200	-335
Cash flow from operating activities		156	352
Investment activities			
Acquisitions of intangible assets		-27	-58
Acquisitions of tangible assets		-1	0
Divestments of operating properties through subsidiaries		66	-
Cash flow from investment activities		37	-58
Financing activities			
Shareholders' contributions received		-	51
Tier 1 capital		-	-
Interest expense classified as Tier 1 capital dividend (AT1)		-31	-28
Dividends and Group contributions paid		-158	-170
Subordinated liabilities		-	-
Cash flow from financing activities		-189	-147
Cash flow for the year		4	147
Change in cash and cash equivalents	37	4	147
Cash and cash equivalents at beginning of year		540	393
Cash and cash equivalents at year end		544	540

Five-year Summary

SEK million	2019	2018	2017	2016	2015
INCOME STATEMENT					
Net interest income	815	799	800	736	731
Other operating income	60	22	-46	33	20
Operating expenses	-420	-411	-390	-392	-368
Depreciation and amortisation	-41	-17	-14	-14	-20
Credit losses	3	-8	-12	-15	-44
Operating profit	418	386	338	349	319
BALANCE SHEET					
Assets					
Loans to the public	76,367	72,511	68,488	66,518	64,501
Other assets	12,520	13,417	15,905	15,662	16,465
Total assets	88,887	85,928	84,394	82,180	80,966
Liabilities					
Funding	81,913	78,945	77,177	76,006	74,216
Other liabilities	863	1,059	1,410	1,448	2,217
Equity	6,111	5,924	5,807	4,726	4,534
Total liabilities and equity	88,887	85,928	84,394	82,180	80,966
Key financial ratios					
Interest margin, %	1.10	1.13	1.19	1.13	1.13
Return on equity, %	5.44	4.97	4.40	5.84	5.70
Credit loss level, % ¹⁾	-	0.01	0.02	0.02	0.07

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

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 (ÅRKL)) nor in the capital adequacy rules. The bank uses APMs when these are relevant

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

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

Alternative performance measures

SEK million	2019	2018
Change in lending	3,856	4,023
Opening balance, loans outstanding	72,511	68,488
Change in lending, %	5.3	5.9
Net interest income	815	799
Average loans outstanding	74,235	70,792
Interest margin, %	1.10	1.13
Change in deposits	299	1,474
Opening balance deposits	14,150	12,675
Change in deposits, %	2.1	11.6
Costs before credit losses	-461	-428
Total operating income	876	822
C/I ratio including financial transactions	0.53	0.52
Costs before credit losses	-461	-428
Total operating income excluding financial transactions	877	805
C/I ratio excluding financial transactions	0.53	0.53
Net credit losses	3	-8
Average loans outstanding	74,235	70,792
Credit loss level, %¹⁾	-	0.01
Credit-impaired assets, gross	634	526
Less provisions made	-52	-56
Credit-impaired assets, net	582	470
Doubtful credits, net	582	470
Loans to the public	76,367	72,511
Net credit-impaired assets after allowances as a percentage of total loans outstanding, %	0.76	0.65
Profit after tax	332	294
Equity	6,111	5,924
Return on equity, %	5.4	5.0
Profit after tax	332	294
Number of shares, million	2	2
Earnings per share, SEK	147.4	130.6

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

Notes

Note 1 Accounting policies

Corporate information

On 12 March 2020, the Board of Directors of Landshypotek Bank AB (publ.), Corporate Registration Number 556500-2762, approved the financial statements. These financial statements will be presented for final adoption by the Annual General Meeting on 22 April 2020.

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

Basis for preparing the annual accounts

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

Currency and comparative data

Landshypotek Bank's functional currency and presentation currency are SEK. All amounts are reported, unless otherwise specified, in SEK millions. Comparative figures for the preceding year are stated in parentheses.

Standards, amendments and interpretations coming into effect during the year

IFRS 16 Leases

For lessees, IFRS 16 has led to the recognition of almost all leases in the balance sheet. The right to utilise the leased asset is recognised as an asset and the present value of leasing fees are recognised as a corresponding liability in the balance sheet for lessees. Exceptions may be made for short-term contracts and low-value contracts. The 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 million together with a corresponding lease liability at 1 January 2019.

Amendments to IAS 39, IFRS 9 and IFRS 7

– Interest Rate Benchmark Reform

In September 2019, the IASB published amendments to IAS 39, IFRS 9 and IFRS 7 due to the forthcoming reform to establish new reference rates. The amendments entail some exceptions for hedge accounting. Under the revised standards, the requirement for hedge accounting is assessed on the assumption that the reference rate, on which the hedged cash flow and the cash flow from the hedging instrument have been based, does not change as a result of the new reference rates resulting from the benchmark reform. The amendments enter force for financial years starting from 1 January 2020 and are subject to retroactive application.

Other amended standards and interpretations:

The following new and revised standards and interpretations were introduced on 1 January 2019, but had no material impact on the accounting:

Amendments in IFRS 9: Prepayment with negative compensation
Annual Improvements to IFRS Standards 2015–2017 Cycle

Moreover, amendments have been implemented in the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559). The amendments were introduced on 1 January 2019, but had no material impact on the accounting. Moreover, Finansinspektionen has amended its regulations and general guidelines (FFFS 2008:25) through the publication of FFFS 2018:20 and FFFS 2019:2, and the Swedish Financial Reporting Board has changed its recommendation for legal entities through the publication of "RFR 2 Accounting for Legal Entities – January 2019." The amendments were introduced on 1 January 2019, but had no material impact on the accounting.

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

No new standards, amendments and interpretations as well as annual improvement projects that have not yet entered force were considered to have any material impact on Landshypotek Bank's financial statements.

Operating segments

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

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

Measurement of receivables and liabilities in foreign currency

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

Classification and measurement rules for financial assets

Financial assets are divided into the following categories for measurement:

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

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

Financial assets that are not equity instruments at FVTOCI

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

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

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

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

Financial assets at FVTPL

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

Financial assets are divided into the following categories for measurement:

- Derivatives
- Bonds and interest-bearing securities in the liquidity portfolio that on initial recognition were measured at FVTPL to avoid mismatch in the income statement. This applies for holdings in the

liquidity portfolio that comprise hedged items in an economic hedge, that is, are not formally included in a hedging relationship, and where the hedging instrument is recognised at FVTPL.

Classification and measurement of financial liabilities

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

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

Transaction-date or settlement-date accounting

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

Intangible assets

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

Tangible assets

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

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

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

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

Provisions

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

Interest income and interest expense

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

Hedge accounting

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

Fair-value hedges for borrowing

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

Macro hedging of fair value in the credit portfolio

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

Fair-value hedges in fixed-interest investments

Landshypotek Bank applies hedge accounting for fixed-interest bonds in the liquidity portfolio. The hedge aims to cover any changes in fair value excluding credit spreads. Interest-rate swaps are used for this purpose. Changes in the fair value of a derivative formally identified as a hedging instrument, and which fulfil the requirements for hedge accounting, are recognised in profit or loss under the heading "Net result of financial transactions." In addition, changes in fair value,

attributable to the hedged risk, of a hedged asset are also recognised under this heading. The credit spread is recognised under Other comprehensive income.

Discontinuation of hedge accounting

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

Commission income

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

Net result of financial transactions

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

Other income

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

Personnel costs

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

Pension costs

Pension costs in Landshypotek Bank have been calculated in accordance with Finansinspektionen's regulations.

Landshypotek Bank's pension obligation under the BTP plan is a defined-benefit pension plan. Landshypotek Bank has funded its obligation via Sparinstitutens Pensionskassa (SPK), which manages the assets and administers pension payments on behalf of Landshypotek Bank.

Leases

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

is recognised as an asset and the present value of leasing fees are recognised as a corresponding liability in the balance sheet for lessees. Exceptions may be made for short-term contracts and low-value contracts.

Other operating expenses

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

Recognition of loss allowance

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

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

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

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

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

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

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

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

Confirmed credit losses

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

is deemed definitive and confirmed when the collateral has been realised and credited to Landshypotek Bank, or when Landshypotek Bank waives a claim on either legal or voluntary grounds.

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

Restructuring of loans

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

Tax expenses

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

Group contributions

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

Estimates and critical assessments

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

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

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

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

Note 2 Risks

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

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

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

Credit risk

Definition

Landshypotek Bank defines credit risk as follows:

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

Credit risk in the credit portfolio

Landshypotek Bank's loans to the public totalled SEK 76.4 billion (72.5) at 31 December 2019. Lending encompasses lending to entrepreneurs and homeowners primarily against collateral in agricultural and forest properties. All lending takes place in Sweden.

Management of credit risk

Credit process

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

Credit portfolio monitoring

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

Management of problem loans

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

Counterparty risk, credit risk in treasury operations

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

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

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

Liquidity risk

Definition

Landshypotek Bank defines liquidity risk as follows:

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

Liquidity risk

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

Management of liquidity risk

To maintain good payment capacity, the Board has decided that a liquidity buffer should be available that corresponds to the forecast, accumulated net cash outflows for the next 180-day period and the outflows of deposits in a stressed scenario, without any possibility of refinancing. At 31 December 2019, the liquidity reserve was 1.9 times (2.9) larger than the need for refinancing over the next six months. The ratio is affected by the allocation of maturing debt for longer than six months and can, therefore, change between measurement periods.

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

The liquidity reserve broken down by rating, measured at fair value

2019 SEK million	Covered bonds	Municipal bonds	Total
AAA	5,040	1,827	6,868
AA+	–	2,981	2,981
Total	5,040	4,808	9,848

2018 SEK million	Covered bonds	Municipal bonds	Total
AAA	5,774	1,935	7,709
AA+	–	3,329	3,329
Total	5,774	5,264	11,038

Derivative contracts broken down by rating, measured at fair value

2019 SEK million	Positive market value	Exposure amount before credit risk mitigation techniques incl. netting gains and collateral received ^{2) 3)}	Exposure amount after credit risk mitigation techniques incl. netting gains and collateral received ^{2) 3)}
Credit quality stage ¹⁾			
1	752	808	808
2	562	713	713
3	–	13	13
4-6	–	–	–
Total	1,315	1,534	1,534

2018 SEK million	Positive market value	Exposure amount before credit risk mitigation techniques incl. netting gains and collateral received ^{2) 3)}	Exposure amount after credit risk mitigation techniques incl. netting gains and collateral received ^{2) 3)}
Credit quality stage ¹⁾			
1	583	531	531
2	444	627	627
3	99	15	15
4-6	–	–	–
Total	1,126	1,173	1,173

¹⁾ In accordance with the Commission Implementing Regulation (EU) 2016/1800.

²⁾ Landshypotek received SEK 553 million (439) in cash collateral under derivative contracts. This cash collateral has not been taken into account in the above figures.

³⁾ Netting gains amounted to SEK 242 million (488).

This liquidity reserve gives the bank the opportunity of bridging temporary strains on liquidity, but also provides the opportunity of procuring the necessary funds in times of severe liquidity crisis by borrowing against or selling assets in an orderly fashion to reduce the financing need. The bank also measures the liquidity reserve, based on it covering net outflows over a 30-day significant stress period in accordance with external regulations. At 31 December 2019, the bank's LCR under EU Regulation 575/2013 and Commission Delegated Regulation (EU) 2015/61 was 346 percent (357) for Landshypotek Bank's consolidated situation and 346 percent (357) for Landshypotek Bank.

Landshypotek Bank has started to offer deposits with the aim of diversifying its funding and, thereby, reducing refinancing risk. Deposits amounted to SEK 14.4 billion (14.1) at 31 December 2019. Landshypotek Bank performs regular stress tests of liquidity risk. These include a decline in value of the liquidity reserve, reduced capital repayments and interest income, lack of new borrowing and withdrawals of deposits. The results of the stress tests demonstrate that Landshypotek Bank has an extremely healthy payment capacity.

Market risk

Definition

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

- **Interest-rate risk** – The risk that the market value of discounted future inflows and outflows will develop negatively as a result of changes in interest rates.
- **Currency risk** – The risk of losses on borrowed, lent or invested capital when exchange rates fluctuate.
- **Credit-spread risk** – The risk of decreased market values as a consequence of widened spreads for risk-free interest for assets measured at fair value.
- **Basis-spread risk** – The risk of decreased market values for derivatives entered into on borrowing in foreign currencies that cannot be compensated with a corresponding change in the market value of the issued debt instrument.

Interest-rate risk

Interest-rate risk arises when fixed-interest terms for assets and liabilities are mismatched, and as a consequence of utilising equity to finance fixed-term lending. It is measured, inter alia, as the changes in the present values of assets and liabilities that arise if there is a parallel shift in the interest-rate curve. The bank utilises interest-rate swaps as a tool for managing interest-rate risks. At 31 December 2019, the total impact of interest-rate risk on the balance sheet's present values for a parallel upward movement of the interest-rate curve of one percentage point amounted to negative SEK 120 million (negative: 104). Only a marginal portion of the change in the market values of assets and liabilities is recognised and, therefore, interest-rate risk that could impact earnings amounted to SEK 3 million (6).

Basis-spread risk and credit-spread risk

Basis-spread risk arises for Landshypotek Bank when the currency and interest-rate risks that arise in conjunction with borrowing in a foreign currency are reduced by swapping payments in foreign currency for payments in Swedish currency through cross-currency interest-rate swaps. However, if Landshypotek Bank does not terminate the swap agreements ahead of time, the net earnings impact on expiry of the swap agreements would be zero. Due to increased volatility in basis spreads, Landshypotek Bank has chosen not to take up any funding in foreign currencies since 2011. Credit-spread risk arises from fluctuations in credit spreads in Landshypotek Bank's liquidity reserve and these also impact earnings. An increase in the credit spread of one basis point (1bp) would lead to a SEK 2 million (2) decrease in the value of the liquidity portfolio and a 1bp movement in basis spreads would lead to a SEK 2 million (4) value change in the swaps.

Fair-value hedges

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

An economic relationship exists between the hedged item and the hedging instrument, since the terms of the interest-rate swap correspond to those for the hedged item as regards the nominal amount, interest rate level, tenor, and payment and adjustment dates. The economic relationship is established through prospective testing on entering the hedge.

Ineffectiveness

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

The main reason for ineffectiveness in these hedging relationships are:

- value changes in the floating leg of the derivative;
- differences between the initial values of the hedged item and the hedging instrument; and
- possible value changes related to counterparty risk in derivative contracts entered into.

Operational risk

Definition

Landshypotek Bank defines operational risk as:

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

Operational risk

Landshypotek Bank has a low appetite for operational risk.

The bank does not conduct operations in areas that generally generate the largest operating losses for banks. The bank conducts no trading operations or operations related to payment services, and conducts relatively simple operations for a bank.

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

- Lending
- Deposits
- Borrowing
- Cash inflows and outflows

Management of operational risk

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

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

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

Fixed-interest terms for interest-bearing assets and liabilities

2019 SEK million	<3 months	3–12 months	1–3 years	3–5 years	>5 years	Total
Assets						
Eligible treasury bills	3,177	100	475	700		4,452
Loans to credit institutions	501					501
Loans to the public	53,874	7,048	11,091	3,459	282	75,754
Bonds and other interest-bearing securities	1,004	900	1,800	1,550		5,254
Derivatives	25,597	3,948	8,154	6,960	6,610	51,269
Total assets	84,153	11,996	21,520	12,669	6,892	137,230
Liabilities						
Liabilities to credit institutions	1,475					1,475
Deposits from the public	14,449					14,449
Debt securities issued	34,703	4,548	8,355	6,960	8,486	63,052
Derivatives	29,325	7,050	10,875	3,610	275	51,135
Subordinated liabilities	1,200					1,200
Other liabilities	0					0
Total liabilities	81,152	11,598	19,230	10,570	8,761	131,311
Net	3,001	398	2,290	2,099	-1,869	5,919
Interest-rate sensitivity, net	12	-5	-49	-75	-3	-120
Cumulative interest-rate sensitivity	12	7	-43	-118	-120	

2018 SEK million	<3 months	3–12 months	1–3 years	3–5 years	>5 years	Total
Assets						
Eligible treasury bills	3,888	150	725	150		4,913
Loans to credit institutions	540					540
Loans to the public	49,413	9,595	9,462	3,142	390	72,002
Bonds and other interest-bearing securities	2,100		3,000	810		5,910
Derivatives	25,631	1,678	7,209	12,413	4,744	51,675
Total assets	81,572	11,423	20,396	16,515	5,134	135,040
Liabilities						
Liabilities to credit institutions	954					954
Deposits from the public	14,150					14,150
Debt securities issued	31,692	3,378	8,606	12,613	4,947	61,236
Derivatives	34,966	4,269	10,075	2,060	505	51,875
Subordinated liabilities	1,200					1,200
Other liabilities	206					206
Total liabilities	83,168	7,647	18,681	14,673	5,452	129,622
Net	-1,596	3,776	1,715	1,842	-318	5,419
Interest-rate sensitivity, net	1	-3	-29	-62	25	-69
Cumulative interest-rate sensitivity	1	-2	-31	-94	-69	

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

Maturity analysis for financial assets and liabilities

2019 SEK million	<3 months	3–12 months	1–3 years	3–5 years	>5 years	Total
Financial assets						
Eligible treasury bills	661	423	1,951	1,514		4,549
Loans to credit institutions	501					501
Loans to the public	54,185	7,300	11,462	3,562	322	76,831
Bonds and other interest-bearing securities	12	949	2,330	2,125		5,416
Derivatives	277	447	1,509	321	3,305	5,858
Total	55,636	9,119	17,251	7,521	3,627	93,155
Liabilities						
Liabilities to credit institutions	1,475					1,475
Borrowing/deposits from the public	14,449					14,449
Granted credit facilities	500					500
Debt securities issued	1,457	10,852	24,382	19,477	10,752	66,920
Derivatives	268	263	1,173	92	2,602	4,398
Subordinated liabilities	9	27	1,218			1,253
Other liabilities	4	6	12	1		23
Total	18,161	11,147	26,784	19,570	13,354	89,017
Contracted cash flows	37,476	-2,028	-9,533	-12,049	-9,727	4,138

2018 SEK million	<3 months	3–12 months	1–3 years	3–5 years	>5 years	Total
Financial assets						
Eligible treasury bills	215	1,426	2,473	1,141		5,256
Loans to credit institutions	540					540
Loans to the public	49,700	9,857	9,805	3,238	437	73,037
Bonds and other interest-bearing securities	7	128	4,430	1,337		5,902
Derivatives	46	1,586	1,662	554	3,192	7,039
Total	50,508	12,997	18,371	6,269	3,629	91,774
Liabilities						
Liabilities to credit institutions	954					954
Borrowing/deposits from the public	14,150					14,150
Granted credit facilities	593					593
Debt securities issued	1,859	10,565	28,298	14,620	9,711	65,052
Derivatives	22	1,619	1,447	336	2,728	6,152
Subordinated liabilities	7	24	1,254			1,284
Other liabilities	206					206
Total	17,791	12,208	30,998	14,955	12,439	88,391
Contracted cash flows	32,717	789	-12,627	-8,686	-8,809	3,383

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

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

2019 SEK million	<3 months	3–12 months	1–3 years	3–5 years	>5 years	Total
Interest-rate risk						
Interest-rate swaps paying fixed interest and receiving floating interest						
Nominal amount	2,650	7,050	10,875	3,610	395	24,580
Average fixed interest rate %	0.02	0.22	0.31	0.60	1.56	
Interest-rate swaps paying floating interest and receiving fixed interest						
Nominal amount		3,738	7,125	6,960	5,995	23,818
Average fixed interest rate %		0.96	0.74	1.26	1.47	
Foreign currency risk						
Currency related derivatives SEK/NOK						
Nominal amount	242		351			593
Average exchange rate	0.83		0.85			
Currency related derivatives SEK/EUR						
Nominal amount		200	695		2,424	3,319
Average exchange rate		0.10	0.10		0.10	
Total	2,892	10,988	19,046	10,570	8,814	52,310

2018 SEK million	<3 months	3–12 months	1–3 years	3–5 years	>5 years	Total
Interest-rate risk						
Interest-rate swaps paying fixed interest and receiving floating interest						
Nominal amount	4,250	7,119	10,075	2,060	505	24,009
Average fixed interest rate %	-0.31	-0.11	0.76	0.84	1.50	
Interest-rate swaps paying floating interest and receiving fixed interest						
Nominal amount		450	6,038	12,160	2,210	20,858
Average fixed interest rate %		1.46	0.88	0.95	2.87	
Foreign currency risk						
Currency related derivatives SEK/NOK						
Nominal amount		1,475	593			2,068
Average exchange rate		0.8137	0.8430			
Currency related derivatives SEK/EUR						
Nominal amount			666	228	2,424	3,319
Average exchange rate			0.0975	0.1095	0.1031	
Total	4,250	9,044	17,373	14,448	5,139	50,254

Hedging instrument

2019 SEK million	Balance-sheet item encompassing derivatives	Carrying amount		Change in fair value used to measure efficiency
		Assets	Liabilities	
Interest-rate risk				
Interest-rate swaps paying fixed interest and receiving floating interest	Derivatives	48	115	43
Interest-rate swaps paying floating interest and receiving fixed interest	Derivatives	511	24	91
Foreign currency risk				
Currency related derivatives SEK/NOK	Derivatives	-	53	7
Currency related derivatives SEK/EUR	Derivatives	1,088	-	174
		1,647	192	315

2018 SEK million	Balance-sheet item encompassing derivatives	Carrying amount		Change in fair value used to measure efficiency
		Assets	Liabilities	
Interest-rate risk				
Interest-rate swaps paying fixed interest and receiving floating interest	Derivatives	12	167	32
Interest-rate swaps paying floating interest and receiving fixed interest	Derivatives	416	16	21
Foreign currency risk				
Currency related derivatives SEK/NOK	Derivatives	-	277	-17
Currency related derivatives SEK/EUR	Derivatives	876	1	90
Currency related derivatives SEK/CHF	Derivatives	-	-	-5
		1,304	461	121

Hedged items

2019 SEK million	Balance-sheet item encompassing the hedged item	Carrying amount		Change in fair value used to measure efficiency
		Assets	Liabilities	
Interest-rate risk				
Fixed-rate loans to the public	Loans to the public	19,058		-35
Fixed-rate liquidity reserve	Eligible treasury bills, Bonds and other interest-bearing securities	5,588		-7
Fixed-rate funding in SEK	Debt securities issued, etc.		24,155	-94
Foreign currency risk				
Fixed-rate funding in EUR and NOK	Derivatives		4,984	-186
		24,646	29,139	-322

2018 SEK million	Balance-sheet item encompassing the hedged item	Carrying amount		Change in fair value used to measure efficiency
		Assets	Liabilities	
Interest-rate risk				
Fixed-rate loans to the public	Loans to the public	19,214		-23
Fixed-rate liquidity reserve	Eligible treasury bills, Bonds and other interest-bearing securities	4,949		0
Fixed-rate funding in SEK	Debt securities issued, etc.		21,261	-18
Foreign currency risk				
Fixed-rate funding in EUR and NOK	Derivatives		6,031	-75
		24,163	27,292	-116

Note 3 Capital and capital adequacy

The total capital ratio for the consolidated situation amounted to 18.2 percent (18.4) and the CET1 capital ratio was 13.9 percent (13.9). The total capital ratio for Landshypotek Bank amounted to 19.2 percent (19.4) and the CET1 capital ratio was 13.7 percent (13.8).

Own funds for the consolidated situation increased SEK 148 million to SEK 6,346 million during the year, primarily due to the profit for the year. The minimum capital requirement rose SEK 97 million to SEK 2,790 million and was mainly attributable to an increased volume for corporate exposures.

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. This was raised 0.5 percentage points on 19 September 2019 as a result of an increase in the countercyclical buffer requirement. The combined buffer requirement must be covered by CET1 capital.

The leverage ratio for the consolidated situation amounted to 6.1 percent (6.2).

The internally assessed capital requirement for the consolidated situation was SEK 5.0 billion (4.8). The increase in the internally assessed capital requirement over the year was mainly due to the raised countercyclical buffer requirement. The capital requirement should be compared with estimated own funds of SEK 6.3 billion.

Capital adequacy analysis

SEK million	Consolidated situation ¹⁾	
	2019	2018
CET1 capital: Instruments and reserves		
Member contributions	1,767	1,729
Share capital	–	–
Other contributed equity	1,798	1,798
Tier 1 capital instruments	700	700
Reserves	-16	-6
Actuarial changes	-48	-24
Retained earnings	1,745	1,605
Net profit for the year ²⁾	341	310
Equity in the balance sheet	6,287	6,112
Deductions related to the consolidated situation and other foreseeable costs ³⁾	-116	-119
Deductions for Tier 1 capital instruments classified as equity	-700	-700
CET1 capital before regulatory adjustments	5,471	5,294
CET1 capital: regulatory adjustments		
Further value adjustments	-10	-11
Intangible assets	-149	-143
Deferred tax assets that rely on future profitability	-8	-3
IRB deductions ⁴⁾	-468	-440
Total regulatory adjustments to CET1 capital	-634	-597
CET1 capital	4,836	4,696
Additional Tier 1 capital: instruments		
Tier 1 capital instruments	–	–
of which: classified as equity under applicable accounting standards	–	–
Qualifying Tier I capital included in consolidated additional Tier 1 capital issued by subsidiaries and held by third parties	572	567
Tier 1 capital (CET1 capital + Tier 1 capital)	5,408	5,263
Tier 2 capital: instruments and provisions		
Capital instruments and subordinated loans eligible as Tier 2 capital	–	–
Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third parties	939	935
Tier 2 capital	939	935
Own funds (Tier 1 capital + Tier 2 capital)	6,346	6,198
Total risk exposure amount	34,876	33,664
Capital ratios and buffers		
Own funds requirement	2,790	2,693
CET1 capital ratio (%)	13.9	13.9
Tier 1 capital ratio (%)	15.5	15.6
Total capital ratio (%)	18.2	18.4
Institution-specific CET1 capital requirement including buffer requirements (%)	9.5	9.0
of which capital conservation buffer requirement (%)	2.5	2.5
of which countercyclical buffer requirement (%)	2.5	2.0
CET1 capital available to meet buffers (%) ⁵⁾	9.4	9.4

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

²⁾ 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.

³⁾ This item pertains to the expected dividend.

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

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

Capital requirements

SEK million	Consolidated situation	
	2019	2018
Internally assessed capital requirement¹⁾		
Pillar I capital requirement	2,790	2,693
Percentage of total risk exposure amount	8.0	8.0
Pillar II capital requirement	509	630
Percentage of total risk exposure amount	1.5	1.9
Combined buffer requirement	1,744	1,515
Percentage of total risk exposure amount	5.0	4.5
Total capital requirement	5,043	4,838
Percentage of total risk exposure amount	14.5	14.4
Own funds (Tier 1 capital + Tier 2 capital)	6,346	6,198
Percentage of total risk exposure amount	18.2	18.4

Capital requirement as assessed by Finansinspektionen²⁾

Pillar I capital requirement	2,790	2,693
Percentage of total risk exposure amount	8.0	8.0
Pillar II capital requirement	648	827
Percentage of total risk exposure amount	1.9	2.5
Combined buffer requirement	1,744	1,515
Percentage of total risk exposure amount	5.0	4.5
Total capital requirement	5,182	5,035
Percentage of total risk exposure amount	14.9	15.0
Own funds (Tier 1 capital + Tier 2 capital)	6,346	6,198
Percentage of total risk exposure amount	18.2	18.4

¹⁾ Pertains to Pillar I capital requirements pursuant to the Capital Requirements Regulation, Pillar II capital requirements according to the bank's (ICAAP 2019 and 2018 respectively) and the combined buffer requirement pursuant to the Capital Buffers Act (2014:966).

²⁾ Pertains to Pillar I capital requirements pursuant to the Capital Requirements Regulation, Pillar II capital requirements according to Finansinspektionen's (SREP 2019 and 2018 respectively) and the combined buffer requirement pursuant to the Capital Buffers Act (2014:966).

Own funds requirement by risk, approach and exposure class

2019 SEK million	Consolidated situation			
	Exposure value ¹⁾	Risk exposure amount ²⁾	Own funds requirement ³⁾	Average risk weight ⁴⁾
Credit risk – IRB approach	77,038	26,077	2,086	34%
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%
Credit risk – Standardised approach	12,254	1,281	102	10%
Central governments or central banks	57	–	–	0%
Regional governments or local authorities	4,817	–	–	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%
Operational risk – Basic indicator approach		1,470	118	
Credit valuation adjustment risk – Standardised approach	1,394	922	74	66%
Additional risk exposure amount under Article 458 CRR (risk-weight floor)		5,126	410	
Total	90,686	34,876	2,790	

2018 SEK million	Consolidated situation			
	Exposure value ¹⁾	Risk exposure amount ²⁾	Own funds requirement ³⁾	Average risk weight ⁴⁾
Credit risk – IRB approach	74,231	25,318	2,025	34%
Retail – real estate collateral	45,166	6,409	513	14%
Corporates	29,006	18,849	1,508	65%
Other non-credit-obligation assets	60	60	5	100%
Credit risk – Standardised approach	13,110	1,260	101	10%
Central governments or central banks	17	–	–	0%
Regional governments or local authorities	5,268	–	–	0%
Institutions	1,756	546	44	31%
Corporates	12	12	1	100%
Retail	40	28	2	70%
Secured by mortgage liens on immovable property	205	91	7	45%
Exposures in default	1	1	0	147%
Covered bonds	5,811	581	46	10%
Operational risk – Basic indicator approach		1,448	116	
Credit valuation adjustment risk – Standardised approach	1,058	754	60	71%
Additional risk exposure amounts under Article 3 CRR		3	0	
Additional stricter prudential requirements based on Article 458 CRR		4,882	391	
Total	88,399	33,664	2,693	

¹⁾ 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.

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

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

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

Capital adequacy analysis

SEK million	Landshypotek Bank AB	
	2019	2018
CET1 capital instruments: Instruments and reserves		
Member contributions	–	–
Share capital	2,253	2,253
Other contributed equity	1,017	1,017
Tier 1 capital instruments	700	700
Reserves	-16	-6
Actuarial changes	–	–
Retained earnings	1,825	1,666
Net profit for the year ¹⁾	332	294
Equity in the balance sheet	6,111	5,924
Deductions related to the consolidated situation and other foreseeable costs ²⁾	–	–
Deductions for Tier 1 capital instruments classified as equity	-700	-700
CET1 capital before regulatory adjustments	5,411	5,224
CET1 capital: regulatory adjustments		
Further value adjustments	-10	-11
Intangible assets	-149	-143
Deferred tax assets that rely on future profitability	–	0
IRB deductions ³⁾	-468	-440
Total regulatory adjustments to CET1 capital	-626	-595
CET1 capital	4,785	4,629
Additional Tier 1 capital: instruments		
Tier 1 capital instruments	700	700
of which: classified as equity under applicable accounting standards	700	700
Qualifying Tier 1 capital included in consolidated additional Tier 1 capital issued by subsidiaries and held by third parties	–	–
Tier 1 capital (CET1 capital + Tier 1 capital)	5,485	5,329
Tier 2 capital: instruments and provisions		
Capital instruments and subordinated loans eligible as Tier 2 capital	1,200	1,200
Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third parties	–	–
Tier 2 capital	1,200	1,200
Own funds (Tier 1 capital + Tier 2 capital)	6,685	6,529
Total risk exposure amount	34,880	33,663
Capital ratios and buffers		
Own funds requirement	2,790	2,693
CET1 capital ratio (%)	13.7	13.8
Tier 1 capital ratio (%)	15.7	15.8
Total capital ratio (%)	19.2	19.4
Institution-specific CET1 capital requirement including buffer requirements (%)	9.5	9.0
of which capital conservation buffer requirement (%)	2.5	2.5
of which countercyclical buffer requirement (%)	2.5	2.0
CET1 capital available to meet buffers (%) ⁴⁾	9.2	9.3

¹⁾ 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.

²⁾ This item pertains to the expected dividend.

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

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

Capital requirements

SEK million	Landshypotek Bank AB	
	2019	2018
Internally assessed capital requirement¹⁾		
Pillar I capital requirement	2,790	2,693
Percentage of total risk exposure amount	8.0	8.0
Pillar II capital requirement	509	630
Percentage of total risk exposure amount	1.5	1.9
Combined buffer requirement	1,744	1,515
Percentage of total risk exposure amount	5.0	4.5
Total capital requirement	5,044	4,838
Percentage of total risk exposure amount	14.5	14.4
Own funds (Tier 1 capital + Tier 2 capital)	6,685	6,529
Percentage of total risk exposure amount	19.2	19.4

Capital requirement as assessed by Finansinspektionen²⁾

Pillar I capital requirement	2,790	2,693
Percentage of total risk exposure amount	8.0	8.0
Pillar II capital requirement	648	827
Percentage of total risk exposure amount	1.9	2.5
Combined buffer requirement	1,744	1,515
Percentage of total risk exposure amount	5.0	4.5
Total capital requirement	5,182	5,035
Percentage of total risk exposure amount	14.9	15.0
Own funds (Tier 1 capital + Tier 2 capital)	6,685	6,529
Percentage of total risk exposure amount	19.2	19.4

¹⁾ Pertains to Pillar I capital requirements pursuant to the Capital Requirements Regulation, Pillar II capital requirements according to the bank's (ICAAP 2019 and 2018 respectively) and the combined buffer requirement pursuant to the Capital Buffers Act (2014:966).

²⁾ Pertains to Pillar I capital requirements pursuant to the Capital Requirements Regulation, Pillar II capital requirements according to Finansinspektionen's (SREP 2019 and 2018 respectively) and the combined buffer requirement pursuant to the Capital Buffers Act (2014:966).

Own funds requirement by risk, approach and exposure class

2019 SEK million	Landshypotek Bank AB			
	Exposure value ¹⁾	Risk exposure amount ²⁾	Own funds requirement ³⁾	Average risk weight ⁴⁾
Credit risk – IRB approach	77,041	26,081	2,086	34%
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%
Credit risk – Standardised approach	12,257	1,281	102	10%
Central governments or central banks	56	–	–	0%
Regional governments or local authorities	4,821	–	–	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%
Operational risk – Basic indicator approach		1,470	118	
Credit valuation adjustment risk – Standardised approach	1,394	922	74	66%
Additional stricter prudential requirements based on Article 458 CRR		5,126	410	
Total	90,693	34,880	2,790	

2018 SEK million	Landshypotek Bank AB			
	Exposure value ¹⁾	Risk exposure amount ²⁾	Own funds requirement ³⁾	Average risk weight ⁴⁾
Credit risk – IRB approach	74,230	25,316	2,025	34%
Retail – real estate collateral	45,166	6,409	513	14%
Corporates	29,006	18,849	1,508	65%
Other non-credit-obligation assets	58	58	5	100%
Credit risk – Standardised approach	13,113	1,260	101	10%
Central governments or central banks	16	–	–	0%
Regional governments or local authorities	5,271	–	–	0%
Institutions	1,756	546	44	31%
Corporates	12	12	1	100%
Retail	40	28	2	70%
Secured by mortgage liens on immovable property	205	91	7	45%
Exposures in default	1	1	0	147%
Covered bonds	5,811	581	46	10%
Operational risk – Basic indicator approach		1,448	116	
Credit valuation adjustment risk – Standardised approach	1,058	754	60	71%
Additional risk exposure amounts under Article 3 CRR		3	0	
Additional stricter prudential requirements based on Article 458 CRR		4,882	391	
Total	88,400	33,663	2,693	–

¹⁾ 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.

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

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

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

Note 4 Net interest income

SEK million	2019	2018
Interest income		
Interest income on loans to credit institutions	0	0
Interest income on loans to the public	1,296	1,207
Interest income on interest-bearing securities	44	11
of which interest income for financial assets in fair-value hedges	37	20
of which interest income on financial assets at FVTPL	–	2
of which interest income on available-for-sale financial assets	7	-10
Other interest income	11	11
Total interest income	1,351	1,229
Average interest on loans to the public	1.74%	1.71%
Interest expenses		
Interest expenses for liabilities to credit institutions – other	5	7
Interest expenses for deposits from the public	-106	-99
of which fees for deposit insurance	-15	-10
Interest expenses for interest-bearing securities	-521	-428
of which interest expenses for financial liabilities in fair value hedges adjusted for the fair value of hedged risk	-470	-551
of which interest expenses on interest-bearing securities at amortised cost	-183	-37
of which periodisation of the market value created from terminated hedging commitments ¹⁾	132	159
Interest expenses for subordinated liabilities	-32	-27
Interest expenses for derivative instruments	187	212
of which interest expenses on derivatives at FVTPL	0	25
of which interest expenses on derivatives identified as hedging instruments	319	347
of which reclassification of terminated hedging relationships ¹⁾	-132	-159
Other interest expenses	-69	-96
of which government stabilisation fund fees	-48	-75
Total interest expenses	-536	-430
Total	815	799

¹⁾ The item pertains to a reduction in recognised interest expenses from the periodisation of the market value created from hedged risk attributable to fair-value hedging relationships that were terminated in 2013 and 2018. A corresponding amount with a negative impact on earnings, attributable to the decrease in value of hedging instruments (derivatives) in the terminated hedging relationships, has been recognised under Derivatives in Net interest income. The remaining amount to be periodised is SEK 573.1 million, which will continue until May 2031.

All interest income is attributable to the Swedish market.

Note 5 Net result of financial transactions

SEK million	2019	2018
Financial assets at FVTPL		
Realised result of sales of bonds and other interest-bearing securities	-	-1
Available-for-sale financial assets		
Realised result of sales of bonds and other interest-bearing securities	23	10
Other financial liabilities		
Realised result on early redemption of own bonds issued	-10	-1
Financial liabilities at FVTPL		
Realised result from purchase/sale of derivative contracts	-8	0
Total realised result	6	8
Financial assets at FVTPL		
Change in value of bonds and other interest-bearing securities	-	-2
Financial liabilities at FVTPL		
Change in value of derivatives with negative market values not included in any hedging relationship	-	7
Of which reclassification of terminated hedging relationships	132	159
Items included in hedging relationships and subject to hedge accounting		
Change in value of bonds in issue included in fair-value hedges	-280	-94
Value change of interest-hedged items in portfolio hedges	-35	-23
Change in value of derivatives included in fair-value hedges	-7	0
Change in value of derivatives included in fair-value hedges	183	-39
of which reclassification of terminated hedging relationships ¹⁾	132	159
Total unrealised result	-7	9
Total	-1	17

¹⁾ The item pertains to a reduction in recognised interest expenses from the periodisation of the market value created from hedged risk attributable to fair-value hedging relationships that were terminated in 2013 and 2018. The remaining amount to be periodised is SEK 573.1 million, which will continue until May 2031.

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

Note 6 Other operating income

SEK million	2019	2018
Income from property	1	1
Other ¹⁾	61	4
Total	62	5

¹⁾ The item pertains to a capital gain of SEK 55 million attributable to the sale of one operating property through a subsidiary.

Note 7 General administrative expenses

SEK million	2019	2018
Personnel costs		
Salaries, etc. to CEO, senior executives and Board of Directors	-20	-19
Salaries, etc., to other personnel	-99	-97
Provision to profit-sharing foundation	-5	-5
Pension costs	-24	-24
Social insurance charges	-39	-38
Other personnel costs	-11	-9
	-199	-193
Other administrative expenses		
Travel expenses	-2	-3
Telephone and data expenses	-2	-2
Office expenses	-3	-3
Cost of premises	-5	-19
IT expenses	-117	-104
Postage	-5	-5
Consultants	-44	-42
Information expenses	-10	-9
Purchased services	-1	-1
Marketing expenses	-23	-21
Agencies and associations	-4	-3
	-217	-211
Fees and expenses to appointed auditors		
Audit assignment	-2	-3
Audit activities other than audit assignment	-1	-1
Tax consultancy	0	0
Other services	0	0
	-3	-4
Total	-419	-408
Specification of pension costs		
Change in provision for pensions	0	0
Pension premiums	-19	-19
of which to senior executives	-3	-4
of which to other personnel	-16	-15
Directly paid pensions	-1	-1
Payroll and yield taxes attributable to pension costs	-5	-5
Total	-24	-24

	2019	2018
Number of employees		
Number of men	100	96
Number of women	98	92
Total	198	188
Average number of salaried employees, including substitutes	199	190
Directors and senior executives		
Number of directors	11	10
of whom, men	6	5
of whom, women	5	5
Number of senior executives	8	11
of whom, men	7	8
of whom, women	1	3

Remuneration and other benefits

2019 SEK thousand	Basic salary/ Board fees	Other benefits	Pension costs	Other compensation	Total
Chairman of the Board Henrik Toll	725				725
Board member Hans Heuman	375			11	386
Board member Johan Trolle Löwen	375				375
Board member Nils-Fredrik Nyblaeus	475			16	491
Board member Gunilla Aschan	198				198
Board member Anna-Karin Celsing	475				475
Board member Synnöve Trygg	178				178
Board member Ann Krumlinde	338				338
Board member Charlotte Önnestedt	178				178
CEO Per Lindblad	3,771	10	2,805	21	6,607
Other senior executives (7 persons)	12,474	207	2,824	7	15,512
Total	19,559	217	5,629	55	25,461

2018 SEK thousand	Basic salary/ Board fees	Other benefits	Pension costs	Other compensation	Total
Chairman of the Board Henrik Toll	660	–	–	–	660
Board member Hans Heuman	355	–	–	30	385
Board member Johan Trolle Löwen	355	–	–	4	359
Board member Nils-Fredrik Nyblaeus	455	–	–	–	455
Board member Charlotte Önnestedt	355	–	–	–	355
Board member Anna-Karin Celsing	455	–	–	–	455
Board member Synnöve Trygg	355	–	–	1	356
Board member Ann Krumlinde	–	–	–	–	–
CEO Per Lindblad	2,898	7	2,535	18	5,458
Acting CEO Catharina Åbjörnsson Lindgren	525	11	218	–	754
Other senior executives (8 persons)	12,647	289	3,537	34	16,507
Total	19,060	307	6,290	86	25,743

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

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

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

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

SEK million	2019	2018
Intangible assets		
Amortisation of IT system	-24	-14
Tangible non-current assets		
Depreciation of furniture, fixtures and equipment	-2	-3
Depreciation of real property	0	0
Depreciation of land improvements	0	0
Depreciation of right-of-use assets	-14	-
Total	-41	-17

Note 9 Operating expenses

SEK million	2019	2018
Other	-1	-3
Total	-1	-3

Note 10 Net credit losses

SEK million	2019	2018
Change in credit loss allowance, Stage 1	0	1
Change in credit loss allowance, Stage 2	4	12
of which change in collective credit loss allowance, Stage 2	-	4
Net credit losses, non-credit-impaired lending	4	13
Change in credit loss allowance, Stage 3	4	15
Write-off for the period for confirmed losses	-11	-41
Recoveries of previously confirmed losses	6	6
Net credit losses, credit-impaired lending	-1	-21
Total	3	-8

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. Classification of an agreement as having a higher risk corresponding to Stage 2 generally requires a risk increase of at least 1–3 PD risk classes. Agreements that were signed at a low level of risk require a greater deterioration in PD risk class to change stages than agreements signed with a higher risk level. Moreover, agreements lacking information regarding the original risk class, and those that are more than 31 days late with a payment are classified as Stage 2. Stage 3 corresponds to default. The bank's definition of default corresponds with that set out in external capital adequacy rules.

Internal risk classification on initial recognition ¹⁾	PD interval on initial recognition	Significant increase in credit risk
PD model 1 (customer categories: Private individuals, Micro-enterprises and Small enterprises)		
1	<0.08%	3 Risk classes
2	0.08–0.18%	3 Risk classes
3-4	0.18–0.80%	2–3 Risk classes
5-7	>0.80 and <100%	<3 Risk classes
PD model 2 (customer category: Medium-sized enterprises)		
A	<0.15%	2 Risk classes
B	0.15–0.60%	2 Risk classes
C	0.60–1.50%	2 Risk classes
D–E	1.50–9.00%	1–2 Risk classes
F–G	>9.00 and <100%	<2 Risk classes

¹⁾ Risk classes and PD estimates for loans with initial recognition from January 2018.

Individually assessed stage 3 credits

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

Measurement

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

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

The most important input data used to measure ECLs is:

- Probability of Default (PD) – estimates the probability of an agreement entering into default;
- Loss Given Default (LGD) – the assessment of how much of the exposure value that Landshypotek Bank stands to lose in the event of default;
- Exposure At Default (EAD) – an estimated credit exposure at a future default date after taking into account expected changes in credit exposure in the form of, inter alia, limit utilisation, extra capital repayments, early redemption and expected risk of default; and
- The expected maturity matches the term of the agreement, limited to not longer than 30 years.

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

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

Sensitivity analyses	Expected credit loss (percentage difference)
Current loss allowance, SEK million	74.8
Percentage difference in ECL if PD were to increase 100%	21%
Percentage difference in ECL if property prices were to decrease 10%	9%

Loans to the public broken down by PD interval

2019 SEK million	Stage 1	Stage 2	Stage 3
0.00 to <0.15	14,241	2,858	–
0.15 to <0.25	19,161	1,015	–
0.25 to <0.50	21,185	817	–
0.50 to <0.75	6,411	344	–
0.75 to <2.50	6,280	909	–
2.50 to <10.00	570	1,249	–
10.00 to <100	100	666	–
100 (default)	–	–	634
Total	67,948	7,858	634

Probability weighted macro-economic scenarios

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

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

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

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

Scenario SEK million	Expected credit loss
Current loss allowance	74.8
Improved scenario	72.8
Deteriorated scenario	78.7

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

Macro-economic risk factors %	Baseline scenario	Deteriorated scenario	Improved scenario
Interest			
Year 0	-0.30	0.05	-0.66
Year 1	0.15	0.77	-0.46
Year 2	0.17	0.97	-0.62
Year 3	0.21	1.15	-0.73
Year 4	0.25	1.32	-0.81
GDP trend			
Year 0	1.50	0.84	2.16
Year 1	1.60	0.66	2.54
Year 2	1.50	0.35	2.65
Year 3	1.60	0.27	2.93
Year 4	1.60	0.11	3.09
Property index (Value trend since actual valuation)			
Year 0	0.00	0.00	0.00
Year 1	0.00	-5.00	2.00
Year 2	0.00	-9.75	4.04
Year 3	0.00	-14.26	6.12
Year 4	0.00	-18.55	8.24

Note 11 Income tax on comprehensive income

SEK million	2019	2018
Profit before tax	418	386
Income tax calculated at national tax rates	-90	-85
Tax effects of:		
Non-taxable income	12	0
Non-deductible expenses	-8	-7
Adjustment of preceding year's tax expense	-1	0
Total income tax related to profit or loss	-86	-92
Weighted-average tax rate	20.6%	23.8%
of which current tax	-86	-127
of which deferred tax	-	35
Specification of deferred tax		
Deferred tax relating to depreciation of real property	-	0
Total change in deferred tax	-	0
<i>The current tax rate for the year was 21.4 percent (22). Deferred tax amounted to 21.4 percent (21.4).</i>		
Income tax related to other comprehensive income		
Cross-currency basis spreads in fair value hedges		
Profit before tax	-4	-29
Current tax	1	6
Profit after tax	-3	-23
Fair-value reserve		
Loss before tax	-9	-27
Current tax	2	6
Loss after tax	-7	-21
Other comprehensive income	-10	-44
Current tax	3	12
Total income tax related to other comprehensive income	3	12

Note 12 Eligible treasury bills

SEK million	2019	2018
Swedish banks	3,998	4,962
Total	3,998	4,962
Listed bonds and other interest-bearing securities by category		
Financial assets at FVTOCI	3,998	4,962
Total	3,998	4,962
Valuation of listed bonds and other interest-bearing securities		
Nominal amount	3,952	4,913
Amortised cost	3,992	4,954
Fair value	3,998	4,962

Note 13 Loans to credit institutions

SEK million	2019	2018
Loans to banks	501	540
Total	501	540

Note 14 Loans to the public

SEK million	2019	2018
Loan receivables, stage 1	67,948	63,071
Loan receivables, stage 2	7,859	8,996
Loan receivables, stage 3	634	526
Gross loan receivables	76,441	72,593
Less credit loss allowance	-74	-82
of which change in collectively measured credit loss allowance	-	0
Net loan receivables	76,367	72,511
Disclosures on overdue loan receivables, gross		
Loan receivables overdue 5–90 days	43	22
Loan receivables overdue more than 90 days	253	191
Total overdue loan receivables, gross	296	213

Gross loan receivables 2018 SEK million	Non-credit-impaired lending		Credit-impaired lending	Total
	Stage 1	Stage 2	Stage 3	
Opening balance	56,985	10,875	678	68,537
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
Migration between stages				
from 1 to 2	-1,511	1,511	-	0
from 1 to 3	-138	-	138	0
from 2 to 1	2,507	-2,507	-	0
from 2 to 3	-	-80	80	0
from 3 to 2	-	40	-40	0
from 3 to 1	20	-	-20	0
Closing balance	63,071	8,996	526	72,593

Gross loan receivables 2019 SEK million	Non-credit-impaired lending		Credit-impaired lending	Total
	Stage 1	Stage 2	Stage 3	
Opening balance	63,071	8,996	526	72,593
Increases in loan receivables due to origination and acquisition	10,030	124	33	10,187
Decreases in loan receivables due to derecognition	-5,136	-1,071	-96	-6,303
Decrease in loan receivables due to confirmed losses	-	-	-36	-36
Migration between stages				
from 1 to 2	-1,336	1,336	-	0
from 1 to 3	-30	-	30	0
from 2 to 1	1,310	-1,310	-	0
from 2 to 3	-	-238	238	0
from 3 to 2	-	22	-22	0
from 3 to 1	40	-	-40	0
Closing balance	67,949	7,859	634	76,441

Credit loss allowance 2018 SEK million	Non-credit-impaired lending		Credit-im- paired lending	Total credit loss allowance lending	Of which credit loss allowance for balance-sheet assets	Of which provisions for off-bal- ance-sheet exposures
	Stage 1	Stage 2	Stage 3			
Opening balance	-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
Decrease in allowance due to write-offs	-	-	41	41	41	-
Changes due to change in credit risk	2	3	-3	1	1	0
Changes due to update in the methodology for estimation	0	1	0	1	1	0
Migration between stages						
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
Closing balance	-6	-21	-56	-83	-82	-2

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

The value of the collateral for Stage 3 loan receivables amounted to SEK 1,342 million (1,158) as of 31 December 2019.

Internal Ratings Based (IRB) approach SEK million	2019		2018	
	Gross loan receivables	Credit loss allowance	Gross loan receivables	Credit loss allowance
Stage 1				
Risk class 1	2,556	0	2,596	0
Risk class 2	16,459	0	15,821	0
Risk class 3	16,149	1	14,514	1
Risk class 4	28,682	3	26,306	3
Risk class 5	3,870	1	3,576	1
Risk class 6	228	0	250	0
Risk class 7	4	0	8	0
Stage 2				
Risk class 1	1,285	0	1,402	0
Risk class 2	1,830	0	2,120	0
Risk class 3	702	0	859	0
Risk class 4	1,325	1	1,703	1
Risk class 5	1,466	4	1,568	6
Risk class 6	1,026	8	1,148	11
Risk class 7	224	4	196	3
Stage 3				
Risk class 8	634	52	526	56
Total	76,441	74	72,593	83

Note 15 Bonds and other interest-bearing securities

SEK million	2019	2018
Listed bonds		
Issued by Swedish municipalities	809	302
Issued by housing finance institutions	5,040	5,774
of which covered bonds	5,040	5,774
Total	5,850	6,076
Listed bonds and other interest-bearing securities by category		
Financial assets at FVTOCI	5,850	6,076
Total	5,850	6,076
Valuation of listed bonds and other interest-bearing securities		
Nominal amount	5,754	5,910
Amortised cost	5,832	6,044
Fair value	5,850	6,076

Note 16 Derivatives

SEK million	2019		2018	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Derivatives not included in hedge accounting				
Positive closing value of interest-rate swaps	39,977	1,021	30,150	833
Positive closing value of cross-currency interest-rate swaps	3,319	626	3,114	471
Total	43,296	1,647	33,264	1,304

Note 17 Shares and participations in Group companies

SEK million	2019	2018
Other holdings		
Hypoteksbanken AB, 1,000 shares with a quotient value of SEK 100	-	0
Sveriges Allmänna Hypoteksbank AB, 1,000 shares with a quotient value of SEK 100	-	0
Total	-	0

During 2019, Landshypotek Bank divested all of its subsidiaries, which were all wholly owned.

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

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

Note 18 Intangible assets

SEK million	2019	2018
Opening accumulated cost	216	158
Purchases during the year	27	58
Closing accumulated cost	243	216
Opening accumulated amortisation	-73	-59
Amortisation during the year	-22	-14
Closing accumulated amortisation	-95	-73
Total	149	143

Intangible non-current assets consist of investments in software.

Note 19 Tangible assets

SEK million	2019	2018
Equipment		
Opening accumulated cost	31	31
Purchases during the year	1	0
Sales during the year	-3	-
Closing accumulated cost	30	31
Opening accumulated depreciation	-26	-23
Depreciation during the year	-1	-3
Sales during the year	1	-
Closing accumulated depreciation	-26	-26
Buildings and land		
Opening accumulated cost	15	15
Property foreclosures during the year	-	-
Sales during the year	-15	-
Closing accumulated cost	0	15
Opening accumulated depreciation	-6	-6
Depreciation during the year	-	-1
Sales during the year	6	-
Closing accumulated depreciation	0	-6
Right-of-use assets		
Opening accumulated cost	-	-
Purchases during the year	36	-
Closing accumulated cost	36	-
Opening accumulated depreciation	-	-
Depreciation during the year	-14	-
Closing accumulated depreciation	-14	-
Total	26	15
Total buildings and land	2019	2018
Operating properties		
Number of properties	-	1
Estimated fair value	-	28
Properties taken over in foreclosure to protect claims		
Number of properties	-	-
Estimated fair value	-	-

Note 20 Other assets

SEK million	2019	2018
Announced interest and repayments	-	0
Receivables from Group companies	1	1
Other receivables	5	13
Total	6	14

Note 21 Deferred tax

SEK million	2019	2018
Deferred tax assets (+)/ liabilities (-)	-	0
Total	-	0
Opening deferred tax on depreciation of real property	0	0
Change in deferred tax on depreciation of real property	0	0
Closing deferred tax on depreciation of real property	-	0
Total deferred tax assets (+)/liabilities (-)	-	0

Deferred tax was calculated using a tax rate of 21.4 percent (21.4).

Note 22 Prepaid expenses and accrued income

SEK million	2019	2018
Prepaid expenses	27	27
Accrued interest on loans to the public	2	1
Accrued interest on interest-bearing instruments	30	41
Accrued interest on derivatives	223	234
Other accrued income	4	4
Total	285	307

Note 23 Liabilities to credit institutions

SEK million	2019	2018
Swedish banks	922	515
Non-Swedish banks	553	439
Total	1,475	954

Note 24 Deposits from the public

SEK million	2019	2018
Deposits from the public	14,449	14,150
Total	14,449	14,150

Note 25 Debt securities issued, etc.

SEK million	2019	2018
Bond loans	64,790	62,641
Total	64,790	62,641
Debt securities issued – hedged items in fair-value hedges		
Amortised cost	28,807	27,059
Fair value adjusted for the change in the fair value of hedged risk	30,212	28,336

Fair-value hedges

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

Note 26 Derivatives

SEK million	2019		2018	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Derivatives included in hedge accounting				
Negative closing value of interest-rate swaps	17,841	139	16,339	183
Negative closing value of cross-currency interest-rate swaps	593	53	2,273	278
Total	18,434	192	18,612	461

Note 27 Other liabilities

SEK million	2019	2018
Liabilities to Group companies	216	198
Accounts payable	8	8
Lease liabilities	22	–
Other liabilities	66	45
Total	312	251

Note 28 Accrued expenses and prepaid income

SEK million	2019	2018
Accrued interest on debt securities issued	273	248
Accrued interest on derivatives	53	55
Accrued interest	0	0
Other accrued expenses	31	40
Deferred income	2	2
Total	358	344

Note 29 Provisions

SEK million	2019	2018
Defined-benefit pension plans	1	1
Other provisions	1	2
Total	2	3

Note 30 Subordinated liabilities

SEK million	2019	2018
Due date	Nominal amount	Interest
2021/2026	1,200,000,000	3MSTIBOR + 2.70%
Total	1,200	1,200

Note 31 Changes in Equity

SEK million	2019	2018
Cross-currency basis spreads in fair value hedges		
Cross-currency basis spreads in fair value hedges, opening balance	-23	-
Change in fair value over the year	-4	-29
Transfer to profit or loss	-	-
Tax on change for the year	1	6
Cross-currency basis spreads in fair value hedges, closing balance	-26	-23
Change in fair-value reserve		
Fair-value reserve, opening balance	17	38
Change in fair value over the year	-21	-29
Transfer to profit or loss	12	2
Tax on change for the year	2	6
Fair-value reserve, closing balance	10	17
Total reserves at year end	-16	-6

Note 32 Pledged assets, contingent liabilities and other obligations

SEK million	2019	2018
Pledged assets		
Loan receivables, utilised for covered bonds	76,475	72,432
Total	76,475	72,432
Contingent liabilities		
Försäkringsbolaget Pensionsgaranti, FPG	0	0
Bank guarantees	30	30
Total	30	30
Other obligations		
Flexible first lien mortgage loans, granted unutilised amount	500	562
Total	500	562

¹⁾ The cover pool is stated as the borrower's nominal capital debt including accrued interest. Pertains to those loan receivables in the total available cover pool that are utilised at any time.

Note 33 Financial assets and liabilities by category

2019 SEK million	Financial assets at amortised cost	Financial assets at FVTPL	Financial assets at FVTOCI	Financial liabilities at amortised cost	Financial liabilities at FVTPL	Derivatives identified as hedging instruments
Assets						
Cash and balances with central banks	43					
Eligible treasury bills, etc.			3,998			
Loans to credit institutions	501					
Loans to the public	76,367					
Bonds and other interest-bearing securities			5,850			
Derivatives						1,647
Total financial assets	76,911	-	9,848	-	-	1,647
Liabilities						
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				224		
Total financial liabilities	-	-	-	82,137	-	192

2018 SEK million	Financial assets at amortised cost	Financial assets at FVTPL	Financial assets at FVTOCI	Financial liabilities at amortised cost	Financial liabilities at FVTPL	Derivatives identified as hedging instruments
Assets						
Eligible treasury bills, etc.			4,962			
Loans to credit institutions	540					
Loans to the public	72,511					
Bonds and other interest-bearing securities			6,076			
Derivatives						1,304
Total financial assets	73,051	-	11,038	-	-	1,304
Liabilities						
Liabilities to credit institutions				954		
Deposits from the public				14,150		
Debt securities issued, etc.				62,641		
Derivatives						461
Subordinated liabilities				1,200		
Other liabilities				206		
Total financial liabilities	-	-	-	79,151	-	461

Note 34 Fair value disclosures

SEK million	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and balances with central banks	43	43	–	–
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
Total assets	88,407	89,777	85,393	86,762
Liabilities				
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
Other liabilities	224	224	206	206
Total liabilities	82,329	83,017	79,611	80,305

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

Note 35 Fair-value hierarchy for financial instruments

SEK million	2019				2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI								
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
Derivatives identified as hedging instruments								
Interest-rate swaps		1,021		1,021		833		833
Cross-currency interest-rate swaps		626		626		471		471
Total assets measured at fair value	9,848	1,647	–	11,495	11,038	1,304	–	12,342
Derivatives identified as hedging instruments								
Interest-rate swaps		139		139		183		183
Cross-currency interest-rate swaps		53		53		278		278
Total liabilities measured at fair value	–	192	–	192	–	461	–	461

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

No transfers were made between the levels. Level 1 only comprises listed mortgage bonds and bonds issued by municipalities and county councils. Level 2 comprises derivative instruments and financial liabilities for which there are well-established measuring models based on market data.

Level 1

The fair value of financial instruments traded on an active market is based on the bid price of quoted market prices.

Level 2

The fair values of financial instruments and derivative instruments not traded on an active market are calculated using the valuation technique of discounting future cash flows. Quoted market rates for the tenor in question are used for discounting. In all cases, listed swap curves are utilised as the basis for measurement. Listed credit spreads relative to the interest-rate swap curve were utilised for measuring the value of bond assets. The interest-rate and cross-currency basis swap curves are used for measurement of interest-rate and cross-currency interest-rate swaps, respectively. Accrued interest is not included in the calculation of fair value.

Level 3

Input for assets/liabilities that are not based on observable market data.

Note 36 Assets and liabilities by significant currencies

SEK million	2019	2018
Assets		
Loans to credit institutions – EUR	492	417
Total assets	492	417
Liabilities		
Liabilities to credit institutions – EUR	492	417
Debt securities issued – EUR	4,381	4,160
Debt securities issued – NOK	539	1,788
Total liabilities	5,412	6,365

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

Note 37 Change in cash and cash equivalents

SEK million	2019	2018
Loans to credit institutions at beginning of year	540	393
Loans to credit institutions at year end	544	540
Total change in cash and cash equivalents	4	147

Note 38 Offsetting disclosures

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

2019 SEK million	Amount recognised in the balance sheet	Related amounts not offset in the balance sheet			Net amounts
		Financial instruments subject to ISDA agreements	Paid (+) Received (-) collateral – securities	Paid (+) Received (-) cash – collateral	
Assets					
Derivatives, fair value	1,647	-133			
Derivatives, accrued interest	172	-20			
Derivatives, total value including accrued interest	1,819	-153	-	-553	1,113
Reverse repos	-	-	-	-	-
Liabilities					
Derivatives, fair value	-192	133			
Derivatives, accrued interest	-2	20			
Derivatives, total value including accrued interest	-193	153	-	-	-40
Reverse repos	-922	-	-	-	-922

2018 SEK million	Amount recognised in the balance sheet	Related amounts not offset in the balance sheet			Net amounts
		Financial instruments subject to ISDA agreements	Paid (+) Received (-) collateral – securities	Paid (+) Received (-) cash – collateral	
Assets					
Derivatives, fair value	1,304	-259			
Derivatives, accrued interest	186	-40			
Derivatives, total value including accrued interest	1,490	-300	-	-439	750
Reverse repos	-	-	-	-	-
Liabilities					
Derivatives, fair value	-461	259			
Derivatives, accrued interest	-6	40			
Derivatives, total value including accrued interest	-466	300	-	-	-167
Reverse repos	-515	-	-	-	-515

Amount recognised in the balance sheet

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

Financial instruments

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

Cash collateral received

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

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

Net amounts

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

Note 39 Related-party disclosures

SEK million	2019		2018	
Lending to key personnel	Lending	Interest income	Lending	Interest income
CEO and senior executives	8	0	2	0
Board of Directors	86	1	114	2
Total	94	1	117	2

SEK million	2019		2018	
Deposits from key personnel	Deposits	Interest expense	Deposits	Interest expense
CEO and senior executives	4	0	4	0
Board of Directors	18	0	13	0
Total	22	0	17	0

Lending

Permanent employees of Landshypotek are able to borrow money at advantageous terms. The types of loans include both secured and unsecured loans. All lending is subject to customary credit approval processes and the highest amount for which advantageous terms are available is SEK 4 million. Credit information is obtained from Upplysningscentralen (UC). These loans may be subject to taxation as benefits. Since June 2017, no new unsecured loans are offered. Loans taken prior to that date will expire at the end of the loan term, maximum ten years. The interest rate is 0.58% for 2019. Loans of up to 75% of the LTV ratio are granted against collateral in agricultural properties, houses, tenant-owned apartments and holiday homes. Capital repayment plans apply for these loans over a maximum period of 50 years. The fixed-rate periods are one, two, three, four and five years. The applicable interest rates are:

1 year	0.58%
2 years	0.67%
3 years	0.78%
4 years	0.90%
5 years	1.01%

Deposits

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

Note 40 Transition to IFRS 16

The bank applies IFRS 16 Leases from 1 January 2019 and, as permitted under the transition rules in the standard, has not restated comparative figures for the 2018 reporting period. The reclassifications and adjustments that have arisen from the new rule for leases are therefore recognised in the opening balance as per 1 January 2019.

On adoption of IFRS 16, the bank recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments.

Measurement of lease liabilities SEK million	2019
Operating lease commitments as at 31 December 2018	18
Discounted using the lessee's incremental borrowing rate on initial application	0
Lease liability recognised as at 1 January 2019	18

Adjustments recognised in the balance sheet SEK million	1 Jan 2019
Tangible assets – right-of-use assets	+18
Other liabilities – lease liabilities	+18

Note 41 Appropriation of earnings

SEK

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

Retained earnings	1,952,229,265
Group contributions	-162,400,000
Tax effect of Group contribution	34,753,600
Net profit for the year	332,132,629
	2,156,715,494

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

To be carried forward	2,156,715,494
	2,156,715,494

Conditional on the approval of the Annual General Meeting, a Group contribution has been paid in the amount of SEK 162,400,000, which has reduced unrestricted equity as of the balance sheet date by SEK 127,646,400 after taking the tax effect into account.

Unrealised changes in the value of assets and liabilities measured at fair value had a net negative impact on equity of SEK 110,547,486.

The Board of Directors is of the opinion that the proposed dividend, in the form of a Group contribution, does not compromise the company's or the Group's ability to discharge its obligations in the short and long term, nor to make any necessary investments. The proposed transfer of value can therefore be justified considering that stated in Chapter 17, Section 3, paragraphs 2–3 of the Swedish Companies Act. The Board of Directors proposes that the year's funds at the disposal of the Annual General Meeting, SEK 2,156,715,494, be carried forward.

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

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

Stockholm, 12 March 2020

Henrik Toll
Chairman

Gunilla Aschan
Member

Anna-Karin Celsing
Member

Hans Heuman
Member

Ann Krumlinde
Member

Anders Nilsson
Member/Employee Representative

Nils-Fredrik Nyblæus
Member

Johan Trolle-Löwen
Member

Hans Broberg
Member/Employee Representative

Per Lindblad
CEO

Our auditor's report was submitted on 12 March 2020
Öhrlings PricewaterhouseCoopers AB

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

Frida Main
Authorised Public Accountant

Auditor's report (unofficial translation)

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

REPORT ON THE ANNUAL ACCOUNTS

Opinions

We have audited the annual accounts of Landshypotek Bank AB (publ) for the year 2019 except for the corporate governance statement and the statutory sustainability report on pages 41–56 and 29–40 respectively. The annual accounts of the company are included on pages 23–104 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of Landshypotek Bank AB (publ) as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not cover the corporate governance statement and the statutory sustainability report on pages 41–56 and 29–40 respectively. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for Landshypotek Bank AB (publ).

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

Basis for Opinions

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

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

Audit scope

Our audit approach

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

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

Materiality

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

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

Key audit matters

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

Provision for expected credit losses

The critical assessments and estimates are included in the assessment of the provision for expected credit losses (ECLs). In the case of individually assessed loans, estimates are included in the assessment of whether a credit event has taken place and in the assessment of the amount of the provision.

The ECLs are calculated as a function of the probability of default, exposure at default, loss given default and the timing of default. Loans are allocated to three separate categories depending on the level of credit risk or change in credit risk for each individual loan. For loans with no significant increase in credit risk, stage 1, the ECL is calculated for expected default events within the next 12 months. For loans with a significant increase in credit risk, stage 2, or loans in default, stage 3, the ECL is calculated for lifetime incurred and expected default events.

The bank has the possibility of adjusting the modelled credit losses to take into account market trends.

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

Our audit included a combination of tests of internal controls pertaining to the credit process and substantive procedures regarding, inter alia, credit files and assessments made by the bank.

We have created an understanding of the credit process, including follow up of credits and the management of problem credits. Our examination of controls included the company's procedures for monitoring and duality as well as the key controls in the provisions for credit losses process.

For stage 3 credits, we have conducted spot checks of documentation in the credit files, assessed credit risk, verified the calculation of the provision and checked the provision against the accounts.

For stage 1 and 2 credits, we have assessed the company's calculation models by evaluating the methodology and underlying assumptions, and examined the company's own validation of the calculation models. We have also evaluated the company's assessment of adjustments to the modelled ECLs.

Measurement of financial instruments - derivatives

The derivative portfolio comprises interest and cross-currency interest-rate swaps traded on the OTC market. For the valuation of derivatives at fair value, established valuation models based on observable market data discount future cash flows. The valuation includes a certain degree of subjectivity regarding, primarily, the valuation of the credit risk component and the interpolation of market data with longer tenors.

Refer to the Annual Report, Note 1 Accounting policies, Note 2 Risks (market risk), notes 16 and 26 Derivatives and Note 35 Fair-value hierarchy for financial instruments.

Our audit has included both tests of the internal control of the valuation process regarding derivatives and substantive procedures regarding the valuation at year-end closing. We have examined the processes for price validation, validation of market data, validation of models and general IT controls in the finance system.

We have confirmed that the performed valuation controls reconcile with the reported holdings. We have also examined adjustments of fair value, in particular adjustments of the credit risk component.

Other information than the annual accounts

This document also contains other information than the annual accounts and is found on pages 1–22 and in the sustainability report on pages 29–40. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

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

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

Auditor's responsibility

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

A further description of our responsibility for the audit of the annual accounts is available on Revisorsinspektionen's website www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the Managing Director of Landshypotek Bank AB (publ) for the year 2019 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

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

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 41–56 has been prepared in accordance with the Annual Accounts Act.

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

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

The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on pages 29–40, and that it is prepared in accordance with the Annual Accounts Act.

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

A statutory sustainability report has been prepared.

Öhrlings PricewaterhouseCoopers AB, 113 97 Stockholm, was appointed auditor of Landshypotek Bank AB (publ) by the general meeting of the shareholders 7 May 2019. We have been the company's auditor since the company obtained its license to operate. According to the transition rules in the Audit Regulation (537/2014) Öhrlings PricewaterhouseCoopers AB cannot be re-elected after the annual general meeting 2024.

Stockholm, 12 March 2020
Öhrlings PricewaterhouseCoopers AB

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

Frida Main
Authorised Public Accountant

Addresses

HEAD OFFICE

Landshypotek Bank AB

Regeringsgatan 48
Box 14092
SE-104 41 Stockholm
+46 (0)8-459 04 00

BUSINESS ORGANISATION

Chief Commercial Officer

Johan Asklund
+46 (0)8-459 04 27

Chief Commercial Officer

Catharina Åbjörnsson Lindgren
+46 (0)8-459 04 15

REGIONAL OFFICES

Falkenberg

Torsholmsvägen 3
Box 289
SE-311 23 Falkenberg
Switchboard:
+46 (0)346-71 82 90

Jönköping

Huskvarnavägen 80
SE-554 54 Jönköping
Switchboard:
+46 (0)36-34 17 70

Linköping

Vasavägen 5
Box 114
SE-581 02 Linköping
Switchboard:
+46 (0)13-10 65 10

Skellefteå

Stationsgatan 21
SE-931 21 Skellefteå
Switchboard:
+46 (0)910-73 31 60

Växjö

Kungsgatan 5
Box 1205
SE-351 12 Växjö
Switchboard:
+46 (0)470-72 64 50

Gävle

Vågskrivargatan 5
SE-803 20 Gävle
Switchboard:
+46 (0)26-13 46 90

Kalmar

Husängsvägen 2
Box 833
SE-391 28 Kalmar
Switchboard:
+46 (0)480-42 65 80

Lund

Fabriksgatan 2 E
Box 1017
SE-222 04 Lund
Switchboard:
+46 (0)46-32 75 40

Stockholm

Regeringsgatan 48
Box 14092
SE-104 41 Stockholm
Switchboard:
+46 (0)8-412 57 00

Örebro

Gustavsviksvägen 7
SE-702 30 Örebro
Switchboard:
+46 (0)19-16 16 30

Gothenburg

Fabriksgratan 13
Box 5047
SE-402 21 Gothenburg
Switchboard:
+46 (0)31-708 36 00

Karlstad

Älvgatan 1
SE-652 25 Karlstad
Switchboard:
+46 (0)54-17 74 90

Nyköping

Västra Storgatan 7
SE-611 31 Nyköping
Switchboard: +46 (0)16-
10 58 70

Uppsala

Bolandsgatan 15 G
SE-753 23 Uppsala
Switchboard:
+46 (0)18-16 93 30

Östersund

Rådhusgatan 46
SE-831 34 Östersund
Switchboard:
+46 (0)63-14 12 70

Härnösand

Universitetsbacken 1
SE-871 31 Härnösand
Switchboard:
+46 (0)611-53 36 60

Kristianstad

Krinova Science Park
Stridsvagnsvägen 14
SE-291 39 Kristianstad
Switchboard:
+46 (0)46-32 75 40

Skara

Klostergatan 15
Box 66
SE-532 21 Skara
Switchboard:
+46 (0)511-34 58 80

Visby

Kopparviksgatan 9
Box 1102
SE-621 22 Visby
Switchboard:
+46 (0)498-20 75 70

Customer Services

+46 (0)771-44 00 20

Interest rate information

+46 (0)771-44 00 30

Membership matters

+46 (0)771-44 00 40

Website

www.landshypotek.se

Production: Wildecos Ekonomisk information.
Images are sourced from Landshypotek Bank's image bank.



