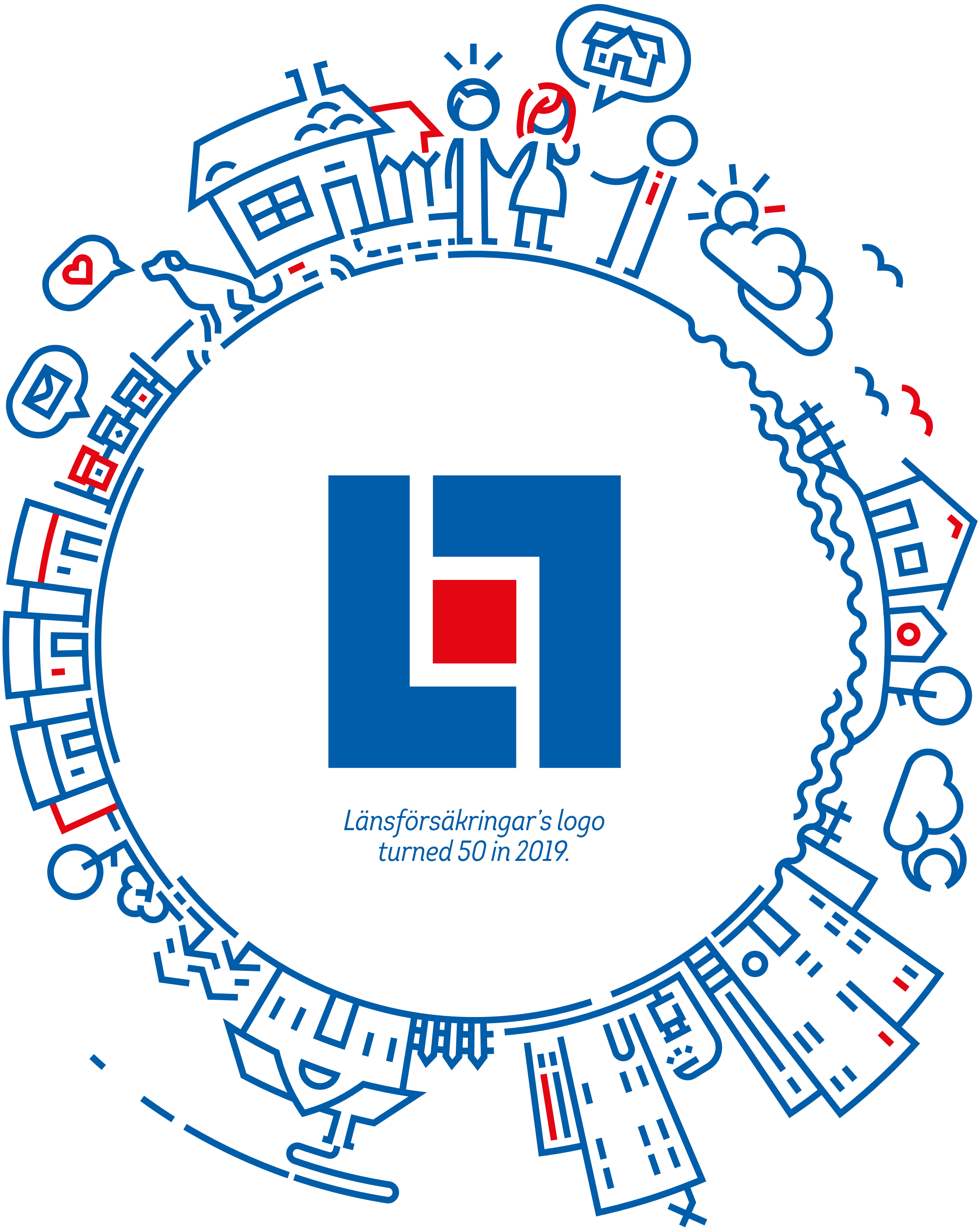
Länsförsäkringar Hypotek

Annual Report

2019



Länsförsäkringar's logo turned 50 in 2019.

Contents

About Länsförsäkringar Hypotek

One of Sweden's leading mortgage institutions

Länsförsäkringar Hypotek is one of Sweden's leading mortgage institutions with loans of SEK 240 billion and about 280,000 customers. The strategy is to offer attractive mortgages to the Länsförsäkringar Alliance's 3.9 million customers. Close customer relationships are created during personal meetings at 128 regional insurance companies' branches throughout Sweden and via digital services and telephone. Loans are granted solely in SEK in Sweden and have very high credit quality. The aim is to always have the most satisfied customers, to ensure continued profitable growth based on low risk, and to increase the share of retail mortgage customers who have both banking and insurance with Länsförsäkringar. According to the 2019 Swedish Quality Index, Länsförsäkringar is one of the players with the very highest customer satisfaction among retail mortgage customers.

Länsförsäkringar in brief

Local companies with customers who are owners and the only principal

Länsförsäkringar comprises 23 local, customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB and its subsidiaries. Customers are provided with a complete solution for banking, insurance, pension and real-estate brokerage services through their regional insurance company. The regional insurance companies are owned by the insurance customers – there are no external shareholders and customers' needs and requirements are always Länsförsäkringar's primary task. Long-term respect for customers' finances and their security is fundamental. The Länsförsäkringar Alliance jointly has slightly more than 3.9 million customers and approximately 7,200 employees.

3.9 million customers

23 local regional insurance companies

Länsförsäkringar AB

Länsförsäkringar Bank AB

Länsförsäkringar Hypotek AB
Mortgages

Länsförsäkringar Fondförvaltning AB
Mutual funds

Wasa Kredit AB
Leasing, hire purchase and unsecured loans

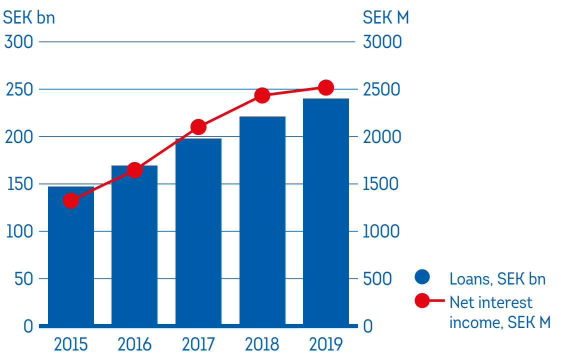
The 2019 fiscal year

Significant events *Figures in parentheses pertain to the same period in 2018.*

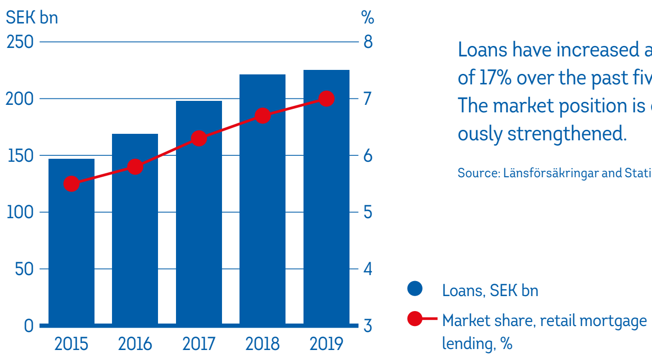
- Operating profit increased 13% to SEK 1,229 M (1,084) and the return on equity rose to 8.1% (7.7).
- Net interest income rose 4% to SEK 2,522 M (2,434).
- Credit losses amounted to SEK –0.9 M (–1.3), net, corresponding to a credit loss level of –0.00% (–0.00).
- Lending increased 9% to SEK 240.1 billion (221.1).
- The Common Equity Tier 1 capital ratio amounted to 18.2% (18.0*) on 31 December 2019.
- Länsförsäkringar remains one of the players on the market with the most satisfied retail mortgage customers according to the 2019 Swedish Quality Index customer satisfaction survey.

* Pertains to 30 September 2019.

Loans and net interest income



Loans and market shares



Loans have increased an average of 17% over the past five years. The market position is continuously strengthened.

Source: Länsförsäkringar and Statistics Sweden

Key figures

SEK M	2019	2018	2017	2016	2015
Return on equity, %	**8.1**	7.7	6.9	6.7	6.0
Return on total assets, %	**0.37**	0.36	0.31	0.28	0.26
Investment margin, %	**0.96**	1.04	1.03	0.92	0.84
Cost/income ratio before credit losses	**0.09**	0.09	0.11	0.13	0.16
Common Equity Tier 1 capital ratio, %	**18.2**	18.3	56.3[1)]	44.1[1]	37.4[1)]
Total capital ratio, %	**19.0**	19.4	59.8[1)]	49.7[1]	42.9[1)]
Share of credit-impaired loan receivables (stage 3), %	**0.07**	0.07	–	–	–
Reserve ratio for loan receivables stage 1, %	**0.00**	0.00	–	–	–
Reserve ratio for loan receivables stage 2, %	**0.07**	0.08	–	–	–
Reserve ratio for loan receivables stage 3, %	**1.12**	1.06	–	–	–
Reserve ratio for loan receivables stage 3, incl. withheld remuneration to regional insurance companies, %	**5.59**	5.29	–	–	–
Credit loss level, %	**–0.00**	–0.00	0.00	0.00[2)]	–0.01[2)]

[1)] Risk weight floor for mortgages in Pillar II.
[2)] Includes the dissolution of reserves.

Healthy growth and continuously strengthened market position

Statement by the President › The mortgage lending operations performed very well in 2019, with strong operating profit and continuously increased market shares. Lending is growing at a steady rate and the credit quality remained very high. A favourable customer inflow and high level of customer satisfaction allowed Länsförsäkringar Hypotek to consolidate its position as one of the larger mortgage providers in Sweden.

Strengthened market position

Länsförsäkringar Hypotek continued to perform well in 2019 and we delivered strong earnings for the year. Lending grew SEK 19 billion and totalled SEK 240 billion at year-end. The credit quality of the mortgage portfolio remained very high and we reported no credit losses for the full-year. The inflow of new customers was high and we strengthened our position in the Swedish mortgage market with a 7% market share at year-end. At the same time, Länsförsäkringar Hypotek remains one of the players on the market with the most satisfied retail mortgage customers according to the 2019 Swedish Quality Index customer satisfaction survey. This shows that customers value our mortgage offering and the service provided by Länsförsäkringar. Much of our success is based on Länsförsäkringar's strong brand and local presence, detailed customer knowledge and expertise of local market conditions.

Increasingly competitive mortgage market

The Swedish mortgage market grew 4.9% in 2019, meaning that market growth was lower than in the preceding year. Simultaneously, competition in the mortgage market intensified and at times several players were more aggressive in their pricing, which during certain periods altered the market dynamic. Despite this, Länsförsäkringar succeeded in capturing slightly more than 11% of the market growth during the year. Housing prices increased almost 5% during the year, for reasons including lower supply, and have again started to come close to the record peak levels of mid-2017. The repo rate is expected to remain at historically low levels after its most recent raise by the Riksbank in December 2019, which will reduce the risk of falling housing prices in the future.

Stable financial position

Länsförsäkringar Hypotek maintains a very strong liquidity situation, a well-distributed maturity profile in its funding and enjoys a widespread confidence among investors, which leads to competitive financing and the ability to provide an attractive customer offering. Länsförsäkringar Hypotek has a healthy buffer to manage any downturns in housing prices and carries out regular stress tests of the market value of the collateral in the cover pool.

> ” The credit quality of the mortgage portfolio remained very high and we reported no credit losses for the full-year.

Housing market with many structural problems

Housing prices increased in 2019 at the same time as household indebtedness continued to rise. While historically low interest rates and the poor function of the housing market are contributing factors, the upturn in prices can largely be attributed to the imbalance in the supply and demand for residential properties. This once again highlights the underlying problem of too low levels of new construction that needs to be addressed, particularly now that the number of construction start-ups has fallen sharply since last year.

Housing policy needs to be fundamentally remodelled and politicians must take clear initiatives aimed at improving the function of the housing market by taking measures that will stimulate the housing supply and reduce lock-in effects. Sweden needs a wellfunctioning housing market with significantly improved turnover, otherwise several groups risk being excluded for a long time with no possibility of entering the market.

Stockholm, March 2020

Anders Borgcrantz
President

Sweden needs a well-functioning housing market with significantly improved turnover, otherwise several groups risk being excluded for a long time with no possibility of entering the market.

A leading Swedish mortgage institution

Strategy, offering and position > Länsförsäkringar Hypotek continued to strengthen its position in the mortgage market during the year and held a market share of 7.0% at year-end. Lending is growing steadily with sustained low risk, while the credit quality of the mortgage portfolio is very high. The goal is to have the most satisfied customers on the market and stable growth with continued favourable profitability.

Strategy and goals

Länsförsäkringar Hypotek was founded in 2001 and is now one of Sweden's largest mortgage institutions with a market share of 7.0%. The strategy is to offer mortgages, within the context of banking operations, to the Länsförsäkringar Alliance's large customer base of 3.9 million customers, of whom 3.2 million are retail customers. The 23 customer-owned regional insurance companies are responsible for customer relationships and provide retail mortgages through Länsförsäkringar Hypotek. Close customer relationships are created during personal meetings at one of the regional insurance companies' local branches and via digital services and telephone. The goal is to always have the most satisfied customers, and continued stable growth while maintaining favourable profitability. Länsförsäkringar Hypotek has a low risk tolerance. Loans are granted with low risk, providing high credit quality. The local customer and market knowledge of the regional insurance companies, combined with a conservative view of risk, results in a loan portfolio with very low credit risks.

Retail mortgages

The offering primarily comprises mortgages for private individuals. Mortgages with a loan-to-value ratio of up to 75% are offered by Länsförsäkringar Hypotek and any excess lending is offered by Länsförsäkringar Bank. The offering also includes first-lien mortgages for multi-family housing. Mortgages are an integral part of the banking offering and the vast majority of retail mortgage customers are also Länsförsäkringar insurance and bank customers. 86% of mortgage customers have Länsförsäkringar as their primary bank.

Customer ownership

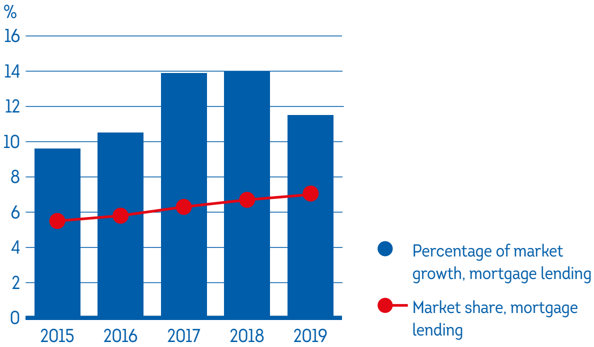
The Länsförsäkringar Alliance comprises 23 local and customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB, which is the Bank Group's Parent Company. This means that principles of customer ownership also apply to the banking and retail mortgage operations.

Customer meetings and local market knowledge

The banking and retail mortgage operations have a local presence through the customer-owned regional insurance companies that manage all customer contact. Business decisions are made locally and the regional insurance companies' local commitment and networks provide broad and in-depth customer and market knowledge. Personal customer meetings are a high priority at Länsförsäkringar and they create trust and long-term relationships. Combined with a wide range of digital services, this enables flexible and efficient management of all mortgages.

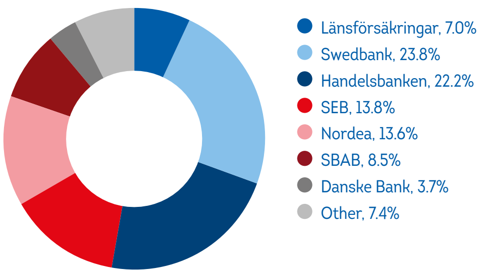
Business volume: **SEK 240 billion**	Market share of retail mortgages
+9%	7.0%

Market shares, retail mortgage lending
Source: Länsförsäkringar and Statistics Sweden



Länsförsäkringar is continuously strengthening its position in the retail mortgage market and over the past five years has captured a larger portion of market growth in relation to its market share.

Retail mortgages
Source: Statistics Sweden



The market position in mortgages amounted to 7.0%.

Weaker economic climate

Economic environment and market 〉 2019 was characterised by weaker growth both in Sweden and globally. The Swedish economy slowed more than expected and GDP growth fell. However, housing prices were stable, while the stock markets performed very strongly during the year. In December, the Riksbank raised the repo rate for the second time in eight years.

After several years of strong economic growth, the global economy grew at a weaker rate in 2019. The US reported stable GDP growth, while Europe and several developing countries noted a clear slowdown. Softening growth was mainly due to the downturn in the manufacturing industry and uncertainty caused by the US-China trade conflict.

The US central bank, the Fed, altered the direction of its monetary policy and cut interest rates three times consecutively during the year despite unemployment continuing to fall. This was a powerful move and a swift reaction to the slowdown within the industry and the uncertainty surrounding the trade conflict. This expansive monetary policy, combined with an improved risk profile and a strong labour market, will provide a stable platform for growth in 2020.

Europe was the region hit hardest by the industrial slowdown and growth is expected to remain low in 2020. The positive performance of the services sector and the strong labour market indicate that the region will avoid a recession. The European Central Bank, ECB, reacted by making another cut to the deposit facility rate and launching a new asset purchase programme, among other Market commentary measures. In communicating these new measures, the ECB was clear in saying that the programme would continue until shortly before key interest rates are raised, when inflation and the inflation outlook have stabilised at target levels. This suggests an extended period of low interest rates and monetary stimulus packages.

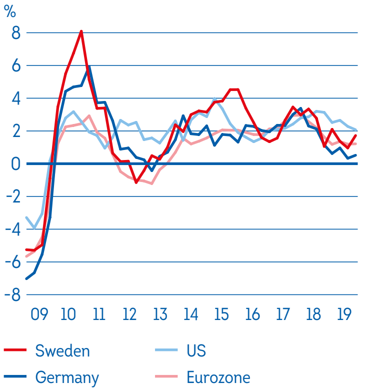
GDP growth in China slowed, although the economy otherwise generally performed well. The increasingly important private consumption is growing faster than the total economy, supported by a stable labour market and an expansive monetary policy. However, growth is becoming ever more dependent on fiscal and monetary policy stimuli.

In Sweden, the economic slowdown was more marked than anticipated. GDP growth fell in 2019 and this trend is expected to continue in 2020. The Riksbank went against the tide by raising its repo rate in December in spite of rising unemployment and falling inflation expectations. Despite this raise, the repo rate remains at a historically low level of 0.0%. As it lifted the rate, the Riksbank signalled that it may not touch the rate for a long time. Low interest rates and a relatively healthy trend in household disposable income contributed to a stable upswing in housing prices. According to Valueguard, housing prices increased 4.5% in 2019.

The performance of the financial markets was generally favourable in 2019, although some uncertainty did appear. It was a strong year for risk-exposed assets, global stock markets rose sharply and the Stockholm Stock Exchange ended the year up slightly more than 31%, including dividends. The fixed income market generated uncertainty with an inverted US yield curve since such an inversion has often appeared as a precursor to past recessions. However, market optimism increased following the Fed and the ECB's monetary policy U-turns and a gradually more positive tone to the trade conflict. This led to falling expectations regarding future higher key interest rates, which was reflected in lower government bond rates. The expansive monetary policy also resulted in a positive trend in credit spreads, including Swedish covered bonds.

GDP growth

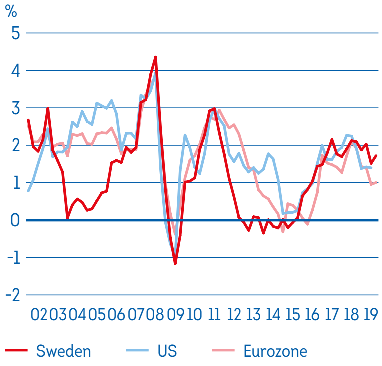
Source: Macrobond



GDP growth in Sweden was weaker during the year, similar to the case in the rest of Europe.

Inflation

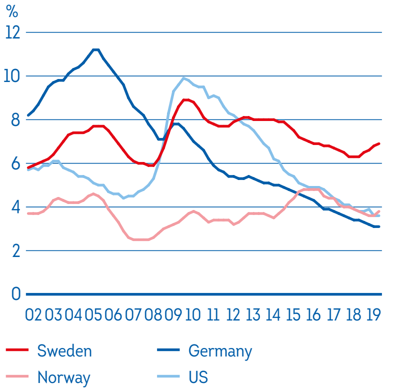
Source: Macrobond



The economic slowdown led to lower inflation during the year.

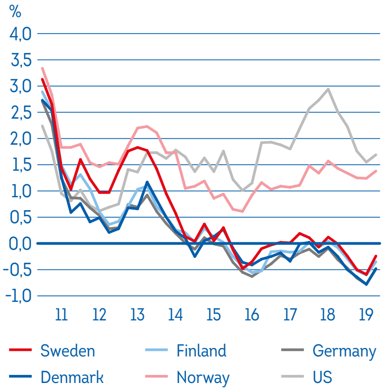
Unemployment

Source: Macrobond



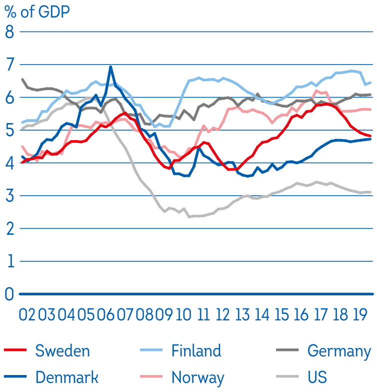
The Swedish labour market performed weakly and unemployment rose in 2019.

Government bond rates (five-year)
Source: Macrobond



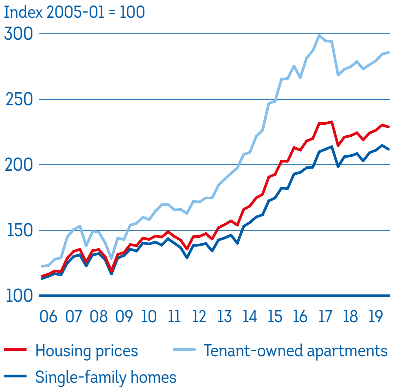
Government bond rates remained historically low but rose at the end of the year in pace with the risk appetite in the financial markets increasing.

Housing construction
Source: Macrobond



Housing construction further declined during the year. The total shortage of housing is still deemed to be high due to high population growth in Sweden and many years of a low rate of housing construction.

Housing-price trend
Source: Macrobond



The Swedish housing market continued to stabilise and housing prices rose again during the year.

Mortgage lending with high credit quality

Loans and credit quality > Lending in Länsförsäkringar Hypotek is primarily targeted towards retail mortgages for private individuals. All loans are granted in Sweden, in SEK and have a well-diversified geographic distribution. The risk appetite is conservative and the loan portfolio maintains high credit quality and a very low credit loss level.

Credit process

All loans are granted in Sweden, in SEK and have a well-diversified geographic distribution. Lending is primarily targeted towards retail mortgages for private individuals. Loans are based on standardised credit regulations and most credit decisions are made locally. The business model between Länsförsäkringar Hypotek and the regional insurance companies has strong incentives to maintain excellent credit quality.

The high credit quality of the loan portfolio is the result of the low risk appetite, credit regulations combined with credit scoring and local customer and market knowledge. The credit regulations impose strict requirements on customers' repayment capacity and the quality of collateral. In connection with the credit process, the repayment capacity of borrowers is tested using "left to live on" calculations. These calculations apply a higher interest rate than the actual rate. Both the loan portfolio and value of the collateral are continuously monitored and quality assured.

Retail mortgages

Housing prices and household indebtedness remain heavily in focus, which is why it is essential to maintain high credit quality in the mortgage portfolio. Mortgage repayments are a key tool in ensuring that households have stable and secure finances. The stricter repayment requirement for customers with debt ratios of more than 450% was implemented in March 2018 to supplement the original repayment requirement from 2016. Länsförsäkringar also encourages customers that do not fall under the repayment requirements to make repayments on their mortgage.

Lending in Länsförsäkringar Hypotek amounted to SEK 240 billion. Mortgages for private individuals' housing comprises 96% of Länsförsäkringar Hypotek's loan portfolio. 71.5% of the collateral comprises single-family homes, 25% tenant-owned apartments, 3% first-lien mortgages for multi-family housing and 0.5% industrial and office properties.

Market-value analyses of the collateral in retail mortgages are performed continuously and a market-value update is performed at least once per year.

Cover pool

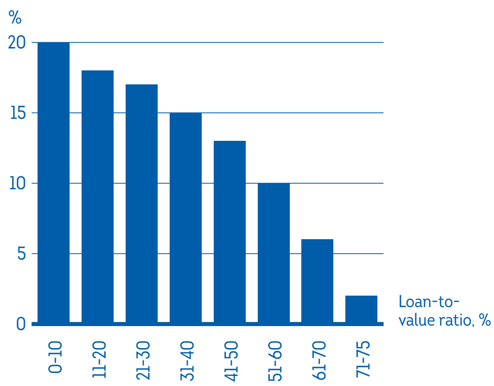
The cover pool, which forms the basis of issuance of covered bonds, contains SEK 230 billion in mortgages, corresponding to 96% of the loan portfolio. The collateral comprises only private homes, of which

Cover pool

	31 Dec 2019	31 Dec 2018
Total volume, SEK billion	240	221
Swedish mortgages, SEK billion	230	211
Substitute collateral, SEK billion	10	10
Collateral	Private homes	Private homes
Weighted average LTV, %	59	59
OC [1], %	34	35
Seasoning, months	61	59
Number of loans	402,194	383,242
Number of borrowers	177,628	169,223
Number of properties	177,539	169,051
Average commitment, SEK 000s	1,298	1,251
Average loan, SEK 000s	573	552
Interest rate type, variable, %	56	72
Interest rate type, fixed, %	44	28
Impaired loans	None	None

[1] OC is calculated using nominal values and excludes accrued interest rates.
Debt securities in issue in other currencies than SEK are translated into SEK using the swap rate.
Debt securities in issue include repurchase agreements.

Cover pool, average loan-to-value ratio



The cover pool's weighted average LTV amounted to 59% on 31 December 2019.

72% are single-family homes, 26% tenant-owned apartments and 2% vacation homes. The geographic spread throughout Sweden is favourable and the average loan commitment is low at SEK 1.30 M. The weighted average loan-to-value ratio, LTV, was 59% and the nominal, current OC (overcollateralisation) amounted to 34%. Länsförsäkringar Hypotek's cover pool has a healthy buffer to manage any downturns in housing prices. In a stress test of the cover pool based on a 20% price drop in the market value of the mortgages' collateral, the weighted average LTV amounted to 66% on 31 December 2019. No impaired loans are included in the cover pool.

Standard for greater transparency

To increase transparency, Länsförsäkringar Hypotek publishes information in accordance with the European Covered Bond Council's (ECBC) Covered Bond Label Harmonised Transparency Template. This is a joint standard for greater transparency in the European covered bond market. Länsförsäkringar Hypotek's website is updated every quarter in accordance with harmonised reporting templates and with additional information about the cover pool.

Credit losses and credit-impaired loan receivables

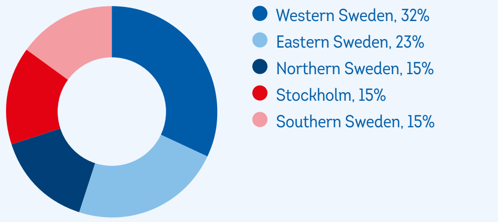
Credit losses amounted to SEK –0.9 M (–1.3), net, corresponding to a credit loss level of –0.00% (–0.00).

Credit-impaired loan receivables (stage 3) before provisions amounted to SEK 162.0 M, corresponding to a share of credit-impaired loan receivables of 0.07%. The loss allowance for credit-impaired loan receivables was SEK 1.8 M. The reserve ratio for credit-impaired loan receivables amounted to 1.12%. In addition, SEK 7.2 M of the remuneration to the regional insurance companies for credit-impaired loan receivables is withheld in accordance with the settlement model for credit losses related to the regional insurance companies' commitments for generated business.

Including the withheld remuneration to the regional insurance companies, the loss allowance for credit-impaired loan receivables totalled SEK 9.1 M. The reserve ratio for credit-impaired loan receivables, including withheld remuneration to the regional insurance companies, amounted to 5.59% and the total recognised loss allowance was SEK 29.1 M, of which SEK 23.3 M pertained to withheld remuneration to regional insurance companies in accordance with the model above.

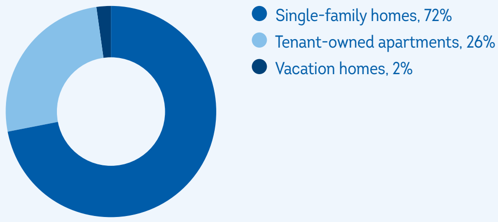
For more information concerning credit risks and credit quality, see note 3 Risks and capital adequacy. For more information on lending, information on the effect of IFRS 9 as well as credit losses and credit-impaired loan receivables, refer to note 2 Accounting-policies.

Cover pool, geographic allocation



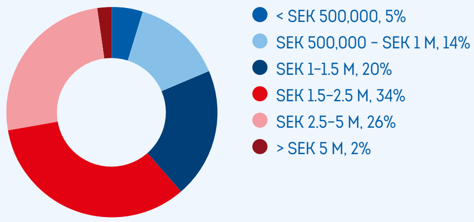
The cover pool is highly diversified throughout Sweden and is not exposed to concentration risk.

Cover pool, collateral distribution



The collateral in the cover pool exclusively comprises private homes, predominantly single-family homes.

Distribution of commitments in cover pool



Commitments with a maximum loan amount of SEK 2.5 M account for 72%. Only 2% of the loans have a loan amount of more than SEK 5 M.

Strong liquidity

Funding and liquidity > Länsförsäkringar Hypotek's main source of financing is funding through covered bonds. These retained the highest credit ratings: Aaa from Moody's and AAA/Stable from Standard & Poor's.

Funding operations
The aim of the funding operations is to ensure that Länsförsäkringar Hypotek has a sufficiently strong liquidity reserve to manage turbulent periods in capital markets, when funding opportunities are limited or prevailing circumstances render funding impossible. The liquidity risk is controlled and limited on the basis of a survival horizon, meaning how long all known cash flows can be met without access to financing in the capital market.

Financing sources
Länsförsäkringar Hypotek's financing primarily comprises funding through covered bonds. These have the highest credit ratings: Aaa from Moody's and AAA/Stable from Standard & Poor's. Capital market funding is conducted under a number of funding programmes. The single most important source of financing is the Swedish covered bond market, where Länsförsäkringar Hypotek has a number of outstanding liquid benchmark bonds. At year-end, Länsförsäkringar Hypotek had seven outstanding benchmark loans with maturities until 2026.

The Swedish covered bond market is one of Europe's largest and most liquid, which secures excellent access to long-term financing.

Diversification
Since all assets in the balance sheet are in SEK, Länsförsäkringar Hypotek has no structural need for financing in foreign currency. However, a certain portion of the capital market funding is conducted in international markets to diversify and broaden the investor base. Funding takes place regularly through the issuance of euro benchmark covered bonds, which increases diversification and strengthens the brand in both the Swedish and European capital markets. In addition, diversification takes place through issuances of bonds, primarily in NOK, CHF and GBP. The international markets were primarily used for long maturities.

Refinancing and liquidity risk management
Länsförsäkringar Hypotek works proactively with its outstanding liabilities by repurchasing bonds with short remaining terms against issuance of long-term liabilities as a means of managing and minimising the liquidity and refinancing risk.

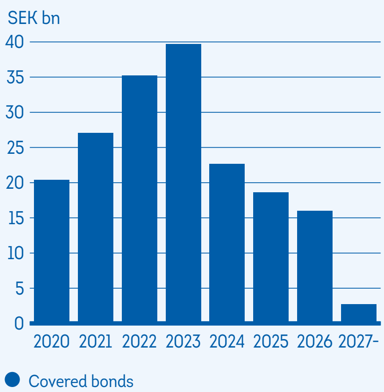
The market risks that arise in the lending and funding operations are managed through derivative instruments.

Funding during 2019
Länsförsäkringar Hypotek continuously issues bonds to refinance future new loans and current funding falling due. The funding structure is favourable and the maturity profile is well diversified. Debt securities in issue increased 10% to SEK 189 billion during the year. In January, Länsförsäkringar Hypotek issued a seven-year Euro benchmark covered bond for a nominal EUR 500 M. In addition, Länsförsäkringar Hypotek issued a Swedish benchmark bond (LFH519) during the year, which matures in September 2026. As in previous years, Länsförsäkringar Hypotek was active in the repurchase of own debt, and SEK 8.1 billion was repurchased in 2019.

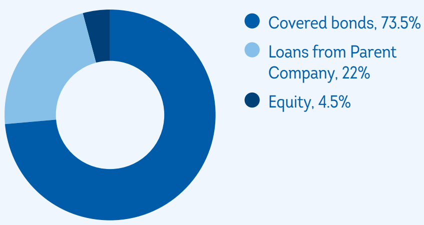
Liquidity
The management of liquidity and financing is characterised by effective long-term planning and a high level of control. A satisfactory liquidity reserve is in place to ensure that sufficient liquidity is always available. The management and investment of the liquidity reserve are conservative.

On 31 December 2019, the liquidity assets amounted to SEK 10.3 billion, comprising 100% Swedish covered bonds with an AAA/Aaa

Funding programme by maturity

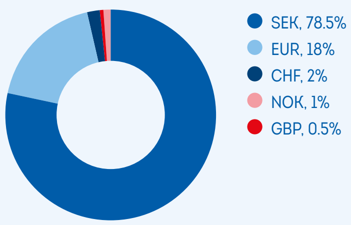


Financing sources



Lending is primarily financed by covered bonds, comprising 73% of financing.

Funding by currency



Funding primarily takes place in SEK, which amounted to 78% of funding by currency at year-end.

credit rating. Liquidity thus remains healthy and contractual undertakings can be met for more than two years without needing to secure new funding in the capital market.

MREL

In December 2019, the Swedish National Debt Office established its annual decisions on resolution plans and minimum requirement for own funds and eligible liabilities (MREL) for the institutions that the Debt Office deems to be systemically important. In connection with this, the Debt Office also decided on individual minimum requirements for Länsförsäkringar Hypotek.

Rating

Länsförsäkringar Hypotek's covered bonds maintained the highest credit rating of Aaa from Moody's, and AAA/Stable from Standard & Poor's. Länsförsäkringar Hypotek is thus one of three issuers in the Swedish market for covered bonds with the highest rating from both Standard & Poor's and Moody's. Länsförsäkringar Bank's long-term credit rating is A/Stable from Standard & Poor's and A1/Stable from Moody's. The short-term credit ratings are A-1 from Standard & Poor's and P-1 from Moody's.

Swedish covered bonds

Loans	Date of maturity	Outstanding, 31 Dec 2019, SEK bn	Coupon, %
513	16 September 2020	14.9	3.25
514	15 September 2021	19.3	1.75
515	21 September 2022	30.0	2.25
516	20 September 2023	28.2	1.25
517	18 September 2024	15.5	1.5
518	17 September 2025	12.4	1.25
519	16 September 2026	9.0	1.5
Total		**129.2**	

Euro benchmark covered bonds

Loans	Date of maturity	Coupon, %
EUR 500m	7 May 2020	1.125
EUR 500m	18 March 2021	1.50
EUR 500m	22 April 2022	0.25
EUR 500m	12 April 2023	0.25
EUR 500m	14 March 2024	0.375
EUR 500m	27 March 2025	0.625
EUR 500m	26 January 2026	0.625

Funding programme

Programme	Limit, Nom	Issued in 2019, Nom, SEK bn	Issued in 2018, Nom, SEK bn	Outstanding, 31 Dec 2019, Nom, SEK bn	Outstanding, 31 Dec 2018, Nom, SEK bn	Remaining average maturity, years 31 Dec 2019	Remaining average maturity, years 31 Dec 2018
Swedish covered Benchmark	Unlimited	21.6	30.9	129.2	122.0	3.4	3.5
MTCN	SEK 30 billion	7.2	2.4	13.5	6.3	4.5	6.7
EMTCN	EUR 5 billion	5.1	6.8	39.5	35.7	3.5	4.0
Total		**33.9**	**40.1**	**182.3**	**164.0**	**3.5**	**3.8**

Regulatory developments Länsförsäkringar Hypotek

The development of new financial regulations is expected to continue at a rapid pace and will have a major impact on banks moving forward.

Capital adequacy rules

In 2019, the EU decided on the "Banking Package." The measures in the Banking Package are to aid the implementation of risk-reduction global standards at EU level and are also part of completing the Banking Union, and are expected to come into effect in 2020/2021.

The work on completing the Basel III regulations continued in 2019. The European Commission published a proposal in 2019 on how to implement these final reforms. The views in response to this proposal will be important to the European Commission in preparing a concrete legal proposal that is expected in 2020. The proposal rules entail major changes for banks and include changes to the Standardised Approach for both credit and operational risk as well as the introduction of a capital floor of 72.5%. The capital floor entails that the risk-weighted assets for a bank that applied internal models may not, in total, be lower than 72.5% of the risk-weighted amount calculated according to the Standardised Approach. The new rules are expected to take effect in 2022.

The European Banking Authority (EBA) also deferred the implementation of certain new requirements for internal models in the review of the IRB regulatory framework. The new standards will be introduced not later than 2021.

New EU rules on covered bonds

In November 2019, the EU decided on new regulations regarding covered bonds. The aim of the regulations is to create standardised rules on covered bonds within the EU. The proposal includes introducing a special requirement on a cover pool liquidity buffer. A higher match funding requirement is also proposed, meaning the degree to which the value of the cover pool is to exceed the nominal value of the covered bonds. The new directive is expected to take effect in 2021.

MREL

In December 2019, the Swedish National Debt Office established its annual decisions on resolution plans and minimum requirement for own funds and eligible liabilities (MREL) for the institutions that the Debt Office deems to be systemically important. In connection with this, the Debt Office also decided on individual minimum requirements for Länsförsäkringar Hypotek.

Increased capital requirements on banks loans for commercial real estate

At the start of 2020, the Swedish Financial Supervisory Authority decided to introduce increased capital requirements in Pillar II on lending for commercial real estate. The decision was based on the proposal made by the Financial Supervisory Authority at the end of 2019 and means that a risk weight has been set for lending for commercial real estate and commercial residential properties at 35% and 25%, respectively. This additional capital requirement will start to be applied in connection with the Financial Supervisory Authority's assessment of capital requirements as part of its annual supervisory review and evaluation process in 2020.

Länsförsäkringar Hypotek is following regulatory developments and is highly prepared and well capitalised for impending changes, even if it is unclear at this stage what the effects of a capital requirement will be.

Board of Directors' Report

The Board of Directors and the President of Länsförsäkringar Hypotek AB (publ) hereby submit the Annual Report for 2019.

Ownership

Länsförsäkringar Hypotek AB (publ) is part of the Länsförsäkringar Alliance, which comprises 23 local, independent and customer-owned regional insurance companies that jointly own Länsförsäkringar AB (publ) and its subsidiaries. Länsförsäkringar AB (publ) is responsible for conducting joint business activities, strategic development activities and providing service. The aim is to create possibilities for the regional insurance companies to continue to grow and be successful in their respective markets.

Länsförsäkringar Hypotek AB (publ) (556244-1781) is a subsidiary of Länsförsäkringar Bank AB (publ) (516401-9878), which is the Parent Company of the Bank Group and a subsidiary of Länsförsäkringar AB (publ) (556549-7020). The Bank Group includes Länsförsäkringar Hypotek AB (publ), Länsförsäkringar Fondförvaltning AB (publ) (556364-2783) and Wasa Kredit AB (556311-9204).

The President and CFO of Länsförsäkringar Hypotek as well as the people responsible for issuing covered bonds are employees of Länsförsäkringar Hypotek. Other parts of Länsförsäkringar Hypotek's operations are outsourced to the Länsförsäkringar AB Group under a special outsourcing agreement.

Focus of operations

The company conducts mortgages operations involving the origination of loans against collateral in the form of single-family homes, tenant-owned apartments and vacation homes and, to some extent, multi-family housing and industrial and office properties Lending, which is provided to private individuals and homeowners, is conducted at 128 branches of the regional insurance companies throughout Sweden and via digital services and telephone. Sales and certain administration of banking and mortgage services are carried out in the branches of the regional insurance companies. The regional insurance companies are reimbursed for sales and administration through a reimbursement system based on volumes managed. Another part of the full-service offering is the 176 branches of Länsförsäkringar Fastighetsförmedling throughout Sweden.

Market commentary

After several years of strong economic growth, the global economy grew at a weaker rate in 2019. The US reported stable GDP growth, while Europe and several developing countries noted a clear slowdown. Softening growth was mainly due to the downturn in the manufacturing industry and uncertainty caused by the US-China trade conflict.

The US central bank, the Fed, altered the direction of its monetary policy and cut interest rates three times consecutively during the year despite unemployment continuing to fall. This was a powerful move and a swift reaction to the slowdown within the industry and the uncertainty surrounding the trade conflict. This expansive monetary policy, combined with an improved risk profile and a strong labour market, will provide a stable platform for growth in 2020.

Europe was the region hit hardest by the industrial slowdown and growth is expected to remain low in 2020. The positive performance of the services sector and the strong labour market indicate that the region will avoid a recession. The European Central Bank, ECB, reacted by making another cut to the deposit facility rate and launching a new asset purchase programme, among other Market commentary measures. In communicating these new measures, the ECB was clear in saying that the programme would continue until shortly before key interest rates are raised, when inflation and the inflation outlook have stabilised at target levels. This suggests an extended period of low interest rates and monetary stimulus packages.

GDP growth in China slowed, although the economy otherwise generally performed well. The increasingly important private consumption is growing faster than the total economy, supported by a stable labour market and an expansive monetary policy. However, growth is becoming ever more dependent on fiscal and monetary policy stimuli.

In Sweden, the economic slowdown was more marked than anticipated. GDP growth fell in 2019 and this trend is expected to continue in 2020. The Riksbank went against the tide by raising its repo rate in December in spite of rising unemployment and falling inflation expectations. Despite this raise, the repo rate remains at a historically low level of 0.0%. As it lifted the rate, the Riksbank signalled that it may not touch the rate for a long time. Low interest rates and a relatively healthy trend in household disposable income contributed to a stable upswing in housing prices. According to Valueguard, housing prices increased 4.5% in 2019.

The performance of the financial markets was generally favourable in 2019, although some uncertainty did appear. It was a strong year for risk-exposed assets, global stock markets rose sharply and the Stockholm Stock Exchange ended the year up slightly more than 31%, including dividends. The fixed income market generated uncertainty with an inverted US yield curve since such an inversion has often appeared as a precursor to past recessions. However, market optimism increased following the Fed and the ECB's monetary policy U-turns and a gradually more positive tone to the trade conflict. This led to falling expectations regarding future higher key interest rates, which was reflected in lower government bond rates. The expansive monetary policy also resulted in a positive trend in credit spreads, including Swedish covered bonds.

Growth and customer trend

Loans to the public rose 9%, or SEK 19.0 billion, to SEK 240.1 billion (221.1), with continued very high credit quality. The number of customers was 278,000 and 86% of retail mortgage customers have Länsförsäkringar as their primary bank.

Länsförsäkringar Hypotek – part of the Länsförsäkringar Alliance

3.9 million customers

23 local regional insurance companies

Länsförsäkringar AB

Länsförsäkringar Bank AB

Länsförsäkringar Hypotek AB Mortgages	**Länsförsäkringar Fondförvaltning AB** Mutual funds	**Wasa Kredit** Leasing, hire purchase and unsecured loans

Earnings and profitability
Operating profit increased 13% to SEK 1,229 M (1,084), primarily due to higher net interest income. The investment margin amounted to 0.96% (1.04). Profit before credit losses rose 13% to SEK 1,228 M (1,083). Return on equity strengthened to 8.1% (7.7).

Income
Operating income increased 13% to SEK 1,348 M (1,192), due to higher net interest income related to larger volumes. Net interest income rose 4% to SEK 2,522 M (2,434). Net gains from financial items amounted to SEK 3.5 M (-1.9). Net commission was SEK -1,177 M (-1,240).

Expenses
Operating expenses amounted to SEK 120.9 M (109.0). The cost/income ratio before credit losses was 0.09 (0.09) and after credit losses 0.09 (0.09).

Credit losses
Credit losses amounted to SEK -0.9 M (-1.3), net, corresponding to a credit loss level of -0.00% (-0.00).

Credit-impaired loan receivables (stage 3) before provisions amounted to SEK 162.0 M, corresponding to a share of credit-impaired loan receivables of 0.07%. The loss allowance for credit-impaired loan receivables was SEK 1.8 M. The reserve ratio for credit-impaired loan receivables amounted to 1.12%. In addition, SEK 7.2 M of the remuneration to the regional insurance companies for credit-impaired loan receivables is withheld in accordance with the settlement model for credit losses related to the regional insurance companies' commitments for generated business.

Including the withheld remuneration to the regional insurance companies, the loss allowance for credit-impaired loan receivables totalled SEK 9.1 M. The reserve ratio for credit-impaired loan receivables, including withheld remuneration to the regional insurance companies, amounted to 5.59% and the total recognised loss allowance was SEK 29.1 M, of which SEK 23.3 M pertained to withheld remuneration to regional insurance companies in accordance with the model above.

For further information on credit losses and credit-impaired loan receivables, refer to note 11.

Loans
All loans are granted in Sweden, in SEK and have a well-diversified geographic distribution. Loans to the public increased 9%, or SEK 19.0 billion, to SEK 240.1 billion (221.1). The credit quality of the loan portfolio, comprising 71.5% (71) single-family homes, 25% (25) tenant-owned apartments, 3% (3.5) multi-family housing and 0.5% (0.5) industrial and office properties, remained favourable. On 31 December 2019, the market share of retail mortgages had strengthened to 7.0% (6.7) according to Statistics Sweden.

Cover pool
The cover pool, which forms the basis of issuance of covered bonds, contains SEK 230.4 billion, corresponding to 96% of the loan portfolio. The collateral comprises only private homes, of which 72% (72) are single-family homes, 26% (26) tenant-owned apartments and 2% (2) vacation homes. The geographic spread throughout Sweden is favourable and the average loan commitment is low at SEK 1.30 M (1.25). The weighted average loan-to-value ratio, LTV, was 59% (59) and the nominal, current OC (overcollateralisation) amounted to 34% (35). Länsförsäkringar Hypotek's cover pool has a healthy buffer to manage any downturns in housing prices. In a stress test of the cover pool based on a 20% price drop in the market value of the mortgages' collateral, the weighted average LTV amounted to 66% (66) on 31 December 2019. No impaired loans are included in the cover pool.

Funding
Länsförsäkringar Hypotek continuously issues bonds to refinance future new loans and current funding falling due. The funding structure is favourable and the maturity profile is well diversified. Debt securities in issue increased 10% to SEK 188.5 billion (171.2). Issued covered bonds during the year totalled a nominal SEK 33.9 billion (40.1) and repurchases of a nominal SEK 8.1 billion (13.9) were executed. Matured covered bonds amounted to a nominal SEK 7.5 billion (8.8).

In 2019, Länsförsäkringar Hypotek issued a seven-year Euro covered bond for a nominal EUR 500 M. In addition, Länsförsäkringar Hypotek issued a new Swedish bond (LFH519) during the year, which matures in September 2026.

Liquidity
On 31 December 2019, liquidity assets totalled SEK 10.3 billion (9.9). Liquidity remains healthy and contractual undertakings can be met for more than two years without needing to secure new funding in the capital market. Liquidity assets comprised 100% (100) Swedish covered bonds with the credit rating of AAA/Aaa.

Rating
Länsförsäkringar Hypotek is one of three issuers in the Swedish market with the highest credit rating for covered bonds from both Standard & Poor's and Moody's. The Parent Company Länsförsäkringar Bank's credit rating is A/Stable from Standard & Poor's and A1/Stable from Moody's.

Capital adequacy
The total Risk Exposure Amount (REA) was SEK 66,991 M (61,556). Continued growth in lending, primarily to households in the form of mortgages, led to an increase in REA. The Common Equity Tier 1 capital strengthened by SEK 0.8 billion during the year due to generated profit. The Common Equity Tier 1 capital ratio amounted to 18.2% (18.3) and the total capital ratio to 19.0% (19.4).

For more information on capital adequacy, see note 3.

Employees
As part of the Bank Group, the mortgage institution is included in the Länsförsäkringar AB Group and HR work is conducted jointly. The company's HR work is based on the Group's core values, leader and employee profiles, personnel policy, Code of Conduct and the equality and diversity plan.

Sustainability
Länsförsäkringar Hypotek's sustainability work is based on the vision of "Together we create security and opportunities." Länsförsäkringar Hypotek can reduce its sustainability risks and also contribute to the positive development of society and create business value by taking economic, social and environmental aspects into consideration in business development and business decisions. Länsförsäkringar Hypotek does not prepare a statutory Sustainability Report in accordance with Chapter 6, Section 10 of the Swedish Annual Accounts Act. Länsförsäkringar AB prepares a Sustainability Report for the Group in which Länsförsäkringar Hypotek is included. The Group's Sustainability Report can be found in Länsförsäkringar AB's 2019 Annual Report on the pages listed in the Index ÅRL Sustainability Report on page 139 and via this link: *lansforsakringar.se/sustainabilityreport2019*

Risks and uncertainties
The operations are characterised by a low risk profile. Länsförsäkringar Hypotek is exposed to a number of risks, primarily credit risks, refinancing risks and market risks. The macroeconomic situation in Sweden is critical for credit risk since all loans are granted in Sweden. Market risks primarily comprise interest-rate risks. Credit losses remain low and the refinancing of business activities was highly satisfactory during the year.

For information about the risks in the operations, risk and capital management and the principles for risk governance, see note 3.

Expectations regarding future development
Länsförsäkringar Hypotek intends to maintain its strategic focus by achieving profitable growth with high credit quality and maintaining a favourable level of capitalisation. Growth in lending will take place by paying close attention to changes in the business environment, the financial situation and the prevailing circumstances in the capital market. Strong liquidity will be maintained. The continued market strategy is to conduct sales and customer marketing activities targeting the regional insurance companies' customers.

Events after year-end
No significant events took place after the close of the year.

Proposed appropriation of profit
The following profit is at the disposal of the Annual General Meeting:

	SEK
Fair value reserve	-132,160,960
Retained earnings	7,554,466,134
Net profit for the year	755,998,912
Profit to be appropriated	**8,178,304,086**

The Board proposes that SEK 8,178,304,086 be carried forward.

For more information on the company's recognised earnings, financial position and average number of employees, see the following income statement, balance sheet, cash-flow statement, changes in equity and notes on pages 22–55. See page 16 for the five-year summary. All figures in the Annual Report are reported in SEK M unless otherwise specified.

Rating

Company	Agency	Long-term rating	Short-term rating
Länsförsäkringar Hypotek [1]	Standard & Poor's	AAA/Stable	–
Länsförsäkringar Hypotek [1]	Moody's	Aaa	–
Länsförsäkringar Bank	Standard & Poor's	A/Stable	A-1 (K-1)
Länsförsäkringar Bank	Moody's	A1/Stable	P-1

1) Pertains to the company's covered bonds.

Five-year summary

SEK M	2019	2018[2]	2017	2016[1]	2015
INCOME STATEMENT					
Net interest income	2,521.5	2,433.6	2,100.6	1,646.9	1,325.6
Net commission	–1,176.6	–1,239.6	–1,141.3	–935.3	–800.1
Net gains/losses from financial items	3.5	–1.9	–43.0	39.1	68.3
Other operating income	–	–	–	0.2	0.1
Total operating income	**1,348.4**	**1,192.1**	**916.4**	**751.0**	**593.9**
Staff costs	–15.5	–14.9	–15.7	–14.8	–14.4
Other administration expenses	–105.2	–94.0	–87.5	–82.5	–80.3
Depreciation and impairment of property and equipment	–0.2	–0.2	–0.2	–0.2	–0.2
Total operating expenses	**–120.9**	**–108.9**	**–103.4**	**–97.4**	**–94.9**
Profit before credit losses	**1,227.6**	**1,083.0**	**813.0**	**653.6**	**499.0**
Credit losses, net	0.9	1.3	0.0	4.8	9.8
Operating profit	**1,228.5**	**1,084.4**	**813.0**	**658.4**	**508.8**
Appropriations	–258.0	–249.5	–200.0	–150.0	–127.0
Tax on net profit for the year	–214.5	–176.4	–135.9	–121.1	–73.5
Net profit for the year	**756.0**	**658.5**	**477.1**	**387.3**	**308.3**
BALANCE SHEET					
Assets					
Loans to credit institutions	4,186.8	4,631.1	2,859.2	4,614.7	4,395.3
Loans to the public	240,061.6	221,107.9	197,654.8	168,947.9	147,055.5
Bonds and other interest-bearing securities	10,304.0	9,916.6	9,837.9	9,313.9	9,344.8
Derivatives	7,568.2	5,540.2	4,681.3	5,744.5	4,164.9
Other assets	84.0	172.2	303.4	606.7	1,662.1
Total assets	**262,204.7**	**241,368.0**	**215,336.6**	**189,227.6**	**166,622.6**
Liabilities and equity					
Due to credit institutions	56,972.8	54,426.9	47,266.6	47,002.4	41,267.7
Debt securities in issue	188,500.7	171,195.1	152,811.9	126,887.9	110,399.8
Derivatives	374.4	430.7	683.9	1,138.7	1,710.3
Subordinated liabilities	500.0	661.0	661.0	1,001.0	1,001.0
Other liabilities	3,368.2	3,157.1	3,301.1	5,109.0	5,536.0
Equity and untaxed reserves	12,488.6	11,497.4	10,612.2	8,082.5	6,688.0
Total liabilities, untaxed reserves and equity	**262,204.7**	**241,368.0**	**215,336.6**	**189,227.6**	**166,622.6**
KEY FIGURES					
Return on equity, %	8.1	7.7	6.9	6.7	6.0
Return on total assets, %	0.37	0.36	0.31	0.28	0.26
Investment margin, %	0.96	1.04	1.03	0.92	0.84
Cost/income ratio before credit losses	0.09	0.09	0.11	0.13	0.16
Common Equity Tier 1 capital ratio, %	18.2	18.3	56.3[3]	44.1[3]	37.4[3]
Total capital ratio, %	19.0	19.4	59.8[3]	49.7[3]	42.9[3]
Share of credit-impaired loan receivables (stage 3), %	0.07	0.07	–	–	–
Reserve ratio for loan receivables stage 1, %	0.00	0.00	–	–	–
Reserve ratio for loan receivables stage 2, %	0.07	0.08	–	–	–
Reserve ratio for loan receivables stage 3, %	1.12	1.06	–	–	–
Reserve ratio for loan receivables stage 3, incl. withheld remuneration to regional insurance companies, %	5.59	5.29	–	–	–
Credit loss level, %	–0.00	–0.00	0.00	0.00[4]	–0.01[4]

[1] From 1 January 2017, financial instruments measured at fair value are presented including accrued interest. The change affected comparative figures in the balance sheet as per 31 December 2016. Comparative figures for 2015 have not been restated.
[2] The comparative years 2015–2017 were no restated in connection with the transition to IFRS 9 Financial instruments.
[3] Risk weight floor for mortgages in Pillar II.
[4] Includes the dissolution of reserves.

Corporate Governance Report

Introduction

Länsförsäkringar Hypotek AB (publ) (Länsförsäkringar Hypotek) is a wholly owned subsidiary of Länsförsäkringar Bank AB (publ), which in turn is a wholly owned subsidiary of Länsförsäkringar AB (publ). Länsförsäkringar AB and its subsidiaries and owners, jointly comprise the Länsförsäkringar Alliance.

Länsförsäkringar Hypotek is a public limited liability company whose bonds are listed on Nasdaq Stockholm, Luxembourg Stock Exchange and SIX Swiss Exchange.

Corporate governance

Länsförsäkringar Hypotek, with its Parent Company Länsförsäkringar Bank AB (publ), and sister companies Länsförsäkringar Fondförvaltning AB (publ) and Wasa Kredit AB, comprise the operative Bank business unit of the Länsförsäkringar AB Group.

The Länsförsäkringar AB Group has a corporate governance system based on the Länsförsäkringar Alliance's strategies, Länsförsäkringar AB's assignment from its owners, Länsförsäkringar AB's long-term direction and on principles for managing the Länsförsäkringar AB Group decided upon by the Board of Länsförsäkringar AB. The risk-based performance management represents the basis of the corporate governance system.

Based on the aforementioned starting points, the corporate governance system consists of the organisation, the internal regulations and internal-control system, while Länsförsäkringar Hypotek guarantees the governance and internal control within the company within the framework of the corporate governance system.

The Board establishes the operational organisation for Länsförsäkringar Hypotek, which should be appropriate and transparent, with a clear distribution of responsibilities and duties between the various company bodies and between the so-called lines of defence, and a clear decision and reporting procedure. An internal-control system is integrated into the operational organisation, including a compliance system and a risk-management system. Economies of scale are guaranteed within the framework of the organisation via Group-wide functions and outsourced operations, continuity management and contingency plans, efficient systems for reporting and transferring information, information security, management of conflicts of interest and ensuring that Board members and employees are suited to their tasks.

The internal regulations, which comprise governance documents such as policies, guidelines and instructions, represent an important tool for managing the operations. The organisation and distribution of responsibility are determined by the internal regulations, as are the procedures for governance and internal control. The internal regulations are reviewed and decided upon regularly.

Internal control is part of the governance and management of Länsförsäkringar Hypotek. Internal control aims to ensure that the organisation is efficient and fit for its purpose, that operations are conducted in accordance with decided strategies in order to achieve established targets, that financial statements and reporting are reliable, that information systems are managed and operated efficiently and that there is a strong ability to identity, measure, monitor and manage risks and full regulatory compliance. Risk and capital control and capital planning are a part of the internal control.

The internal-control process encompasses all parts of the organisation, including outsourced activities, and is an integral part of the organisational structure and decision-making processes. Internal control in the company is based on a system comprising three lines of defence, which comprise operations in the first line, functions for compliance and risk control in the second line and internal audit in the third line.

The purpose of the risk-management system, which is a part of internal control, is to ensure that Länsförsäkringar Hypotek is continuously able to identify, measure, monitor, manage and report risks. Internal control also includes the compliance system that ensures compliance with laws, regulations and other rules, and guarantees that new and amended regulations are monitored and implemented effectively, that the Board and employees are trained and that risks linked to compliance with external and internal rules can continuously be identified, measured, controlled, managed and reported.

Shareholders and General Meeting

Shareholders exercise their voting rights at the Annual General Meeting, which is the highest decision-making body. A general meeting is normally held once per year, the Annual General Meeting. Länsförsäkringar Bank AB (publ) owns 100% of the share capital and voting rights, and votes at the Meeting using the full number of shares owned. Decisions are made at the Annual General Meeting regarding the Annual Report, the election of members of the Board and auditors, fees and other remuneration to Board members and auditors, and other important matters to be addressed in accordance with laws or the Articles of Association.

Nomination process

The President of the Parent Company, Länsförsäkringar Bank AB, in consultation with the CEO of Länsförsäkringar AB, submits proposals regarding the Board of Directors and auditors of Länsförsäkringar Hypotek, and fees to these members and auditors. A suitability ("fit and proper") assessment of the proposed Board members is conducted according to the applicable guidelines for assessing the suitability of Board members of Länsförsäkringar AB's subsidiaries is applied, as well as specific process and procedure descriptions.

The Board is to have a sufficient number of Board members based on the size and degree of complexity of the company, and the nature and scope of the operations. With this as the starting point, an assessment can be made as to whether the Board has a suitable composition, with respect to the operations, stage of development and other conditions of the company, that ensures that the overall competencies necessary for the company are in place, characterised by diversity in terms of, for example, age, gender and ethnic origin. See also the section on Suitability assessment of the Board of Directors and the President below.

External auditors

The Annual General Meeting appoints the external auditors. In accordance with the Articles of Association, Länsförsäkringar Hypotek is to have between one and three auditors and between zero and three deputy auditors. The registered audit firm KPMG AB was elected the auditor of the company at the 2019 Annual General Meeting, with Dan Beitner as auditor in charge. The auditor examines Länsförsäkringar Hypotek's Annual Report, including the corporate governance report, as well as the administration of the Board and the President. The auditor reviews Länsförsäkringar Hypotek's interim reports.

Board of Directors

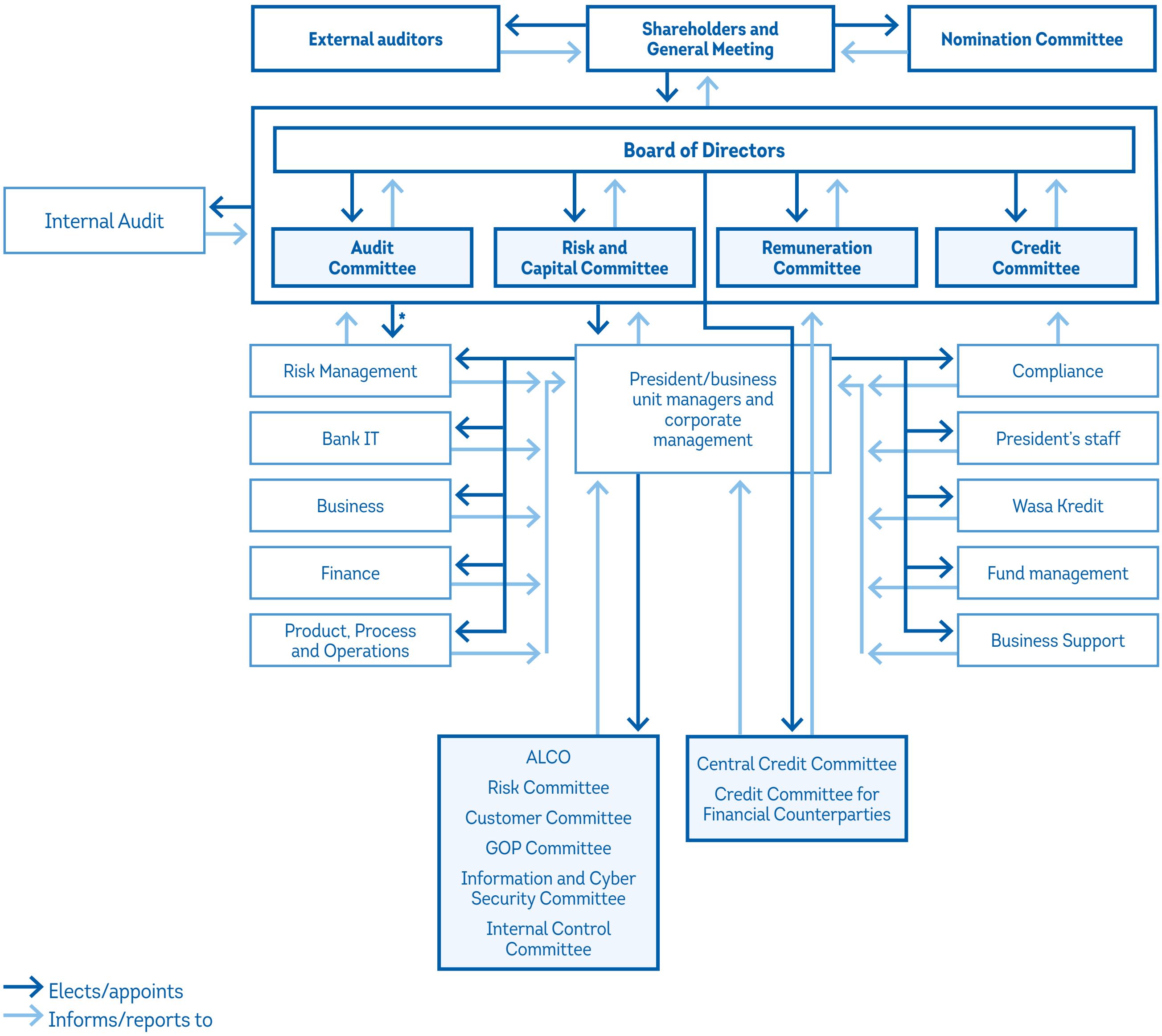
The Board of Directors of Länsförsäkringar Hypotek is elected by the General Meeting and, in accordance with the Articles of Association, is to comprise between five and ten Board regular members elected by the General Meeting, with no more than three deputies. Board members are elected for a mandate period of two years. The President is not a member of the Board. Länsförsäkringar Hypotek has no time limit for the length of time a member may sit on the Board and no upper age limit for Board members. The Chairman of the Board is appointed by the Annual General Meeting.

The Board comprised five regular members in 2019. The Chairman of the Board is the President of Länsförsäkringar Bank AB. A presentation of the Board members can be found on page 60.

Board responsibilities and delegation of duties

The Board is responsible for the organisation and administration of the company and for handling and making all decisions concerning issues of material significance and of an overall nature relating to the company's operations. The Board appoints, evaluates and dismisses the President, adopts an appropriate executive organisation and the goals and strategies of the operations, and ensures that efficient systems are in place for internal governance and control, as well as risk management. Every year, the Board adopts a formal work plan.

Länsförsäkringar Bank's governance structure



*) Chief Risk Officer approved by Board of Directors

The Board is to continuously remain informed about the performance of the company to be able to continuously assess the company's financial situation and position. Through its formal work plan and a reporting manual, the Board has established that financial reporting is to take place regularly at Board meetings. The Board must also regularly manage and evaluate the company's risk development and risk management. During the year, the Board regularly monitors the earnings, business volumes, financial position and risk trends in relation to the business plan and forecasts. The Board receives regular reports from Compliance, Risk Control and Internal Audit and continuously monitors current matters with authorities.

The Board has decided not to establish an audit committee. Instead, the Board as a whole addresses the issues that otherwise are the responsibility of an audit committee, including monitoring and evaluating the audit process, quality assurance of the company's financial reporting, assessing reports from the external auditor and examining the independence of the auditor in relation to the company including the scope of any non-audit related assignments that the auditor performs for the company.

The Board has established a Remuneration Committee to prepare matters regarding remuneration of the President and other members of corporate management and employees with overall responsibility for any of the company's control functions, and to prepare decisions on measures to monitor application of the remuneration policy.

President and corporate management

Anders Borgcrantz has been the President of the company since 2005. Anders Borgcrantz was born in 1961 and has worked in the banking and finance sector since 1985. A more detailed presentation of Anders Borgcrantz can be found on page 60. The President, CFO and Executive Vice President, and the Head of Staff form corporate management.

Länsförsäkringar Hypotek's own organisation conducts operations in front office, which is responsible for the company's funding, liquidity management and managing financial risks. The company also has employees who are responsible for its lending and IT operations. Other parts of Länsförsäkringar Hypotek's operations are outsourced to the Länsförsäkringar AB Group under a special outsourcing agreement.

Control functions

Internal Audit

Internal Audit is an independent review function that supports the Board in the evaluation of the corporate governance system, including the organisation's risk management, governance and controls. Based on its reviews, Internal Audit is to evaluate and assure that the operations' overall internal governance and control systems are conducted in an efficient manner and that the overall reporting to the Board provides a true and fair view of the operations, that the operations are conducted in accordance with applicable internal and external regulations, and in compliance with the Board's decisions. The Board has adopted a separate instruction for the Internal Audit function. The Internal Audit function reports to the Board of Directors.

Compliance

Compliance is an independent control function responsible for monitoring and controlling that operations are conducted in full regulatory compliance. The task of the function is to monitor and control regulatory compliance in the licensable operations, and identify and report on risks that may arise as a result of non-compliance with regulatory requirements. Compliance is to also provide support and advice to operations, to ensure that operations are informed about new and amended regulations and to take part in the implementation of training. Compliance risks and recommendations of actions are to be reported to the President and the Board.

Risk Control

Risk Control provides support to the Board, President, management and the rest of the operations for fulfilling their responsibility of ensuring that proper risk management and risk control have been carried out for all operations and for ensuring that risks are managed in line with the risk framework established by the Board. Risk Control is to carry out its activities independently from the business activities, with organisational distribution into an independent support section and an independent control section. Risks and actions taken are reported continuously to the President and the Board of Directors of Länsförsäkringar Hypotek.

Suitability assessment of Board and President

A suitability ("fit and proper") assessment is conducted in conjunction with the appointment of Board members, the President and the Executive Vice President. An assessment is also conducted annually, and when necessary, to ensure that the individuals in the above-mentioned positions are, at any given time, suitable for their assignments. The suitability assessment is conducted following established guidelines and takes into consideration the person's knowledge, skills and experience (fit), good repute, honesty and integrity (proper), as well as any conflicts of interest and the ability to commit sufficient time for the assignment.

Board members are assessed on the basis of material collected by the Board Chairman and received from the person to whom the fit and proper assessment pertains. The suitability assessment of the President and Executive Vice President is performed by the Board. Based on Länsförsäkringar Hypotek's operations, stage of development and other circumstances, the assessment also considers relevant training and experience, as well as professional experience in senior positions. In addition to the performance and skills of individual Board members, the Board's performance as a whole is assessed, based on, for example, the Board's evaluation of its work and whether the Board possesses the skills required for leading and managing the company.

A person not considered suitable according to this assessment will not be appointed or employed. If an already appointed person is considered no longer suitable for his or her duties according to a suitability assessment, Länsförsäkringar Hypotek is to adopt measures to ensure that the person in question either meets the suitability requirements or is replaced.

The assessment is that all Board members, the President and the Executive Vice President fully satisfy the fit and proper requirements. Information about their education, previous experience and other Board appointments is presented on pages 60.

Internal control over financial reporting

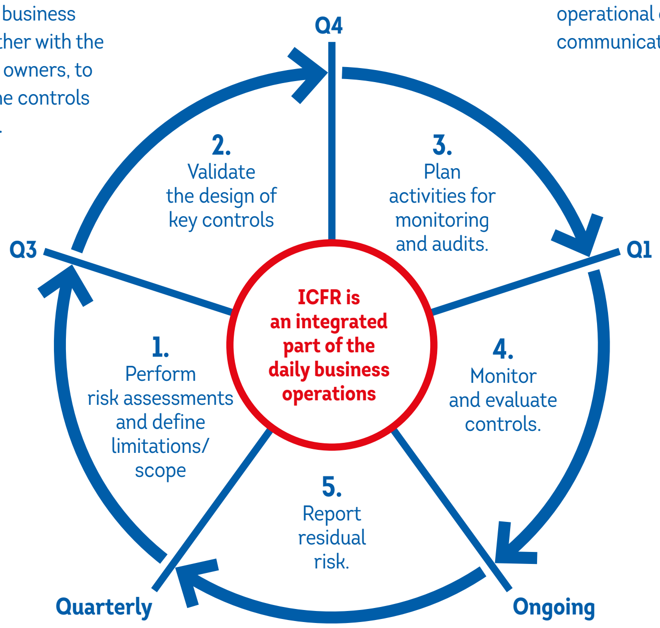
The Board's responsibility is to ensure that efficient systems are in place to monitor and control the company's operations and financial position. Internal control over financial reporting (ICFR) is a framework for providing reasonable assurance of the reliability of the financial reporting to management and Board. The ICFR is performed in an annual cycle as shown in the diagram below.

2. Validate the design of key controls

ICFR includes company-wide controls, processes and IT controls. The purpose of these different types of key controls is to manage the risk of material misstatement in the financial reporting. The control structure is based on the processes of the business and is validated every year, together with the responsible control and process owners, to ensure the appropriateness of the controls for managing the risks identified.

3. Plan activities for monitoring and audits

A general plan for the quarterly self-assessments of the controls for the operations is prepared. The plan sets out when this will take place and the controls that will be assessed. The plan also establishes the controls that are to be tested for operational efficiency during the year. The plan is communicated to internal and external audit.



1. Perform risk assessments and define limitations/scope

Risk assessments are performed annually at both Group and legal unit level to identify the risk of material misstatement in financial reporting. The risk assessment provides the basis for determining the legal entities and processes that are to be covered by the ICFR framework. The conclusions from this work are compiled in a report that describes the risk assessment and boundaries for the coming year and is presented to the Audit Committee.

4. Monitor and evaluate controls

Monitoring includes, for example, quarterly self-assessment of the completed controls. The monitoring process can identify weaknesses in the ICFR framework, implement compensating controls and introduce improvement measures. The objective is for the Group to reach a monitored level, which entails that standardised controls for managing the risks identified have been implemented with compliance monitored and the results reported to management and the Board.

5. Report residual risk

The results of the self-assessments are compiled, aggregated and analysed to determine the risk of material misstatement in financial reporting. These are summarised in a report to the CFO and the Audit Committee. The report describes the residual risk after the controls have been performed together with any compensating controls or other measures adopted to reduce risk in the financial reporting.

In addition to the above, Internal Audit also performs an independent review of selected ICFR risks and controls, in accordance with the plan adopted by the Audit Committee. The results of Internal Audit's review, and recommendations, are reported regularly to the Audit Committee.

Financial statements

Income statement

SEK M	Note	2019	2018
Interest income	5	3,997.3	3,311.5
Interest expense	5	–1,475.7	–877.9
Net interest income		**2,521.5**	**2,433.6**
Commission income	6	22.7	2.5
Commission expense	6	–1,199.2	–1,242.1
Net commission		**–1,176.6**	**–1,239.6**
Net gains/losses from financial items	7	3.5	–1.9
Total operating income		**1,348.4**	**1,192.1**
Staff costs	8	–15.5	–14.9
Other administration expenses	9, 10	–105.2	–94.0
Total administration expenses		**–120.7**	**–108.9**
Depreciation and impairment of property and equipment		–0.2	–0.2
Total operating expenses		**–120.9**	**–109.0**
Profit before credit losses		**1,227.6**	**1,083.0**
Credit losses, net	11	0.9	1.3
Operating profit		**1,228.5**	**1,084.4**
Appropriations	26	–258.0	–249.5
Tax	12	–214.5	–176.4
Net profit for the year		**756.0**	**658.5**

Statement of comprehensive income

SEK M	2019	2018
Net profit for the year	**756.0**	**658.5**
Other comprehensive income		
Items that have been transferred or can be transferred to profit or loss		
Cash-flow hedges		
of which change in value for the period	4,752.1	3,274.2
of which reclassification to profit or loss	–4,771.4	–3,317.7
Change in fair value of debt instruments measured at FVOCI		
of which change in value for the period	–8.4	–8.2
of which reclassification of realised securities to profit or loss	–	–
Tax attributable to items that have been transferred or can be transferred to profit or loss	4.9	11.4
Total other comprehensive income for the year, net after tax	**–22.8**	**–40.3**
Comprehensive income for the year	**733.2**	**618.2**

Balance sheet

SEK M	Note	31 Dec 2019	31 Dec 2018
ASSETS			
Loans to credit institutions	13	4,186.8	4,631.1
Loans to the public	14	240,061.6	221,107.9
Bonds and other interest-bearing securities	15	10,304.0	9,916.6
Derivatives	16	7,568.2	5,540.2
Fair value changes of interest-rate risk hedged items in portfolio hedge	17	–	103.5
Property and equipment	18	0.4	0.6
Deferred tax assets		40.3	37.2
Other assets		9.3	3.1
Prepaid expenses and accrued income	19	34.0	27.8
TOTAL ASSETS		**262,204.7**	**241,368.0**
LIABILITIES, PROVISIONS AND EQUITY			
Due to credit institutions	20	56,972.8	54,426.9
Debt securities in issue	21	188,500.7	171,195.1
Derivatives	16	374.4	430.7
Fair value changes of interest-rate risk hedged items in portfolio hedge	17	1,241.2	1,019.8
Other liabilities	22	211.8	137.9
Accrued expenses and deferred income	23	1,913.8	1,997.9
Provisions	24	1.4	1.5
Subordinated liabilities	25	500.0	661.0
Total liabilities and provisions		**249,716.1**	**229,870.7**
Untaxed reserves	26	**1,166.3**	**908.3**
Equity	27		
Share capital		3,129.9	3,129.9
Statutory reserve		14.1	14.1
Fair value reserve		-132.3	-109.5
Retained earnings		7,554.5	6,896.1
Net profit for the year		756.0	658.5
Total equity		**11,322.3**	**10,589.1**
TOTAL LIABILITIES, PROVISIONS AND EQUITY		**262,204.7**	**241,368.0**
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Cash-flow statement, indirect method

SEK M	2019	2018
Cash and cash equivalents, 1 January	**4,614.4**	2,858.7
Operating activities		
Operating profit before tax	1,228.5	1,084.4
Adjustment of non-cash items	–454.6	95.2
Change in assets of operating activities		
Change in interest-bearing securities	–435.0	–114.8
Change in loans to the public	–18,953.9	–23,430.8
Change in other assets	–214.6	24.2
Change in liabilities of operating activities		
Net changes in debt securities in issue	15,929.6	17,107.5
Change in other liabilities	2,408.4	6,990.3
Cash flow from operating activities	**–491.6**	**1,755.9**
Investing activities		
Acquisition of property and equipment	0.0	–0.3
Sale of property and equipment	–	–
Cash flow from investing activities	**0.0**	**–0.3**
Financing activities		
Amortisation of subordinated debt	–161.0	–
Change in subordinated debt	–	–
Shareholders' contributions received	–	–
Cash flow from financing activities	**–161.0**	**–**
NET CASH FLOW FOR THE YEAR	**–652.6**	**1,755.7**
Cash and cash equivalents, 31 December	**3,961.7**	**4,614.4**
Non-cash items		
Other unrealised change in securities, net	–364.7	137.0
Credit losses, excluding recoveries	0.3	–22.3
Change in accrued expense/income	–90.3	–37.4
Other	0.2	19.7
Total non-cash items	**–454.6**	**95.2**
Cash and cash equivalents comprise:		
Loans to credit institutions, payable on demand	3,961.7	4,614.4
Total cash and cash equivalents	**3,961.7**	**4,614.4**
Interest received	3,386.1	3,354.5
Interest paid	970.9	–631.9

Cash and cash equivalents are defined as loans to credit institutions and payable on demand.

Statement of changes in shareholders' equity

	Restricted equity		Non-restricted equity				
			Reserves				
SEK M	Share capital	Statutory reserve	Fair value reserve	Hedge reserve	Retained earnings	Net profit for the year	Total
Opening balance, 1 January 2018	**70.3**	**14.1**	**28.9**	**–98.0**	**9,461.1**	**477.1**	**9,953.4**
Effect due to change in accounting policy [1)]			**0.1**		**17.4**		**17.5**
Opening balance, 1 January 2018 after adjustment for change in accounting policy	**70.3**	**14.1**	**29.0**	**–98.0**	**9,478.5**	**477.1**	**9,970.9**
Net profit for the year						658.5	658.5
Other comprehensive income for the year			–6.4	–33.9			–40.3
Comprehensive income for the year			**–6.4**	**–33.9**		**658.5**	**618.2**
Resolution by Annual General Meeting					477.1	–477.1	–
Bonus issue	3,059.6				–3 ,59.6		–
Closing balance, 31 December 2018	**3,129.9**	**14.1**	**22.5**	**–132.0**	**6,896.1**	**658.5**	**10,589.1**
Opening balance, 1 January 2019	**3,129.9**	**14.1**	**22.5**	**–132.0**	**6,896.1**	**658.5**	**10,589.1**
Net profit for the year						756.0	756.0
Other comprehensive income for the year			–6.6	–16.2			–22.8
Comprehensive income for the year			**–6.6**	**–16.2**		**756.0**	**733.2**
Resolution by Annual General Meeting					658.5	–658.5	–
Closing balance, 31 December 2019	**3,129.9**	**14.1**	**15.9**	**–148.2**	**7,554.6**	**756.0**	**11,322.3**

[1)] Effect due to change in accounting policy from IAS 39 – Financial Instruments: Recognition and measurement to IFRS 9 – Financial Instruments. However, hedge accounting takes place in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Notes to the financial statements

(All figures in SEK M unless otherwise stated)

Note 1 Company information

The Annual Report for Länsförsäkringar Hypotek AB (publ) (Corp. Reg. No. 556244-1781) was presented on 31 December 2019. Länsförsäkringar Hypotek AB (publ) is a mortgage institution registered in Sweden, with its registered office in Stockholm. The address of the head office is Tegeluddsvägen 11–13. The company is a wholly owned subsidiary of Länsförsäkringar Bank AB (publ) (Corp. Reg. No. 516401-9878), with its registered office in Stockholm, which prepares the consolidated financial statements for the smallest Group in which Länsförsäkringar Hypotek AB (publ) is included as a subsidiary. Länsförsäkringar Hypotek AB (publ) is part of the Group for which Länsförsäkringar AB (publ) (Corp. Reg. No. 556549-7020), with its registered office in Stockholm, prepares the consolidated financial statements for the largest Group in which the company is included as a sub-subsidiary.

The Annual Report for Länsförsäkringar Hypotek AB (publ) was approved by the Board and President for publication on 12 March 2020. Final approval of the Annual Report will take place at the company's Annual General Meeting on 4 May 2020.

Note 2 Accounting policies

COMPLIANCE WITH STANDARDS AND LEGISLATION

Länsförsäkringar Hypotek prepares its accounts in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), the Swedish Financial Supervisory Authority's regulations and general guidelines regarding annual accounts for credit institutions and securities companies (FFFS 2008:25) and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. The company applies legally restricted IFRS pertaining to standards adopted for application with the restrictions stipulated by RFR 2 and FFFS 2008:25. This means that all IFRS and interpretations adopted by the EU are applied, unless otherwise stated, as far as possible within the framework of the Swedish Annual Accounts Act and taking into consideration the connection between accounting and taxation.

CONDITIONS RELATING TO THE PREPARATION OF THE FINANCIAL STATEMENTS

Länsförsäkringar Hypotek's functional currency is Swedish kronor (SEK), which is also the presentation currency. The functional currency is the currency in the primary financial environments in which the company conducts its operations, which means that the financial statements are presented in Swedish kronor. All amounts, unless otherwise stated, are rounded to the nearest million (SEK M). The reporting is based on historical cost. Financial assets and liabilities are recognised at amortised cost, except for certain financial assets and liabilities that are measured at fair value, see the note on fair value valuation techniques, or when fair value hedge accounting is applied. The accounting policies stated below have been applied to all periods presented in the financial statements, unless otherwise stated.

JUDGEMENTS AND ESTIMATES

The preparation of accounts in accordance with legally restricted IFRS requires that management make judgements and estimates, and make assumptions that affect the application of the accounting policies and the carrying amounts of the income, expenses, assets, liabilities and contingent liabilities and provisions presented in the accounts. These judgements and estimates are based on historical experiences and the best information available on the balance-sheet date. The actual outcome may deviate from these judgements and estimates. The estimates and judgements are reviewed regularly. Changes in estimates are recognised in the period in which the change is made if the change only affects that period, or in the period in which the change is made and future periods if the change affects both current and future periods.

SIGNIFICANT JUDGEMENTS APPLIED TO THE COMPANY'S ACCOUNTING POLICIES

Corporate management discussed with the Board of Directors the performance, selection and disclosures relating to the company's significant accounting policies and estimates, and the application of these policies and estimates. The critical judgements made in the application and selection of the company's accounting policies are primarily attributable to:

- Assessment of business models and cash flows for financial instruments. These are described in the section on financial assets and liabilities.
- The primary hedging instrument used when the company applies cash flow hedging are cross-currency interest rate swaps that are always measured at fair value. The currency component of these swaps is handled as a cash flow hedge of the currency risk and the interest component as a fair value hedge of the interest-rate risk. The hypothetical derivative method is used to measure the effectiveness of these cash flow hedges, which entails that the change in a perfect hypothetical swap is deemed to correspond to the present value of the accumulated change in the expected cash flows for the hedged transaction (the currency component). Critical judgements are required to determine the characteristics of the perfect hypothetical swap.
- Method for calculating expected allowance for expected credit losses. This is described below in the section *Expected credit losses*.

Significant sources of estimation uncertainty

Estimation uncertainty arises in the valuation of expected credit losses since such valuations are based on complex models and assessments. The estimate of expected credit losses is primarily based on models, but an individual assessment is performed for cases in which significant information is available that is not incorporated in these models.

One of the main areas in which important assessments are to be made is the identification of a significant increase in credit risk. Such an assessment of is performed at the end of every reporting period and determines the number of loans transferred from stage 1 to stage 2. An increase in loans in stage 2 entails an increase in the estimated reserves for credit losses ("loss allowances"), while a reduction in loans in stage 2 would have the opposite effect.

Important assessments are also carried out when considering forward-looking information and in the choice of macroeconomic scenarios for calculating expected credit losses. Expected credit losses are to be estimated in a manner that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The estimate is to include information about past events, current conditions and forecasts of future economic conditions. The forward-looking information used to estimate expected credit losses is based on the company's internal macroeconomic forecasts. These macroeconomic forecasts take into account both internal and external information and correspond to the forward-looking information used for other purposes, such as forecasts and financial planning. At least three potential macroeconomic scenarios are considered when calculating expected credit losses: a base scenario, a more positive scenario and a more negative scenario. A deterioration in the forecast macro variables in each scenario or an increase in the probability of a negative scenario would generally entail an increase in the estimated loss allowance. An improvement in the forecast macro variables or an increase in the probability of a positive scenario would instead have the opposite effect on the estimated loss allowance.

APPLICATION OF ACCOUNTING POLICIES CAUSED BY NEW TRANSACTIONS

In December 2019, Länsförsäkringar Hypotek AB issued a new type of financial instrument: senior non-preferred debt.

The purpose of this instrument was to ensure compliance with its MREL. The term of the instrument is two years and it is classified and measured in accordance with the company's accounting policies for financial liabilities. The counterparty for the loan is Länsförsäkringar Bank AB and the loan is recognised as "due to credit institutions."

AMENDED ACCOUNTING POLICIES APPLIED FROM 1 JANUARY 2019

The company applies the accounting policies below from 1 January 2019.

IFRS 16 Leases

IFRS 16 replaced IAS 17 Leases on 1 January 2019. The main requirement of the standard is that the lessee is to recognise leases, which were previously classified as operating leases, in the balance sheet. Länsförsäkringar Hypotek AB has made use of the option in RFR 2 to not apply IFRS 16 in legal entities due to the relationship between accounting and taxation, which is why the lease standard did not have any financial impact.

IFRIC 23 Uncertainty over Income Tax Treatments

The company applies IFRIC 23 Uncertainty over Income Tax Treatments from 1 January 2019. IFRIC 23 clarifies how IAS 12 is to be applied if there are uncertainties about how tax legislation is to be applied to a certain transaction or under certain circumstances. The interpretation did not entail any impact on the company's financial statements.

Interest Rate Benchmark Reform (Amendments to IAS 39 and IFRS 7)

The company has decided to apply in advance the Interest Rate Benchmark Reform (Amendments to IAS 39 and IFRS 7) (IBOR reform), issued in September 2019. In accordance with the transition rules, the amendments were applied retrospectively to hedging relationships that existed at the beginning of the reporting period or identified thereafter and for amounts accumulated in the cash flow hedge reserve. The amendments provide temporary relief from applying specific hedge accounting requirements for hedging relationships directly affected by the IBOR reform. The relief also means that the IBOR reform will not generally mean that hedge accounting needs to be discontinued. In brief, the transition relief entails the following:

- when the company takes into account the "highly probable" requirement for cash flow hedges, it assumes that IBORs in hedging instruments and hedge items will not change as a result of the IBOR reform.
- the company will not recycle amounts in the cash flow hedge reserve to profit or loss as a result of the uncertainty that may exist in the cash flows after the IBOR reform is expected to have a direct effect.
- in a prospective assessment of whether the hedge is expected to be highly effective, the company has assumed that the applicable IBOR will not change as a result of the IBOR reform.
- the company will not discontinue the hedge accounting during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside the required 80–125% range.
- the company's hedged risk component in fair value hedges does not need to be separately identifiable on an ongoing basis, and instead the risk component only needs to be identifiable at the inception of the hedging relationship.

Note 3 Risks and capital adequacy provides disclosures on uncertainties as a result of the IBOR reform.

NEW IFRS AND INTERPRETATIONS THAT HAVE NOT YET BEEN APPLIED

New or revised IFRS and interpretations adopted by the IASB and not yet in force are not expected to have any material effect on the financial statements.

DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES

Shareholders' contributions

Shareholders' contributions are recognised in the equity of the recipient and capitalised in shares and participations with the donor.

Operating segments

The company conducts retail mortgage lending operations in Sweden. In follow-ups and reports submitted to the company's chief operating decision maker, the operations are reviewed as a whole. Consequently, the operations comprise a single operating segment. No one customer accounts for more than 10% or more of the company's income.

Transactions in foreign currency

Transactions in foreign currency are translated to the functional currency at the exchange rate on the date of the transaction. Monetary assets and liabilities in foreign currency are translated to the functional currency at the exchange rate that applies on the balance-sheet date. Non-monetary assets and liabilities are translated to the rate in effect on the date of the transaction. Exchange-rate differences arising due to the translation of balance-sheet items in foreign currency are recognised in profit or loss as exchange-rate gains or losses.

Revenue from Contracts with Customers

Income from contracts with customers is recognised in profit or loss when all steps of the five-step model have been fulfilled:
1) The contract with the customer has been identified
2) The performance obligations in the contract have been identified
3) The transaction price has been determined
4) The transaction price has been allocated to the performance obligations
5) Income is recognised as the performance obligations are satisfied

The company's division of income from contracts with customers in note 6 Net commission corresponds to the structure of the internal reports that management uses to monitor the operations.

Lending commission

Lending commission primarily refers to additional services (land registration certificates and mortgage deeds) that customers can choose when arranging their loans. Income is recognised when the customer receives the service. Arrangement fees are recognised as interest income according to the effective interest method.

Lending commission also includes notification and reminder fees for which the company's obligation is to notify/remind the customer. These fees are recognised as income when the notification or reminder is sent to the customer. Penalty interest is recognised as interest income. The company applies the exemption entailing that disclosures on outstanding performance obligations attributable to contracts with a term of less than one year are not provided.

Interest income and interest expense

Interest income and interest expense for financial instruments calculated in accordance with the effective interest method are recognised under net interest income. The effective interest rate includes fees that are deemed to be an integrated part of the effective interest rate for a financial instrument (usually fees that are received as compensation for risk). The effective interest rate corresponds to the rate used to discount contractual future cash flows to the carrying amount of the financial asset or liability. Interest on derivatives that hedge interest-rate and foreign-currency risk is recognised as interest income if the derivative hedges an asset and as interest expense if the derivative hedges a liability. Interest compensation for early redemption of fixed-rate lending is recognised under Net gains/losses from financial items.

For assets in stage 3, the interest income is calculated and recognised based on the net carrying amount, meaning after deductions for expected credit losses. For assets in stage 1 and 2, the interest income is calculated and recognised based on the gross carrying amount. See also the section on expected credit losses below.

Negative interest on asset items is recognised as a decrease in interest income. Negative interest on liability items is recognised as a decrease in interest expense. See also note 5 Net interest income

Net gains/losses from financial items

The item Net gains/losses from financial items contains the realised and unrealised changes in value that occurred as a result of financial transactions. Capital gains/losses on the divestment of financial assets and liabilities, including assets measured at amortised cost (interest compensation received when customers pay loans prematurely), are recognised in this item as well as the result of premiums or discounts on repurchases of own funding. This item also includes realised and unrealised changes in the value of derivative instruments that are financial hedging instruments, but for which hedge accounting is not applied, and unrealised changes in the fair value of derivatives to which fair value hedge accounting is applied, and unrealised changes in the fair value of hedged items with regard to hedged risk in the fair value hedge. The ineffective portion of hedging instruments and exchange-rate changes is also recognised as Net gains/losses from financial items. Net gains/losses on transactions measured at fair value through profit or loss does not include interest or dividends. Realised gains or losses are calculated as the difference between the purchase consideration received and the cost of the asset. Impairment of financial assets measured at fair value through other comprehensive income is also recognised under this item.

Remuneration of employees

Current remuneration

Current remuneration of employees is calculated without discount and recognised as an expense when the related services are received.

Remuneration after termination of employment

Pension plans

The company primarily has defined-contribution pension plans. The company is generally covered by the FTP plan, which does not depend on any payments from employees.

Defined-contribution pension plans

The company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The company's payments of defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer.

The pension agreement for the insurance industry, the FTP plan, is a multi-employer pension plan. The plan is a defined-benefit plan for employees born in 1971 or earlier and a defined-contribution plan for employees born in 1972 or after. The defined-benefit portion is insured through the Insurance Industry's Pension Fund (FPK). This pension plan entails that a company, as a rule, recognises its proportional share of the defined-benefit pension commitment and of the plan assets and expenses associated with the pension commitment. Disclosures are also to be presented in the accounts according to the requirements for defined-benefit pension plans.

The FPK is currently unable to provide necessary information, which is why the pension plan above is recognised as a defined-contribution plan.

Nor is any information available on future surpluses and deficits in the plan, and whether these surpluses and deficits would then affect the contributions for the plan in future years.

Remuneration for termination of employment

A cost for remuneration in connection with termination of employment of personnel is recognised at the earliest point in time at which the company can no longer withdraw the offer to the employees or when the company recognises expenses for restructuring. Remuneration expected to be paid after 12 months is recognised at its present value.

Impairment

The carrying amounts of the company's assets are tested on every balance-sheet date to determine whether there are any indications of impairment. These include financial assets tested in accordance with IFRS 9 Financial Instruments: Recognition and Measurement, and deferred tax assets tested in accordance with IAS 12 Income Taxes. The carrying amounts of the exempted assets above are tested according to the respective standard. IAS 36 is applied to impairment testing for assets that are not tested according to any other standard.

Credit losses, net

Credit losses comprise expected credit losses, confirmed credit losses, recoveries of credit losses previously recognised as confirmed and reversals of expected credit losses no longer required. Confirmed credit losses could refer to the entire receivable or parts of it when there is no realistic possibility of recovery. A confirmed credit loss is recognised as a write-off of the gross carrying amount and an add-back of the portion of the allowance for expected credit losses that pertains to a written-off loan or portions of a loan. Recoveries comprise payments of loans that were previously recognised as confirmed credit losses. Expected credit losses are reversed when no impairment requirement is deemed to exist.

Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in profit or loss, except when the underlying transaction is recognised in other comprehensive income, whereby the related tax effect is recognised in other comprehensive income, or when the underlying transaction is recognised directly against equity with the related tax effect recognised in equity.

Current tax is tax that is to be paid or received in the current year, with application of the tax rates that are decided or decided in practice on the balance-sheet date. This also includes adjustments of current tax attributable to prior periods. Deferred tax is calculated in accordance with the balance-sheet method, based on temporary differences between carrying amounts and tax bases of assets and liabilities.

First reporting of assets and liabilities that are not acquisitions of operations and, at the time of the transaction, do not affect recognised or taxable earnings

The valuation of deferred tax is based on how the carrying amounts of assets and liabilities are expected to be realised or settled. Deferred tax is calculated with application of the tax rates and tax rules established or decided in practice on the balance-sheet date.

Deferred tax assets on deductible temporary differences and tax loss carryforwards are only recognised to the extent that it is likely that it will be possible to utilise these. The value of the deferred tax assets is reduced when it is no longer considered likely that they can be utilised.

Financial assets and liabilities

Financial assets recognised in the balance sheet include loan receivables, interest-bearing securities, derivatives with positive market value and accounts receivable. Financial liabilities include debt securities in issue, derivatives with negative market value, other liabilities (accounts payable) and subordinated liabilities. The policies of the company concerning financial risk are described in the section Risk and uncertainties in the Board of Directors' Report.

Recognition and derecognition in the balance sheet

A financial asset or financial liability is recognised in the balance sheet when the company becomes party to the contract in accordance with the instrument's contractual conditions. A financial asset is derecognised from the balance sheet when the rights in the contract are realised, expire or – when the assets are transferred – the company no longer has any significant risks or benefits from the assets and loses control of them. Derecognition also takes place if a financial asset's or liability's contractual terms have been significantly modified (refer also to the separate section on modified loans below).

In genuine repurchase transactions (a sale of interest-bearing securities with an agreement for repurchase at a predetermined price), the asset continues to be recognised in the balance sheet and payment received is recognised as a liability in the balance sheet under the item Due to credit institutions. Sold securities are recognised as pledged assets. For a reversed repurchase transaction (a purchase of interest-bearing securities with an agreement for resale at a predetermined price), the securities are not recognised in the balance sheet. The payment received is recognised instead in the item Loans to credit institutions.

A financial liability is derecognised from the balance sheet when the obligation in the contract is met or extinguished in another manner.

Business transactions in the monetary, bond and equities markets that taken place on demand are recognised in the balance sheet on the trade date, which is the time when the significant risks and rights are transferred between the parties. Lending transactions are recognised on the settlement date. Loan receivables are recognised in the balance sheet when the loan amount is paid to the borrower. Loan commitments are not recognised in the balance sheet and are instead recognised as commitments; see note 28 Pledged assets, contingent liabilities and commitments.

Offsetting financial assets and liabilities

A financial asset and a financial liability are offset and recognised as a net amount in the balance sheet only when a legal right exists to offset the amounts and the intention is present to settle the item in a net amount or simultaneously realise the asset and settle the liability.

Classification and measurement

All financial assets and liabilities are measured at fair value through profit or loss on the initial valuation date. Subsequent measurement and recognition of changes in value take place depending on the measurement category to which the financial instrument belongs.

The company's financial assets comprise:

- Debt instruments
- Derivative instruments

Financial assets are classified and recognised in one of the following three measurement categories, in accordance with the provisions of IFRS 9:
1) amortised cost
2) fair value through other comprehensive income
3) fair value through profit or loss

Debt instruments

The company's financial assets that are debt instruments comprise loan receivables, interest-bearing securities and other financial assets. The business model used to manage a debt instrument and its contractual cash flow characteristics determines the classification of a debt instrument.

A requirement for a financial asset to be measured at amortised cost or fair value through other comprehensive income is that the contractual cash flows solely comprise outstanding payment of the principal and interest on the principal. Debt instruments that do not meet the requirement are measured at fair value through profit or loss regardless of the business model to which the asset is attributable. All debt instruments held in the company meet theses cash flow characteristics. The company regularly checks that cash flows for the debt instruments measured at amortised cost and fair value through other comprehensive income meet the requirements.

Amortised cost

The company manages loans and receivables in a business model whose objective is to realise the assets' cash flows by receiving contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets are therefore measured at amortised cost.

Amortised costs refers to the discounted present value of all future payments attributable to the instrument with the discount rate comprising the effective interest rate of the asset on the acquisition date.

Fair value through other comprehensive income

The company manages its holdings of treasury bills and other eligible bills and bonds and other interest-bearing securities in a business model whose objective is to realise the assets by both receiving contractual cash flows and through sales. These assets are therefore measured at fair value through other comprehensive income. This recognition means that the assets are continuously measured at fair value through other comprehensive income with the accumulated unrealised changes in values recognised in the fair value reserve. Interest income is recognised in net interest income in profit or loss. If an asset in this category is sold, the previous unrealised gain/loss is reclassified from other comprehensive income to profit or loss and is recognised on the line item net gains/losses from financial items.

Fair value through profit or loss

The company does not have any debt instruments measured at fair value through profit or loss. Gains/losses from the sale of debt instruments are recognised in profit or loss.

Derivative instruments

Derivative instruments are measured at fair value through profit or loss unless they are subject to the rules on hedge accounting. Derivatives with positive values are recognised as assets in the company's balance sheet and derivatives with negatives values are recognised as liabilities. All of the company's derivatives are used as hedging instruments, and accordingly the company does not have any derivatives classified as held for trading.

Financial liabilities

The company's financial liabilities are presented in the note *Financial assets and liabilities by category*. The company measures all financial liabilities that are not derivatives at amortised cost.

Reclassification of financial instruments

Financial assets are not normally reclassified after initial recognition. However, a change in business model would entail reclassification.

Methods for determining fair value

The method for determining the fair value of financial instruments follows a hierarchy in which market data is used as far as possible and company-specific information is used as little as possible. The hierarchy for determining fair value is categorised into the following levels, using the following:
Level 1: quoted prices in an active market
Level 2: calculated value based on observable market data
Level 3: own assumptions and judgements.

Financial instruments traded in an active market

For financial instruments traded in an active market, fair value is determined based on the asset's quoted market prices (Level 1). Current bid prices are used for financial assets, and current selling rates without mark-ups for transaction costs and brokerage commission are used for financial liabilities. Any future transaction costs arising in conjunction with divestments are not taken into account.

Financial instruments not traded in an active market

For financial instruments not traded in an active market, the fair value is calculated using various valuation techniques. When valuation techniques are applied, observable inputs are used as far as possible (Level 2). The valuation technique used most is discounted cash flows. If unobservable inputs significantly impact the valuation, the instruments are measured at Level 3. For more information, see note 30 Fair value valuation techniques.

Hedge accounting

The company's derivatives, which comprise interest-rate and cross-currency swaps, have been acquired in their entirety to hedge the risks of interest and exchange-rate exposure arising during the course of operations. The origin and management of these risks are described in the section Interest-rate risk and currency risk in note 3 Risks and capital adequacy. The company has decided to continue to apply the rules in IAS 39 for all hedging relationships.

All derivatives are measured at fair value in the statement of financial position. Changes in value are recognised depending on whether the derivative is designated as a hedging instrument and, if this is the case, the type of hedging relationship that the derivative is included in. The Group applies both cash flow hedges and fair value hedges. Hedge accounting is applied only when there is a clear relationship with the hedged item. In addition, it is required that the hedge effectively protects the hedged item, that hedge documentation is prepared and that the effectiveness can be measured reliably. Hedge accounting can only be applied if the hedging relationship can be expected to be highly effective. In the event that the conditions for hedge accounting are no longer met, the derivative is measured at fair value with the change in value through profit or loss, and the hedged item is no longer subject to remeasurement for cases in which hedging at fair value were previously applied. The effectiveness of hedging relationships are evaluated monthly. Each identified hedging relationship is expected to be effective over the entire lifetime of the relationship. Effectiveness is tested by applying a forward-looking (prospective) assessment and a retrospective evaluation. Ineffectiveness is recognised in profit or loss.

Fair value hedges

The aim of fair value hedges is to protect the company from undesirable earnings effects caused by exposure to changes in the interest-rate risk associated with recognised assets or liabilities. When applying fair value hedges, the hedged item is measured at fair value regarding its hedged risk. The changes in value that arise are recognised in profit or loss and offset the changes in value arising on the derivative (the hedging instrument).

The company applies the fair value hedge method to specific portfolios of either funding, deposits or loans bearing fixed interest rates. The company also applies the fair value hedge method to individual assets in the liquidity portfolio that are classified in the measurement category of fair value through other comprehensive income. The change in the value of the derivative is recognised in profit or loss together with the change in the value of the hedged item regarding the hedged risk under Net gains/losses from financial items. Interest coupons, both unrealised and realised, are recognised as interest income if the hedged item is an asset or portfolio of assets, or as interest expense if the hedged item is a liability or portfolio of liabilities.

Cash flow hedges

The aim of cash flow hedges is to protect the company from variations in future cash flows attributable to recognised assets and liabilities due to changed market factors. Interest and cross-currency interest rate swaps that are hedging instruments in cash flow hedges are measured at fair value. The change in value is recognised in other comprehensive income and in the cash flow hedge reserve in equity to the extent that the change in the value of the swap is effective and corresponds to future cash flows attributable to the hedged item. Ineffectiveness is recognised in profit or loss in the item Net gains/losses from financial items. Gains or losses recognised in the cash flow hedge reserve under equity through other comprehensive income are reclassified and recognised in profit or loss in the same period as the hedged item affects profit or loss.

Expected credit losses

Reserves for expected credit losses ("loss allowance") are recognised for financial assets measured at amortised cost, financial lease assets, debt instruments measured at fair value through other comprehensive income, issued financial guarantees and loan commitments. The initial loss allowance is calculated and recognised on initial recognition and is subsequently continuously adjusted over the lifetime of the financial asset. Initial recognition is defined in the company as the time of origination of the financial instrument, meaning when the original loan terms were set. In the calculation of loss allowance under IFRS 9, the company takes into consideration several different future scenarios, including macro factors.

Model and definitions

The expected loss impairment model is based on dividing the financial assets into three different stages.

- Stage 1 comprises assets for which the credit risk has not increased significantly since initial recognition.
- Stage 2 comprises assets for which the credit risk has increased significantly since initial recognition, but the asset is not credit-impaired.
- The company's method for assessing whether there has been a significant increase in credit risk for loans to the public, and issued financial guarantees and loan commitments, is to compare probability of default (PD) on the reporting date in question with PD from the initial reporting date. In addition, a credit risk is deemed to have increased significantly for assets that are more than 30 days past due.
- The company's method for assessing whether there has been a significant increase in credit risk for loans to credit institutions, and debt instruments measured at fair value through other comprehensive income, is to compare PD based on an external rating on the reporting date in question with PD based on an external rating on the initial reporting date.
- When there is no longer any significant increase in credit risk since the initial reporting date, the financial asset is transferred back to stage 1.
- Stage 3 comprises credit-impaired assets or assets that were credit-impaired on initial recognition. The definition of credit-impaired is consistent with the company's regulatory definition of default. A counterparty is considered to be in default if a payment is more than 60 days past due. A counterparty is also considered to be in default if there are other reasons to expect that the counterparty cannot meet its undertakings. Assets that were credit-impaired on the initial reporting date are recognised in stage 3 for their entire term without being transferred to stage 1 or stage 2.

Estimating and recognising the loss allowance for stage 1 corresponds to the 12-month expected credit losses. For stages 2 and 3, estimating and recognising the loss allowance corresponds to the full lifetime expected credit losses.

The estimates of expected credit losses for loans to the public, and issued financial guarantees and loan commitments, are based on existing internal ratings-based models and take into account forward-looking information. The loss allowance is achieved by estimating the expected credit loss for the assets' contractual cash flows. The present value of the expected credit loss is calculated for every date in each cash flow by multiplying the remaining exposure with the probability of default (PD) and the loss given default (LGD). For stage 1, the loss allowance is estimated as the present value of the 12-month ECL, while the credit loss for stages 2 and 3 is estimated as the present value of the full lifetime expected credit losses. All estimates of the loss allowance including estimates of exposure, PD and LGD take into account forward-looking information and are based on a weighting of at least three different possible macroeconomic scenarios. A number of statistical macro models have been developed to determine how each macroeconomic scenario will affect the expected future exposure, PD and LGD.

The estimates of expected credit losses for loans to credit institutions, and debt instruments measured at fair value through other comprehensive income, start from PD based on the external rating and LGD based on the regulatory amounts under the capital adequacy rules, Regulation (EU) No 575/2013 (CRR). This is because these items are not encompassed by existing, internal ratings-based models.

For accounts receivable, the company uses the simplified method, which entails that a loss allowance is always measured at an amount corresponding to the full lifetime of the expected credit losses.

Recognition of expected credit losses

Only the company's share of expected and confirmed credit losses are recognised. The regional insurance companies' share of expected and confirmed credit losses is settled against a buffer of accrued remuneration to the regional insurance companies. A condition for the regional insurance companies to receive full payment of the distribution remuneration is that the loans generated by each company for the company are of high quality. If this is not the case, up to 80% of any credit losses are off-set against the accrued remuneration to the regional insurance companies. This settlement account is kept separate and is taken into consideration when the provisions are established.

The reserve for financial assets measured at amortised cost is recognised as a reduction of the recognised gross carrying amount of the asset. For financial guarantees and loan commitments, the reserve is recognised as a provision.

The reserve for debt instruments measured at fair value through other comprehensive income is recognised as the fair value reserve in equity and does not impact the carrying amount of the asset. Derecognition reduces the recognised gross amount of the financial asset.

Loss allowance and derecognition of confirmed credit losses are presented in the income statement as credit losses, net.

Modified loans

Modified loans are defined as loans for which the contractual terms have been changed and the change in terms impacts the time and/or the amount of the contractual cash flows of the receivable. Modified loans are derecognised from the balance sheet if the terms of an existing contract have materially changed. A new loan with the new contractual terms is then recognised in the balance sheet. Gains or losses arising on a modification are calculated as the difference between the present value of the outstanding cash flows calculated under the changed terms and discounted by the original effective interest rate and the discounted present value of the outstanding original cash flows. The corresponding principles are applied to the recognition of modifications of the company's financial liabilities.

Confirmed losses

Confirmed credit losses are those losses whose amount is finally established through acceptance of a composition proposal, through other claim remissions or through bankruptcy and after all of the collateral has been realised and where the assessment is that the possibility of receiving additional payments is very small. The receivable is then derecognised from the balance sheet and recognised as a confirmed loss in profit or loss on this date.

Property and equipment

Equipment

Property and equipment are recognised as assets in the balance sheet when, based on information available, it is likely that the future economic benefits associated with the holding will flow to the company and that the cost of the asset can be measured reliably. Equipment is recognised at cost less accumulated depreciation and any accumulated impairment. Depreciation according to plan takes place following the straight-line method over the asset's expected useful life, commencing when the asset is put into operation. Depreciation and any scrapping and divestments are recognised in profit or loss. Impairment is tested in accordance with IAS 36 Impairment of Assets. Useful lives are retested at the end of every fiscal year.

Useful lives of equipment:	
Vehicles	5 years

Provisions

A provision is recognised in the balance sheet when the company has an existing legal or informal obligation as a result of an event that has occurred, and it is probable that an outflow of financial resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

A provision differs from other liabilities since there is uncertainty regarding the date of payment and the amount for settling the provision. A restructuring provision is recognised when an established, detailed and formal restructuring plan exists, and the restructuring process has either commenced or been publicly announced. No provisions are made for future operating expenses. Where the effect of when a payment is made is significant, provisions are calculated by discounting the anticipated future cash flow at an interest rate before tax that reflects current market assessments of the time value of money and, if applicable, the risks related to the liability.

Contingent liabilities

A contingent liability is recognised when there is a possible commitment originating from past events and whose existence is confirmed only by one or more uncertain future events, or when there is a commitment that is not recognised as a liability or provision because it is probable that an outflow of resources will be required, or cannot be measured with sufficient reliability.

Loan commitments

A loan commitment can be:

- A unilateral commitment by the company to issue a loan with predetermined terms and conditions in which borrowers can choose whether they want to accept the loan or not, or
- A loan agreement in which both the company and the borrower are subject to terms and conditions for a loan that begins at a certain point in the future.

Loan commitments are not recognised in the balance sheet. Issued irrevocable loan commitments are valid for three months and recognised as a commitment under memorandum items. The right to cancel the loan commitment is retained if the customer's credit rating has diminished on the date of payment.

Note 3 Risks and capital adequacy

Länsförsäkringar Hypotek is exposed to risks that are managed in accordance with the framework for risk appetite and risk limits set by the Board. Follow-up of the risks defined under this framework comprises a natural part of the ongoing work in the operations and is monitored by the company's independent risk control function, which is called Risk Management. Accordingly, duality in risk management is achieved and risk awareness is prevalent in all day-to-day business decisions. The risks to which the company is primarily exposed are defined below.

Credit risk	Credit risk pertains to the risk of losses arising due to counterparties being unable to fulfil their undertakings and of any collateral provided not covering the receivable. Credit risk encompasses lending risk, issuer risk, counterparty risk, settlement risk and creditworthiness risk.
Market risk	Market risk pertains to the risk of loss arising that is directly or indirectly caused by changes in the level or volatility in the market price of assets, liabilities and financial instruments, including losses caused by shortcomings in the matching between assets and liabilities. Market risk includes interest-rate risk, currency risk, credit-spread risk, equities risk, property risk, option risk and pension risk.
Liquidity risk	Liquidity risk is defined as the risk that payment commitments cannot be fulfilled due to insufficient cash funds. Liquidity risk includes structural liquidity risk, financing risk, rollover risk and intraday liquidity risk.
Operational risk	Operational risk refers to the risk of losses arising due to inadequate or failed internal processes, human error, erroneous systems or external events, including legal risks. Operational risk includes product and process risk, personnel risk, security risk,legal risks, compliance risks, IT risks and model risk.
Business risk	Business risk pertains to the risk of lower earnings, higher expenses or loss of confidence from customers or other stakeholders. Business risk encompasses strategic risk, reputation risk and conduct risk.

Risks are continuously monitored and evaluated. As the external business environment changes new risks emerge for the operations to manage, one of which is climate risk. Climate risk refers to the risks that the consequences of climate change may have on the company's business activities. Climate risks can materialise either through physical risks, such as more cases of extreme weather and gradually rising sea levels, or through transition risks, such as regulatory, political and market changes related to the transition to a low-carbon society.

Risk-management system

The company's risk management follows the division of roles and responsibilities according to the three lines of defence:

The first line of defence pertains to all risk-management activities performed in the business operations. The operations that are exposed to risk also own the risk, which means that the daily risk management takes place within the operations. The operations are also responsible for ensuring that control processes for monitoring are in place, implemented and reported. All employees assume individual responsibility for working towards a well-functioning risk culture by complying with the established risk-management guidelines and framework.

The second line of defence pertains to the independent Risk Management and Compliance functions, which establish principles and frameworks for risk management and regulatory compliance. Accordingly, duality in risk management and risk control, risk culture and risk awareness is prevalent in all day-to-day business decisions. Risk Management controls and monitors arising risks and ensures that risk awareness and correct and consistent risk management takes place on a daily basis. Risk Management also provides assistance when the operations introduce the procedures, systems and tools required for maintaining this continuous risk management. The role of compliance is to provide support and control to ensure that the operations comply with regulatory requirements.

The third line of defence is Internal Audit, which comprises the Board's support for quality assurance and evaluation of the organisation's risk management, governance and internal controls. Internal Audit performs independent and regular audits to control, evaluate and ensure, for example, the procedures and processes for financial reporting, the operation and management of information systems and the operations' risk-management system.

The Board is responsible for ensuring that an efficient risk-management system is in place and that it is customised to the company's risk appetite and risk limits through the adoption of relevant governance documents. The Board approves all significant elements of the internal models used within the operations and is also responsible for ensuring that regulatory compliance and risks are managed in a satisfactory manner through the company's control functions of Compliance, Risk Management and Internal Audit. The Risk and Capital Committee supports the Board in risk and capital issues, and prepares cases ahead of Board decisions, for example, regarding market, liquidity, credit and operational risk, and capital and financing matters.

The President is responsible for ensuring that daily management takes place in accordance with the strategies, guidelines and governance documents established by the Board. The President also ensures that the methods, models, systems and processes that form the internal measurement and control of identified risks work in the manner intended and decided by the Board. The President is to continuously ensure relevant reporting from each unit, including Risk Management, to the Board. Risk Management is charged with the operational responsibility for the independent risk control and must thus objectively manage and report risks in the operations. The independent Risk Manager, or Chief Risk Officer (CRO), is directly subordinate to the President and reports directly to the President and the Board. The CRO is also responsible for Risk Management, whose areas of responsibility are defined and documented in the guidelines adopted by the Board.

This ensures that the company has an effective and robust system for risk management, which allows continuous evaluation and assessment of the risks associated with the business activities. The system is an integrated part of the decision-making processes.

The risk-management system consists of strategies, processes, procedures, internal rules, limits, controls and reporting procedures needed to ensure that the company is able to continuously identify, measure, govern, report and have control over the risks to which they are, or could become, exposed to.

Länsförsäkringar Hypotek manages and evaluates its exposure to the risks to which its operations are exposed on the basis of:

- Clear and documented descriptions of processes and procedures.
- Clearly defined and documented responsibilities and authorities.
- Risk-measurement methods and system support that are customised to the requirements, complexity and size of the operations.
- Regular incident reporting of the operations according to a documented process.
- Sufficient resources and expertise for attaining the desired level of quality in both the business and control activities.
- Documented and communicated business contingency and continuity plans.
- Clear instructions for each respective risk area and a documented process for approving new or considerably amended products, services, markets, processes and IT systems, as well as exceptional transactions and major changes to operations and organisation.

Credit risk

Credit risk is defined as the risk of losses arising due to a counterparty not being able to fulfil its commitments to the company and the risk that the counterparty's pledged collateral will not cover the company's receivables, leading to a loss. Länsförsäkringar Hypotek calculates credit risks for loans to the public in accordance with the Internal Ratings-based Approach (IRB).

The loan portfolio largely comprises mortgages, mainly with single-family homes as collateral. All lending takes place in Sweden. Concentration risk primarily comprise geographic distribution. Most exposures are relatively small, with a good geographic spread, meaning that there is no significant exposure to concentration risk.

The Swedish Financial Supervisory Authority approved the Bank group's revised definition of default in the final quarter of 2019. The calculation of the allowance for expected credit losses will be impacted when the new definition of default is implemented. The effect of the transition will be recognised in profit or loss as credit losses, net.

Credit process

The banking operations impose strict requirements in terms of customer selection, customers' repayment capacity and the quality of collateral.

Länsförsäkringar Hypotek is responsible for ensuring that loan origination is carried out according to uniform procedures based on the Board's adopted guidelines, which forms a foundation for a shared view on lending in the Länsförsäkringar Alliance. Länsförsäkringar Hypotek continuously monitors and reviews the quality of the loan portfolio and borrowers' repayment capacity. Combined with system support for risk classification, this leads to balanced and consistent lending. The Board's adopted credit regulations form the foun-dation of all lending. The size of the loan and level of risk determine the decision level, where the highest instance is the Board and the lowest instance a decision at local level. Mandates for granting credit at the respective decision-making instance are set out in the credit regulations.

The credit regulations also set out minimum requirements for underlying documentation for credit-granting decisions. Compliance with the credit regulations is followed up by the regional insurance companies and by Länsförsäkringar Bank and its subsidiaries. The credit regulations and credit process, combined with local customer and market knowledge, create a loan portfolio that maintains high credit quality.

IRB system

An Internal Ratings-based Approach is used in the area of credit risk, or IRB Approach, to calculate the capital requirement for credit risk. This complies with the requirements set by the CRR and forms the basis of the IRB risk-classification system. The IRB system is a core component of the credit process and consists of methods, models, processes, controls and IT systems to support and further develop the quantification of credit risks. Specifically, the IRB system is used in conjunction with:

- Credit process for risk assessment and credit-granting decisions
- Calculation of loss allowances
- Calculation of risk-adjusted returns
- Monitoring and reporting to management and the Board
- Calculation of capital requirement
- Risk-adjusted pricing

Some of the core concepts in the IRB system are described below. The probability of default (PD) is the probability that a counterparty is unable to meet its undertaking to the bank. A PD with a 12-month horizon is initially calculated for each counterparty and is then adjusted to reflect the average proportion of default over a longer time period. The counterparties are ranked and grouped according to a PD scale comprising 11 risk classes (grades) for non-defaulted counterparties and one risk category for defaulted counterparties. A loss given default (LGD) is the portion of an exposure that is expected to be lost in the event of default. Exposure at default (EAD) is the exposure amount that the counterparty is expected to have utilised upon default. For off balance-sheet commitments, EAD is calculated by multiplying the counterparty's total granted amount by a conversion factor (CF). These estimates are calculated on the basis of internal information regarding the payment percentage, degree of utilisation and products. The relationship between the loan portfolio and the underlying assets is expressed as the weighted average loan-to-value (LTV) ratio.

Credit quality

Lending increased to SEK 240 billion (221). Essentially all lending qualifies for inclusion in the covered-bond operations, which are regulated by the Swedish Covered Bonds (Issuance) Act (2003:1223). The term covered bonds refers to bonds with preferential rights in the sections of the issuing institution's assets that are approved by legislation (cover pool). The remaining lending pertains partly to multi-family housing that qualifies for inclusion in the cover pool but that Länsförsäkringar Hypotek has chosen to exclude. A specification of Länsförsäkringar Hypotek's maximum credit risk exposure is presented in the following tables.

Credit risk exposure, SEK M	31 Dec 2019	31 Dec 2018
Credit risk exposure for items recognised in the balance sheet		
Cash and balances with central banks	–	–
Loans to credit institutions	4,186.8	4,631.0
Loans to the public	240,067.4	221,113.5
Bonds and other interest-bearing securities	10,304.0	9,916.6
Derivative instruments	7,568.2	5,540.2
Other assets	9.3	3.1
Credit risk exposure for memorandum items		
Guarantees	–	–
Loan commitments and other credit commitments	10,604.0	10,117.9
Total	**272,739.8**	**251,322.3**

The table below shows the credit quality of bonds and other interest-bearing securities.

Covered bonds, SEK M	31 Dec 2019	31 Dec 2018
AAA/Aaa	10,304.0	9,916.6
Total	**10,304.0**	**9,916.6**

The tables below show the credit quality of loans to the public and loan commitments and other credit commitments based on the IRB Approach and region and per stage according to the Bank Group's expected loss impairment model. See note 2 Accounting policies.

Credit risk exposure by internal risk classification, SEK M	31 Dec 2019			
	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Loans to the public	**Gross carrying amount**	**Gross carrying amount**	**Gross carrying amount**	**Gross carrying amount**
Internal rating 1–3	159,570.9		7.8	159,578.7
Internal rating 4–6	75,547.2	41.3	8.4	75,596.9
Internal rating 7–9	2,410.4	1,794.2	2.1	4,206.6
Internal rating 10–11	40.7	499.8	4.2	544.7
Defaulted	--	--	139.6	139.6
Not risk classified	0.8	–	–	0.8
Total	**237,570.0**	**2,335.4**	**162.0**	**240,067.4**

	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Loan commitments and other credit commitments	**Credit risk exposure**	**Credit risk exposure**	**Credit risk exposure**	**Credit risk exposure**
Internal rating 1–3	6,659.2		–	6,659.2
Internal rating 4–6	3,614.9	0.1	–	3,615.0
Internal rating 7–9	287.6	38.2	–	325.8
Internal rating 10–11	0.2	3.8	–	4.0
Defaulted	–	–	–	–
Not risk classified	–	–	–	–
Total	**10,561.9**	**42.1**	**–**	**10,604.0**

Credit risk exposure by internal risk classification, SEK M	31 Dec 2018			
	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Loans to the public	**Gross carrying amount**	**Gross carrying amount**	**Gross carrying amount**	**Gross carrying amount**
Internal rating 1–3	145,855.5	–	4.3	145,859.8
Internal rating 4–6	70,868.5	91.7	8.3	70,968.6
Internal rating 7–9	2,093.6	1,592.3	7.9	3,693.8
Internal rating 10–11	30.8	426.5	10.3	467.7
Defaulted	–	–	122.9	122.8
Not risk classified	0.8	–	–	0.8
Total	**218,849.3**	**2,110.6**	**153.7**	**221,113.5**

	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Loan commitments and other credit commitments	**Credit risk exposure**	**Credit risk exposure**	**Credit risk exposure**	**Credit risk exposure**
Internal rating 1–3	6,044.1	0.8	–	6,044.9
Internal rating 4–6	3,647.8	0.9	–	3,648.7
Internal rating 7–9	343.3	68.4	–	411.7
Internal rating 10–11	6.3	2.9	–	9.2
Defaulted	–	–	3.4	3.4
Not risk classified	–	–	–	–
Total	**10,041.4**	**73.0**	**3.4**	**10,117.9**

Credit risk exposure by region, SEK M

31 Dec 2019

Loans to the public	Not credit-impaired Stage 1 Gross carrying amount	Not credit-impaired Stage 2 Gross carrying amount	Credit-impaired Stage 3 Gross carrying amount	Total Gross carrying amount
Western Sweden	53,549.8	474.1	30.3	54,054.2
Eastern Central Sweden	51,526.9	501.8	48.9	52,077.5
Stockholm	33,423.9	565.9	28.8	34,018.6
Southern Sweden	31,981.2	294.9	23.7	32,299.8
Northern Central Sweden	23,663.0	153.7	14.2	23,830.8
Småland and islands	23,694.6	184.0	11.3	23,889.9
Northern Norrland	12,153.1	80.7	3.1	12,236.9
Central Norrland	7,577.5	80.4	1.7	7,659.5
Total	**237,570.0**	**2,335.4**	**162.0**	**240,067.4**

Loan commitments and other credit commitments	Not credit-impaired Stage 1 Credit risk exposure	Not credit-impaired Stage 2 Credit risk exposure	Credit-impaired Stage 3 Credit risk exposure	Total Credit risk exposure
Western Sweden	2,306.7	8.4	–	2,315.1
Eastern Central Sweden	2,202.8	4.9	–	2,207.7
Stockholm	2,552.4	20.0	–	2,572.4
Southern Sweden	1,437.7	3.7	–	1,441.4
Northern Central Sweden	667.5	2.0	–	669.5
Småland and islands	838.2	1.9	–	840.1
Northern Norrland	332.9	0.2	–	333.1
Central Norrland	223.6	1.0	–	224.6
Total	**10,561.9**	**42.1**	**–**	**10,604.0**

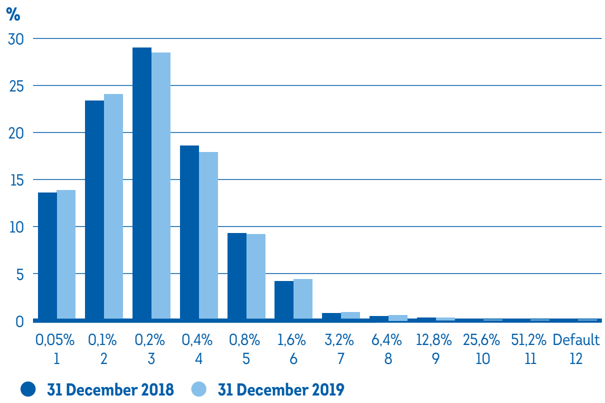
Credit risk exposure by region, SEK M

31 Dec 2018

Loans to the public	Not credit-impaired Stage 1 Gross carrying amount	Not credit-impaired Stage 2 Gross carrying amount	Credit-impaired Stage 3 Gross carrying amount	Total Gross carrying amount
Western Sweden	49,242.8	526.9	26.7	49,796.4
Eastern Central Sweden	48,871.4	450.4	41.4	49,363.2
Stockholm	31,002.1	495.2	27.6	31,525.0
Southern Sweden	28,183.9	211.6	20.7	28,416.2
Northern Central Sweden	21,781.7	149.2	13.7	21,944.6
Småland and islands	21,651.4	171.8	8.1	21,831.3
Northern Norrland	11,192.7	47.0	6.9	11,246.6
Central Norrland	6,923.3	58.5	8.6	6,990.3
Total	**218,849.3**	**2,110.6**	**153.6**	**221,113.5**

Loan commitments and other credit commitments	Not credit-impaired Stage 1 Credit risk exposure	Not credit-impaired Stage 2 Credit risk exposure	Credit-impaired Stage 3 Credit risk exposure	Total Credit risk exposure
Western Sweden	2,458.2	9.4	–	2,467.6
Eastern Central Sweden	2,160.6	18.3	–	2,178.9
Stockholm	2,085.1	25.7	–	2,110.8
Southern Sweden	1,216.6	7.1	3.4	1,227.1
Northern Central Sweden	719.0	2.3	–	721.2
Småland and islands	792.8	8.6	–	801.4
Northern Norrland	320.4	1.7	–	322.1
Central Norrland	288.7	–	–	288.7
Total	**10,041.4**	**73.0**	**3.4**	**10,117.9**

The company's credit exposure according to the risk-classification scale is presented below. The results show a distribution of exposure, with 84% (85) of exposure found in the best grades 1–4.



The table below shows loans to the public. Collateral is provided in mortgage deeds for single-family homes, multi-family housing and industrial properties.

Loan portfolio by collateral

	31 Dec 2019		31 Dec 2018	
Collateral	**SEK M**	**%**	**SEK M**	**%**
Single-family homes	171,297.6	71.4	157,197.3	71.1
Tenant-owned apartments	60,071.3	25.0	55,356.4	25.0
Multi-family housing	7,447.4	3.1	7,525.1	3.4
Industrial properties	1,028.7	0.4	853.6	0.4
Other	222.4	0.1	181.1	0.1
Loans to the public, gross	**240,067.4**	**100**	**221,113.5**	**100**
Reserves	**-5.8**		**-5.6**	
Total	**240,061.6**		**221,107.9**	

Credit-impaired loan receivables (stage 3) by type of collateral are presented below. Collateral for credit-impaired loan receivables comprises residential properties and commercial properties.

Credit-impaired loan receivables by collateral, SEK M	**31 Dec 2019**	**31 Dec 2018**
Residential properties, including tenant-owned apartments	150.2	126.9
Commercial properties	11.8	26.7
Total credit-impaired loan receivables	**162.0**	**153.6**

Cover pool

On 31 December 2019, the cover pool had a volume of SEK 240 billion (221). The geographic distribution in Sweden is well-diversified and collateral comprises only private homes. Credit quality remained high. The weighted average loan-to-value ratio (LTV) was 59% (59) and the average commitment per property was SEK 1.3 M (1.2). The market value of all single-family homes and tenant-owned apartments in the loan portfolio is updated annually.

Cover pool	**31 Dec 2019**	**31 Dec 2018**
Cover pool, SEK billion	240.4	220.9
of which, Swedish mortgages, SEK billion	230.4	211.4
of which, substitute collateral, SEK billion	10.0	9.5
Collateral	Private homes	Private homes
Weighted average LTV, %	59	59
Seasoning, months	61	59
Number of loans	402,194	383,242
Number of properties	177,539	169,051
Average commitment, SEK 000s	1,297.7	1,249.5
Average loan, SEK 000s	572.8	551.7
Interest rate type, 3 month, %	56	72
Interest rate type, fixed, %	44	28
OC [1], %	34	35
Impaired loans	None	None

[1] OC is calculated using nominal values and excludes accrued interest rates.

Cover pool, geographic allocation[1]

Region	**31 Dec 2019, %**	**31 Dec 2018, %**
Stockholm	15.0	15.1
Gothenburg	8.9	8.9
Malmö	3.7	3.6
Southern Sweden	11.0	10.5
Western Sweden	23.6	23.7
Eastern Sweden	22.7	23.0
Northern Sweden	15.1	15.2
Total	**100**	**100**

[1] Distribution in accordance with Associated Covered Bond Issuers' reporting for National Templates.

Cover pool by LTV	31 Dec 2019		31 Dec 2018	
LTV interval, %	**SEK M**	**%**	**SEK M**	**%**
0–10	45,109.5	19.6	42,112.1	19.9
11–20	41,990.6	18.2	39,191.8	18.5
21–30	38,327.1	16.6	35,729.8	16.9
31–40	34,404.7	14.9	31,776.1	15.0
41–50	29,277.5	12.7	26,826.4	12.7
51–60	22,302.4	9.7	19,921.2	9.4
61–70	14,409.2	6.3	12,055.9	5.7
71–75	4,567.8	2.0	3,828.3	1.8
Total	**230,388.8**	**100**	**211,441.6**	**100**

Cover pool by collateral

	31 Dec 2019		31 Dec 2018	
Collateral	**SEK M**	**%**	**SEK M**	**%**
Single-family homes	165,975.4	72.0	152,322.5	72.0
Tenant-owned apartments	59,617.3	25.9	4,350.9	2.1
Vacation homes	4,796.1	2.1	54,768.2	25.9
Total	**230,388.8**	**100**	**211,441.6**	**100**

Stress test of the cover pool

During a stress test of the cover pool based on a 20% price drop in the market value in the loan portfolio, the weighted average LTV amounted to 66% (65) compared with a current weighted average LTV of 59% (59) on 31 December 2019.

Credit losses and non-performing loan receivables

A non-performing loan receivable has a non-performing payment that is more than nine days overdue and that is not classified as credit-impaired according to the Bank Group's expected loss impairment model.

Non-performing loan receivables that are not credit-impaired

SEK M	31 Dec 2019	31 Dec 2018
Receivables overdue by 10–30 days	–	50.8
Receivables overdue by 31–60 days	61.1	–
Receivables overdue by 61–90 days	–	–
Total	**61.1**	**50.8**

A condition for full payment of the regional insurance companies' distribution remuneration by Länsförsäkringar Hypotek AB is that the loans generated by each company for Länsförsäkringar Hypotek AB are of high quality. If this is not the case, up to 80% of any credit losses are off-set against the accrued remuneration to the regional insurance companies. This settlement account is kept separate and is taken into consideration when the provisions are established. On 31 December 2019, the total loss allowance requirement for loans to the public and commitments amounted to SEK 30 M (29), of which Länsförsäkringar Hypotek AB's recognised loss allowance accounted for SEK 6 M (6); the remaining SEK 24 M (23) was settled against the regional insurance companies' withheld funds, according to the model described above. For more information on loss allowances, refer to note 2 Accounting policies, note 14 Loans to the public and note 28 Pledged assets, contingent liabilities and commitments.

Credit losses amounted to SEK -0.9 M (-1.3), corresponding to a credit loss level of -0.00% (0.00). Credit losses continued to account for a minor percentage of total loans. For more information on credit losses, see note 11 Credit losses.

Sensitivity in calculation of loss allowances

The assessment of what constitutes a significant increase in credit risk is an important factor in calculating the loss allowance. Länsförsäkringar Hypotek's assessment is based on the PD change compared with the initial reporting date. The criteria includes a relative threshold of 200% combined with an absolute threshold of 100 basis points and an independent absolute threshold of 500 basis points. In addition, a credit risk is deemed to have increased significantly for assets that are more than 30 days past due. If the relative threshold had been set at 150% instead, the loss allowance would have increased by 0.6%. If the relative threshold had been set at 250% instead, the loss allowance would have declined by 0.8%. The sensitivity analysis includes loss allowance for loans to the public, commitments and guarantees.

Expected credit losses are to be estimated in a manner that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The estimate is to include information about past events, current conditions and forecasts of future economic conditions. The forward-looking information used to estimate expected credit losses is based on the Group's internal macroeconomic forecasts. These macroeconomic forecasts take into account both internal and external information and correspond to the forward-looking information used for other purposes, such as forecasts and financial planning. Three potential macroeconomic scenarios are considered when calculating expected credit losses: a base scenario that is currently weighted at 60%, and a more positive scenario and a more negative scenario that are both weighted at 20%.

Macro variables in each scenario

	Scenario		
	Basic	Negative	Positive
GDP, annual change in %	0.9–2.0	-5.0–2.0	2.0–3.5
Unemployment, level in %	6.8–7.5	6.8–11.0	4.8–6.8
Housing prices, annual change in %	2.0–4.0	-25.0–4.0	4.0–10.0

A deterioration in the forecast macro variables in each scenario or an increase in the probability of a negative scenario would generally entail an increase in the estimated loss allowance. An improvement in the forecast macro variables or an increase in the probability of a positive scenario would instead have the opposite effect on the estimated loss allowance.

The table below shows the loss allowances that would have been recognised on 31 December 2019 if a positive or a negative macroeconomic scenario assigned a probability of 100% had been used. The sensitivity analysis includes loss allowance for loans to the public and commitments.

Sensitivity analysis of loss allowance in a 100% weight positive and negative scenario

Recognised probability-weighted loss allowance, SEK M	Scenario	Loss allowance according to sensitivity analysis, SEK M	Change compared with probability-weighted loss allowance, %
6.0	Positive scenario	3.7	-37.7%
	Negative scenario	12.8	114.6%

Counterparty risk

Counterparty risk is defined as the risk that Länsförsäkringar Hypotek could suffer losses pertaining to investments in other credit institutions, bank funds or derivative transactions due to counterparties not fulfilling their commitments. Repurchase agreements are included in counterparty risk.

Risk in derivative transactions is managed by the company having a number of swap counterparties, all with high ratings and established ISDA agreements. ISDA agreements allow net accounting of positive and negative derivatives, which reduces the risk to the net position per counterpart. For the covered-bond operations, ISDA agreements are in place, as well as accompanying unilateral CSA agreements. CSA agreements involve commitments concerning delivery and receipt of collateral in the event of changes to the included derivatives' market values. Each counterparty is also assigned a maximum exposure amount. The table below presents only the counterparties with positive exposure and the amounts include collateral.

Credit risk exposure for derivatives regarding collateral received and other forms of credit enhancement

	31 Dec 2019					31 Dec 2018
		Collateral				
SEK M	Maximum credit risk exposure	Cash and cash equivalents	Securities	Other	Net exposure	Net exposure
AAA-AA	1,370.7	108.2	–	–	1,061.6	1,061.1
A	6,197.5	116.8	–	–	5,844.0	4,023.8
Total	**7,568.2**	**225.0**	**–**	**–**	**6,905.5**	**5,084.9**

Market risk

The overall framework for the financial operations is adopted by the Board in the risk policy. The Board also adopts the risk appetite and limits for market risk, and the bank generally has a low risk appetite for market risks that are to be minimised as far as reasonably possible. The primary market risks are interest-rate risk and currency risk, which are measured and monitored on a daily basis. The company applies a number of supplementary risk measures to market risk, such as Value-At-Risk and sensitivity measures.

Interest-rate risk

Interest-rate risk arises when assets, liabilities and derivatives do not have matching fixed-interest periods and this is to be minimised as far as reasonably possible; firstly, fixed-interest periods are matched and secondly interest-rate swaps are used. Interest-rate risk is managed by the bank's Treasury unit. On 31 December 2019, a parallel shift of 100 basis points in the yield curve would have changed the value of interest-bearing assets and liabilities, including derivatives, by SEK 71.8 M (94.8).

Impact of interest-rate risk, SEK M	31 Dec 2019	31 Dec 2018
Interest-rate risk	71.8	94.8
Impacts profit	0.0	0.0
Impacts equity	5.5	9.4
Impacts own funds	0.0	0.0

Interest-rate risk by currency

Group, SEK M Currency	31 Dec 2019	31 Dec 2018
EUR	4.3	0.0
CHF	0.0	0.0
NOK	-0.1	-0.1
USD	0.0	0.0
SEK	67.5	94.8

The table below presents the two scenarios for changes in market interest rates and their impact on net interest income over the next few years.

Net interest income risk

SEK M	31 Dec 2019	31 Dec 2018
Parallel shift, up 100 bp	210.3	217.6
Parallel shift, down 50 bp	-105.2	-110.7

Currency risk

Exposure to foreign-currency risk arises when the Group invests or issues bonds in foreign currency. The company's policy is not to have any net exposure to foreign-currency risk, which is why risk that arises is managed using currency and cross-currency interest rate swaps.

Other market risks

In addition to interest-rate and currency risk, the bank has a currency-basis spread risk and a credit-spread risk. Both of these risks affect only other comprehensive income. The currency-basis spread risk arises in foreign funding when currency is swapped to SEK. Credit-spread risks arise in substitute collateral in the cover pool.

IBOR and Interest Rate Benchmark Reform

After the financial crisis, global supervisory authorities have focused on interbank offered rates (IBORs) and an international trend is that IBORs are being replaced by or supplemented with alternative risk-free rates (RFRs) to improve the function of the financial market. Currently, there is uncertainty about the timing and exact nature of these changes. The company's primary exposure to IBORs currently comprises contracts that refer to Stibor and Euribor. There are also relationships with CHF-Libor, USD Libor, GBP Libor and Nibor. The exposures to international IBORs refer to the funding and liquidity reserve and associated derivative hedging contracts.

Länsförsäkringar expects that it may be necessary to review systems and processes in order to manage the changes to contracts including IBORs, including any tax and accounting consequences. Länsförsäkringar Bank will continue to work together with its industry colleagues to ensure an orderly transition to alternative risk-free rates and to minimise risks that may arise on transition. Länsförsäkringar Bank is a panel bank on the Stibor committee that manages Stibor developments. The process of adapting Stibor to the EU Benchmark Regulation is based on the expectation that Stibor will continue to exist. Länsförsäkringar Bank is also a member of the Swedish Bankers' Association working group tasked with proposing a new alternative reference rate. The current idea is that a new alternative reference rate is to exist in parallel with Stibor. Regarding developments internationally, the company has no significant exposure to any of the rates that will disappear in the near future and more long-term developments are being monitored. It currently appears that Euribor will continue to exist.

The IASB is currently working on amendments to IAS 39 and IFRS 9 due to the accounting consequences that may arise at the time of the changes in contracts with an IBOR. The company is continuing to monitor the status of the IASB's work and will assess the effects for the company when further information is available.

	Nominal amount per IBOR			
	Stibor	Euribor	CHF Libor	Total nominal amount
Cash flow hedge				
Currency risk				
Cross-currency interest rate swaps	–	34,682.8	4,833.5	39,516.3
Fair value hedge				
Interest-rate risk				
Interest-rate swaps	237,847.0	33,705.7	4,833.5	276,386.2

Hedge accounting – Hypotek

	Derivatives		Assets		Liabilities		Hedge accounting			
SEK M	Nominal amount		Carrying amount		Carrying amount		Change in value for the year		Accumulated changes in value	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	2019	2018	31 Dec 2019	31 Dec 2018
Fair value hedges										
Interest-rate contracts										
Hedged items[2]										
Treasury bills and other eligible bills										
Bonds and other interest-bearing securities			10,304.0	10,182.8			–39.6	–55.7	12.9	60.9
Debt securities in issue										
Hedging instruments										
Interest-rate swaps	10,040.0	9,500.0	21.4	3.6	19.1	50.1	39.0	57.0		
Ineffectiveness[1]							–0.6	1.3		
Currency contracts										
Hedged items[2]										
Treasury bills and other eligible bills										
Bonds and other interest-bearing securities										
Debt securities in issue					38,929.8	34,781.9	–338.5	–120.4	1,083.5	–745.1
Hedging instruments										
Cross-currency interest rate swaps	38,079.2	34,100.9	1,337.2	958.3	0.0	0.0	352.4	119.3		
Ineffectiveness[1]							13.9	–1.1		
Portfolio of fair value hedges										
Interest-rate contracts										
Hedged items										
Loans to the public			99,112.1	65,802.6			–256.4	–104.0	–152.9	103.5
Deposits and funding from the public										
Debt securities in issue					127,453.7	132,675.0	–68.5	114.9	1,088.3	–1,019.8
Hedging instruments										
Interest-rate swaps	228,267.0	176,872.0	1,682.3	1,366.1	262.0	199.7	328.1	–14.9		
Ineffectiveness[1]							3.2	–4.0		
Cash flow hedges[5]										
Currency contracts										
Hedged items[3]							–18.7	–56.8		
Hedging instruments										
Cross-currency interest rate swaps[4]	39,516.3	37,357.4	4,527.3	3,245.1	93.3	213.8	18.7	56.8		
Ineffectiveness[1]								–		
Total hedged item			**109,416.1**	**75,985.4**	**166,383.5**	**167,456.9**	**–721.7**	**–222.0**	**2,031.8**	**–1,600.4**
Total hedging instruments	**315,902.5**	**257,830.3**	**7,568.2**	**5,573.1**	**374.4**	**463.6**	**738.2**	**218.2**		
Total ineffectiveness							**16.5**	**–3.8**		

Hedging instruments with positive fair values are recognised in the balance sheet as assets on the line item "derivatives" and hedging instruments with negative fair values are recognised in the balance sheet as liabilities on the line item "derivatives."

The average fixed interest on outstanding derivatives on 31 December 2019 was 0.4% (0.6).

1) The ineffectiveness of all hedging relationships is recognised in the line item "Net gains/losses from financial items" in profit or loss.

2) For terminated fair value hedges and cash flow hedges, no accumulated changes in value remain in the balance sheet.

3) The change in value of the hedged item pertains to a perfectly effective hypothetical hedging instrument. Such an instrument is used to determine the effective portion of the hedging instrument, which is recognised in other comprehensive income, and the ineffective portion, which is recognised in the line item "Net gains/losses from financial items" in profit or loss.

4) Of changes in value for the year, SEK 0 M (0) pertains to amounts reclassified to profit or loss. Amounts reclassified to profit or loss for terminated hedging relationships amounted to SEK 0 M (0).

5) Amounts recognised in the hedging reserve are presented in the "Statement of changes in equity." Amounts pertaining to cash flow hedges recognised through other comprehensive income are presented in the "Statement of comprehensive income."

The fixed-interest periods of the hedging instrument are presented in the section Market risks. The maturity dates of the instruments are presented in the section Liquidity risk.

Maturity profile for nominal amounts in hedging instruments

	31 Dec 2019 Remaining contractual term			31 Dec 2018 Remaining contractual term		
	< 1 year	1–5 years	> 5 years	< 1 year	1–5 years	> 5 years
Currency risk						
Nominal amount	4,375.0	20,626.9	11,928.0	1,295.4	14,465.7	17,339.9

Risks and hedging instruments

The risks hedged and for which hedge accounting is applied are:

- Interest-rate risk, excluding credit-spread risk
- Currency risk

The hedged items are hedged in their entirety for the above risk components. The company's derivatives, which comprise interest and cross-currency interest rate swaps, have been acquired in their entirety to hedge the risks of interest and exchange-rate exposure arising during the course of operations. Interest-rate swaps are used to swap fixed interest in SEK to variable interest in SEK. Cross-currency interest rate swaps are used to swap foreign currencies to SEK and fixed foreign interest to variable interest in SEK.

Determination of economic relationship

Fair value hedges of interest-rate risk

The company applies the fair value hedge method to specific portfolios of funding, deposits and loans that carry fixed interest rates. The Group also applies the fair value hedge method to assets in the liquidity portfolio that are recognised in the category of Fair value through other comprehensive income. The following terms have been identified as critical in a fair value hedge of interest-rate risk:

- Nominal amount
- Currency
- Maturity date
- Coupon rate of interest

If the terms correspond, an economic relationship is deemed to exist between the hedged item and the hedging instrument, meaning that the hedging instrument and the hedged item have values that normally develop in opposite directions due to the same risk, which is the hedged risk. Effectiveness is assessed by comparing the change in value of the swap's fixed legs with the change in value of the hedged item.

For hedging relationships to which portfolio hedging is applied, each portfolio and the hedging instruments that hedge the portfolio are divided into time pockets. The volume in the hedged item (the portfolio) and the volume in the hedging instrument are compared in each time pocket. If the current volume of the hedged item is less than the volume of the hedging instrument, the difference is removed from the hedging relationship.If the current volume of the hedged item exceeds the volume of the hedging instrument, the surplus portion is not included in the hedging relationship and thus is not remeasured. Hedging relationships are reconciled monthly.

For hedging relationships whereby a one-to-one hedge is applied, the volume in the hedged item always corresponds to the volume in the hedging instrument. The hedge ratio (the ratio in a nominal amount between the hedged item and the hedging instrument) is 1:1 and corresponds to the actual risk management.

The derivative counterparties all have a high credit rating (normally AA) and, as long as this does not change, the credit risk is not deemed to dominate the change in the value of the hedging instrument.

Cash flow hedging of currency risk

The company applies cash flow hedges for hedging currency risk in the company's debt securities in issue in foreign currency. The following terms have been identified as critical in a cash flow hedge of currency risk:

- Nominal amount
- Maturity date
- Reference rate
- Interest reset date
- The swap swaps the hedged item's currency flows to the company's functional currency.

If the terms correspond, an economic relationship is expected to exist between the hedged item and the hedging instrument.

The nominal amount of the hypothetical derivative and the hedging instrument are to be the same (a hedge ratio of 1:1) The hedge ratio corresponds to the actual risk management.

The derivative counterparties all have a high credit rating (normally AA) and, as long as this does not change, the credit risk is not deemed to dominate the change in the value.

Sources of ineffectiveness

The ineffectiveness arising in a hedging relationship is recognised in profit or loss. Sources of ineffectiveness in the ompany's hedging relationships are described below.

Fair value hedges of interest-rate risk: The variable leg of the swap does not have a counterpart in the hedged item.

Cash flow hedging of currency risk: Ineffectiveness arises if the terms of the hypothetical derivative deviate from the hedging instrument at the same time as the change in the value of the hedging instrument exceeds the change in the value of the hypothetical derivative.

Liquidity risk

Liquidity risk is defined as the risk that payment commitments cannot be fulfilled due to insufficient cash funds, or are only able to be fulfilled by funding at a significantly higher cost than normal or by divesting assets at a substantial deficit price.

The company's risk appetite for liquidity risk is low. Liquidity risk is minimised and prevented by forecasting future liquidity requirements, high access to funds, explicit functional definitions and a high level of control. The Board establishes the risk appetite, liquidity risk limits and the direction of liquidity risk management.

Liquidity and financing strategy

The company's liquidity risk is governed based on the liquidity and financing strategy to comply with the Board's low risk tolerance. The strategy is determined annually and is updated whenever necessary. The liquidity strategy is specified in a financing plan decided by the Board and contains key figures and targets for fulfilment of the established objectives, which are monitored at every ALCO and Board meeting.

Liquidity risk management

The objective of liquidity management is that the company, at any given time, is to have sufficient cash and cash equivalents with which to fulfil its commitments under both normal and stressed market conditions when access to funding is limited or non-existent. Liquidity risk is managed by the Treasury unit and is quantified using daily liquidity forecasts based on all contracted cash flows and expected business volumes of deposits and lending. The Treasury unit is also responsible for meeting the limits for liquidity risk set by the Board.

The central measure in the management of liquidity risk comprises the company's "survival horizon," meaning the period of time during which the company is able to meet its commitments without requiring access to new financing. The liquidity limit for the survival horizon has been set at 12 months. A contingency plan group has been appointed to manage disruptions and action plans are kept up-to-date and approved by the ALCO.

To comprehensively analyse the liquidity risk, a number of structural and quantitative risk measures are in place, including a minimum requirement for unutilised amount in the cover pool for the issuance of covered bonds.

Liquidity reserve

The company's liquidity reserve comprises securities of very high liquidity and credit quality. Most of the securities holdings are eligible for transactions with the Riksbank and, where appropriate, with the ECB or the Federal Reserve, and can be quickly converted to liquid assets in order to ensure that sufficient liquidity always remains available.

Funding

Funding takes place in a manner that creates a sound maturity profile without maturity concentrations, and is broadly diversified in terms of investors and markets. Funding takes place primarily through covered bonds, and mainly in the currencies of SEK and EUR, since the majority of the lending comprises Swedish mortgages. Certain funding also takes place in CHF and NOK.

In its funding operations, the company is to act predictably and actively in the market and aim at achieving as high liquidity as possible in outstanding debt to build up long-term confidence among investors. The company endeavours to regularly launch issuances to achieve healthy diversification and maintain investors' interests and credit limits. Regular meetings are held with both Swedish and international investors to ensure that these investors have a clear overview of the company's operations, low risk profile and high-quality risk management.

Fixed-interest periods for assets and liabilities – interest-rate exposure (nominal values, non-interest-bearing assets and liabilities have been excluded)

31 Dec 2019, SEK M	Up to 3 months	3–12 months	1–5 years	More than 5 years	Total
Loans	144,739.4	17,033.2	81,268.0	1,207.7	244,248.3
Bonds, etc.	0.0	3,900.0	6,140.0	0.0	10,040.0
Total	**144,739.4**	**20,933.2**	**87,408.0**	**1,207.7**	**254,288.3**
Due to credit institutions	56,964.3	0	0	0	56,964.3
Debt securities in issue, etc.	9,207.2	20,404.0	117,757.7	37,678.5	185,047.4
Total	**66,171.6**	**20,404.0**	**117,757.7**	**37,678.5**	**242,011.7**
Difference assets and liabilities	**78,567.9**	**529.2**	**-30,349.7**	**-36,470.8**	
Interest-rate derivatives, nominal values, net	–62,316.0	516.0	29,850.7	36,721.5	
Net exposure	**16,251.9**	**1,045.2**	**-499.0**	**250.7**	

31 Dec 2018, SEK M					
Loans	166,594.1	14,807.5	43,162.8	1,174.5	225,738.9
Bonds, etc.	–	2,400.0	6,900.0	200.0	9,500.0
Total	**166,594.1**	**17,207.5**	**50,062.8**	**1,374.5**	**235,238.9**
Due to credit institutions	54,426.9	–	–	–	54,426.9
Debt securities in issue, etc.	4,515.7	8,808.9	120,972.4	33,658.6	167,955.6
Total	**58,942.6**	8,808.9	**120,972.4**	**33,658.6**	**222,382.5**
Difference assets and liabilities	**107,651.5**	**8,398.6**	**-70,909.6**	**-32,284.1**	
Interest-rate derivatives, nominal values, net	–96,569.7	–6,286.1	73,717.4	32,456.6	
Net exposure	**11,081.8**	**2,112.5**	**2,807.8**	**172.5**	

Liquidity exposure, financial instruments – remaining term of contract (undiscounted values)

31 Dec 2019, SEK M	On demand	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Without maturity	Total nominal cash flows	Carrying amount	Of which, expected recovery period of > 12 months
Assets									
Treasury bills and other eligible bills	–	–	–	–	–	–	–	–	–
Loans to credit institutions	3,961.7	225.1	–	–	–	–	4,186.8	4,186.8	–
Loans to the public	0.0	1,058.8	3,122.9	15,528.8	220,351.1	–	240,061.6	240,061.6	235,879.9
Bonds and other interest-bearing securities	–	–	3,900.0	6,140.0	–	–	10,040.0	10,304.0	6,140.0
Other assets	–	–	–	–	–	–	–	–	–
Total assets	**3,961.7**	**1,283.9**	**7,022.9**	**21,668.8**	**220,351.1**	**0.0**	**254,288.3**	**254,552.4**	**242,019.9**
Liabilities									
Due to credit institutions	–	233.5	54,239.3	2,500.0	–	–	56,972.8	56,972.8	2,500.0
Debt securities in issue	–	639.2	20,704.0	125,525.7	37,678.5	–	184,547.4	188,500.7	163,204.2
Other liabilities	–	1.1	–	–	–	332.8	333.9	1.1	0.0
Subordinated liabilities	–	–	–	–	500.0	–	500.0	500.0	500.0
Total liabilities	**0.0**	**873.8**	**74,943.3**	**128,025.7**	**38,178.5**	**332.8**	**242,354.1**	**245,974.6**	**166,204.2**
Difference assets and liabilities	**3,961.7**	**410.1**	**-67,920.4**	**-106,356.9**	**182,172.7**	**-332.8**	**11,934.3**	**8,577.8**	

31 Dec 2018, SEK M									
Assets									
Treasury bills and other eligible bills	–	–	–	–	–	–	–	–	–
Loans to credit institutions	4,614.4	16.6	–	–	–	–	4,631.0	4,631.0	–
Loans to the public	–	909.1	2,696.3	13,397.0	204,105.5		221,107.9	221,107.9	217,502.5
Bonds and other interest-bearing securities	–	–	2,400.0	6,900.0	200.0	–	9,500.0	9,916.6	7,100.0
Other assets	–	0.0	–	–	–	–	0.0	0.0	–
Total assets	**4,614.4**	**925.8**	**5,096.3**	**20,297.0**	**204,305.5**	**0.0**	**235,239.0**	**235,655.6**	**224,602.5**
Liabilities									
Due to credit institutions	–	175.3	54,251.7	–	–	–	54,426.9	54,426.9	–
Debt securities in issue	–	–	8,808.9	124,827.1	33,658.6	–	167,294.6	171,195.1	158,485.7
Other liabilities	–	1.2	–	–	–	–	1.2	1.2	–
Subordinated liabilities	–	–	–	–	661.0	–	661.0	661.0	661.0
Total liabilities	**0.0**	**176.5**	**63,060.5**	**124,827.1**	**34,319.6**	**0.0**	**222,383.7**	**226,284.2**	**159,146.7**
Difference assets and liabilities	**4,614.4**	**749.3**	**-57,964.2**	**-104,530.1**	**169,985.9**	**0.0**	**12,855.2**	**9,371.4**	

Liquidity exposure, derivatives

31 Dec 2019, SEK M	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total nominal cash flows
Derivatives at fair value in profit or loss					
– Currency	–	–	–	–	–
– Interest	–	–	–	–	–
Derivatives in hedge accounting					
– Currency	158.3	1,067.9	4,142.5	577.3	5,946.1
– Interest	–24.9	648.9	1,667.9	357.6	2,649.4
Total difference derivatives	**133.4**	**1,716.8**	**5,810.4**	**934.9**	**8,595.5**

31 Dec 2018, SEK M					
Derivatives at fair value in profit or loss					
– Currency	–	–	–	–	–
– Interest	–	–	–	–	–
Derivatives in hedge accounting					
– Currency	155.6	392.6	3,384.9	637.1	4,570.3
– Interest	36.6	726.1	1,925.8	414.7	3,103.2
Total difference derivatives	**192.2**	**1,118.7**	**5,310.7**	**1,051.9**	**7,673.4**

Operational risk

Operational risk is defined as the risk of losses arising due to inadequate or failed internal processes, human error, erroneous systems or external events and includes legal and compliance risks. Based on this definition, operational risk encompasses the entire banking operations, including outsourced operations.

Länsförsäkringar Hypotek is to base its assessments of operational risk on products, services, functions, processes and IT systems. The risk assessment is to be followed up against risk outcome (incident reporting).

Risk categories

Länsförsäkringar Hypotek categorises operational risk into the following risk categories:

Product and process risks	Refer to the risk of losses arising due to established work procedures not functioning well, being unknown to employees or not being appropriate.
Personnel risks	Refer to the risk of losses arising due to the bank being exposed to external crimes or internal fraud. It also encompasses the risk of damage to physical assets in the company.
Legal risks	Refer to the risk of the company not ensuring or monitoring compliance with laws, regulations or other relevant rules and recommendations, or that signed agreements or other legal documents are correct and valid, not archiving agreements and other legal documents or not managing and following up legal processes.
Compliance risks	Refer to the risk that the company does not ensure or follow up compliance with laws, regulations, general guidelines from the Swedish Financial Supervisory Authority and European authorities or other relevant regulations and recommendation for licensable operations, and the company does not comply with internal rules in this area and thereby is exposed to the risk of authorities imposing sanctions or making other remarks.
IT risks	Refer to the risk of IT systems not being available to the extent decided or not being sufficiently secure. IT risk includes availability and business continuity risk, IT security risk, IT change risk, data integrity risk and IT outsourcing risk. Cyber risk, defined as risks inherent in the use or transfer of digital data, is included in most of the risks described above.
Security risks	Refer to the risk of losses arising due to the bank being exposed to external crimes or internal fraud. It also encompasses the risk of damage to physical assets in the company.
Model risks	Refer to the risk of losses arising due to decisions that are primarily based on the results of models on the basis of errors in the production, implementation or use of such models.

Risk management process

The risk management process for operational risk comprises the following main stages:

Risk evaluation and monitoring controls. Risk evaluation is one of the tools used to identify operational risks that could impact the business and to plan risk-limiting activities and controls that the operations have introduced to business processes and follow. These analyses are part of the operations' overall risk assessment.

Assessment of identified operational risk is based on a model that is applied throughout the operations. Each identified risk is assessed on the following basis:

- Probability – expected number of risk outcomes per year
- Consequence – expected cost each time risks actually materialise. The assessment of consequences includes the following:
  - Costs – direct and indirect
  - Customer impact – direct customer impact, complaints from customers and reputation risk
  - Compliance risks – risk relating to regulatory compliance
  - Other – mainly process-related risks or other impacts on the operations

The assessment of both probability and consequence including considering any existing controls for reducing the risk, meaning residual risk. The combination of probability and consequence provides a quantitative risk assessment of operational risk. Each manager is responsible for identifying, assessing, monitoring and managing operational risk in their area of responsibility. The process owner is responsible for documenting the process and its controls and for identifying, assessing, monitoring and managing operational risk for the process, including its products and services.

The risk methods are regularly evaluated with the aim of minimising the risk of these methods themselves giving rise to significant misjudgements of operational risks.

Risk indicators

The aim of use of risk indicators is to create conditions for better insight into the company's risk profile and the risks that are increasing or reducing at that point in time and over time.

Follow-up of incidents

Review of incidents that have occurred. Particular emphasis in these reviews is attached to incidents of a more serious nature.

Approval process

The process for approving new or significantly changed products, services, markets, processes, IT systems as well as for implementing reorganisations or in the case of exceptional transactions. The purpose of the approval process is to achieve efficient and appropriate management of the risks that may arise in connection with change work, impact capital, to ensure that products and changes that are approved are compatible with risk strategy and risk appetite and to create customer value.

Incident reporting
Länsförsäkringar Hypotek has system support for reporting events and incidents. This system enables all employees to report any incidents. Risk Management periodically prepares a summary of the incidents in its reports. Incident management is an important part of the Group's operational risk management. Incident statistics contribute to the assessment and forecast of operational risk, and enables the company to quickly identify critical problems and act upon these. The responsibility for analysing incidents and taking measures lies with the head of the process or operations.

Continuity management
Continuity management involves measures to be taken to manage serious and extensive business interruptions, disruptions or crises, how the operations are to be maintained in such cases and the operations' priorities and procedures when returning to normal operations after an interruption or major business disruption. Business contingency, continuity and recovery plans have been produced in the operations to support employees and managers in a crisis and if a serious event were to occur. Crisis training is conducted at least once annually to ensure that the plans are suitable.

Business risk
Business risk primarily comprises earnings risk. Earnings risk is defined as volatility in earnings that creates a risk of lower income due to an unexpected decrease in income as a result of such factors as competition or volume reductions. Earnings risk is associated with all products and portfolios. The company's business has a low level of volatility and thus a low earnings risk.

Capital and capital adequacy
Presentation of own funds in accordance with Article 5 of the European Commission Implementing Regulation (EU) No 1423/2013. Rows that are empty in the presentation in accordance with the Regulation have been excluded in the table below to provide a better overview. There are no items encompassed by the provisions applied before Regulation (EU) No 575/2013 or any prescribed residual amounts under the Regulation.

Own funds and capital requirements	**31 Dec 2019**	**31 Dec 2018**
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	3,129.9	3,129.9
of which: share capital	*3,129.9*	*3,129.9*
Retained earnings	7,554.5	6,896.0
Accumulated Other comprehensive income	794.7	614.3
Independently reviewed interim profits net of any foreseeable charge or dividend	756.0	658.5
Common Equity Tier 1 capital before regulatory adjustments	**12,235.0**	**11,298.6**
Common Equity Tier 1 capital: regulatory adjustments		
Additional value adjustments	–17.7	–15.3
Fair value reserves related to gains or losses on cash flow hedges	148.2	132.0
Negative amounts resulting from the calculation of expected loss amounts	–159.5	–124.3
Total regulatory adjustments to Common Equity Tier 1 capital	**–29.0**	**–7.5**
Common Equity Tier 1 capital and Tier 1 capital	**12,206.0**	**11,291.1**
Tier 2 capital: instruments and provisions		
Capital instruments and the related share premium accounts	500.0	661.0
Tier 2 capital	**500.0**	**661.0**
Total capital (total capital = Tier 1 capital + Tier 2 capital)	**12,706.0**	**11,952.1**
Total risk-weighted assets	**66,991.0**	**61,556.4**
Capital ratios and buffers		
Common Equity Tier 1 capital (as a percentage of total risk exposure amount)	18.2%	18.3%
Tier 1 capital (as a percentage of total risk exposure amount)	18.2%	18.3%
Total capital (as a percentage of total risk exposure amount)	19.0%	19.4%
Institution-specific buffer requirements	9.5%	9.0%
of which: capital conservation buffer requirement	2.5%	2.5%
of which: countercyclical capital buffer requirement	2.5%	2.0%
of which: systemic risk buffer requirement	–	–
of which: Global Systemically Important Institution or Other Systemically Important Institution buffer	–	–
Common Equity Tier 1 capital available to meet buffers (as a percentage of risk exposure amount)	11.0%	11.4%

Outstanding subordinated debt, 31 Dec 2019

Borrower	**Loan amount**	**Loan date**	**Repayment date**	**Premature redemption (break-off date)**
Tier 2 capital				
Länsförsäkringar Hypotek	SEK 500,000,000	26 June 2015	26 June 2025	26 June 2020

Own funds

Own funds is the total of Tier 1 capital and Tier 2 capital, less items indicated in the capital adequacy rules.

Tier 1 capital comprises an institution's Common Equity Tier 1 capital and Tier 1 instruments. Common Equity Tier 1 capital comprises equity according to applicable accounting standards after deductions for certain items as defined in the capital adequacy rules.

Tier 2 capital comprises perpetual and dated loans with subordinated preferential rights.

There is no current or foreseen material practical or legal impediment for transferring funds from own funds or repayment of liabilities between Länsförsäkringar Hypotek and the Parent Company Länsförsäkringar Bank.

Common Equity Tier 1 capital

Equity in Länsförsäkringar Hypotek comprises share capital, capital contributed, reserves and net profit for the year. Equity included in the Common Equity Tier 1 capital increased net during the period, primarily due to generated profit. Changes in equity attributable to cash flow hedges may not be included in own funds, which is why this effect is excluded. Common Equity Tier 1 capital is also adjusted due to the regulatory requirements regarding prudent valuation of items measured at fair value and the IRB deficit. Common Equity Tier 1 capital after applicable deductions amounted to SEK 12,206 M (11,291).

There are no outstanding Additional Tier 1 capital, which means that the amounts for Common Equity Tier 1 capital and Tier 1 capital were the same on 31 December 2019.

Tier 2 capital

Tier 2 capital must be subordinate to other claims of all nonsubordinated creditors, except for equity instruments and Additional Tier 1 capital. Fixed-term subordinated debt that is included may not be covered or guaranteed in any form by an issuing institution.

Tier 2 capital comprises fixed-term subordinated debt of SEK 500 M (661) that meets the requirements for inclusion in own funds.

Capital requirement

	31 Dec 2019		31 Dec 2018	
Capital requirement, SEK M	**Risk Exposure Amount**	**Capital requirement**	**Risk Exposure Amount**	**Capital requirement**
Credit risk according to Standardised Approach				
Exposures to institutions	463.6	37.1	390.5	31.2
Covered bonds	1,030.4	82.4	991.7	79.3
Other items	143.0	11.4	98.0	7.8
Total capital requirement and Risk Exposure Amount	**1,637.0**	**131.0**	**1,480.2**	**118.4**
Credit risk according to IRB Approach				
Retail exposures				
Secured by immovable property, small and medium-sized businesses	440.7	35.3	341.4	27.3
Secured by immovable property, other	14,165.5	1,133.2	13,387.0	1,071.0
Other retail exposures, small and medium-sized businesses	0.1	0.0	1.3	0.1
Other retail exposures	4.8	0.4	11.5	0.9
Total retail exposures	**14,611.1**	**1,168.9**	**13,741.2**	**1,099.3**
Exposures to corporates	3,852.1	308.2	3,428.8	274.3
Total capital requirement and Risk Exposure Amount	**18,463.1**	**1,477.1**	**17,170.0**	**1,373.6**
Operational risk				
Standardised Approach	1,429.7	114.4	1,130.6	90.4
Total capital requirement and operational risk	**1,429.7**	**114.4**	**1,130.6**	**90.4**
Credit valuation adjustment, Standardised Approach	**455.5**	**36.4**	**550.6**	**44.0**
Additional Risk Exposure Amounts according to Article 458 CRR	**45,005.6**	**3,600.5**	**41,225.0**	**3,298.0**
Total capital requirement and Risk Exposure Amount	**66,991.0**	**5,359.3**	**61,556.4**	**4,924.5**

Capital requirements are divided into Pillar I requirements, which are general minimum requirements for all institutions, and Pillar II requirements that are based on individual assessments performed by each institution. Alongside these capital requirements, there are additional capital requirements in the form of a combined buffer.

Minimum capital requirement

The minimum capital requirement under Pillar I is expressed as a percentage of the Risk Exposure Amount (REA). On 31 December 2019, the total Risk Exposure Amount (REA) in Länsförsäkringar Hypotek was SEK 66,991 M (61,556). The increase in REA was mainly attributable continued growth in lending, primarily to households in the form of mortgages, which also increases REA in accordance with the Financial Supervisory Authority's macroprudential measures under the framework of Article 458 of CRR.

Buffer requirement

Länsförsäkringar Hypotek is subject to requirements on maintaining a capital conservation buffer and a countercyclical capital buffer. This capital conservation buffer is to correspond to 2.5% of REA and amounted to SEK 1,675 (1,539) M on 31 December 2019. The Financial Supervisory Authority raised the requirement of the countercyclical capital buffer from 2% to 2.5% of REA during the year, which corresponded to SEK 1,675 M (1,231) on 31 December 2019. Both buffers are to be covered by Common Equity Tier 1 capital.

Capital management and Internal Capital Adequacy Assessment Process (ICAAP)

The internal capital adequacy assessment process (ICAAP) was designed based on the Pillar II requirements, the requirements established by the Board of Directors for the operations and the internal demands. The purpose of the process is to assess the capital required for covering all of the risks that the bank is, or could be, exposed to. The process reviews the risks in the operations and evaluates the methods and models used for quantifying them. The process is to be carried out annually and the prerequisites for stress tests are to be reviewed by the Board at least once annually, which are to guide future work.

Total assessed capital requirement

The total assessed capital requirement comprises the internally assessed capital requirement (minimum capital requirement under Pillar I and the capital requirement for risks managed under Pillar II) plus the combined buffer.

Total assessed capital requirement	31 Dec 2019		31 Dec 2018	
	SEK M	% of REA	SEK M	% of REA
Pillar I	5,359.3	8.0%	4,924.5	8.0%
Pillar II	930.3	1.4%	1,076.5	1.7%
Combined buffer	3,349.5	5.0%	2,770.0	4.5%
Total	**9,639.1**	**14.4%**	**8,771.0**	**14.2%**

NEW AND AMENDED RULES

Capital adequacy rules

Impending changes to capital adequacy rules

In 2019, the EU adopted amendments to regulations and directives related to capital adequacy and bank recovery and resolution. The changes include amendments and revisions to the Capital Requirements Regulation, the Capital Requirements Directive and the Crisis Management Directive. These regulatory changes are known collectively as the Banking Package. Certain parts of the Banking Package need to be incorporated into Swedish law before they come into force. At the end of 2019, the Swedish government presented a report on how these proposed regulatory charges are to be adapted and supplemented in Swedish law. The proposed amendments to the Capital Requirements Regulation include a binding minimum requirement for the leverage ratio and net stable funding ratio. New methods are also proposed for calculating counterparty risk and stricter rules on large exposures. The new directive proposal includes a revised Pillar II framework. The measures in the Banking Package are to aid the implementation of risk-reduction global standards at EU level and are also part of completing the Banking Union, and are expected to come into effect in 2020/2021.

The work on completing the Basel III regulations is in progress. The European Commission issued a public consultation in 2019 on implementing the final Basel III reforms. The views in response to this consultation will be important to the European Commission in preparing a concrete legal proposal that is expected in 2020. The proposal entails major changes for banks and include restrictions on the use of internal models, changes to the Standardised Approach for both credit and operational risk as well as the introduction of a capital floor of 72.5%. The capital floor entails that the risk-weighted assets for a bank that applies internal models may not, in total, be lower than 72.5% of the risk-weighted amount calculated according to the Standardised Approach. The purpose of the changes is to introduce standardised capital requirements and reduce the risk of unwarranted differences between countries and banks. The rules also aim to increase comparability between the banks. The new rules are expected to take effect in 2022 with a phase-in period of five years.

The European Banking Authority (EBA) also deferred the implementation of certain new requirements for internal models in the review of the IRB regulatory framework. The purpose of the review is to ensure consistency in the results of the internal models and to make risk-weighted exposures more comparable between banks. The new standards include a new definition of default and estimates of PD and LGD. Combined, this will entail extensive changes for many banks.

Increased capital requirements on banks loans for commercial real estate

At the start of 2020, the Swedish Financial Supervisory Authority decided to introduce increased capital requirements in Pillar II on lending for commercial real estate. The decision was based on the proposal made by the Financial Supervisory Authority at the end of 2019 and means that a risk weight has been set on lending for commercial real estate and commercial residential properties at 35% and 25%, respectively. This new requirement is expected to have a minor impact on capital adequacy and comes into effect with the Financial Supervisory Authority's assessment of capital requirements as part of its annual supervisory review and evaluation process in 2020.

New EU rules on covered bonds

In November 2019, the EU decided on new regulations regarding covered bonds comprising a new directive and regulation on amendments to the Capital Requirements Regulation. The new rules are part of the European Commission's work on deepening the Capital Markets Union since the covered bond market is unequally developed in EU countries. The aim of the regulations is to create standardised rules for covered bonds within the EU. The directive regulates the minimum level of harmonisation based on national systems so as not to jeopardise the functioning of the existing markets. The proposal includes introducing a separate requirement for a cover pool liquidity buffer, which is to cover the net liquidity outflow for a period of 180 days. A higher match funding requirement is also proposed, meaning the degree to which the value of the cover pool is to exceed the nominal value of the covered bonds. The requirement entails a rise from the current level of 2% to 5%. Adjustments are needed to introduce the directive and the regulation amendments to Swedish law. The Swedish government decided in December 2019 to appoint a special investigator to present proposals on law amendments by 31 October 2020. The new directive is expected to take effect in 2021.

Crisis management

Sweden has had new rules for managing failing banks since 2016. These rules are based on the European Parliament and Council's Crisis Management Directive (2014/59/EU). The key aim is to prevent banks' problems from becoming a burden for the tax payer. The rules establish a special procedure for handling a failing institution without putting it into bankruptcy. This procedure is called resolution. It means that the government, through the Debt Office, can take control of the failing bank. The Debt Office has a number of tools available to reconstruct or discontinue banks in a structured manner. To facilitate efficient resolution, the Debt Office has prepared resolution plans for the institutions that it considers have critical operations for the financial system. As part of its work, the Debt Office will determine minimum requirements for own funds and eligible liabilities that can be used to cover losses in a failing institution. In December 2019, the Swedish National Debt Office announced its decision on minimum requirement for own funds and eligible liabilities (MREL) for Swedish subsidiaries of the institutions that conduct operations that the Debt Office deems to be critical, which includes Länsförsäkringar Hypotek. The individual MREL is to amount to 5.0% of Länsförsäkringar Hypotek's total liabilities and own funds.

Länsförsäkringar Hypotek is following regulatory developments and is highly prepared and well capitalised for impending changes, even if it is unclear at this stage what the effects of a capital requirement will be.

Note 4 Segment reporting

The business of the company represents one operating segment and reporting to the chief operating decision maker agrees with the annual report.

Note 5 Net interest income

SEK M	2019	2018
Interest income		
Loans to credit institutions	58.5[1]	29.5[1]
Loans to the public	4,092.8	3,593.9
Interest-bearing securities	50.6[1]	76.6[1]
Derivatives	-204.5	-388.5
Other interest income	–	0.0
Total interest income	**3,997.3**	**3,311.5**
Interest expense		
Due to credit institutions	-575.7[1]	-494.7[1]
Interest-bearing securities	-1,869.1	-1,888.6
Subordinated liabilities	-10.5	-9.2
Derivatives	1,105.2	1,675.0
Other interest expense	-125.7	-160.5
Total interest expense	**- 1,475.7**	**-877.9**
Total net interest income	**2,521.5**	**2,433.6**
Average interest rate on loans to the public during the period, %	1.8	1.7

[1])Of which negative interest of Loans to credit institutions SEK -6.9 M (-9.8). Interest-bearing securities SEK -2.1 M (-2.4) and Due to credit institutions SEK 7.2 M (11.4).

Interest income calculated according to the effective interest method amounts to SEK 3,997.3 M (3,311.5).

Note 6 Net commission

SEK M	2019	2018
Commission income		
Loans	22.7	2.5
Total commission income[1]	**22.7**	**2.5**
Commission expense		
Remuneration to regional insurance companies	-1,199.1	-1,241.6
Other commission	-0.1	-0.4
Total commission expense	**-1,199.2**	**-1,242.1**
Total net commission	**-1,176.6**	**-1,239.6**

[1] Refers to revenue from contracts with customers.

Note 7 Net gains/losses from financial items

SEK M	2019	2018
Interest-bearing assets and liabilities and related derivatives	-24.5	-26.6
Other financial assets and liabilities	0.0	0.1
Interest compensation (refers to items measured at amortised cost)	28.0	24.6
Total net gains/losses from financial items	**3.5**	**-1.9**

SEK M	2019	2018
Profit/loss by measurement category		
Financial assets measured at FVPL	-	-
Financial assets measured at amortised cost	28.0	24.6
Financial liabilities measured at amortised cost	-46.3	-29.5
Financial assets measured at FVOCI	0.0	0.0
Hedge accounting at fair value	16.5	-3.8
Exchange-rate effect	5.2	6.8
Total	**3.5**	**-1.9**

Note 8 Employees. staff costs and remuneration of senior executives

Average number of employees. Sweden	2019	2018
Men	5	5
Women	1	1
Total number of employees	**6**	**6**

Salaries and other remuneration. as well as social security expenses. other employees SEK M	2019	2018
Salaries and remuneration	-3.2	-3.3
of which. variable remuneration	-	-
Social security expenses	-1.8	-1.8
of which. pension costs	-0.6	-0.6
Total	**-5.0**	**-5.0**

Board of Directors and other senior executives. 4 (5) SEK M	2019	2018
Salaries and remuneration	-5.9	-5.8
of which. fixed salary to the President and Executive Vice President	-5.3	-5.6
of which. variable remuneration to the President and Executive Vice President	-0.4	-
Social security expenses	-4.4	-4.1
of which. pension costs	-2.0	-1.8
Total	**-10.3**	**-9.9**

Total salaries. other remuneration and social security expenses SEK M	2019	2018
Salaries and remuneration	-9.1	-9.1
of which. variable remuneration	-	-
Social security expenses	-6.2	-5.9
of which. pension costs	-2.6	-2.4
Total	**-15.3**	**-14.9**

Note 8 Employees, staff costs and remuneration of senior executives, cont.

Remuneration of the Board
Directors' fees are payable to the Chairman and members of the Board in accordance with a decision of the Annual General Meeting. No fee is payable to employee representatives and to Board members from the Länsförsäkringar AB Group.

Remuneration of senior executives
Remuneration of the President and other senior executives comprises basic salary and other benefits. Pension benefits and other benefits paid to the President and other senior executives are included as part of total remuneration. Senior executives are the individuals who, together with the President, comprise corporate management.

Remuneration of and other benefits for senior executives

SEK M	Basic salary	Other benefits	Pension costs	Total	Pension costs as a percentage of pensionable salary, % Defined-contribution
2019					
Anders Borgcrantz, President	3.1	–	1.1	4.2	35
Martin Rydin, Executive Vice President	2.1	0.1	0.7	2.9	30
Göran Zakrisson, Board member	0.1	–	–	0.1	
Christian Bille, Board member	0.1	–	–	0.1	
Other senior executives (1 person)	0.4	–	0.2	0.6	35
Total	**5.9**	**0.1**	**2.0**	**7.9**	
2018					
Anders Borgcrantz, President	3.0	0.3	1.1	4.5	35
Martin Rydin, Executive Vice President	2.1	0.1	0.7	2.9	31
Göran Zakrisson, Board member	0.1	–	–	0.1	
Christian Bille, Board member	0.1	–	–	0.1	
Total	**5.3**	**0.4**	**1.8**	**7.6**	

Pension costs pertain to the impact on net profit for the year.

Pensions
The retirement age for the President is 65. The pension is based on a defined-contribution pension plan and the pension premium amounts to 35 percent of the monthly salary. The retirement age for the Executive Vice President is 65. Pensions should comply with the terms of the collective agreements between the Swedish Insurance Employers' Association (FAO), Forena and SACO. Furthermore, an additional pension premium corresponding to a half price base amount per year is paid every year.

Severance pay
A mutual period of notice of six months applies to the President. If termination of employment is issued by the company, severance pay corresponding to 18 months' salary will be paid, in addition to the period of notice. The Executive Vice President has a period of notice of six months if employment is terminated at his request, and if termination of employment is issued by the company, the period of notice is twelve months. For other senior executives, the period of notice follows applicable collective agreements between the Swedish Insurance Employers' Association (FAO), Forena and the Swedish Confederation of Professional Associations (SACO).

Preparation and decision-making process applied in relation to the issue of remuneration of senior executives
A Remuneration Policy for the Länsförsäkringar AB Group regulates the preparation and decision-making process for remuneration of senior executives. The Remuneration Committee prepares important remuneration decisions and decisions on measures for following up the application of the Remuneration Policy. The Board decides on remuneration of and other terms of employment for senior executives and employees with overall responsibility for any of the company's control functions.

Composition of Remuneration Committee
The composition and duties of the Remuneration Committee are regulated in the Board's formal work plan. The Remuneration Committee comprises the Chairman and one Board member.

Policies for remuneration of senior executives
Senior executives in the Länsförsäkringar AB Group are to have market-based employment terms and conditions. Total remuneration is to be in line with the industry standard. The structure and level of remuneration should correspond to the company's values, meaning that it should be reasonable, moderate and well-balanced, and also contribute to good ethics and organisational culture, characterised by openness and transparency.

Fixed remuneration
Fixed remuneration is paid according to the general policy above.

Pensions
Pensions should comply with the terms of the pension agreements between the Swedish Insurance Employers Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO).

Other benefits
In addition to the above benefits, a company car is offered to the President, individual health care insurance and other benefits offered to all employees.

Number of women among senior executives, %	31 Dec 2019	31 Dec 2018
Board members	0	0
Other senior executives	0	0

Loans to senior executives

	Länsförsäkringar Hypotek		Länsförsäkringar AB Group	
SEK M	**2019**	**2018**	**2019**	**2018**
Board members	**–**	**–**	**63.4**	**64.7**
of which, loans from Länsförsäkringar Bank	–	–	21.3	8.8
of which, loans from Länsförsäkringar Hypotek	–	–	42.1	55.9
of which, loans from Wasa Kredit	–	–	–	0.0
President and Executive Vice Presidents	**–**	**–**	**20.2**	**22.0**
of which, loans from Länsförsäkringar Bank	–	–	2.2	2.0
of which, loans from Länsförsäkringar Hypotek	–	–	18.0	20.0
of which, loans from Wasa Kredit	–	–	–	–
Senior executives	**–**	**–**	**44.8**	**94.3**
of which, loans from Länsförsäkringar Bank	–	–	5.4	10.6
of which, loans from Länsförsäkringar Hypotek	–	–	39.3	83.7
of which, loans from Wasa Kredit	–	–	0.1	–

Loans granted comprise personnel loans and other loans. Personnel loans carry loan terms comparable to what applies to other employees in the Group. The interest rate for employees is the repo rate less 0.5 percentage points, but can never be lower than 0.5 percentage points. The interest benefit is calculated in accordance with the Swedish National Tax Board's rules and is included in other benefits as above. The terms and conditions of other loans are market-based.

The Group has not pledged assets, other collateral or assumed any liability undertaking for the benefit of any senior executive.

Remuneration Policy
In accordance with the regulations and general advice of the Swedish Financial Supervisory Authority (FFFS 2011:1) regarding remuneration policies in credit institutions, investment firms and fund management companies with license for discretionary portfolio management, the Board is to adopt a Remuneration Policy. It is intended that a statement of remuneration in the company be published on the company's website when the Annual Report is published.

Note 9 Other administration expenses

SEK M	2019	2018
Management costs	-10.1	-4.2
Other administration expenses	-95.1	-89.7
Total administration expenses	**-105.2**	**-94.0**

The item Other administration expenses largely comprises administration services purchased from the Parent Company.

Note 10 Remuneration of auditors

SEK M	2019	2018
Audit fees		
KPMG		
– Audit assignment	-1.3	-0.7
– Audit activities other than audit assignment	-1.0	-0.8
– Tax advice	–	–

Audit assignment pertains to a statutory review of the Annual Report and accounts, as well as the administration by the Board of Directors and President. Audit activities other than audit assignment pertain to various types of quality-assurance services, such as reviews of the administration, Articles of Association, regulations or agreements that result in reports or certificates. Other assignments pertain to activities that are not included in the above mentioned items, for example, legal consultations alongside audit activities and that are not attributable to tax consultancy services.

Note 11 Credit losses, net

SEK M	2019	2018
Change in loss allowance for loan receivables		
Stage 1 (not credit-impaired)	0.0	-0.4
Stage 2 (not credit-impaired)	-0.1	-0.2
Stage 3 (credit-impaired)	-0.2	0.3
Total change in loss allowance for loan receivables	**-0.3**	**-0.3**
Expense for confirmed credit losses	-0.2	-0.6
Payment received for prior confirmed credit losses	1.5	2.3
Net expense for the period for credit losses for loan receivables	**1.0**	**1.4**
Change in loss allowance for commitments	0.1	0.0
Net expense for other credit losses	0.0	0.0
Net expense of the modification result for the period	-0.2	0.0
Net expense for credit losses for the period	**0.9**	**1.3**

A condition for full payment of the regional insurance companies' distribution remuneration by Länsförsäkringar Hypotek AB is that the loans generated by each regional insurance company for Länsförsäkringar Hypotek AB are of high quality. If this is not the case, up to 80% of any credit losses are off-set against the accrued remuneration to the regional insurance companies. This model for settlement of credit losses is kept separate and is taken into consideration when the provisions are established. In 2019, total credit losses amounted to SEK 0.7 M (5.9), of which Länsförsäkringar Hypotek's recognised credit losses amounted to SEK 0.9 M (1.3) and the remainder of SEK -0.2 M (4.6) was settled against remuneration to the regional insurance companies.

Note 11 Credit losses, cont.

Loss allowance

SEK M	2019-12-31	2018-12-31
Financial assets measured at amortised cost		
Loans to credit institutions	–	–
Loans to the public	5.8	5.6
Other assets	–	–
Financial assets measured at FVOCI		
Bonds and other interest-bearing securities	0.1	0.1
Provisions		
Commitments	0.1	0.2
Total loss allowance	**6.0**	**5.9**

All exposures are in stage 1 except for loans to the public and commitments which have exposure in all three stages. For more information about the change in loss allowance for loans to the public and commitments, refer to notes 14 and 28.

Note 12 Tax

SEK M	2019	2018
Current tax		
Current tax expense	-209.6	-176.5
Adjustment of tax expense pertaining to prior years	-4.9	0.1
Total current tax	**-214.5**	**-176.4**
Total recognised tax expense	**-214.5**	**-176.4**
Reconciliation of effective tax rate		
Profit before tax	970.5	834.9
Tax at applicable tax rate	-207.7	-183.7
Tax on non-deductible income	-3.2	-2.7
Tax on non-deductible costs	1.7	9.9
Tax attributable to changed tax rates	-0.4	–
Tax attributable to prior years	-4.9	0.1
Total tax on net profit for the year	**-214.5**	**-176.4**
Applicable tax rate	21.4%	22.0%
Effective tax rate	22.1%	21.1%
Tax items recognised in other comprehensive income		
Tax on financial assets measured at fair value through other comprehensive income	1.8	1.8
Tax on cash flow hedges	3.1	9.6
Total tax attributable to other comprehensive income	**4.9**	**11.4**

Note 13 Loans to credit institutions

SEK M	31 Dec 2019	31 Dec 2018
Loans to credit institutions	4,186.8	4,631.1
Total loans to credit institutions	**4,186.8**	**4,631.1**

Loans to credit institutions includes investments of SEK 4,157.6 M (4,602.9) in the Parent Company.

For loss allowance, see note 11.

Note 14 Loans to the public

Loan receivables are geographically attributable in their entirety to Sweden.

SEK M	31 Dec 2019	31 Dec 2018
Loans to the public before reserves		
Corporate sector	6,632.4	6,603.0
Retail sector	233,435.0	214,510.5
Total	**240,067.4**	**221,113.5**
Reserves	**-5.8**	**-5.6**
Loans to the public	**240,061.6**	**221,107.9**
Remaining term of not more than 3 months	134,708.0	158,276.0
Remaining term of more than 3 months but not more than 1 year	16,711.1	13,862.5
Remaining term of more than 1 year but not more than 5 years	86,501.6	47,230.0
Remaining term of more than 5 years	2,140.8	1,739.4
Total	**240,061.6**	**221,107.9**

Remaining term is defined as the remaining fixed-interest period if the loan has periodically restricted conditions.

Reconciliation of gross carrying amount and loss allowance

	Not Credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
SEK M	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
Opening balance 2018-01-01	**195,692.1**	**-1.9**	**1,806.9**	**-1.4**	**183.6**	**-1.9**	**197,682.7**	**-5.3**
New loans	**48,835.7**	**-1.2**	**2.2**	**0.0**	**11.1**	**-0.2**	**48,849.1**	**-1.3**
Changes:								
Change in loss allowance model or method	–	-0.1	–	0.0	–	0.0	–	-0.1
Repayment	-25,099.2	0.3	-264.5	0.2	-50.7	0.3	-25,414.4	0.8
Change in risk parameters	–	-0.4	–	0.3	–	0.1	–	0.0
Other	–	0.0	–	0.0	–	–	–	0.0
Transfer between stages:								
Transfer from stage 1 to stage 2	-1,633.5	0.6	1,633.5	-1.1	–	–	–	-0.5
Transfer from stage 2 to stage 1	1,084.1	-0.1	-1,084.1	0.2	–	–	–	0.2
Transfer to stage 3	-51.0	0.3	-33.9	0.3	85.0	-0.7	–	-0.1
Transfer from stage 3	21.1	0.0	50.5	-0.1	-71.6	0.6	–	0.5
Write-off	**–**	**–**	**–**	**–**	**-3.7**	**0.2**	**-3.7**	**0.2**
Closing balance 2018-12-31	**218,849.3**	**-2.3**	**2,110.6**	**-1.6**	**153.6**	**-1.6**	**221,113.5**	**-5.6**
Opening balance 2019-01-01	**218,849.3**	**-2.3**	**2,110.6**	**-1.6**	**153.6**	**-1.6**	**221,113.5**	**-5.6**
New loans	**49,675.1**	**-1.1**	**30.7**	**0.0**	**6.9**	**-0.1**	**49,712.6**	**-1.2**
Changes:								
Change in loss allowance model or method	–	0.0	–	0.0	–	0.0	–	0.0
Repayment	-30,275.5	0.4	-412.0	0.3	-69.7	0.5	-30,757.2	1.3
Change in risk parameters	–	-0.3	–	0.4	–	-0.2	–	0.0
Other	–	0.0	–	0.0	–	–	–	0.0
Transfer between stages:								
Transfer from stage 1 to stage 2	-1,800.2	0.6	1,800.2	-1.2	–	–	–	-0.6
Transfer from stage 2 to stage 1	1,171.9	0.0	-1,171.9	0.2	–	–	–	0.2
Transfer to stage 3	-63.6	0.5	-30.5	0.1	94.1	-0.6	–	0.0
Transfer from stage 3	13.2	0.0	8.3	0.0	-21.5	0.1	–	0.1
Write-off	**–**	**–**	**–**	**–**	**-1.5**	**0.1**	**-1.5**	**0.1**
Closing balance 2019-12-31	**237,570.1**	**-2.4**	**2,335.4**	**-1.7**	**162.0**	**-1.8**	**240,067.4**	**-5.8**

A condition for full payment of the regional insurance companies' distribution remuneration by Länsförsäkringar Hypotek AB is that the loans generated by each regional insurance company for Länsförsäkringar Hypotek AB are of high quality. If this is not the case, up to 80% of any credit losses are off-set against the accrued remuneration to the regional insurance companies. This model for settlement of credit losses is kept separate and is taken into consideration when the provisions are established. On 31 December 2019, the total credit reserve requirement for loan receivables amounted to SEK 29.1 M (27.8) of which the company's recognised loss allowance for loan receivables accounted for SEK 5.8 M (5.6) and the remainder of SEK 23.3 M (22.2) was settled against the remuneration to the regional insurance companies.

The recognised loss allowance increased SEK 0.3 M (0.3) during the year, primarily driven by portfolio growth and some transfer of credits from stage 1 to stage 2.

The contractual amounts outstanding for financial assets that were written off during the period and that are still encompassed by compliance measured amount to SEK 0.9 M (2.9) on 31 December 2019.

Modified loan receivables in loans to the public, SEK M	31 Dec 2019	31 Dec 2018
Loan receivables modified during the period that were in stages 2 and 3 when they were modified		
Amortised cost before modification	40.0	20.8
Modification gain/loss	–	0.0
Gross carrying amount for loan receivables that have been modified since initial recognition and on the modification date were in stage 2 or 3 and that were transferred to stage 1 during the period	8.7	10.9

Note 15 Bonds and other interest-bearing securities

Issued by organisations other than public bodies

SEK M	31 Dec 2019	31 Dec 2018
Carrying amount		
Swedish mortgage institutions	10,304.0	9,916.6
Total bonds and other interest-bearing securities	**10,304.0**	**9,916.6**
Fair value	10,304.0	9,916.6
Amortised cost	10,203.8	9,752.0
Nominal value	10,040.0	9,500.0
Market status		
Securities listed	10,304.0	9,916.6

For loss allowance, see note 11.

Note 16 Derivatives

	31 Dec 2019		31 Dec 2018	
SEK M	Nominal value	Fair value	Nominal value	Fair value
Derivatives with positive values				
Derivatives in hedge accounting				
Interest	188,462.0	1,703.7	144,777.0	1,369.7
Currency	38,871.4	5,864.5	34,118.9	4,170.6
Total derivatives with positive values	**227,333.4**	**7,568.2**	**178,895.9**	**5,540.2**
Derivatives with negative values				
Derivatives in hedge accounting				
Interest	49,845.0	281.0	41,595.0	249.8
Currency	1,794.2	93.4	2,717.8	180.9
Total derivatives with negative values	51,639.2	**374.4**	**44,312.8**	**430.7**

Financial hedging agreements were signed to hedge against interest-rate risks and currency risks stemming from the Group's operations. Hedge accounting is applied to funding, lending, deposits, bonds and other securities. Hedging instruments primarily comprise interest and currency interest-rate swaps.

Note 17 Fair value changes of interest-rate risk hedged items in portfolio hedge

SEK M	31 Dec 2019	31 Dec 2018
Assets		
Carrying amount at beginning of year	103.5	207.5
Changes during the year pertaining to lending	-103.5	-104.0
Carrying amount at year-end	**-**	**103.5**
Liabilities		
Carrying amount at beginning of year	1,019.8	1,134.7
Changes during the year pertaining to funding	68.5	-114.9
Changes during the year pertaining to lending	152.9	-
Carrying amount at year-end	**1,241.2**	**1,019.8**

Note 18 Property and equipment

SEK M	31 Dec 2019	31 Dec 2018
Equipment		
Opening cost	0.8	0.8
Purchases	0.0	0.4
Sales / disposals	0.0	-0.4
Closing cost	**0.8**	**0.8**
Opening depreciation	-0.2	-0.3
Sales / disposals	0.0	0.2
Depreciation for the year	-0.2	-0.2
Closing accumulated depreciation	**-0.3**	**-0.2**
Total property and equipment	**0.4**	**0.6**

Note 19 Prepaid expenses and accrued income

SEK M	31 Dec 2019	31 Dec 2018
Accrued interest income	21.3	23.5
Prepaid expenses	12.7	4.2
Total prepaid expenses and accrued income	**34.0**	**27.8**

Note 20 Due to credit institutions

SEK M	31 Dec 2019	31 Dec 2018
Swedish credit institutions	56 972,8	54,426.9
Total liabilities due to credit institutions	**56 972,8**	**54,426.9**
Credit granted in Länsförsäkringar Bank amounts to	SEK 75,0 billion	SEK 75.0 billion

Liabilities to credit institutions include funding of SEK 56,739.3 M (54,251.7) from the Parent Company. Genuine repurchase transactions amounted to SEK 0.0 M (159.2), of which SEK 0.0 M (0.0) with Group companies.

Note 21 Debt securities in issue

SEK M	31 Dec 2019	31 Dec 2018
Bond loans	188,500.7	171,195.1
Total debt securities in issue	**188,500.7**	**171,195.1**

All securities are covered bonds.

Note 22 Other liabilities

SEK M	31 Dec 2019	31 Dec 2018
Accounts payable	1.1	1.2
Tax liabilities	121.2	110.1
Other liabilities	89.6	26.6
Total other liabilities	**211.8**	**137.9**

Note 23 Accrued expenses and deferred income

SEK M	31 Dec 2019	31 Dec 2018
Accrued interest expense	954.0	995.0
Accrued remuneration of regional insurance companies	906.6	916.5
Other accrued expenses	53.2	86.5
Total accrued expenses and deferred income	**1,913.8**	**1,997.9**

Note 24 Provisions

SEK M	31 Dec 2019	31 Dec 2018
Loss allowance for commitments	0.1	0.2
Other provisions	1.3	1.3
Total	**1.4**	**1.5**

For the change in loss allowance for commitments, refer to note 28.

Defined-contribution pension plans

Defined-contribution pension plans are plans according to which the company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The company's payments to defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer. Primarily, contributions to the Insurance Industry's Pension Fund (FPK) are recognised here. This plan includes all company employees except for a few employees who have individual solutions. The pension agreement for the insurance industry, the FTP plan, through insurance with FPK, is a multi-employer defined-benefit pension plan. According to IAS 19 Employee Benefits, this pension plan entails that, as a rule, a company is to recognise its proportional share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension commitment. Disclosure is also to be presented in the accounts according to the requirements for defined-benefit pension plans. FPK is unable to provide the necessary information on this, which is why the pension plans above are recognised as a defined-contribution plan in accordance with item 34 of IAS 19. Nor is any information available on future surpluses and deficits in the plan or whether these surpluses and deficits would then affect the contributions for the plan in future years. The company's expected fees in 2020 for the FTP plan amount to SEK 0.9 M.

SEK M	2019	2018
Expenses for defined-contribution plans	1.4	1.2

Note 25 Subordinated liabilities

SEK M	31 Dec 2019	31 Dec 2018
Subordinated debt	500.0	661.0
Total subordinated liabilities	**500.0**	**661.0**

	31 Dec 2019	31 Dec 2018	
Specification of subordinated debt from Länsförsäkringar Bank AB (publ)	**Carrying amount**	**Carrying amount**	**Coupon rate of interest**
Subordinated debt 2014/2024 LF Bank	–	161.0	variable 3 months
Subordinated debt 2015/2025 LF Bank	500.0	500.0	variable 3 months
Total	**500.0**	**661.0**	

Subordinated debt is subordinate to the mortgage company's other liabilities, which means that it carries entitlement to payment only after the other creditors have received payment.

Note 26 Untaxed reserves

SEK M	31 Dec 2019	31 Dec 2018
Tax allocation reserve	1,166.3	908.3
Total	**1,166.3**	**908.3**

Note 27 Equity

SEK M	31 Dec 2019	31 Dec 2018
Restricted equity		
Share capital	3,129.9	3,129.9
Statutory reserve	14.1	14.1
Total restricted equity	**3,144.0**	**3,144.0**
Non-restricted equity		
Fair value reserve	-132.3	-109.5
of which hedge reserve	-148.2	-132.0
Retained earnings	7,554.5	6,896.1
Net profit for the year	756.0	658.5
Total non-restricted equity	**8,178.2**	**7,445.0**
Total equity	**11,322.3**	**10,589.1**

The company implemented a bonus issue during 2018. Share capital comprises 70,355 (70,355) shares with a quotient value of SEK 44,487 (44,487).

Proposed appropriation of profit
The following profit is at the disposal of the Annual General Meeting:

SEK M	31 Dec 2019	31 Dec 2018
Other reserves	-132,160,960	-109,388,196
Retained earnings	7,554,466,134	6,896,004,937
Net profit for the year	755,998,912	658,461,197
Profit to be appropriated	8,178,304,086	7,445,077,939

The Board proposes that the following be carried forward SEK 8,178,304,086 (7,445,077,939).

Note 28 Pledged assets, contingent liabilities and commitments

SEK M	31 Dec 2019	31 Dec 2018
For own liabilities, pledged assets		
Collateral paid due to repurchase agreement	–	159.2
Loan receivables, covered bonds	230,387.5	211,411.6
Loan receivables, substitute collateral	10,040.0	9,500.0
Total for own liabilities, pledged assets	**240,428.0**	**211,070.8**
Commitments		
Loans approved but not disbursed	10,604.0	10,117.9
Total	**10,604.0**	10,117.9

Loans to the public were provided as collateral for issuance of covered bonds and mortgage bonds. In the event of the company's insolvency, bond holders have preferential rights to the assets that are registered as cover pool in accordance with the Swedish Covered Bonds (Issuance) Act (2003:1223). Other pledged securities will be transferred to the pledgee in the event of bankruptcy.

Note 28 Pledged assets, contingent liabilities and commitments, cont.

Reconciliation of gross carrying amount and loss allowance for commitments

	Not credit-impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stadie 3			
SEK M	Credit risk exposure	Loss allowance	Credit risk exposure	Loss allowance	Credit risk exposure	Loss allowance	Credit risk exposure	Loss allowance
Opening Balance 2018-01-01	**11,174.8**	**-0.2**	**26.5**	**0.0**	**1.6**	**0.0**	**11,202.9**	**-0.2**
New loan commitments and increase in existing loan commitments	**45,357.9**	**-0.5**	**–**	**–**	**2.9**	**–**	**45,360.8**	**-0.5**
Changes:								
Change in loss allowance model or method	–	0.0	–	–	–	–	–	0.0
Net change in existing loan commitments and credit commitments (utilised and repaid)	-12,864.4	0.1	-2.5	0.0	2.9	–	-12,869.9	0.1
Change in risk parameters	–	0.0	–	–	–	–	–	0.0
Transfer of loan commitments and credit commitments:								
Transfer from stage 1 to stage 2	-215.5	0.0	215.5	-0.1	–	–	–	0.0
Transfer from stage 2 to stage 1	1.1	0.0	-1.1	0.0	–	–	–	–
Transfer to stage 3	-5.9	0.1	–	–	5.9	-0.1	–	–
Transfer from stage 3	–	–	1.6	0.0	-1.6	0.0	–	–
Expired loan commitments	**-33,406.6**	**0.4**	**-166.9**	**0.1**	**-2.5**	**0.0**	**-33,576.0**	**0.4**
Closing balance 2018-12-31	**10,041.4**	**-0.1**	**73.0**	**0.0**	**3.4**	**-0.1**	**10,117.9**	**-0.2**
Opening Balance 2019-01-01	**10,041.4**	**-0.1**	**73.0**	**0.0**	**3.4**	**-0.1**	**10,117.9**	**-0.2**
New loan commitments and increase in existing loan commitments	**46,291.6**	**-0.4**	**–**	**–**	**2.4**	**–**	**46,294.0**	**-0.4**
Changes:								
Change in loss allowance model or method	–	0.0	–	–	–	–	–	0.0
Net change in existing loan commitments and credit commitments (utilised and repaid)	-12,210.1	0.1	-31.9	0.0	-5.8	–	-12,247.8	0.1
Change in risk parameters	–	0.0	–	–	–	–	–	0.0
Transfer of loan commitments and credit commitments:								
Transfer from stage 1 to stage 2	-219.0	0.1	219.0	-0.1	–	–	–	0.0
Transfer from stage 2 to stage 1	3.8	0.0	-3.8	0.0	–	–	–	–
Transfer to stage 3	–	–	–	–	–	0.0	–	–
Transfer from stage 3	–	-0.1	–	–	–	0.1	–	–
Expired loan commitments	**-33,345.9**	**0.4**	**-214.1**	**0.1**	**–**	**0.0**	**-33,560.1**	**0.4**
Closing balance 2019-12-31	**10,561.9**	**-0.1**	**42.2**	**0.0**	**0.0**	**0.0**	**10,604.0**	**-0.1**

The loss allowance declined by SEK 0.1 M (-) during the year. This was due to the greater use of existing loan commitments and credit commitments as well as loan commitments that expired during the period.

On 31 December 2019, the total loss allowance for commitments amounted to SEK 0.6 M (1.1), of which the company's recognised loss allowance amounted to SEK 0.1 M (0.2) and the remainder of SEK 0.5 M (0.9) was settled against remuneration to the regional insurance companies. For more information on the distribution renumeration model, refer to note 14 Loans to the public.

Note 29 Classification of financial assets and liabilities

31 Dec 2019 SEK M	Financial assets measured at FVPL: Derivatives used in hedge accounting	Financial assets measured at amortised cost	Financial assets measured at FVOCI: Debt instruments measured at FVOCI	Financial assets measured at FVOCI: Equity instruments	Total carrying amount	Fair value
Assets						
Loans to credit institutions		4,186.8			4,186.8	4,186.8
Loans to the public		240,061.6			240,061.6	240,959.4
Bonds and other interest-bearing securities			10,304.0		10,304.0	10,304.0
Derivatives	7,568.2				7,568.2	7,568.2
Other assets		–			–	–
Prepaid expenses and accrued income		21.3			21.3	21.3
Total assets	**7,568.2**	**244,269.7**	**10,304.0**		**262,141.9**	**263,039.7**

31 Dec 2019 SEK M	Financial assets measured at FVPL: Derivatives used in hedge accounting	Financial liabilities measured at amortised cost	Total carrying amount	Fair value
Liabilities				
Due to credit institutions		56,972.8	56,972.8	56,972.8
Debt securities in issue		188,500.7	188,500.7	194,473.5
Derivatives	374.4		374.4	374.4
Other liabilities		1.2	1.2	1.2
Subordinated liabilities		500.0	500.0	501.7
Accrued expenses and deferred income		954.0	954.0	954.0
Total liabilities	**374.4**	**246,928.7**	**247,303.1**	**253,277.6**

31 Dec 2018 SEK M	Financial assets measured at FVPL: Derivatives used in hedge accounting	Financial assets measured at amortised cost	Financial assets measured at FVOCI: Debt instruments measured at FVOCI	Financial assets measured at FVOCI: Equity instruments	Total carrying amount	Fair value
Assets						
Loans to credit institutions		4,631.0			4,631.0	4,631.0
Loans to the public		221,107.9			221,107.9	221,580.0
Bonds and other interest-bearing securities			9,916.6		9,916.6	9,916.6
Derivatives	5,540.2				5,540.2	5,540.2
Other assets		0.0			0.0	0.0
Prepaid expenses and accrued income		23.5			23.5	23.5
Total assets	**5,540.2**	**225,762.4**	**9,916.6**		**241,219.2**	**241,691.3**

31 Dec 2018 SEK M	Financial assets measured at FVPL: Derivatives used in hedge accounting	Financial liabilities mesured at amortised cost	Total carrying amount	Fair value
Liabilities				
Due to credit institutions		54,426.9	54,426.9	54,426.9
Debt securities in issue		171,195.1	171,195.1	174,878.3
Derivatives	430.7		430.7	430.7
Other liabilities		1.2	1.2	1.2
Subordinated liabilities		661.0	661.0	663.2
Accrued expenses and deferred income		994.8	994.8	994.8
Total liabilities	**430.7**	**227,279.0**	**227,709.7**	**231,359.2**

The carrying amount of loans to credit institutions, other assets, prepaid expenses and accrued income, due to credit institutions, other liabilities and accrued expenses and deferred income comprises a reasonable approximation of the fair value based on the cost of the assets and liabilities since these assets and liabilities have short terms. Gains and losses are recognised in profit or loss under "net gains/losses from financial items". The only result arisning on the derecognition of assets recognised at amortised cost in interest compensation rreceiver. For more information, refer to note 7.

Note 30 Fair value valuation techniques

Level 1 includes Instruments with published price quotations.
Level 2 includes Valuation techniques based on observable market prices.
Level 3 includes Valuation techniques based on unobservable market price

Financial instruments measured at fair value in the balance sheet

31 Dec 2019 SEK M	Level 1	Level 2	Level 3	Total
Assets				
Bonds and other interest-bearing securities	10,304.0			10,304.0
Derivatives		7,568.2		7,568.2
Liabilities				
Derivatives		374.4		374.4

31 Dec 2018 SEK M	Level 1	Level 2	Level 3	Total
Assets				
Bonds and other interest-bearing securities	9,916.6			9,916.6
Derivatives		5,540.2		5,540.2
Liabilities				
Derivatives		430.7		430.7

Derivatives in Level 2 essentially refer to swaps for which fair value has been calculated by discounting expected future cash flows. There were no significant transfers between Level 1 and Level 2 in 2019 or 2018. There were also no transfers from Level 3 in these years.

Financial instruments measured at amortised cost in the balance sheet

31 Dec 2019 SEK M	Level 1	Level 2	Level 3	Total
Assets				
Loans to the public			240,959.4	240,959.4
Liabilities				
Debt securities in issue		194,473.5		194,473.5
Subordinated liabilities		501.7		501.7

31 Dec 2018 SEK M	Level 1	Level 2	Level 3	Total
Assets				
Loans to the public			221,580.0	221,580.0
Liabilities				
Debt securities in issue		174,878.3		174,878.3
Subordinated liabilities		663.2		663.2

Fair values of loans to the public (Level 3) have been calculated using discounted expected cash flows where the discount rates applied are the current lending rates (including discounts). No other significant transfers took place in 2019 or 2018.

Fair value for debt securities in issue and subordinated liabilities (level 2) is determined based on quoted prices. Parts of debt securities in issue that are considered to be illiquid are adjusted based on expected current issue prices. Commercial papers do not have external market prices and the fair value is determined based on the yield curve of each currency.

For further information about how the fair value was determined for financial instruments measured at fair value, and about valuation techniques and inputs, see also note 2 Accounting policies.

Note 31 Information about offsetting

The table below contains financial assets and liabilities covered by a legally binding framework netting agreement or a similar agreement but that is not offset in the balance sheet. The company has ISDA and CSA agreements with all derivative counterparties and corresponding netting agreements for repurchase agreements, which means that all exposures are covered by both types of agreements. The framework netting agreement entails that parties are to settle their exposures net (meaning that receivables are offset against liabilities) in the event of a serious credit incident.

	Financial assets and liabilities that are offset or subject to netting agreements					
				Related amounts not offset in the balance sheet		
SEK M 31 Dec 2019	Gross amount	Offset in balance sheet	Net amount in balance sheet	Netting framework agreement	Collateral Received (-) / Pledged (+)	Net amount
Assets						
Derivatives	7,568.2	--	7,568.2	-310.5	-215.1	7,042.6
Reversed repurchase agreements	–	–	–	–	–	–
Liabilities						
Derivatives	-374.4	–	374.4	310.5	–	-63.9
Repurchase agreements	–	–	–	–	–	–
Total	**7,193.8**	**–**	**7,193.8**	**–**	**-215.1**	**6,978.7**

	Financial assets and liabilities that are offset or subject to netting agreements					
				Related amounts not offset in the balance sheet		
SEK M 31 Dec 2018	Gross amount	Offset in balance sheet	Net amount in balance sheet	Netting framework agreement	Collateral Received (-) / Pledged (+)	Net amount
Assets						
Derivatives	5,540.2	–	5,540.2	-347.7	-16.1	5,176.4
Reversed repurchase agreements	–	–	–	–	–	–
Liabilities						
Derivatives	-430.7	–	-430.7	347.7	–	-83.0
Repurchase agreements	-159.1	–	-159.1	–	159.1	0.0
Total	**4,950.4**	**–**	**4,950.4**	**–**	**143.0**	**5,093.4**

Note 32 Disclosures on related parties, pricing and agreements

Related parties

Related legal entities include companies within the Länsförsäkringar Bank Group, the Länsförsäkringar AB Group, companies within the Länsförsäkringar Liv Group, the regional insurance companies, associated companies of the Länsförsäkringar AB Group and other related parties, comprising Länsförsäkringar Mäklarservice AB, Länsförsäkringar Fastighetsförmedling AB and Humlegården Fastigheter AB. Related key persons are Board members, senior executives and their close family members.

Agreements

Significant agreements for the company are primarily assignment agreements with the 23 regional insurance companies and assignment agreements with Länsförsäkringar AB regarding development, service, financial services and IT. The company has agreements with the other companies in the Bank Group for Group-wide services.

Pricing

The price level of the goods and services that Länsfösäkringar Hypotek AB purchases and sells within the Länsförsäkringar Alliance is determined by Länsförsäkringar AB's corporate management once a year in conjunction with the adoption of the business plan.

Transactions

	Receivables		Liabilities		Income		Expenses	
SEK M	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	2019	2018	2019	2018
Länsförsäkringar Bank AB (Parent Company)	10,112.4	8,684.8	57,367.9	54,990.1	472.1	47.9	-77.1	-879.9
Other companies in the Bank Group	0.2	0.2	–	–	–	–	0.0	0.0
Other companies in the Länsförsäkringar AB Group	–	–	–	0.0	–	–	1.6	1.6
Regional insurance companies	–	–	906.6	916.5	–	–	1,199.1	1,241.6

For information regarding remuneration of related key persons such as members of the Board of Directors and senior executives, see note 8 Employees, staff costs and remuneration of senior executives. In all other respects, no transactions took place between these individuals and their family members apart from normal customer transactions.

Note 33 Events after balance-sheet date

No significant events took place after the balance-sheet date.

Statement from the Board

The Board of Directors and President affirm that this Annual Report was prepared in accordance with generally accepted accounting policies in Sweden and that the accounts were prepared in accordance with legally restricted IFRSs, meaning in accordance with the international accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and the Council issued on July 19, 2002 on the application of international accounting standards, with the limitations stipulated by the Swedish Annual Accounts Act and regulations. The Annual Report gives a true and fair view of the company's position and earnings. The Board of Directors' Report provides a true and fair overview of the company's operations, financial position and earnings, and describes the significant risks and uncertainties to which the company is exposed.

Stockholm, 12 March 2020

Sven Eggefalk
Chairman

Gert Andersson
Board member

Christian Bille
Board member

Bengt Clemedtson
Board member

Göran Zakrisson
Board member

Anders Borgcrantz
President

Our audit report was submitted on 12 March 2020

KPMG AB

Dan Beitner
Authorized Public Accountant

Auditor's Report

To the general meeting of the shareholders of Länsförsäkringar Hypotek AB (publ), corp. id 556244-1781

Translation from the Swedish original

REPORT ON THE ANNUAL ACCOUNTS

Opinions

We have audited the annual accounts of Länsförsäkringar Hypotek AB (publ) for the year 2019, except for the corporate governance statement on pages 17–20. The annual accounts of the company are included on pages 13–59 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 Länsförsäkringar Hypotek 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 on pages 17–20. 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.

Our opinions in this report on the the annual accounts are consistent with the content of the additional report that has been submitted to the Board of directors 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 Länsförsäkringar Hypotek 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.

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.

Loan origination and provisions for loan losses

See disclosure in notes 3, 14 and accounting policies in note 2 in the annual account for detailed disclosures and a description of the matter.

Description of key audit matter	Response in the audit
Länsförsäkringar Hypotek's lending primarily comprises mortgages to private individuals. Loans are granted locally in Sweden, via the regional insurance companies, based on standardised, centrally established credit regulations at Länsförsäkringar Bank - Group.	We have tested the entity's key controls in the lending process, including credit decisions, credit examinations, rating classifications and loan loss provisions.
The entity's loans to the public amounted to SEK 240 062 (221,108) M on 31 December 2019, corresponding to 92 (92)% of the entity's total assets. The entity's reserves for loan losses in the loan portfolio amounted to SEK 6 (6) M after taking into consideration that the regional insurance companies cover 80% of the provision requirement on the date when an impairment is identified, by off-setting this against a buffer of accrued commission and SEK 29 (28) M if not taking that into account.	Controls tested included both manual controls and automatic controls in the Application system. We also tested general IT controls including authorisation Management for the relevant systems.
The reserves for loan losses in the entity's loan portfolio correspond to corporate management's best estimate of potentially occurring losses in the loan portfolio as per the balance-sheet date. For the entity there are complex calculations including critical judgements and estimates that are being made by management regarding the provi-sions for loan losses. This is the reason to why we believe that this is a key audit matter.	During the year a special focus has been on the entity's use of IFRS 9 regarding expected credit losses. We have therefore assessed the entity's interpretation of the IFRS 9 accounting standard in order to see that they have interpreted it in a reasonable way. We have tested the entity's key controls related to the loan loss provision process. We have also tested samples of the indata that goes into the entity's models and the reasonableness of the calculations that are being made in the expected credit loss computations. We have reviewed and assessed the validation of the expected credit loss models that have been performed. In our audit we have used our own credit modelling experts to assist us in the various audit procedures that we have performed.
	In addition we have assessed that the information presented in the annual report regarding the provisions for loan losses include enough information to provide the reader an understanding of the entity's estimates in this area.

Measurement of financial instruments

See disclosure in notes 16, 29, 30 and accounting policies in note 2, in the annual account for detailed disclosures and a description of the matter.

Description of key audit matter	Response in the audit
Länsförsäkringar Hypotek AB has financial instruments measured at fair value in the balance sheet. Some of these financial instruments do not have current market prices, which means that the fair value is determined using valuation techniques based on market data. These financial instruments are classed as Level 2 in the IFRS valuation hierarchy and correspond to assets of a value of SEK 7568 (5,540) M and liabilities of SEK 374 (431) M.	We tested key controls in the valuation process, including confirmation and approval of assumptions and methods used in model-based calculations, controls of data quality and change management for internal valuation techniques.
Most of the entity's derivatives contracts, including interest-rate and crosscurrency swaps, comprise Level 2 financial instruments. Level 2 derivatives contracts are measured using valuation techniques based on market interest rates and other market prices.	Controls tested included both manual controls and automatic controls in the application system. We also tested general IT controls including authorisation management for the relevant systems.
The valuation of Level 2 financial instruments includes assessments by the entity, since these instruments are measured using models. In light of this, these financial instruments have been deemed to be a particularly significant audit matter.	With the assistance of our internal valuation specialists, we challenged the methods and assumptions used in measuring unquoted/illiquid financial-instruments.
	We assessed the methods of the valuation techniques against industry practice and valuation guidelines.
	We have verified the values of the financial instruments by comparing the assumptions applied by the entity for the entire portfolio with suitable benchmark values and pricing sources, and have investigated significant deviations in one of the monthly accounts during the year. The result of this examination was also randomly tested in the annual accounts as part of roll-forward procedures.
	We have assessed the circumstances presented in the disclosures in the Annual Report and in the consolidated financial statements and whether the information is sufficiently extensive as a description of corporate management's assessments.

Other Information than the annual accounts

This document also contains other information than the annual accounts and is found on pages 1–12 and 60–62. 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.

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.

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 intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

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 Länsförsäkringar Hypotek 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 Länsförsäkringar Hypotek 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 organization 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 organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

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

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Banking and Financing Business 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.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 17-20 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.

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Länsförsäkringar Hypotek AB (publ) by the general meeting of the shareholders on May 13, 2019. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 2001.

Stockholm 12 March 2020

KPMG AB

Dan Beitner
Authorized Public Accountant

Board of Directors

1 Sven Eggefalk

Born 1969. President of Länsförsäkringar Bank AB. Elected 2018. **Education:** B.A. in Economics, North Park University Chicago. **Other Board appointments:** Chairman of Wasa Kredit AB Board member of Länsförsäkringar Fondförvaltning AB, Länsförsäkringar Fastighetsförmedling AB and Swedish Bankers' Association. **Previous experience:** President of Länsförsäkringar Östgöta, President of Wasa Kredit AB, 15 years at SEB in various senior positions.

2 Christian Bille

Born 1962. President of Länsförsäkringar Halland Elected 2010. **Education:** M.Sc. in Business and Economics. **Other Board appointments:** Board member of Länsförsäkringar Halland, Wasa Kredit AB and Länsförsäkringar Fondliv Försäkrings AB. Chairman of Länsförsäkringsbolagens Franchisesupport AB and Halland Invest AB. Board member of Halmstads Flygplats AB. **Previous experience:** President of Sparbanken Syd, Operating Manager Swedbank.

3 Bengt Clemedtson

Born 1964. Head of Business Länsförsäkringar Bank. Elected 2009. **Education:** M.Sc. in Business and Economics. **Other Board appointments:** Chairman of AB Superb Produkt. **Previous experience:** President of Skandiabanken Bolån AB.

4 Gert Andersson

Born 1959. Head of Product, Process & Operations at Länsförsäkringar Bank. Elected 2014. **Education:** M.Sc. in Business and Economics. **Other Board appointments:** Board member of BGC Holding AB and Bankgirocentralen BGC AB. **Previous experience:** Head of Sales Area Direct, Head of Sales and Marketing at Wasa Kredit and 25 years of experience in various senior positions at SEB.

5 Göran Zakrisson

Born 1953. Elected 2017. **Education:** M.Sc. in Business and Economics. **Other Board appointments:** No other Board appointments. **Previous experience:** A total of 25 years at Länsförsäkringar Bank and Swedbank Hypotek in various senior positions. Prior to that, credit analyst at Credit Suisse, bank analyst at Fitch and auditor at EY.

Auditor: KPMG AB, with Dan Beitner as auditor in charge.

Management

1 Anders Borgcrantz

Born 1961. President of Länsförsäkringar Hypotek AB. Employed since 2003. **Education:** M.Sc. in Business and Economics. **Previous experience:** Executive Vice President FöreningsSparbanken, President of SPINTAB, Regional Manager at FöreningsSparbanken.

2 Martin Rydin

Born 1968. CFO and Executive Vice President of Länsförsäkringar Hypotek AB. Employed since 2012. **Education:** LLM. **Previous experience:** Head of Long Term Funding Swedbank.

Definitions

Glossary

Return on total assets
Profit for the year in relation to average total assets.

Own funds
Own funds comprises the sum of Tier 1 capital and Tier 2 capital, less items indicated in the capital adequacy rules. Own funds in relation to capital requirements.

Credit-impaired loan receivables
Loan receivables that have fallen due, have defaulted on issue or acquisition and thus are in stage 3 of the rules on expected credit losses under IFRS 9.

Common Equity Tier 1 capital
Common Equity Tier 1 capital comprises equity less intangible assets, goodwill, prudent valuation, investments in financial companies and IRB deficit.

Common Equity Tier 1 capital ratio
Common Equity Tier 1 capital in relation to the total risk exposure amount.

Loan receivables
Comprises loans to the public and loans to credit institutions.

Tier 1 capital
The sum of Common Equity Tier 1 capital and Additional Tier 1 instruments.

Tier 1 ratio
Tier 1 capital in relation to the total risk exposure amount.

Risk Exposure Amount
The Risk Exposure Amount comprises assets in the balance sheet and off-balance sheet commitments valued in accordance with credit risk, market risk, operational risk and credit valuation adjustment risk in accordance with the capital adequacy rules.

Fixed-interest period
The agreed period during which the interest rate on an asset or liability is fixed.

Small businesses
Companies with basic business requirements (loans, savings and payments).

Tier 2 capital
Tier 2 capital primarily comprises fixed-term subordinated debt.

Total capital ratio
Total own funds in relation to the total risk exposure amount.

Alternative performance measures

The European Securities and Markets Authority's (ESMA) Guidelines on Alternative Performance Measures came into effect on 3 July 2016. In accordance with these guidelines, disclosures on financial performance measures that are not defined by IFRS have been provided. Business volumes, cost/income ratio, investment margin and return on equity show the organisation's earnings in relation to various investment measures. The share of credit-impaired loan receivables, credit losses and performance measures concerning provisions are presented to provide an understanding of lending, collateral and credit risk. The common factor for all of the alternative performance measures is that they describe the development of the operations and aim to improve comparability between different periods. The measures may differ from similar performance measures presented by other organisations.

Business volumes
The total volume of internally and externally managed funds, agricultural loans, mortgages and other loans in Länsförsäkringar Bank and Wasa Kredit and deposits from the public.

Share of credit-impaired loan receivables
Credit-impaired loan receivables (stage 3) after provisions in relation to loans to the public and credit institutions before provisions.

Return on total capital
Operating profit in relation to average total assets.

Loan-to-value ratio
Refers to loans with single-family homes, tenant-owned apartments or vacation homes as collateral.

Cost/income ratio
Total expenses in relation to total income. The cost/income ratio is calculated before and after credit losses.

Credit loss level
Credit losses, net, for loan receivables (on an annual basis) in relation to loans to the public and credit institutions after provisions at the end of the period.

Investment margin
Net interest income in relation to average total assets.

Reserve ratio for loan receivables
Recognised provisions for loan receivables in relation till loan receivables before deductions for provisions.

Return on equity
Operating profit less standard tax in relation to average equity, adjusted for items in equity recognised in other comprehensive income and for Additional Tier 1 Capital loans.

Financial calendar 2020

First quarter:
Interim report January–March: 28 April 2020

Second quarter:
Interim report April–June: 22 July 2020

Third quarter:
Interim report July–September: 23 October 2020

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