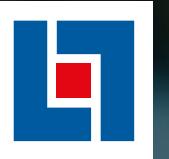




Länsförsäkringar Hypotek

Annual Report

2021





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## About Länsförsäkringar Hypotek

# One of Sweden's largest mortgage institutions

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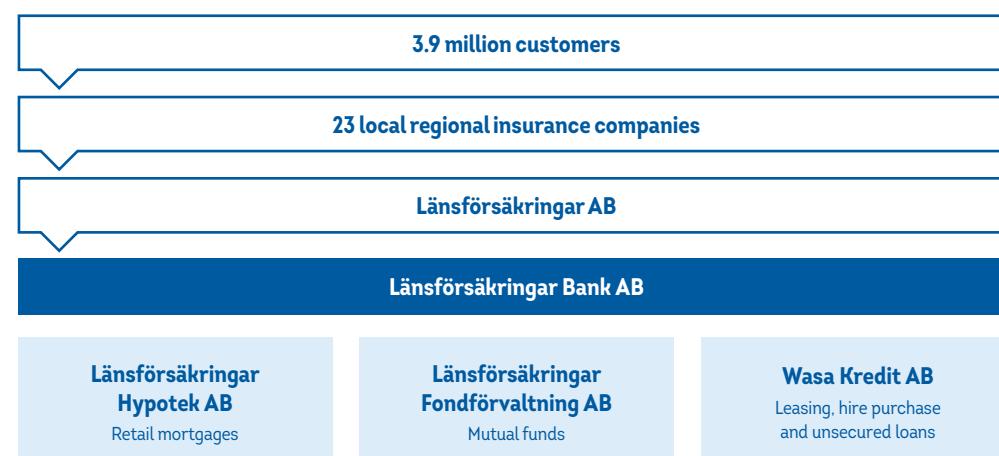
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Länsförsäkringar Hypotek is one of Sweden's leading mortgage institutions with loans of SEK 279 billion and about 295,000 customers. The strategy is to offer attractive mortgages to the Länsförsäkringar Alliance's 3.9 million customers. Close customer relationships are created during personal meetings at 115 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.

## Länsförsäkringar in brief

Länsförsäkringar comprises 23 local, customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB and its subsidiaries. Customers are provided with a complete offering of 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 7,900 employees.



# The 2021 fiscal year

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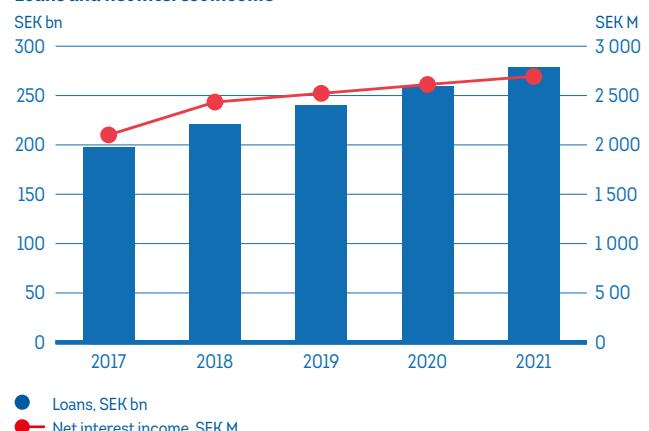
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## Significant events 2021 Figures in parentheses pertain to 2020

- Operating profit increased 6% to SEK 1,433 M (1,348) and the return on equity amounted to 8.2% (8.2).
- Net interest income rose 3% to SEK 2,696 M (2,612).
- Credit losses amounted to SEK -4.2 M (0.8), net, corresponding to a credit loss level of -0.00% (0.00).
- Lending increased 7% to SEK 278.5 billion (259.5).
- The Common Equity Tier 1 capital ratio amounted to 17.8% (18.6<sup>\*)</sup> on 31 December 2021.

<sup>\*)</sup> Refers to 30 September 2021.

## Loans and net interest income



Both lending and net interest income have increased an average of 11% over the past five years.

 Download as a PDF to print out

## Key figures

SEK M	2021	2020	2019	2018	2017
Return on equity, %	8.2	8.2	8.1	7.7	6.9
Return on total assets, %	0.39	0.38	0.37	0.36	0.31
Investment margin, %	0.93	0.95	0.96	1.04	1.03
Cost/income ratio before credit losses	0.08	0.09	0.09	0.09	0.11
Common Equity Tier 1 capital ratio, %	17.8	18.4	18.2	18.3	56.3 <sup>1)</sup>
Total capital ratio, %	17.8	19.1	19.0	19.4	59.8 <sup>1)</sup>
Share of credit-impaired loan receivables (stage 3), %	0.07	0.07	0.07	0.07	-
Reserve ratio for loan receivables stage 1, %	0.00	0.00	0.00	0.00	-
Reserve ratio for loan receivables stage 2, %	0.04	0.08	0.07	0.08	-
Reserve ratio for loan receivables stage 3, %	0.69	0.72	1.12	1.06	-
Reserve ratio for loan receivables stage 3, incl. withheld remuneration to regional insurance companies, %	3.44	3.61	5.59	5.29	-
Credit loss level, %	-0.00	0.00	-0.00	-0.00	0.00

<sup>1)</sup> Risk weight floor for mortgages in Pillar II.



# 2021 in brief

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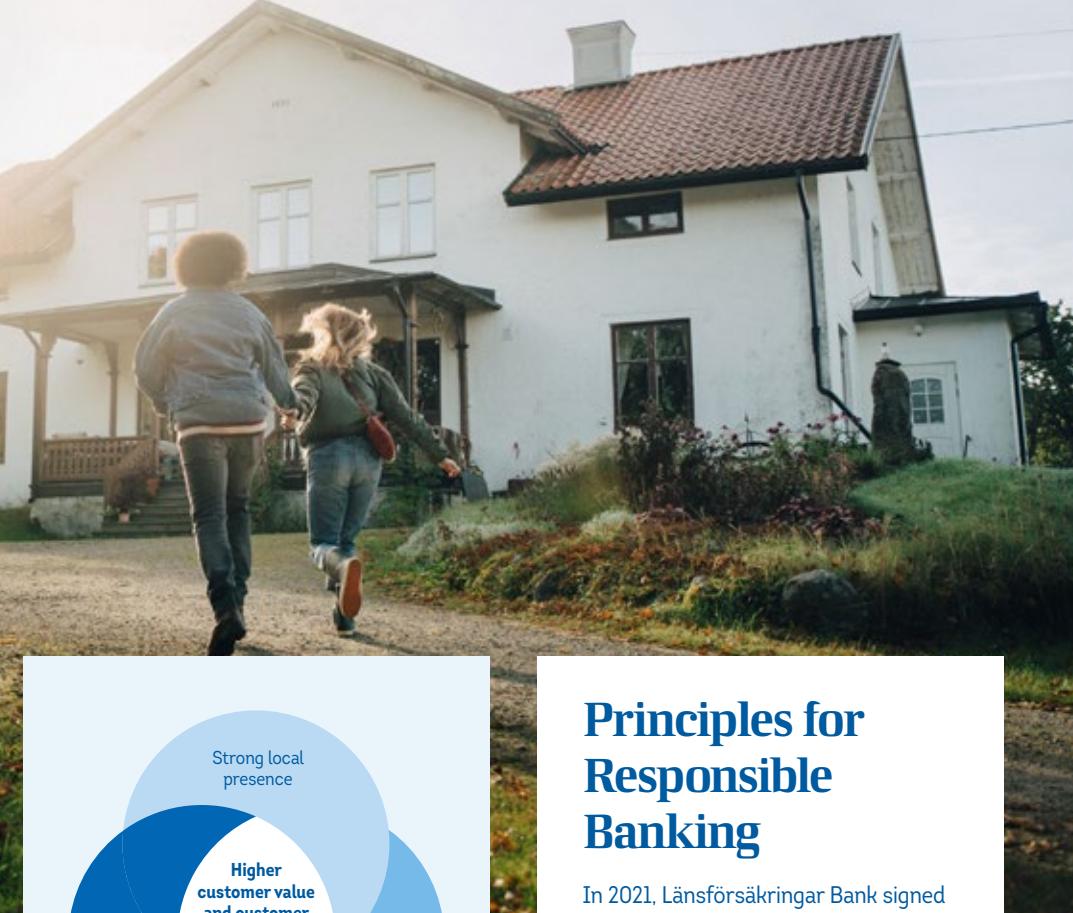
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## Länsförsäkringar Bank 25th anniversary

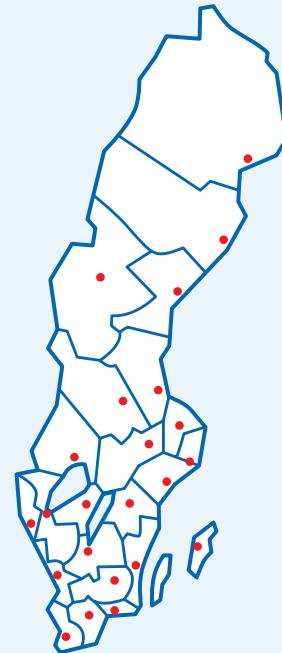
Länsförsäkringar's banking operations celebrated their 25th anniversary in 2021. Länsförsäkringar Hypotek's successful growth and position in the mortgage market is based on the principles of customer ownership as well as Länsförsäkringar's strong brand in banking, insurance and real-estate brokerage.



**A strong local presence and personal meetings combined with modern digital solutions provide a platform for creating high customer value and customer satisfaction.**

## Principles for Responsible Banking

In 2021, Länsförsäkringar Bank signed the UN Principles for Responsible Banking (PRB). The principles aim to set the framework for a sustainable banking system that drives the global economy in a sustainable direction. By signing the principles, Länsförsäkringar Bank commits to integrating the principles into operations, reporting both the negative and positive impacts of material sustainability areas and clearly indicating which specific SDGs Länsförsäkringar Bank is working to achieve.



**Leading digital services and strong local presence throughout Sweden**

Digital services are a central part of Länsförsäkringar's offering and comprise an important supplement to local customer meetings. Länsförsäkringar Hypotek's ambition is to always be at the forefront of digital developments to meet rising customer need and expectations for a digital and modern range of services.



# A new landscape in the mortgage market

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### STATEMENT BY THE PRESIDENT

Länsförsäkringar Hypotek performed well in 2021. Growth in the mortgage portfolio remained high while there was intense competition in the mortgage market. The year was generally characterised by strong economic recovery, and housing prices continued to rise to new record levels.

#### **A strong year for Länsförsäkringar Hypotek**

Economic recovery was strong even though 2021 was very much dominated by the COVID-19 pandemic and its continuing effects on society. Länsförsäkringar Hypotek continued to perform well in 2021, largely due to the fantastic work performed locally by the regional insurance companies, and we delivered strong earnings for the full-year. The trend in net interest income remained favourable. Lending grew SEK 19 billion and the mortgage portfolio totalled SEK 279 billion at year-end. Credit quality was unchanged, remaining very high throughout the pandemic, and we reported no credit losses for the full-year.

#### **Housing prices breaking new records**

The Swedish housing market continued to perform strongly and housing prices broke new records in 2021. A driving factor underlying this price trend was the higher demand for larger homes as a result of the pandemic, especially single-family homes and larger apartments in and close to the major cities. The price increase was the largest for these categories of homes. Other reasons for rising housing prices are continuing low interest rates and the limited impact of the pandemic on the finances of home buyers. The underlying problem of a poorly functioning housing market and the imbalance between supply and demand also contributed to the price increase. This remains a problematic area in which clear initiatives are lacking. However, we can see



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that housing construction picked up more in 2021 and is at a high level, which in the future is likely to affect the balance in the market as supply increases. Given rising inflation and the concern about inflation during the year, there is nevertheless a risk that the Riksbank will raise interest rates earlier than it has announced. Even if this happens, mortgage interest rates will probably remain at relatively low levels compared with the past. We believe that the private finances of Länsförsäkringar's customers have good margins to cope with high interest rates. Naturally, it cannot be ruled out that housing prices will fall in the future and it is therefore reassuring that Länsförsäkringar Hypotek has a good buffer to manage even large downturns in prices.

**Intense competition in mortgage market**

In parallel with the strong housing market and rising housing prices, we can see that the competitive landscape in the mortgage market intensified further during the year. The mortgage market underwent a change in 2020 and the start of 2021. The largest players losing market shares in new lending while several smaller players periodically captured a larger share of new lending relative to their market shares. This dynamic gradually fluctuated in 2021, when all large players focused on the mortgage market and thus successively recaptured much of the previously lost market shares in new lending.

**Digitisation the key to continued growth**

Looking ahead, we are well positioned for continuing growth. With 23 customer-owned regional insurance companies, we have an almost uniquely local presence throughout Sweden, which is one of the strengths of our strategy. We believe the key to further and greater success is to combine the strong local presence with modern and competitive digital services. We are continuing to work intensively based on this conviction, and Länsförsäkringar's banking operations have implemented several initiatives that will develop the business, both locally and through our digital channels. Technology is advancing rapidly. New opportunities are continuously arising based on new digital conditions and more and more functions can be digitise further. We are convinced that continuing to digitise the mortgage process is a key component whereby we are adding greater customer value and strengthening the customer experience. In

”

**With 23 customer-owned regional insurance companies, we have an almost uniquely local presence throughout Sweden, which is one of the strengths of our strategy.**

doing so we are ensuring continued stable growth and paving the way for future success by maintaining high customer satisfaction. That is why we are making continuous investments in digital development so that we can advance our positions even further in this area and thereby further enhance the efficiency of and automate our processes.

Finally, I would like to thank everyone for their fantastic efforts that have made this a successful year for Länsförsäkringar Hypotek and we look forward to continuing this tremendous work in 2022.

Stockholm, March 2022

Anders Borgcrantz  
President and CEO

# One of the leading players in the mortgage market

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## STRATEGY, OFFERING AND POSITION

Länsförsäkringar Hypotek continued to strengthen its position in the mortgage market during the year and held a market share of 7.1% at year-end. Lending is growing stably with sustained low risk and very high credit quality in the mortgage portfolio. 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 7.1%. 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. 85% of mortgage customers have Länsförsäkringar as their primary bank.

### Customer ownership

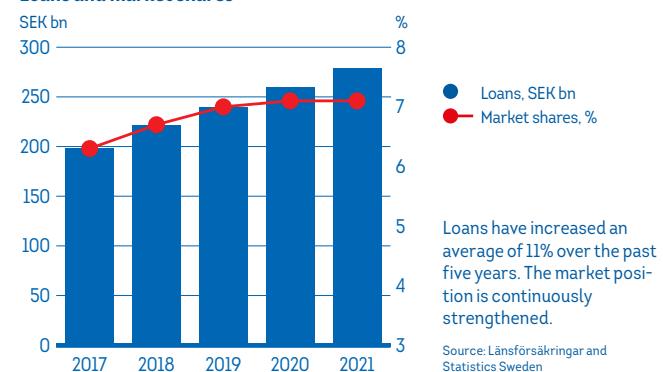
The Länsförsäkringar Alliance comprises 23 local and customer-owned regional insurance companies and the jointly owned Läns-

försäkringar 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

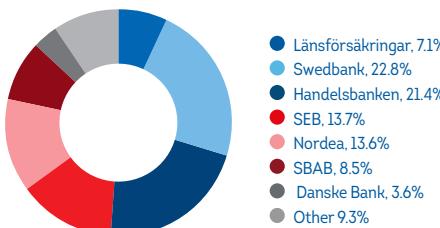
The banking and retail mortgage operations have a local presence through the customer-owned regional insurance companies that manage all customer contact. Business decisions are made locally and the regional insurance companies' local commitment and networks provide broad and in-depth customer and market 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.

### Loans and market shares



### Retail mortgages

Source: Statistics Sweden



The market position in mortgages amounted to 7.1%.

Loans:  
**SEK 279 bn**

**+7%**

Market share,  
retail mortgages

**7.1%**

# A year of strong and broad recovery with rising inflation

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### ECONOMIC ENVIRONMENT AND MARKET

A continuing and strong economic recovery dominated 2021. All major regions around the world reported high growth and an improved labour market. The Swedish economy also grew substantially during the year and GDP is now at a normal level. Internationally, the year also saw rising inflation caused by higher prices of raw materials, energy prices and production bottlenecks. The financial markets continued to be characterised by low interest-rate levels and rising stock markets. The robust stimulus packages from central banks around the world continued, despite rising inflation. The pandemic continued, but had far less of an impact on the economy than in 2020.

The global economic development in 2021 was generally characterised by very strong growth and high inflation. Global GDP grew almost 6% and the pandemic-related economic downturn had recovered in many countries by year-end. Developed economies generally made better recoveries due to their vaccine programmes and expansive economic policies. However, recovery in several emerging markets was impeded by

continued high rates of infection and tough restrictions. This difference was tangible among global stock markets with markets in developed economies rising sharply while emerging markets reported a weaker trend, with particularly weak markets in China.

The recovery in the US was both rapid and wide-scale. Extensive stimuli and fast-rising demand significantly strengthened both production and the labour market. The US also had the highest rate of



Recovery in 2021 was strong and GDP is above or at about pre-pandemic levels in most developed economies.

Source: Macrobond



Inflation increased considerable, creating concern in the financial markets.



The strong recovery in 2021 led to a rapid decline in unemployment.



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inflation during the year, rising to levels that have not been seen since the 1980s. Very strong demand led to a shortage of goods, services and labour. However, the US central bank, the Fed, believed that inflation was largely transitory and continued its extensive stimuli for most of the year. At the end of 2021, the Fed gave signs that the economy had recovered enough that stimulus programmes could start to be cut back. The Fed also changed its forecast for its key interest rate and expects to hike rates three times in 2022. US short-term rates rose slightly toward the end of the year, while long-term interest rates remained low.

Europe also reported strong growth and rising inflation. The hard hit services sector strengthened considerably and such countries as Spain and France reported strong growth. Growth in Germany was slightly held back by a shortage of components and other bottleneck problems in the industrial sector. Like the US, inflation rose due to the price of commodities and electricity, but nowhere near the levels or as wide-scaled as recorded in the US. The European Central Bank (ECB) continued its stimuli and although bond buying was wound down slightly it is expected to continue throughout 2022. The ECB is not expected to raise its key interest rate in

2022. The differing approaches of the Fed and the ECB meant that the interest-rate difference between the US and Europe increased in 2021, contributing to the USD strengthening considerably.

In Asia, the Chinese economy had already made a recovery in the first half of 2021, but reduced stimuli, continuing restrictions and weaker consumer demand resulted in the economic climate softening in the second half of the year. The large property developer Evergrande experienced payment difficulties, which created turmoil and slowed the trend in the construction industry. The Chinese government tightened regulations for several large tech companies during the year, which had major negative consequences for the Chinese stock market. China's central bank introduced new stimulus packages at the end of the year to bolster the economy.

The stock markets performed very well in 2021. The leading stock market indices rose during the year and the MSCI World Index was up 21.1%, while the US S&P500 rose 27.7%. The Stockholm Stock Exchange increased 36.6% in 2021, including dividends.

The Swedish economy grew substantially during the year and GDP is now at a normal level. Inflation also rose, but less than in many other developed economies. The labour market strengthened

considerably and continued to be dominated by a division between strong and weak groups in the labour market, and long-term unemployment remained high. The Riksbank continued with its extensive asset purchase program during 2021 but initiated a reduction of their purchases and during 2022 only maturing bonds will be reinvested. Long-term government bond rates fell in the fourth quarter, while the difference between mortgage bonds and government bonds expanded during the quarter, driven by the Riksbank's announcement that it would start to taper its purchases of covered bonds. The forecast for the key interest rate was marginally changed and the repo rate will not be raised until late 2024. The Swedish housing market performed very strongly in 2021 with a sharp rise in housing prices, despite housing development accelerating during the year. Similar to 2020, the price of single-family homes rose more than for tenant-owned apartments, largely driven by continuing high demand for larger homes. Housing prices in the Swedish market increased 10.5% in 2021 according to the HOX Housing Index.

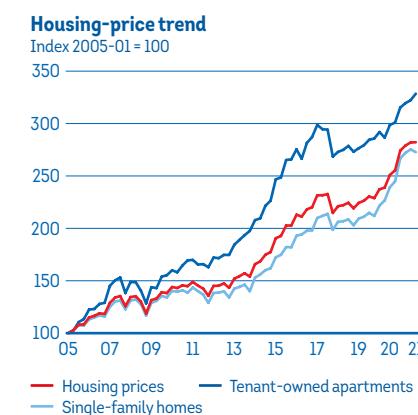


High inflation and concern about rapid interest-rate hikes by the central banks led to a sharp upturn in long-term rates.

Source: Macrobond



Housing construction increased during the year. However, the shortage of housing in the large cities remains significant due to high population growth and many years of low new housing development.



The Swedish housing market continued to perform very strongly in 2021 with a sharp rise in housing prices despite housing development accelerating during the year.

# Loan portfolio with high credit quality

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## 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 profile is conservative and the loan portfolio maintains high credit quality and a very low credit loss level.

### Lending

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 taken 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 profile, 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. Länsförsäkringar also encourages customers who do not fall under the repayment requirements to make repayments on their mortgage to ensure a healthy balance in their private finances.

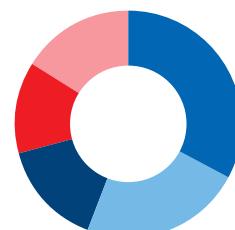
Lending in Länsförsäkringar Hypotek amounted to SEK 279 billion. Mortgages for private individuals' housing comprises 96% of Länsförsäkringar Hypotek's loan portfolio. 71.5% of the collateral comprises single-family homes, 24.5% tenant-owned apartments, 3.5% first-lien mortgages for multi-family housing 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 267 billion in mortgages, corresponding to 96% of the loan portfolio. The collateral comprises only private homes, of which 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 1.35 M. The weighted average loan-to-value ratio, LTV, was 54% and the nominal, current OC (overcollateralisation) amounted to 29%. 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 63% on 31 December 2021. No impaired loans are included in the cover pool.

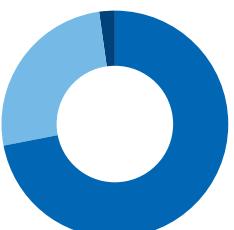
#### Cover pool by geography



- Western Sweden, 33%
- Eastern Sweden, 23%
- Northern Sweden, 15%
- Stockholm, 13%
- Southern Sweden, 16%

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

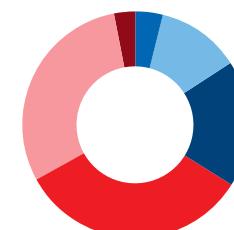
#### Cover pool by collateral



- Single-family homes, 72%
- Tenant-owned apartments, 26%
- Vacation homes, 2%

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

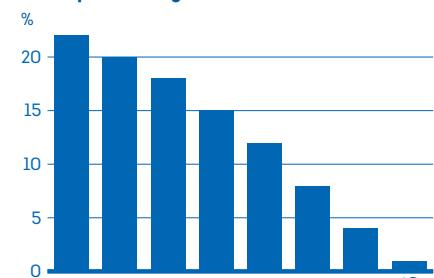
#### Cover pool by commitment



- < SEK 500,000, 4%
- SEK 500,000-SEK 1 M, 12%
- SEK 1-1.5 M, 18%
- SEK 1.5-2.5 M, 33%
- SEK 2.5-5 M, 30%
- > SEK 5 M, 3%

Commitments with a maximum loan amount of SEK 2.5 million account for 64%. Only 3% of the loans have a loan amount of more than SEK 5 million.

#### Cover pool, average loan-to-value ratio



The cover pool's weighted average LTV amounted to 54% on 31 December 2021.

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### Credit losses and credit-impaired loan receivables

Credit losses amounted to SEK -4.2 M (0.8), net, corresponding to a credit loss level of -0.00% (0.00). Credit-impaired loan receivables (stage 3) before provisions amounted to SEK 200.2 M, correspond-

ing to a share of credit-impaired loan receivables of 0.07%. The loss allowance for credit-impaired loan receivables was SEK 1.4 M. The reserve ratio for credit-impaired loan receivables amounted to 0.69%. In addition, SEK 5.5 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 6.9 M. The reserve ratio for credit-impaired loan receivables, including withheld remuneration to the regional insurance companies, amounted to 3.4% and the total recognised loss allowance was SEK 18.3 M, of which SEK 14.7 M

pertained to withheld remuneration to regional insurance companies in accordance with the settlement model for credit losses related to the regional insurance companies' commitments for generated business.

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

Cover pool	31 Dec 2021	31 Dec 2020
Total volume, SEK billion	277	259
Swedish mortgages, SEK billion	267	249
Substitute collateral, SEK billion	10	10
Collateral	Private homes	Private homes
Weighted average LTV, %	54	58
OC <sup>1)</sup> , %	29	37
Seasoning, months	66	63
Number of loans	429,536	417,635
Number of borrowers	189,193	184,820
Number of properties	187,998	184,264
Average commitment, SEK 000s	1,411	1,349
Average loan, SEK 000s	621	595
Interest rate type, variable, %	49	49
Interest rate type, fixed, %	51	51
Impaired loans	None	None

<sup>1)</sup> 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.



# Stable financing with covered bonds

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## 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.

### Targets

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 2028.

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. On 31 December 2021, Länsförsäkringar Hypotek had six seven-year Euro benchmark covered bonds outstanding, each a

nominal EUR 500 M. 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

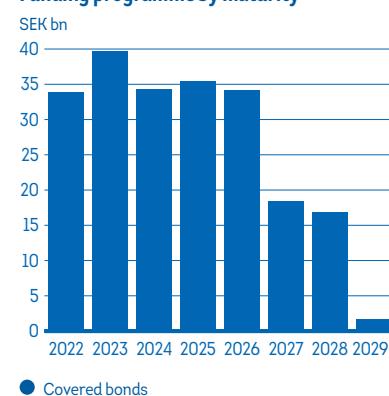
Länsförsäkringar Hypotek works proactively with its outstanding liabilities by repurchasing bonds with short remaining terms against issuance of long-term liabilities as a means of managing and minimising the liquidity and refinancing risk.

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

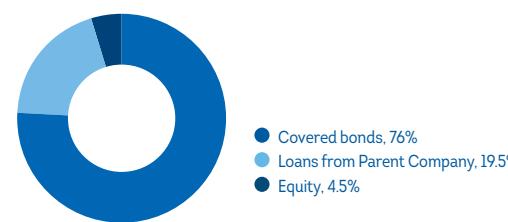
### Funding during the year

Funding through covered bonds functioned well during the year and demand from investors was high.

#### Funding programme by maturity

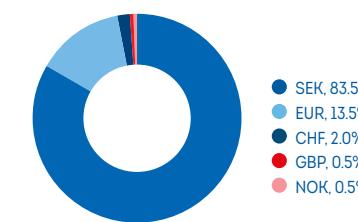


#### Financing sources



Lending is primarily financed by covered bonds, comprising 76% of financing.

#### Funding by currency



Funding primarily takes place in SEK, which amounted to about 84% of funding by currency at year-end.

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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 221 billion during the year. During the year, Länsförsäkringar Hypotek issued a new Swedish covered bond (LFH521), which matures in September 2028 and a seven-year Euro benchmark covered bond for a nominal EUR 500 M. As in previous years, Länsförsäkringar Hypotek was active in the repurchase of own debt, and SEK 5 billion was repurchased in 2021.

**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 2021, the liquidity assets amounted to SEK 10.0 billion, comprising 100% Swedish covered bonds with an AAA/Aaa credit rating. Liquidity thus remains healthy and contractual undertakings can be met for about two years without needing to secure new funding in the capital market.

**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 2021, SEK bn	Coupon, %
515	21 September 2022	28.7	2.25
516	20 September 2023	28.2	1.25
517	18 September 2024	25.3	1.50
518	17 September 2025	28.2	1.25
519	16 September 2026	26.1	1.50
520	15 September 2027	17.5	1.00
521	20 October 2021	11.7	0.50
<b>Total</b>		<b>165.5</b>	

**Euro benchmark covered bonds**

Loans	Date of maturity	Coupon, %
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
EUR 500m	27 October 2021	0.01

**Funding programme**

Programme	Limit, Nom	Issued in 2021, Nom, SEK bn	Issued in 2020, Nom, SEK bn	Outstanding, 31 Dec 2020, Nom, SEK bn	Outstanding, 31 Dec 2020, Nom, SEK bn	Remaining average maturity, 31 Dec 2020	Remaining average maturity, 31 Dec 2020
Swedish covered SEK Benchmark	Unlimited	39.7	32.2	165.5	141.4	3.3	3.4
MTCN	SEK 30 bn	1.0	2.9	13.9	13.5	4.4	3.8
EMTCN	EUR 6 bn	5.1	-	34.8	34.3	3.0	2.9
<b>Total</b>		<b>45.8</b>	<b>35.1</b>	<b>214.2</b>	<b>189.2</b>	<b>3.3</b>	<b>3.3</b>

# Regulatory development Länsförsäkringar Hypotek

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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 October 2021, the European Commission published its legislative proposal on finalising the implementation of the Basel III regulations. The purpose of the proposal is to ensure that EU banks become more resilient to potential future economic shocks, while contributing to Europe's recovery from the COVID-19 pandemic and the transition to climate neutrality. The proposal includes 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 applied internal models may not, in total, be lower than 72.5% of the risk-weighted amount calculated according to the revised Standardised Approaches. The majority of the new rules are expected to take effect in 2025 with a phase-in period of five years.

In September 2021, the Authority decided to raise the countercyclical capital buffer from 0% to 1%, effective 20 September 2022.

In December 2021, the Authority decided to extend the risk weight floor of 25% for Swedish mortgages by two years. The decision applies from 30 December 2021 until 30 December 2023.

The European Banking Authority (EBA) has prepared new guidelines on banks' internal ratings-based approaches. Swedish banks need to adapt to these new regulatory changes, which will result in significant changes to models. The new guidelines were to have been implemented by 2021 at the latest but have been postponed by the Financial Supervisory Authority.

### 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 for covered bonds within the EU. In October 2021, the Swedish government decided on the new rules. The new regulations include 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 regulations will come into effect on 8 July 2022.

### MREL

In December 2021, 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 MREL for Länsförsäkringar Bank and an individual minimum requirement for Länsförsäkringar Hypotek. The new MREL is based on the implementation of the Banking Package and includes both a risk-based and a non-risk-based MREL.

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 will be in terms of a capital requirement.



# Board of Directors' Report

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The Board of Directors and the President of Länsförsäkringar Hypotek AB (publ) hereby submit the Annual Report for 2021.

### Ownership structure

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 establish the conditions 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) (502010-9681). The Bank Group includes Länsförsäkringar Hypotek AB (publ), Länsförsäkringar Fondförvaltning AB (publ) (556364-2783) and Wasa Kredit AB (556311-9204).

Parts of Länsförsäkringar Hypotek's operations are outsourced to companies in the Länsförsäkringar AB Group under an outsourcing agreement.

### Focus of operations

Länsförsäkringar Hypotek conducts mortgage 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 115 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 189 branches of Länsförsäkringar Fastighetsförmedling throughout Sweden.

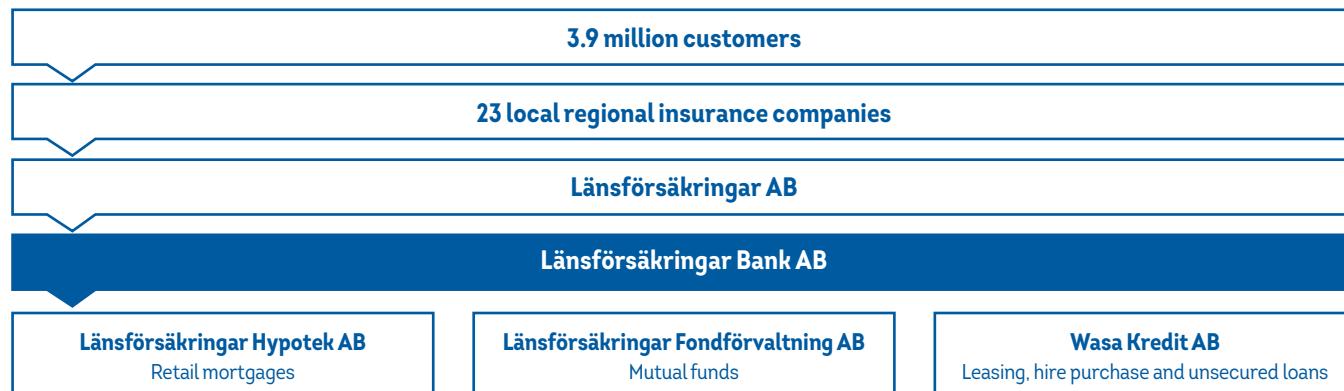
### Information regarding COVID-19

The rate of infection of COVID-19 increased substantially towards the end of 2021 due to the omicron variant. However, the impact of the higher rate of infection on the business activities has been limited to date. Robust stimulus measures were taken by the government and relevant authorities when the pandemic broke out, and monetary policy remains expansive even though the Riksbank has started to cut back its bond buying. During the year, the stimulus

packages contributed positively to the macroeconomic performance, strong stock markets and a continued rise in housing prices, which combined have a positive effect on the operations.

Länsförsäkringar Bank has taken a number of measures since the first quarter of 2020 to ensure the continuation of the operations in the Bank Group. The aim of the implemented measures is for the external impact on customers to be as low as possible. The focus was on minimising the risk of internal contagion in the Bank Group that would affect the bank's operational capacity. The operations are thus continuing to involve a large element of remote working. The regional insurance companies' branches remain available for customer meetings, observing the recommendations of the authorities.

### Länsförsäkringar Hypotek – part of the Länsförsäkringar Alliance



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**Financial statements****Other information****2021 COMPARED WITH 2020****Growth and customer trend**

Loans to the public rose 7%, or SEK 19.0 billion, to SEK 278.5 billion (259.5), with continued very high credit quality. The number of customers was 295,000 and 86% of retail mortgage customers have Länsförsäkringar as their primary bank.

**Earnings and profitability**

Operating profit increased 6% to SEK 1,433 M (1,348), primarily due to higher net interest income. The investment margin amounted to 0.93% (0.95). Profit before credit losses rose 6% to SEK 1,429 M (1,349). Return on equity amounted to 8.2% (8.2).

**Income**

Operating income increased 5% to SEK 1,560 M (1,483), attributable to higher net interest income and net gains from financial items. Net interest income increased 3% to SEK 2,296 M (2,612) due to higher volumes. Net commission was SEK -1,176 M (-1,107).

**Expenses**

Operating expenses amounted to SEK 130.8 M (133.5). The cost/income ratio before credit losses was 0.08 (0.09) and the cost/income ratio after credit losses was 0.08 (0.09).

**Credit losses**

Credit losses amounted to SEK -4.2 M (0.8), net, corresponding to a credit loss level of -0.00% (0.00).

Credit-impaired loan receivables (stage 3) before provisions amounted to SEK 200.2 M, corresponding to a share of credit-impaired loan receivables of 0.07%. The loss allowance for credit-impaired loan receivables was SEK 1.4 M. The reserve ratio for credit-impaired loan receivables amounted to 0.69%. In addition, SEK 5.5 M of the remuneration to the regional insurance companies regarding credit-impaired loan receivables\* is withheld. Including the withheld remuneration to the regional insurance companies, the loss allowance for credit-impaired loan receivables totalled SEK 6.9 M. The reserve ratio for credit-impaired loan receivables, including withheld remuneration to the regional insurance companies, amounted to 3.4% and the total recognised loss allowance was SEK 18.3 M, of which SEK 14.7 M pertained to withheld remuneration to the regional insurance companies\*.

**Loss allowance, stage 3**

SEK M	31 Dec 2021	31 Dec 2020
Loans to the public	278,523	259,500
Credit-impaired loan receivables (stage 3)	200.2	189.9
Total loss allowance for credit-impaired loan receivables (stage 3), incl. withheld remuneration to regional insurance companies	6.9	6.9
of which loss allowance for credit-impaired loan receivables (stage 3)	1.4	1.4
of which withheld remuneration to regional insurance companies for credit-impaired loan receivables (stage 3)	5.5	5.5

For further information on credit losses and credit-impaired loan receivables, refer to notes 2 and 11.

\* In accordance with the settlement model for the regional insurance companies' credit-risk commitments for generated business.

**Loans**

All loans are granted in Sweden, in SEK and have a well-diversified geographic distribution. Loans to the public increased 7%, or SEK 19.0 billion, to SEK 278.5 billion (259.5). The credit quality of the loan portfolio, comprising 71.5% (71.5) single-family homes, 24.5% (25) tenant-owned apartments, 3.5% (3) multi-family housing and 0.5% (0.5) industrial properties, remained favourable. On 31 December 2021, the market share of retail mortgages was 7.1% (7.1) according to Statistics Sweden.

**Cover pool**

The cover pool, which forms the basis of issuance of covered bonds, contains mortgages of SEK 267 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 1.41 M (1.35). The weighted average loan-to-value ratio, LTV, was 54% (58) and the nominal, current OC (overcollateralisation) amounted to 29% (37). 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 63% (65) on 31 December 2021. 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 13% to SEK 220.6 billion (195.9). Issued covered bonds during the year totalled a nominal SEK 45.8 billion (35.1) and repurchases of a nominal SEK 4.5 billion (14.1) were executed. Matured covered bonds amounted to a nominal SEK 16.3 billion (13.8). During the year, Länsförsäkringar Hypotek issued a new Swedish covered bond (LFH521), which matures in September 2028 and a seven-year Euro benchmark covered bond for a nominal EUR 500 M.

**Liquidity**

On 31 December 2021, liquidity assets totalled SEK 10.0 billion (10.7). Liquidity remains healthy and contractual undertakings can be met for about 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.

**Interest-rate risk**

On 31 December 2021, an increase in market interest rates of 1 percentage point would have changed the value of interest-bearing assets and liabilities, including derivatives, by SEK -119.4 M (-179.9).

**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 81,262 (72,085). 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 1.1 billion during the year due to generated profit. The Common Equity Tier 1 capital ratio amounted to 17.8% (18.4) and the total capital ratio to 17.8% (19.1).

For more information on capital adequacy, see note 3

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As part of the Bank Group, Länsförsäkringar Hypotek is included in the Länsförsäkringar AB Group and HR work is conducted jointly. Länsförsäkringar Hypotek'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**

The Länsförsäkringar AB Group's sustainability work is based on the vision of "Together we create security and opportunities" and the long-term objective is to be climate-positive by 2045. Länsförsäkringar Hypotek can reduce its sustainability risks, increase customer value, contribute to the positive development of society and create business value by taking economic, social and environmental aspects into consideration in its business development and business decisions. Länsförsäkringar is a signatory to the principles of the UN Global Compact and works to contribute to the UN Sustainable Development Goals (SDGs). 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 2021 Annual Report whose scope is presented on page 2 and via this link:

 [lansforsakringar.se/sustainabilityreport2021](https://lansforsakringar.se/sustainabilityreport2021)

**Rating**

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

<sup>1)</sup>Pertains to the company's covered bonds.

**Risks and uncertainties**

Länsförsäkringar Hypotek is exposed to a number of risks, primarily credit risks, liquidity 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 that are restricted through narrow limits. The operations are characterised by a low risk profile. Credit losses remain low and the refinancing of business activities was highly satisfactory during the period. Risks and uncertainty related to COVID-19 have gradually declined during the year but continue to be monitored.

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 follow the strategic direction of the Bank Group, which involves 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 the end of the period**

No significant events took place after the end of the period.

**Proposed appropriation of profit**

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

	SEK
Fair value reserve	-89,509,035
Retained earnings	9,145,445,239
Net profit for the year	916,570,756
Profit to be appropriated	9,972,506,960

The Board proposes that SEK 9,972,506,960 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 23–59. See page 17 for the five-year summary. All figures in the Annual Report are reported in SEK M unless otherwise specified.

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SEK M	2021	2020	2019	2018	2017 <sup>1)</sup>	SEK M	2021	2020	2019	2018	2017 <sup>1)</sup>
<b>INCOME STATEMENT</b>											
Net interest income	2,695.6	2,611.9	2,521.5	2,433.6	2,100.6	Return on equity, %	8.2	8.2	8.1	7.7	6.9
Net commission	-1,175.8	-1,107.2	-1,176.6	-1,239.6	-1,141.3	Return on total assets, %	0.39	0.38	0.37	0.36	0.31
Net gains/losses from financial items	40.1	-22.2	3.5	-1.9	-43.0	Investment margin, %	0.93	0.95	0.96	1.04	1.03
Other operating income	-	-	-	-	-	Cost/income ratio before credit losses	0.08	0.09	0.09	0.09	0.11
<b>Total operating income</b>	<b>1,560.0</b>	<b>1,482.5</b>	<b>1,348.4</b>	<b>1,192.1</b>	<b>916.4</b>	Common Equity Tier 1 capital ratio, %	17.8	18.4	18.2	18.3	56.3 <sup>2)</sup>
Staff costs	-13.8	-21.1	-15.5	-14.9	-15.7	Total capital ratio, %	17.8	19.1	19.0	19.4	59.8 <sup>2)</sup>
Other administration expenses	-116.9	-112.3	-105.2	-94.0	-87.5	Share of credit-impaired loan receivables (stage 3), %	0.07	0.07	0.07	0.07	-
Depreciation and impairment of property and equipment	-0.2	-0.2	-0.2	-0.2	-0.2	Reserve ratio for loan receivables stage 1, %	0.00	0.00	0.00	0.00	-
<b>Total operating expenses</b>	<b>-130.8</b>	<b>-133.5</b>	<b>-120.9</b>	<b>-108.9</b>	<b>-103.4</b>	Reserve ratio for loan receivables stage 2, %	0.04	0.08	0.07	0.08	-
<b>Profit before credit losses</b>	<b>1,429.2</b>	<b>1,349.0</b>	<b>1,227.6</b>	<b>1,083.0</b>	<b>813.0</b>	Reserve ratio for loan receivables stage 3, %	0.69	0.72	1.12	1.06	-
Credit losses, net	4.2	-0.8	0.9	1.3	0.0	Reserve ratio for loan receivables stage 3, incl. withheld remuneration to regional insurance companies, %	3.44	3.61	5.59	5.29	-
<b>Operating profit</b>	<b>1,433.4</b>	<b>1,348.2</b>	<b>1,228.5</b>	<b>1,084.4</b>	<b>813.0</b>	Credit loss level, %	-0.00	0.00	-0.00	-0.00	0.00
Appropriations	-275.7	-274.1	-258.0	-249.5	-200.0						
Tax on net profit for the year	-241.1	-239.2	-214.5	-176.4	-135.9						
<b>Net profit for the year</b>	<b>916.6</b>	<b>835.0</b>	<b>756.0</b>	<b>658.5</b>	<b>477.1</b>						
<b>BALANCE SHEET</b>											
<b>Assets</b>											
Loans to credit institutions	4,272.6	3,933.2	4,186.8	4,631.1	2,859.2						
Loans to the public	278,522.8	259,499.5	240,061.6	221,107.9	197,654.8						
Bonds and other interest-bearing securities	9,968.6	10,674.4	10,304.0	9,916.6	9,837.9						
Derivatives	4,166.0	5,199.7	7,568.2	5,540.2	4,681.3						
Other assets	716.1	349.6	84.0	172.2	303.4						
<b>Total assets</b>	<b>297,646.1</b>	<b>279,656.4</b>	<b>262,204.7</b>	<b>241,368.0</b>	<b>215,336.6</b>						
<b>Liabilities and equity</b>											
Due to credit institutions	58,632.3	65,341.8	56,972.8	54,426.9	47,266.6						
Debt securities in issue	220,591.8	195,861.4	188,500.7	171,195.1	152,811.9						
Derivatives	1,350.3	651.3	374.4	430.7	683.9						
Subordinated liabilities	-	500.0	500.0	661.0	661.0						
Other liabilities	2,239.0	3,734.4	3,368.2	3,157.1	3,301.1						
Equity and untaxed reserves	14,832.6	13,567.4	12,488.6	11,497.4	10,612.2						
<b>Total liabilities, untaxed reserves and equity</b>	<b>297,646.1</b>	<b>279,656.4</b>	<b>262,204.7</b>	<b>241,368.0</b>	<b>215,336.6</b>						

<sup>1)</sup>The comparative year 2017 was not restated in connection with the transition to IFRS 9 Financial instruments.

<sup>2)</sup>Risk weight floor for mortgages in Pillar II.

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#### 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 identify, 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 a year, known as 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 Committee

The Annual General Meeting of Länsförsäkringar AB appoints a Nomination Committee. The Nomination Committee, in consultation with the CEO of Länsförsäkringar AB, submits proposals regarding the Board of Directors and auditors of Länsförsäkringar Hypotek, and fees and other remuneration to these members and auditors. The Nomination Committee follows an instruction adopted by the Annual General Meeting of Länsförsäkringar AB and new Board members are recruited in accordance with the instructions and established procedures and processes.

The Board is to have a sufficient number of Board members taking into account the size and degree of complexity of the company, and the nature and scope of the operations. With this as the starting point, the Nomination Committee assesses 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.



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#### 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. Anders Tagde replaced Dan Beitner as auditor in charge in May 2021.

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 2021. The Chairman of the Board is the President of Länsförsäkringar Bank AB. A presentation of the Board members can be found on page 64.

#### Board responsibilities and allocation 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 operating 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.

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, for example, the central head of function (CFA), Compliance, Risk Control and Internal Audit.

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 is the President of the company. A more detailed presentation of Anders Borgcrantz can be found on page 64. The 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 risk control, lending and IT operations. Other parts of Länsförsäkringar Hypotek's operations are outsourced to companies in 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 also to provide support and advice to operations, to ensure that the President and Board 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 and the 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.



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The assessment of the Board members is carried out by the Nomination Committee, while the assessment of the President is performed by the Board. The suitability assessment is based on, for example, material collected by available registers and received from the person to whom the fit and proper assessment pertains. Based on Länsförsäkringar Hypotek's operations and other circumstances, the assessment also considers relevant training and experience, as well as professional experience in senior positions. As regards the Board, in addition to the performance and skills of individual 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 and the President fully satisfy the fit and proper requirements. Information about their education, previous experience and other Board appointments is presented on pages 64.

# Internal control over financial reporting

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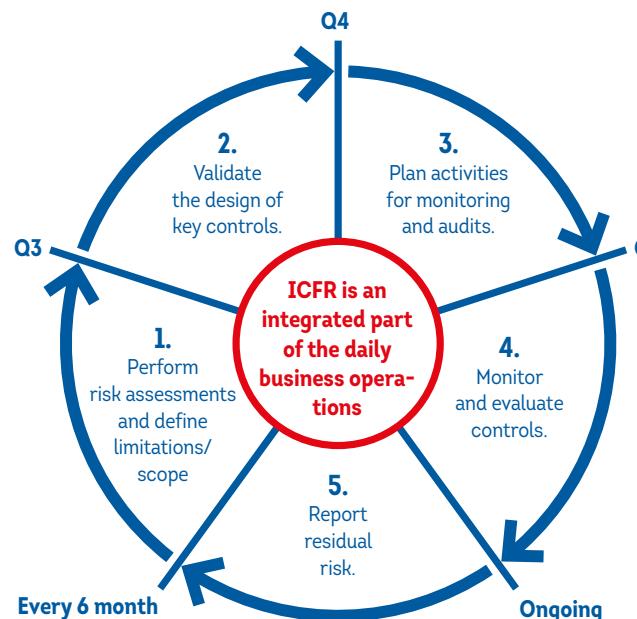
The Board's responsibility is to ensure that efficient systems are in place to monitor and control the company's operations and financial position. Internal control over financial reporting (ICFR) is a framework for providing reasonable assurance of the reliability of the financial reporting to management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

### 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.



### 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.

### 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.

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**Income statement**

SEK M	Not	2021	2020
Interest income	5	4,150.8	4,402.8
Interest expense	5	-1,455.2	-1,791.0
<b>Net interest income</b>		<b>2,695.6</b>	<b>2,611.9</b>
Commission income	6	37.3	31.7
Commission expense	6	-1,213.0	-1,138.9
<b>Net commission</b>		<b>-1,175.8</b>	<b>-1,107.2</b>
Net gains/losses from financial items	7	40.1	-22.2
<b>Total operating income</b>		<b>1,560.0</b>	<b>1,482.5</b>
Staff costs	8	-13.8	-21.1
Other administration expenses	9,10	-116.9	-112.3
<b>Total administration expenses</b>		<b>-130.6</b>	<b>-133.3</b>
Depreciation and impairment of property and equipment		-0.2	-0.2
<b>Total operating expenses</b>		<b>-130.8</b>	<b>-133.5</b>
<b>Profit before credit losses</b>		<b>1,429.2</b>	<b>1,349.0</b>
Credit losses, net	11	4.2	-0.8
<b>Operating profit</b>		<b>1,433.4</b>	<b>1,348.2</b>
Appropriations	26	-275.7	-274.1
Tax	12	-241.1	-239.2
<b>Net profit for the year</b>		<b>916.6</b>	<b>835.0</b>

**Statement of comprehensive income**

SEK M	2021	2020
<b>Net profit for the year</b>	<b>916.6</b>	<b>835.0</b>
<b>Other comprehensive income</b>		
<b>Items that have been transferred or can be transferred to profit or loss</b>		
Cash-flow hedges		
of which change in value for the period	2,679.9	-266.4
of which reclassification to profit or loss	-2,597.8	198.9
Change in fair value of debt instruments measured at FVOCI		
of which change in value for the period	9.6	31.7
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	-18.9	5.6
<b>Total other comprehensive income for the year, net after tax</b>	<b>72.9</b>	<b>-30.2</b>
<b>Comprehensive income for the year</b>	<b>989.4</b>	<b>804.8</b>



## Balance sheet

SEK M	Not	2021-12-31	2020-12-31
<b>ASSETS</b>			
Loans to credit institutions	13	4,272.6	3,933.2
Loans to the public	14	278,522.8	259,499.5
Bonds and other interest-bearing securities	15	9,968.6	10,674.4
Derivatives	16	4,166.0	5,199.7
Fair value changes of interest-rate risk hedged items in portfolio hedge	17	659.1	272.0
Property and equipment	18	0.5	0.7
Deferred tax assets		35.8	52.8
Other assets		0.3	0.2
Prepaid expenses and accrued income	19	20.4	23.9
<b>TOTAL ASSETS</b>		<b>297,646.1</b>	<b>279,656.4</b>
<b>LIABILITIES, PROVISIONS AND EQUITY</b>			
Due to credit institutions	20	58,632.3	65,341.8
Debt securities in issue	21	220,591.8	195,861.4
Derivatives	16	1,350.3	651.3
Fair value changes of interest-rate risk hedged items in portfolio hedge	17	329.3	1,800.1
Other liabilities	22	97.4	158.6
Accrued expenses and deferred income	23	1,810.7	1,774.1
Provisions	24	1.6	1.6
Subordinated liabilities	25	-	500.0
<b>Total liabilities and provisions</b>		<b>282,813.5</b>	<b>266,089.0</b>
<b>Untaxed reserves</b>	26	<b>1,716.1</b>	<b>1,440.3</b>
<b>Equity</b>	27		
Restricted equity			
Share capital		3,129.9	3,129.9
Statutory reserve		14.1	14.1
Total restricted equity		<b>3,144.0</b>	<b>3,144.0</b>
Non-restricted equity			
Fair value reserve		-89.5	-162.4
Retained earnings		9,145.4	8,310.5
Net profit for the year		916.6	835.0
Total non-restricted equity		<b>9,972.5</b>	<b>8,983.1</b>
<b>Total equity</b>		<b>13,116.5</b>	<b>12,127.1</b>
<b>TOTAL LIABILITIES, PROVISIONS AND EQUITY</b>		<b>297,646.1</b>	<b>279,656.4</b>

SEK M	Not	2021-12-31	2020-12-31
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## Cash-flow statement, indirect method

SEK M	Not	2021	2020
Cash and cash equivalents, 1 January		1,998.6	3,961.7
<b>Operating activities</b>			
Operating profit before tax		1,433.4	1,348.2
Adjustment of non-cash items	33	-521.3	221.0
Change in assets of operating activities			
Change in interest-bearing securities		634.3	-155.6
Change in loans to the public		-19,019.7	-19,439.4
Change in other assets		745.2	-1,679.9
Change in liabilities of operating activities			
Net changes in debt securities in issue		25,286.2	9,811.8
Change in other liabilities		-6,977.0	7,931.1
<b>Cash flow from operating activities</b>		<b>1,581.1</b>	<b>-1,962.8</b>
<b>Investing activities</b>			
Acquisition of property and equipment		0.0	-0.4
Sale of property and equipment		-	-
<b>Cash flow from investing activities</b>		<b>0.0</b>	<b>-0.4</b>
<b>Financing activities</b>			
Amortisation of subordinated debt		-500.0	-
<b>Cash flow from financing activities</b>		<b>-500.0</b>	<b>-</b>
<b>NET CASH FLOW FOR THE YEAR</b>		<b>1,081.1</b>	<b>-1,963.2</b>
<b>Cash and cash equivalents, 31 December</b>	<b>33</b>	<b>3,079.7</b>	<b>1,998.6</b>

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

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SEK M	Restricted equity		Non-restricted equity				Total	
	Share capital	Statutory reserve	Reserves		Hedge reserve	Retained earnings		
			Fair value reserve	-				
<b>Opening balance, 1 January 2020</b>	<b>3,129.9</b>	<b>14.1</b>	<b>15.9</b>	<b>-148.2</b>	<b>7,554.6</b>	<b>756.0</b>	<b>11,322.3</b>	
Net profit for the year						835.0	835.0	
Other comprehensive income for the year			25.0	-55.1			-30.2	
<b>Comprehensive income for the year</b>			<b>25.0</b>	<b>-55.1</b>		<b>835.0</b>	<b>804.8</b>	
Resolution by Annual General Meeting					756.0	-756.0	-	
<b>Closing balance, 31 December 2020</b>	<b>3,129.9</b>	<b>14.1</b>	<b>40.8</b>	<b>-203.3</b>	<b>8,310.5</b>	<b>835.0</b>	<b>12,127.1</b>	
<b>Opening balance, 1 January 2021</b>	<b>3,129.9</b>	<b>14.1</b>	<b>40.8</b>	<b>-203.3</b>	<b>8,310.5</b>	<b>835.0</b>	<b>12,127.1</b>	
Net profit for the year						916.6	916.6	
Other comprehensive income for the year			7.7	65.2			72.9	
<b>Comprehensive income for the year</b>			<b>7.7</b>	<b>65.2</b>		<b>916.6</b>	<b>989.4</b>	
Resolution by Annual General Meeting					835.0	-835.0	-	
<b>Closing balance, 31 December 2021</b>	<b>3,129.9</b>	<b>14.1</b>	<b>48.5</b>	<b>-138.1</b>	<b>9,145.4</b>	<b>916.6</b>	<b>13,116.5</b>	

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## NOTE 1 COMPANY INFORMATION

The Annual Report for Länsförsäkringar Hypotek AB (publ) (Corp. Reg. No. 556244-1781) was presented on 31 December 2021. Länsförsäkringar Hypotek AB (publ) is a mortgage institution registered in Sweden, with its registered office in Stockholm. The address 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. 502010-9681), 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.

## 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 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.

### SIGNIFICANT EVENTS DURING THE YEAR

COVID-19 impacted the operations during the year. The effects are described in the Board of Directors' Report and in note 3 Risks and capital adequacy. The effects arose mainly from the calculation of expected credit losses.

### AMENDED ACCOUNTING POLICIES APPLIED FROM 2021

#### Changes to IFRS 9, IAS 39, IFRS 7 and IFRS 16 – Interest Rate Benchmark Reform (phase 2)

From 1 January 2021, the company applies the amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16 – Interest Rate Benchmark Reform (phase 2). The amendments in Phase 2 primarily entail a practical expedient for changes to contractual cash flows of financial assets and liabilities (including lease liabilities) that allow the effective interest rate to be changed to the new interest rate

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benchmark and thus entail that the carrying amount remains the same as before the change. In addition, the rules on hedge accounting have been adapted in order to permit any changes made to hedge identifications and hedge documentation due to the Interest Rate Benchmark Reform, without needing to end the hedging relationship. The introduction had no impact on the company's financial position, earnings, cash flow or disclosures.

No accounting standards, which have been published but not yet applied, came into effect during the period that have a material effect on the company's financial statements.

### NEW IFRS AND INTERPRETATIONS THAT HAVE NOT YET BEEN APPLIED

Other than those described above, no other new or revised IFRS and interpretations adopted by the IASB and not yet in force are 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.

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#### 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. IAS 36 is applied to impairment testing for assets that are not tested according to any other standard. 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.

#### Taxes

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. The following temporary differences are not taken into consideration:

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 cases in which a modification is made to the contractual cash flows as a direct consequence of a reform of a reference rate and the new contractual terms are economically equivalent to the original, no derecognition takes place and the original effective interest rate will be adjusted to reflect the new cash flows.

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 these 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.

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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 negative 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 company 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 hedging 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.

#### **Interest Rate Benchmark Reform**

The company applies the exemptions regarding changes to the hedged risk, hedging instrument and hedged item introduced due to the Interest Rate Benchmark Reform (Phase 1 and 2). An alternative benchmark rate is identified as a hedge risk when the company has a reasonable expectation that it will be a separately identifiable component of a hedged item within 24 months from the date of its initial recognition as a hedged risk. Hedging documentation is updated at the end of the period in which an alternative benchmark rate is designated. Such changes to hedging documentation do not mean that the company has had to discontinue hedge accounting.

#### **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



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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. For further information about the assessment of credit risk, refer to the section on sensitivity in calculation of loss allowances in note 3.

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 90 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 regional insurance companies' share of the allowance for expected credit losses is not taken into account when determining LGD. The regional insurance companies' share is first considered after determining the total loss allowance for Länsförsäkringar Hypotek.

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.

The assessments used for accounting purposes are in line with those used in the company's credit risk management.

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
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### 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



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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 expected future cash flow at a pre-tax interest rate that reflects current market assessments of the time value of money and, where appropriate, 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 outside the company's control, 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 manages the risks that the operations are or could be expected to be exposed to 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.

<b>Credit risk</b>	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, leading to a loss. Credit risk encompasses lending risk, issuer risk, counterparty risk, settlement risk and credit-worthiness risk.
<b>Market risk</b>	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.
<b>Liquidity risk</b>	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.
<b>Operational risk</b>	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.
<b>Business risk</b>	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.
<b>Climate risk</b>	Climate risk refers to the risks that the consequences of climate change may have on the 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 and internal-control system

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 its risk exposure 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.

#### Division of roles and responsibilities

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 Compliance and Risk Management functions, which establish principles and frameworks for regulatory compliance and risk management. The role of compliance is to provide support and control to ensure that the operations comply with regulatory requirements. Risk Management controls and monitors arising risks and ensures that risk awareness is being applied and correct and consistent risk management takes place on a daily basis. Risk Management also assists the operations when introducing the procedures, systems and tools required for maintaining this continuous risk management. Risk Management is charged with the operational responsibility for the independent risk control and must thus objectively manage and report risks in the operations. Accordingly, duality in risk management and risk control, risk culture and risk awareness is prevalent in all day-to-day business decisions. An independent Chief Risk Officer (CRO) is responsible for Risk Management, whose areas of responsibility are defined and documented in the guidelines adopted by the Board. The CRO is directly subordinate to the President and reports directly to the President and the Board.

**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.



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**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.

#### 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).

In connection with the outbreak of COVID-19 in the first quarter of 2020, and in light of the spread of the pandemic during 2020 and the first half of 2021, Länsförsäkringar Bank has taken a number of measures to ensure the continuation of operations in the Bank Group. Länsförsäkringar Hypotek decided to grant temporary mortgage repayment holidays following a decision by the Financial Supervisory Authority. This was discontinued on 31 August 2021.

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.

Approval was granted by the Financial Supervisory Authority to change the definition of default in the final quarter of 2019. The new definition was implemented in the fourth quarter of 2020. The main change as regards the Group's new definition for default is that all of the companies in the Bank Group now apply the same definition, namely, that a past-due date of 90 days is now defined as being in default.

#### Credit process

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

försäkringar 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 foundation 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). The size of the CF is based on 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. Several new guidelines and technical standards have been implemented for banks using IRB, and combined they mean that all IRB models must be restructured from the ground up. As a result, Länsförsäkringar Hypotek has implemented a new definition of default and applied for new PD models in the fourth quarter of 2020 and new LGD models in the third quarter of 2021, that is, within the deadlines set by the Financial Supervisory Authority.

#### Collateral management

Various collateral is used to protect Länsförsäkringar Hypotek's loan receivables, depending on the type of credit. The collateral in Länsförsäkringar Hypotek largely comprises mortgages in residential properties as security for household lending. For companies, the collateral in Länsförsäkringar Hypotek primarily comprises mortgages in agricultural properties, commercial properties, industrial properties, multi-family housing and floating charges. Collateral is valued on the lending date and regularly updated over the lifetime of the credit, either individually or based on indices. The method and interval of valuations vary depending on the type of collateral, the value of the collateral and the customer's repayment capacity. Länsförsäkringar Hypotek makes use of both internal and external valuers and statistical valuations.

#### Credit quality

Lending increased to SEK 279 billion (260). 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.

	31 Dec 2021	31 Dec 2020
<i>Credit risk exposure, SEK M</i>		
<i>Credit risk exposure for items recognised in the balance sheet</i>		
Cash and balances with central banks		-
Loans to credit institutions	3,397.5	1,998.6
Loans to the public	278,526.5	259,506.8
Bonds and other interest-bearing securities	9,968.6	10,674.4
Derivative instruments	4,166.0	5,199.7
Other assets	0.3	0.2
<i>Credit risk exposure for memorandum items</i>		
Guarantees		-
Loan commitments and other credit commitments	12,718.9	13,560.3
<b>Total</b>	<b>308,777.8</b>	<b>290,940.0</b>

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

Covered bonds, SEK M	31 Dec 2021	31 Dec 2020
AAA/Aaa	9,790.0	10,674.4
<b>Total</b>	<b>9,790.0</b>	<b>10,674.4</b>

The tables below show the credit quality of loans to the public and loan commitments and other credit commitments based on the IRB Approach, 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 2021			
	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
<b>Loans to the public</b>	<b>Gross carrying amount</b>	<b>Gross carrying amount</b>	<b>Gross carrying amount</b>	<b>Gross carrying amount</b>
Internal rating 1-3	195,310.1	0.9	5.2	195,316.2
Internal rating 4-6	78,808.4	30.2	9.3	78,847.9
Internal rating 7-9	2,259.6	1,390.5	3.9	3,654.0
Internal rating 10-11	15.7	510.9	-	526.6
Defaulted	-	179.2	2.7	181.9
Not risk classified	-	-	-	-
<b>Total</b>	<b>276,393.8</b>	<b>1,932.5</b>	<b>200.2</b>	<b>278,526.5</b>

Credit risk exposure by internal risk classification, SEK M	31 Dec 2021			
	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
<b>Loan commitments and other credit commitments</b>	<b>Credit risk exposure</b>	<b>Credit risk exposure</b>	<b>Credit risk exposure</b>	<b>Credit risk exposure</b>
Internal rating 1-3	7,792.3	-	-	7,792.3
Internal rating 4-6	4,435.4	2.0	-	4,437.4
Internal rating 7-9	430.9	56.1	-	487.0
Internal rating 10-11	0.5	1.7	-	2.2
Defaulted	-	-	-	-
Not risk classified	-	-	-	-
<b>Total</b>	<b>12,659.1</b>	<b>59.8</b>	<b>-</b>	<b>12,718.9</b>

Credit risk exposure by internal risk classification, SEK M	31 Dec 2020			
	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
<b>Loans to the public</b>	<b>Gross carrying amount</b>	<b>Gross carrying amount</b>	<b>Gross carrying amount</b>	<b>Gross carrying amount</b>
Internal rating 1-3	178,003.9	-	6.2	178,010.1
Internal rating 4-6	76,830.4	42.5	9.9	76,882.8
Internal rating 7-9	2,333.0	1,525.6	3.7	3,862.3
Internal rating 10-11	15.1	565.7	1.1	581.9
Defaulted	-	-	169.0	169.0
Not risk classified	0.7	-	-	0.7
<b>Total</b>	<b>257,183.1</b>	<b>2,133.8</b>	<b>189.9</b>	<b>259,506.8</b>

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Credit risk exposure by internal risk classification, SEK M		31 Dec 2020				
Loan commitments and other credit commitments		Not credit-impaired		Credit-impaired		Total
		Stage 1	Stage 2	Stage 3	Credit risk exposure	
		Credit risk exposure	Credit risk exposure	Credit risk exposure	Credit risk exposure	
Internal rating 1-3		8,390.6	-	-	-	8,390.6
Internal rating 4-6		4,679.3	4.3	-	-	4,683.5
Internal rating 7-9		393.4	86.4	-	-	479.7
Internal rating 10-11		1.3	5.2	-	-	6.4
Defaulted		-	-	-	-	-
Not risk classified		-	-	-	-	-
<b>Total</b>		<b>13,464.5</b>	<b>95.8</b>	-	-	<b>13,560.3</b>

Credit risk exposure by region, SEK M		31 Dec 2021				
Loans to the public		Not credit-impaired		Credit-impaired		Total
		Gross carrying amount	Gross carrying amount	Gross carrying amount	Gross carrying amount	
Western Sweden		64,388.8	382.5	36.9	64,808.2	
Eastern Central Sweden		60,175.9	392.0	52.7	60,620.6	
Stockholm		33,394.7	384.7	20.9	33,800.3	
Southern Sweden		43,400.1	274.6	41.3	43,716.0	
Northern Central Sweden		24,497.2	162.7	13.5	24,673.4	
Småland and islands		27,708.9	161.6	12.3	27,882.8	
Northern Norrland		14,187.0	63.7	7.1	14,257.8	
Central Norrland		8,641.2	110.7	15.5	8,767.4	
<b>Total</b>		<b>276,393.8</b>	<b>1,932.5</b>	<b>200.2</b>	<b>278,526.5</b>	

Credit risk exposure by region, SEK M		31 Dec 2021				
Loan commitments and other credit commitments		Not credit-impaired		Credit-impaired		Total
		Stage 1	Stage 2	Stage 3	Credit risk exposure	
		Credit risk exposure	Credit risk exposure	Credit risk exposure	Credit risk exposure	
Western Sweden		3,142.0	23.7	-	-	3,165.7
Eastern Central Sweden		2,855.0	12.7	-	-	2,867.7
Stockholm		2,257.0	10.7	-	-	2,267.7
Southern Sweden		2,164.7	9.3	-	-	2,174.0
Northern Central Sweden		708.9	-	-	-	708.9
Småland and islands		906.3	-	-	-	906.3
Northern Norrland		410.9	3.4	-	-	414.4
Central Norrland		214.3	-	-	-	214.3
<b>Total</b>		<b>12,659.1</b>	<b>59.8</b>	-	-	<b>12,718.9</b>

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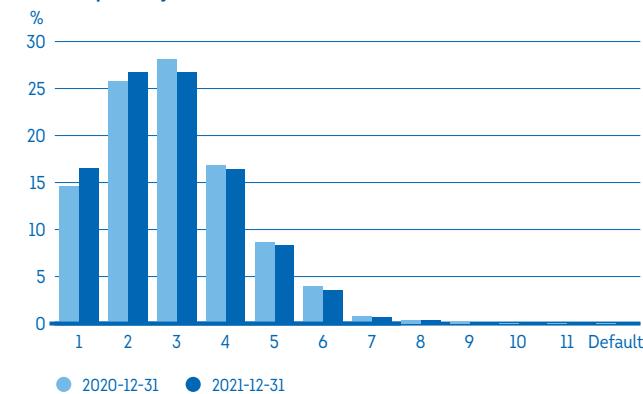
**Other information****Credit risk exposure by region, SEK M**

Loans to the public	31 Dec 2020			
	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Western Sweden	59,039.9	457.5	34.7	59,532.1
Eastern Central Sweden	56,024.4	379.1	46.5	56,450.0
Stockholm	33,296.8	552.6	18.1	33,867.5
Southern Sweden	36,348.8	233.4	34.4	36,616.6
Northern Central Sweden	25,642.1	169.4	23.7	25,835.2
Småland and islands	25,555.8	206.2	17.1	25,779.1
Northern Norrland	13,152.7	65.9	5.1	13,223.7
Central Norrland	8,122.6	69.7	10.4	8,202.7
<b>Total</b>	<b>257,183.1</b>	<b>2,133.8</b>	<b>189.9</b>	<b>259,506.8</b>

**Credit risk exposure by region, SEK M**

Loan commitments and other credit commitments	31 Dec 2020			
	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Western Sweden	3,219.6	26.6	-	3,246.2
Eastern Central Sweden	2,720.4	11.7	-	2,732.1
Stockholm	2,652.6	22.6	-	2,675.2
Southern Sweden	2,261.2	21.0	-	2,282.2
Northern Central Sweden	935.6	1.9	-	937.5
Småland and islands	1,017.2	2.5	-	1,019.7
Northern Norrland	470.9	5.7	-	476.6
Central Norrland	187.0	3.8	-	190.8
<b>Total</b>	<b>13,464.5</b>	<b>95.8</b>	<b>-</b>	<b>13,560.3</b>

The company's credit exposure according to the risk-classification scale is presented below. The results show a distribution of exposure, with 87% (86) of exposure found in the best grades 1–4.

**Credit exposure by risk class**

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**

Collateral	31 Dec 2021		31 Dec 2020	
	SEK M	%	SEK M	%
Single-family homes	198,880.9	71.4	185,324.2	71.4
Tenant-owned apartments	68,550.2	24.6	64,361.1	24.8
Multi-family housing	9,170.1	3.3	8,154.6	3.1
Industrial properties	1,572.9	0.6	1,344.0	0.5
Other	352.4	0.1	322.9	0.1
<b>Loans to the public, gross</b>	<b>278,526.5</b>	<b>100.0</b>	<b>259,506.8</b>	<b>100.0</b>
<b>Reserves</b>	<b>-3.7</b>		<b>-7.3</b>	
<b>Total</b>	<b>278,522.8</b>		<b>259,499.5</b>	

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 2021	31 Dec 2020
Residential properties, including tenant-owned apartments	179.9	179.6
Commercial immovable property	20.3	10.4
<b>Total credit-impaired loan receivables</b>	<b>200.2</b>	<b>189.9</b>

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On 31 December 2021, the cover pool had a volume of SEK 277 billion (259). 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 54% (58) and the average commitment per property was SEK 1.4 M (1.3). The market value of all single-family homes and tenant-owned apartments in the loan portfolio is updated annually.

**Cover pool**

	31 Dec 2021	31 Dec 2020
Cover pool, SEK billion	277.0	259.0
of which, Swedish mortgages, SEK billion	267.0	248.6
of which, substitute collateral, SEK billion	9.8	10.4
Collateral	Private homes	Private homes
Weighted average LTV, %	54	58
Seasoning, months	66	63
Number of loans	429,536	417,635
Number of properties	187,998	184,264
Average commitment, SEK 000s	1,410.7	1,349.2
Average loan, SEK 000s	621.3	595.3
Interest rate type, 3 month, %	49	49
Interest rate type, fixed, %	51	51
OC <sup>ii</sup> , %	29	37
Impaired loans	None	None

<sup>ii</sup> OC is calculated using nominal values and excludes accrued interest rates.

**Cover pool by geography, %<sup>ii</sup>**

Region	31 Dec 2021	31 Dec 2020
Stockholm	12.8	13.8
Gothenburg	9.3	9.2
Malmö	4.0	3.8
Southern Sweden	11.7	11.4
Western Sweden	24.0	23.8
Eastern Sweden	23.1	22.9
Northern Sweden	15.1	15.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

<sup>ii</sup> Distribution in accordance with the Association of Swedish Covered Bond Issuers' reporting for National Templates.

**Cover pool by LTV**

LTV interval, %	31 Dec 2021		31 Dec 2020	
	SEK M	%	SEK M	%
0-10	57,565.2	21.6	49,608.3	20.0
11-20	53,256.6	20.0	46,280.5	18.6
21-30	48,070.1	18.0	42,329.1	17.0
31-40	41,393.5	15.5	37,624.7	15.1
41-50	32,262.0	12.1	31,243.2	12.6
51-60	21,752.3	8.2	23,264.7	9.4
61-70	10,491.0	3.9	14,409.8	5.8
71-75	2,096.5	0.8	3,849.7	1.5
<b>Total</b>	<b>266,887.2</b>	<b>100.0</b>	<b>248,609.9</b>	<b>100.0</b>

**Cover pool by collateral**

Collateral	31 Dec 2021		31 Dec 2020	
	SEK M	%	SEK M	%
Single-family homes	192,382.1	72.1	179,198.8	72.1
Tenant-owned apartments	68,304.2	25.6	63,920.0	25.7
Vacation home	6,200.9	2.3	5,491.1	2.2
<b>Total</b>	<b>266,887.2</b>	<b>100.0</b>	<b>248,609.9</b>	<b>100.0</b>

**Stress test of the cover pool**

A stress test of the cover pool based on a 20% price drop in the market value in the loan portfolio resulted in the weighted average LTV amounting to 63% (65) compared with a current weighted average LTV of 54% (58) on 31 December 2021.

**Credit losses and non-performing loan receivables**

A non-performing loan receivable has a non-performing payment that is more than nine days past due 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 2021	31 Dec 2020
Receivables 10-30 days past due	-	-
Receivables 31-60 days past due	63.4	44.8
Receivables 61-90 days past due	21.2	14.7
Receivables >90 days past due	17.6	19.1
<b>Total</b>	<b>102.2</b>	<b>78.6</b>

A condition for the regional insurance companies' distribution remuneration 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 2021, the total loss allowance requirement for loans to the public and commitments amounted to SEK 19 M (37), of which Länsförsäkringar Hypotek AB's recognised loss allowance accounted for SEK 4 M (8); the remaining SEK 15 M (29) 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 -4.2 M (0.8), 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 0.04%. If the relative threshold had been set at 250% instead, the loss allowance would have declined by 0.4%. 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%, as well as a more positive scenario and a more negative scenario that are both weighted at 20%.

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#### Macro variables in each scenario

SEK M	Base scenario				Negative scenario				Positive scenario			
	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
Housing prices, annual change in %	4.03%	4.03%	4.03%	4.03%	3.62%	4.03%	4.03%	4.03%	4.45%	4.03%	4.03%	4.03%
GDP, annual change in %	3.90%	1.78%	1.77%	1.77%	3.06%	1.45%	1.81%	1.81%	4.75%	2.25%	1.81%	1.81%
Unemployment, level in %	7.52%	6.99%	6.96%	7.00%	7.83%	7.15%	7.01%	7.00%	7.30%	6.98%	6.96%	7.00%

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 2021 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, %
		Positive scenario	Negative scenario
3.8		3.6	-3.9%
		3.9	4.4%

#### 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

SEK M	31 Dec 2021			31 Dec 2020 <sup>1)</sup>	
	Maximum credit risk exposure	Cash and cash-equivalents	Securities	Other	Net exposure
AAA-AA	186.0	30.7	-	-	19.3 656.0
A	3,980.0	287.1	-	-	2,493.3 55.5
<b>Total</b>	<b>4,166.0</b>	<b>317.8</b>	<b>0.0</b>	<b>0.0</b>	<b>2,512.6 711.5</b>

<sup>1)</sup>Comparative figures have been adjusted.

#### 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 2021, an upward 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 -119.4 M (-179.9).

Impact of interest-rate risk, SEK M	31 Dec 2021	31 Dec 2020
Interest-rate risk	-119.4	-179.9
Impacts profit	0.0	0.0
Impacts equity	1.8	5.7
Impacts own funds	0.0	0.0

#### Interest-rate risk by currency, SEK M

	31 Dec 2021	31 Dec 2020
EUR	0.0	3.5
CHF	0.0	0.0
NOK	0.0	0.0
USD	0.0	0.0
SEK	-119.3	-183.4

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 2021	31 Dec 2020
Parallel shift, up 100 bp	297.8	219.2
Parallel shift, down 50 bp	-148.9	-110.0

#### 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 banking operations' 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 banking operations' funding and liquidity reserve and associated derivative hedging contracts.

The company is reviewing its systems and processes for managing a change of contracts with IBORs.

On 20 April 2020, administration of Stibor was transferred from the Swedish Bankers' Association's wholly owned subsidiary Financial Benchmark Sweden to Swedish Financial Benchmark Facility (SFBF). SFBF is a newly

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founded, wholly owned Swedish subsidiary of Global Rate Set Systems (GRSS), which actively administers and calculates references rates according to the Benchmarks Regulation (BMR). SFBF has taken over the task of adjusting Stibor to the BMR. An application for approval was submitted to the Financial Supervisory Authority on 27 December 2021.

In January 2021, the Riksbank started a trial period under which a transaction based alternative reference rate for the shortest maturity was published. The structure of the rate (Swestr), which was preceded by a consultation round, is similar to international examples of alternative reference rates. Swestr can be used in financial contracts from 2 September 2021.

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. USD Libor will continue to be published until 30 June 2023. GBP Libor and CHF Libor ceased to exist on 31 December 2021 and were replaced by SONIA (Sterling Overnight Index Average) and SARON (Swiss Average Rate Overnight), respectively. On 31 December 2021, Länsförsäkringar Hypotek had no exposures to instruments directly linked to CHF Libor and no exposures to instruments directly linked to GBP Libor with fixed rates after 31 December 2021.

31 Dec 2021, SEK M	Nominal amount per IBOR					Total nominal amount	
	Stibor	Euribor	CHF Libor	GBP Libor	Nibor		
<b>Cash flow hedge</b>							
<i>Currency risk</i>							
Cross-currency interest rate swaps	-	30,888.1	4,968.4	613.1	1,026.7	37,496.6	
<b>Fair value hedge</b>							
<i>Interest-rate risk</i>							
Interest-rate swaps	319,240.0	30,888.1	4,968.4	613.1	1,026.7	356,736.3	

31 Dec 2020, SEK M	Nominal amount per IBOR					Total nominal amount	
	Stibor	Euribor	CHF Libor	GBP Libor	Nibor		
<b>Cash flow hedge</b>							
<i>Currency risk</i>							
Cross-currency interest rate swaps	-	29,853.4	4,645.4			34,498.8	
<b>Fair value hedge</b>							
<i>Interest-rate risk</i>							
Interest-rate swaps	286,007.0	29,918.8	4,645.4			320,571.2	

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## Hedge accounting – Hypotek

SEK M	Derivatives		Assets		Liabilities		Hedge accounting			
	Nominal amount		Carrying amount		Carrying amount		Change in value for the year		Accumulated changes in value	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	2021	2020	31 Dec 2021	31 Dec 2020
<b>Fair value hedges</b>										
<i>Interest-rate contracts</i>										
Hedged items <sup>2)</sup>										
Treasury bills and other eligible bills										
Bonds and other interest-bearing securities										
Debt securities in issue										
Hedging instruments										
Interest-rate swaps	9,790.0	10,390.0	65.1	4.5	10.3	45.4	96.2	-41.5		
Ineffectiveness <sup>3)</sup>							-0.1	0.6		
<i>Currency contracts</i>										
Hedged items <sup>2)</sup>										
Treasury bills and other eligible bills										
Bonds and other interest-bearing securities										
Debt securities in issue										
Hedging instruments										
Cross-currency interest rate swaps	36,883.2	33,704.2	670.1	1,266.1	85.7	0.0	-621.8	-17.1		
Ineffectiveness <sup>3)</sup>							8.1	12.0		
<b>Portfolio of fair value hedges</b>										
<i>Interest-rate contracts</i>										
Hedged items										
Loans to the public										
Deposits and funding from the public										
Debt securities in issue										
Hedging instruments										
Interest-rate swaps	309,960.0	276,477.0	1,068.8	2,088.6	1,244.5	432.2	-1,852.0	274.8		
Ineffectiveness <sup>3)</sup>							5.8	-12.0		
<i>Cash flow hedges<sup>5)</sup></i>										
<i>Currency contracts</i>										
Hedged items <sup>3)</sup>										
Hedging instruments										
Cross-currency interest rate swaps <sup>4)</sup>	37,496.3	34,498.8	2,362.0	1,840.5	9.8	173.7	-135.2	14.4		
Ineffectiveness <sup>3)</sup>							135.2	-14.4		
<b>Total hedged item</b>										
<b>Total hedging instruments</b>	<b>394,129.5</b>	<b>355,070.0</b>	<b>4,166.0</b>	<b>5,199.7</b>	<b>1,350.3</b>	<b>651.3</b>	<b>-2,512.7</b>	<b>230.6</b>		
<b>Total ineffectiveness</b>							<b>13.8</b>	<b>0.6</b>		

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

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

<sup>3)</sup> 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.

<sup>4)</sup> Of changes in value for the year. SEK -2,597.8 M pertains to amounts reclassified to profit or loss. Amounts reclassified to profit or loss for terminated hedging relationships amounted to SEK 0 M.

<sup>5)</sup> 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."

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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 2021 was 0.2% (0.3).

#### Maturity profile for nominal amounts in hedging instruments

	31 Dec 2021			31 Dec 2020		
	Remaining contractual term			Remaining contractual term		
	< 1 year	1-5 years	> 5 years	< 1 year	1-5 years	> 5 years
Currency risk						
Nominal amount	5,761.2	26,587.1	5,148.0	4,436.8	21,222.2	6,896.0

#### 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 company 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. Effective-

The fixed-interest periods of hedging instrument are presented in the table *Fixed-interest periods for assets and liabilities - interest-rate exposure*. The maturity dates of the instruments are presented in the section Liquidity risk.

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 company'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 management 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 commit-

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ments 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 2021, SEK M	Up to 3 months	3-12 months	1-5 years	More than 5 years	Total
Loans	155,411.1	42,341.0	83,776.7	1,266.6	282,795.4
Bonds, etc.	-	1,100.0	8,290.0	400.0	9,790.0
<b>Total</b>	<b>155,411.1</b>	<b>43,441.0</b>	<b>92,066.7</b>	<b>1,666.6</b>	<b>292,585.4</b>
Due to credit institutions	58,632.3	-	-	-	58,632.3
Debt securities in issue, etc.	10,313.1	34,360.0	135,344.2	36,938.0	216,955.3
<b>Total</b>	<b>68,945.5</b>	<b>34,360.0</b>	<b>135,344.2</b>	<b>36,938.0</b>	<b>275,587.7</b>
<b>Difference assets and liabilities</b>	<b>86,465.6</b>	<b>9,081.0</b>	<b>-43,277.4</b>	<b>-35,271.4</b>	
Interest-rate derivatives, nominal values, net	-56,200.4	-13,527.0	36,962.2	35,363.0	
<b>Net exposure</b>	<b>30,265.2</b>	<b>-4,446.0</b>	<b>-6,315.3</b>	<b>91.6</b>	

31 Dec 2020, SEK M	Up to 3 months	3-12 months	1-5 years	More than 5 years	Total
Loans	131,762.9	35,324.6	95,113.5	1,231.7	263,432.7
Bonds, etc.	500.0	3,200.0	6,440.0	250.0	10,390.0
<b>Total</b>	<b>132,262.9</b>	<b>38,524.6</b>	<b>101,553.5</b>	<b>1,481.7</b>	<b>273,822.7</b>
Due to credit institutions	65,841.8	-	-	-	65,841.8
Debt securities in issue, etc.	15,610.1	14,282.0	124,862.3	36,722.4	191,476.8
<b>Total</b>	<b>81,451.8</b>	<b>14,282.0</b>	<b>124,862.3</b>	<b>36,722.4</b>	<b>257,318.6</b>
<b>Difference assets and liabilities</b>	<b>50,811.0</b>	<b>24,242.6</b>	<b>-23,308.8</b>	<b>-35,240.7</b>	
Interest-rate derivatives, nominal values, net	-28,080.7	-25,358.0	19,968.3	35,507.4	
<b>Net exposure</b>	<b>22,730.3</b>	<b>-1,115.4</b>	<b>-3,340.5</b>	<b>266.7</b>	

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

31 Dec 2021, 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
<b>Assets</b>									
Treasury bills and other eligible bills	-	-	-	-	-	-	-	-	-
Loans to credit institutions	3,397.5	875.1	-	-	-	-	4,272.6	4,272.6	-
Loans to the public	-	1,319.8	3,930.3	19,638.2	253,634.5	-	278,522.8	278,522.8	273,272.7
Bonds and other interest-bearing securities	-	-	1,100.0	8,290.0	400.0	-	9,790.0	9,968.6	8,690.0
Other assets	-	19.1	-	-	-	-	19.1	19.1	-
<b>Total assets</b>	<b>3,397.5</b>	<b>2,214.0</b>	<b>5,030.3</b>	<b>27,928.2</b>	<b>254,034.5</b>	-	<b>292,604.5</b>	<b>292,783.1</b>	<b>281,962.7</b>
<b>Liabilities</b>									
Due to credit institutions	-	1,850.5	3,000.0	53,781.8	-	-	58,632.3	58,632.3	53,781.9
Debt securities in issue	-	613.1	33,860.0	145,544.2	36,938.0	-	216,955.4	220,591.8	182,482.2
Other liabilities	-	125.5	721.5	-	-	-	847.0	847.0	-
Subordinated liabilities	-	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>2,589.1</b>	<b>37,581.5</b>	<b>199,326.1</b>	<b>36,938.0</b>	-	<b>276,434.7</b>	<b>280,071.1</b>	<b>236,264.1</b>
<b>Difference assets and liabilities</b>	<b>3,397.5</b>	<b>-375.2</b>	<b>-32,551.2</b>	<b>-171,397.8</b>	<b>217,096.4</b>	-	<b>16,169.8</b>	<b>12,712.0</b>	<b>45,698.6</b>

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31 Dec 2020, 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 recov- ery period of > 12 months
<b>Assets</b>									
Treasury bills and other eligible bills	-	-	-	-	-	-	-	-	-
Loans to credit institutions	2,008.1	1,925.0	-	-	-	-	3,933.2	3,933.2	-
Loans to the public	-	1,162.1	3,451.4	17,167.2	237,718.9	-	259,499.5	259,499.5	254,886.1
Bonds and other interest-bearing securities	-	500.0	3,200.0	6,440.0	250.0	-	10,390.0	10,674.4	6,690.0
Other assets	-	19.7	-	-	-	-	19.7	19.7	-
<b>Total assets</b>	<b>2,008.1</b>	<b>3,606.8</b>	<b>6,651.4</b>	<b>23,607.2</b>	<b>237,968.9</b>	-	<b>273,842.4</b>	<b>274,126.8</b>	<b>261,576.1</b>
<b>Liabilities</b>									
Due to credit institutions	-	1,934.6	-	63,407.2	-	-	65,341.8	65,341.8	63,407.2
Debt securities in issue	-	5,248.8	14,882.0	134,623.7	36,722.4	-	191,476.8	195,861.4	171,346.0
Other liabilities	-	183.3	671.0	-	-	-	854.3	854.2	-
Subordinated liabilities	-	-	-	500.0	-	-	500.0	500.0	500.0
<b>Total liabilities</b>	<b>0.0</b>	<b>7,366.7</b>	<b>15,553.0</b>	<b>198,530.8</b>	<b>36,722.4</b>	-	<b>258,172.9</b>	<b>262,557.4</b>	<b>235,253.2</b>
<b>Difference assets and liabilities</b>	<b>2,008.1</b>	<b>-3,759.9</b>	<b>-8,901.6</b>	<b>-174,923.6</b>	<b>201,246.5</b>	-	<b>15,669.5</b>	<b>11,569.4</b>	<b>26,322.9</b>
<b>Liquidity exposure, derivatives</b>									
<b>31 Dec 2021, SEK M</b>									
<b>Derivatives at fair value in profit or loss</b>									
- Currency	-	-	-	-	-	-	-	-	-
- Interest	-	-	-	-	-	-	-	-	-
<b>Derivatives in hedge accounting</b>									
- Currency		116.0		559.8		2,292.1	70.0	3,038.0	
- Interest		-11.9		612.3		1,567.4	284.9	2,452.7	
<b>Total difference derivatives</b>		<b>104.1</b>		<b>1,172.1</b>		<b>3,859.5</b>	<b>355.0</b>	<b>5,490.7</b>	
<b>31 Dec 2020, SEK M</b>									
<b>Derivatives at fair value in profit or loss</b>									
- Currency	-	-	-	-	-	-	-	-	-
- Interest	-	-	-	-	-	-	-	-	-
<b>Derivatives in hedge accounting</b>									
- Currency		727.8		40.1		2,068.3	21.9	2,858.1	
- Interest		-53.3		547.2		1,475.1	251.5	2,220.5	
<b>Total difference derivatives</b>		<b>674.5</b>		<b>587.3</b>		<b>3,543.4</b>	<b>273.4</b>	<b>5,078.6</b>	

**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:

<b>Product and process risks</b>	Product and process risks refers to the risk of losses arising due to established work procedures not functioning well, being unknown to employees or not being appropriate. Product and process risks include risks due to, for example, inadequate processes or product design, incorrect manual processing, poor documentation and changes including hand-overs or deficiencies in data quality.
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**Personnel risks**

Personnel risk refers to the risk of losses arising due to unclear areas of responsibility, inadequate know-how needed for work duties, or a shortage of personnel in relation to work duties. Personnel risks may arise, for example, due to conflicts of interest, unclear responsibilities, shortages of resources or skills, weaknesses in the working environment or disclosure of confidential information.

**Legal risks**

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. Legal risks may arise, for example, due to shortcomings in contract management, errors in signing contracts or managing third parties, a lack of a licence for a product or service or legal proceedings and disputes.

**Compliance risks**

Compliance risk refers to the risk that the company does not comply with laws, regulations and rules, general guidelines from the Swedish Financial Supervisory Authority and European authorities or other relevant regulations and recommendations 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. Compliance risk includes, for example, the risk that the company does not comply with the regulations on anti-money laundering and terror financing.

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<b>IT risks</b>	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, risks due to inadequate control of IT assets and IT outsourcing risk.	<b>Risk management process</b> The process for managing operational risk comprises: identification, assessment, monitoring and reporting risks. The main stages are described below:
<b>Security risks</b>	Security risks pertain to the risk of losses arising due to damage to or misuse of one of the company's protection values. These risks arise due to vulnerabilities and/or threats, such as crime or improprieties. Security risks can be divided into administrative security risks, personal safety risks, physical security risks, information security risks including cyber risk, internal improprieties and financial crime. Financial crime includes money laundering, terror financing and fraud.	<b>Risk evaluation and monitoring controls for assessing operational risk</b> 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: <ul style="list-style-type: none"> <li>▪ Probability – expected number of risk outcomes per year</li> <li>▪ Consequence – expected cost each time risks actually materialise. The assessment of consequences includes the following: <ul style="list-style-type: none"> <li>– Costs – direct and indirect</li> <li>– Customer impact – direct customer impact, complaints from customers and reputation risk</li> <li>– Compliance risks – risk relating to regulatory compliance</li> <li>– Other – mainly process-related risks or other impacts on the operations</li> </ul> </li> </ul>
<b>Model risks</b>	Model risk refer to the risk of losses arising due to errors in design and calibration, implementation, documentation, life cycle management and validation of models or due to incorrect use of models, for example, if decisions are primarily and unilaterally based on the results of models.	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, evaluating, managing and monitoring 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.

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**

The Bank Group has system support for reporting 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.

**Follow-up of incidents**

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

**Continuity management**

Continuity management involves measures to be taken to manage serious and extensive plan 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**

The capital-adequacy analysis was prepared in accordance with FFFS 2008:25. Under this regulation, an institution is to present the disclosures stipulated in Article 447 of the Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation). The capital-adequacy analysis is also to include an overview of the total risk exposure amount in accordance with Article 438 d of the Capital Requirements Regulation.

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	31 Dec 2021	31 Dec 2020
<b>Capital-adequacy analysis - key figures</b>		
<b>Available own funds (amounts)</b>		
Common Equity Tier 1 capital	14,426.4	13,285.2
Tier 1 capital	14,426.4	13,285.2
Total capital	14,426.4	13,734.0
<b>Risk-weighted exposure amounts</b>		
Total risk exposure amount	81,262.3	72,085.1
<b>Capital ratios (as a percentage of risk-weighted exposure amount)</b>		
Common Equity Tier 1 ratio (%)	17.8%	18.4%
Tier 1 ratio (%)	17.8%	18.4%
Total capital ratio (%)	17.8%	19.1%
<b>Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)</b>		
Additional own funds requirements to address risks other than the risk of excessive leverage	0%	0%
of which: to be made up of Common Equity Tier 1 capital (percentage points)	0%	0%
of which: to be made up of Tier 1 capital (percentage points)	0%	0%
Total SREP own funds requirements (%)	8%	8%
<b>Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)</b>		
Capital conservation buffer (%)	2.5%	2.5%
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0%	0%
Institution-specific countercyclical capital buffer (%)	0%	0%
Systemic risk buffer (%)	0%	0%
Global Systemically Important Institution buffer (%)	0%	0%
Other Systemically Important Institution buffer (%)	0%	0%
Combined buffer requirement (%)	2.5%	2.5%
Overall capital requirements (%)	10.5%	10.5%
Common Equity Tier 1 capital available after meeting the total SREP own funds requirements (%)	13.3%	13.9%
<b>Leverage ratio</b>		
Total exposure measure	305,919.6	288,362.1
Leverage ratio (%)	4.7%	4.6%
<b>Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)</b>		
Additional Common Equity Tier 1 capital to address the risk of excessive leverage (%)	0%	0%
of which: to be made up of Common Equity Tier 1 capital (percentage points)	0%	0%
Total SREP leverage ratio requirements (%)	3%	0%
<b>Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)</b>		
Leverage ratio buffer requirement (%)	0%	0%
Overall leverage ratio requirement (%)	3%	0%
<b>Liquidity Coverage Ratio</b>		
Total high-quality liquid assets (HQLA) (Weighted value - average)	0.0	N/A
Cash outflows - Total weighted value	4,691.6	N/A
Cash inflows - Total weighted value	6,932.2	N/A
Total net cash outflows (adjusted value)	1,502.6	N/A
Liquidity coverage ratio (%)	0%	N/A
<b>Net Stable Funding Ratio</b>		
Total available stable funding	243,982.7	N/A
Total required stable funding	229,051.7	N/A
NSFR (%)	107%	N/A

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**Other information****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 gener-

ated 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 14,426 M (13,285).

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 2021.

**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. On 31 December 2021, Länsförsäkringar Hypotek's Tier 2 capital amounted to SEK 0 M (449).

	Total risk exposure amounts (REA)		Total own funds requirements	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
<b>Credit risk (excluding CCR)</b>	<b>75,815.7</b>	<b>69,819.0</b>	<b>6,065.3</b>	<b>5,585.5</b>
of which the Standardised Approach	2,446.0	1,207.4	195.7	96.6
of which the Foundation IRB (F-IRB) Approach	4,353.8	3,884.1	348.3	310.7
of which the Advanced IRB (A-IRB) Approach	15,395.6	15,131.1	1,231.6	1,210.5
of which risk weight floor according to Article 458 CRR	53,620.4	49,596.4	4,289.6	3,967.7
<b>Counterparty credit risk (CCR)</b>	<b>3,435.0</b>	<b>537.7</b>	<b>274.8</b>	<b>43.0</b>
of which the Standardised Approach	3,271.6	324.4	261.7	26.0
of which credit valuation adjustment	163.5	213.3	13.1	17.1
of which other CCR	-	-	-	-
<b>Operational risk</b>	<b>2,011.5</b>	<b>1,728.4</b>	<b>160.9</b>	<b>138.3</b>
of which the Standardised Approach	<b>2,011.5</b>	<b>1,728.4</b>	<b>160.9</b>	<b>138.3</b>
<b>Total</b>	<b>81,262.3</b>	<b>72,085.1</b>	<b>6,501.0</b>	<b>5,766.8</b>

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 2021, the total Risk Exposure Amount (REA) in Länsförsäkringar Hypotek was SEK 81,262 M (72,085). 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 2,032 M (1,802) on 31 December 2021. The countercyclical capital buffer has currently been decided to be 0%, 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) is 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.

**Internally assessed capital and risk-based capital requirements**

The CRDV has now been introduced and the Swedish Financial Supervisory Authority has also issued updated regulations for capital adequacy disclosures. For greater clarity, the internally assessed capital requirement as per 31 December 2021 is also presented, even though there is no longer any requirement to do so. The internally assessed capital requirement for Länsförsäkringar Hypotek on 31 December 2021 amounted to SEK 7,330 M (6,556), comprising the minimum capital requirement under Pillar I and the capital requirement for risks managed under Pillar II. The internally assessed capital requirement is calculated based on the methods and models used to calculate the capital requirement under the framework of Pillar I. Internal models are used for Pillar II risks.

The Financial Supervisory Authority will not perform a Supervisory Review and Evaluation Process for Länsförsäkringar Hypotek in 2021. This means that there were no formally determined Pillar II Requirements (P2R) and Pillar II Guidance (P2G) for Länsförsäkringar Hypotek on 31 December 2021.

Risk-based capital requirements	31 Dec 2021		31 Dec 2020	
	SEK M	% of REA	SEK M	% of REA
Pillar I	6,501.0	8.0%	5,766.8	8.0%
Pillar II Requirements (P2R)	0.0	0.0%	-	-
Combined buffer requirement	2,031.6	2.5%	1,802.1	2.5%
Pillar II Guidance (P2G)	0.0	0.0%	-	-
<b>Total</b>	<b>8,532.6</b>	<b>10.5%</b>	<b>7,568.9</b>	<b>10.5%</b>



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### NEW AND AMENDED REGULATIONS

#### Capital adequacy rules

##### *Impending changes to capital adequacy rules*

In October 2021, the European Commission published its legislative proposal on finalising the implementation of the Basel III regulations. The package is named Banking Package 2021 and includes a review of the Capital Requirements Regulation and the Capital Requirements Directive. The purpose of the Banking Package 2021 is to ensure that EU banks become more resilient to potential future economic shocks, while contributing to Europe's recovery from the COVID-19 pandemic and the transition to climate neutrality. The proposal includes 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 revised Standardised Approaches. The Commission's proposal entails certain relief compared with the Basel Committee's original proposal. The majority of the new rules are expected to take effect in 2025 with a phase-in period of five years. The temporary reliefs are proposed to apply until 2032. The next step is for the European Parliament and Council to discuss the proposal.

In September 2021, the Authority decided to raise the countercyclical capital buffer from 0% to 1%, effective 20 September 2022.

In December 2021, the Authority decided to extend the application of the risk weight floor of 25% for Swedish mortgages by two years. The decision applies from 30 December 2021 until 30 December 2023.

In November 2018, the Swedish Financial Supervisory Authority published a memo on how Swedish banks are to relate to the regulatory review developed by the European Banking Authority (EBA) regarding the banks' use of internal models. The purpose of the EBA's new regulations is to reduce unwanted variability in capital requirements when using internal models for calculating the capital requirements for credit risk. The banks need to make adjustments to these regulatory changes and apply for significant changes to internal ratings-based approaches (IRB). The new guidelines were to have been implemented by 2021 at the latest but have been postponed by the Financial Supervisory Authority. Combined, this will entail extensive changes for many banks.

#### *New EU rules on covered bonds*

In October 2021, the Swedish government decided to change the regulations regarding covered bonds. The changed regulations are based on the EU rules that aim to create standardised rules for covered bonds within the EU. The new regulations include introducing a separate requirement for a cover pool liquidity buffer, which is to cover the net liquidity outflow of the bonds 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%. The new regulations will come into effect on 8 July 2022.

#### *Crisis management*

Sweden has had new rules for managing failing banks since 2016. These rules are based on the Crisis Management Directive. 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 National 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 (MREL) that can be used to cover losses in a failing institution.

Amendments to the Swedish Resolution Act came into force in July 2021. These amendments are the result of revisions made to the Crisis Management Directive and the Banking Package. In October 2021, the Debt Office published an updated MREL policy due to the amendments to the Resolution Act. The updated MREL policy will apply from 1 January 2022. The requirements are based on Länsförsäkringar Hypotek's capital requirement and comprise a risk-weight and a non-risk-weight requirement. In December 2021, the Swedish National Debt Office announced its decision on MREL according to the new rules for Swedish subsidiaries of the institutions that conduct operations that the Debt Office deems to be critical, which includes Länsförsäkringar Hypotek. For Länsförsäkringar Hypotek, the risk-weighted requirement is

21.3% of REA, and the non-risk-weight requirement is 6% of the exposure amount for the leverage ratio. These requirements will be phased in from 1 January 2022 and must be fully met by 1 January 2024. The target levels apply from 1 January 2022.

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.

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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**

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

SEK M	2021	2020
<b>Interest income</b>		
Loans to credit institutions <sup>1)</sup>	59.2	62.4
Loans to the public	4,304.3	4,362.9
Interest-bearing securities <sup>1)</sup>	36.8	34.8
Derivatives	-249.4	-57.2
Other interest income	-	-
<b>Total interest income</b>	<b>4,150.8</b>	<b>4,402.8</b>
<b>Interest expense</b>		
Due to credit institutions <sup>1)</sup>	-646.6	-665.3
Interest-bearing securities	-1,561.8	-1,732.5
Subordinated liabilities	-17	-8.5
Derivatives	855.7	699.1
Other interest expense	-100.7	-83.8
<b>Total interest expense</b>	<b>-1,455.2</b>	<b>-1,791.0</b>
<b>Total net interest income</b>	<b>2,695.6</b>	<b>2,611.9</b>
Average interest rate on loans to the public during the period, %	1.6	1.8

<sup>1)</sup> Of which negative interest of Loans to credit institutions SEK 0.0 M (0.0), Interest-bearing securities SEK -0.3 M (-1.4) and Due to credit institutions SEK 0.2 M (0.1).

Interest income calculated according to the effective interest method amounts to SEK 4,150.8 M (4,402.8).

**NOTE 6 NET COMMISSION**

SEK M	2021	2020
<b>Commission income</b>		
Loans	37.3	31.7
<b>Total commission income<sup>1)</sup></b>	<b>37.3</b>	<b>31.7</b>
<b>Commission expense</b>		
Remuneration to regional insurance companies	-1,212.7	-1,138.9
Other commission	-0.3	-0.1
<b>Total commission expense</b>	<b>-1,213.0</b>	<b>-1,138.9</b>
<b>Total net commission</b>	<b>-1,175.8</b>	<b>-1,107.2</b>

<sup>1)</sup> Refers to revenue from contracts with customers.

**NOTE 7 NETTORESULTAT AV FINANSIELLA POSTER**

SEK M	2021	2020
Interest-bearing assets and liabilities and related derivatives	-3.0	-56.7
Other financial assets and liabilities	0.0	0.1
Interest compensation (refers to items measured at amortised cost)	43.1	34.4
<b>Total net gains/losses from financial items</b>	<b>40.1</b>	<b>-22.2</b>

SEK M	2021	2020
<b>Profit/loss by measurement category</b>		
Financial assets measured at FVPL	-	-
Financial assets measured at amortised cost	43.1	34.4
Financial liabilities measured at amortised cost	-16.9	-57.1
Financial assets measured at FVOCI	0.0	0.0
Hedge accounting at fair value	13.8	0.6
Exchange-rate effect	0.1	-0.1
<b>Total</b>	<b>40.1</b>	<b>-22.2</b>

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**NOTE 8 EMPLOYEES, STAFF COSTS AND REMUNERATION OF SENIOR EXECUTIVES**

Average number of employees. Sweden	2021	2020
Men	6	9
Women	2	2
<b>Total number of employees</b>	<b>8</b>	<b>11</b>
Salaries and other remuneration, as well as social security expenses, other employees SEK M	2021	2020
Salaries and remuneration	-3.5	-6.0
of which, variable remuneration	-	-
Social security expenses	-1.9	-3.1
of which, pension costs	-0.7	-1.1
<b>Total</b>	<b>-5.4</b>	<b>-9.1</b>
Board of Directors and other senior executives. 8 (5) SEK M	2021	2020
Salaries and remuneration	-4.8	-6.9
of which, fixed salary to the President and Executive Vice President	-3.2	-5.3
of which, variable remuneration to the President and Executive Vice President	-1.2	-1.1
Social security expenses	-3.7	-5.2
of which, pension costs	-1.8	-2.4
<b>Total</b>	<b>-8.6</b>	<b>-12.1</b>
Total salaries, other remuneration and social security expenses SEK M	2021	2020
Salaries and remuneration	-8.3	-12.8
of which, variable remuneration	-	-
Social security expenses	-5.7	-8.3
of which, pension costs	-2.5	-3.5
<b>Total</b>	<b>-14.0</b>	<b>-21.2</b>

**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
<b>2021</b>					
Anders Borgcrantz, President	3.2	-	1.3	4.4	35
Martin Rydin, President Jan-Mar	0.6	0.1	0.2	0.8	36
Göran Zakrisson, Board member	0.2	-	-	0.2	
Anders Långström, Board member	0.1	-	-	0.1	
Jonas Rosman, Board member	0.1	-	-	0.1	
Magnus Olsson, Board member	0.1	-	-	0.1	
Christian Bille, tidigare Board member	0.0	-	-	0.0	
Niklas Larsson, tidigare Board member	0.0	-	-	0.0	
Other senior executives (1 person)	1.2	-	0.5	1.7	43
<b>Total</b>	<b>5.4</b>	<b>0.1</b>	<b>1.9</b>	<b>7.4</b>	
<b>2020</b>					
Anders Borgcrantz, President	3.1	-	1.2	4.4	35
Martin Rydin, Vice President	2.1	0.0	0.7	2.9	32
Göran Zakrisson, Board member	0.2	-	-	0.2	
Christian Bille, Board member	0.1	-	-	0.1	
Anders Långström, Board member	0.1	-	-	0.1	
Niklas Larsson, Board member	0.1	-	-	0.1	
Other senior executives (1 person)	1.1	-	0.5	1.6	42
<b>Total</b>	<b>6.8</b>	<b>0.0</b>	<b>2.4</b>	<b>9.3</b>	

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 (FORENA) 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.

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**Other information****NOTE 8. CONT. EMPLOYEES, STAFF COSTS AND REMUNERATION OF SENIOR EXECUTIVES**

Number of women among senior executives, %		31-Dec-21	31-Dec-20
Board members		0	0
Other senior executives		0	0
<b>Loans to senior executives</b>			
SEK M	Länsförsäkringar Hypotek	Länsförsäkringar AB koncernen	
2021	2020	2021	2020
<b>Board members</b>	<b>31.1</b>	<b>6.4</b>	<b>131.7</b>
of which, loans from Länsförsäkringar Bank	20.3	0.4	48.7
of which, loans from Länsförsäkringar Hypotek	10.7	6.0	82.8
of which, loans from Wasa Kredit	-	-	0.3
<b>President and Executive Vice Presidents</b>	<b>-</b>	<b>-</b>	<b>21.6</b>
of which, loans from Länsförsäkringar Bank	-	-	7.5
of which, loans from Länsförsäkringar Hypotek	-	-	13.7
of which, loans from Wasa Kredit	-	-	0.3
<b>Senior executives</b>	<b>-</b>	<b>-</b>	<b>35.3</b>
of which, loans from Länsförsäkringar Bank	-	-	9.4
of which, loans from Länsförsäkringar Hypotek	-	-	25.9
of which, loans from Wasa Kredit	-	-	0.0
			0.2

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	2021	2020
Management costs	-10.5	-10.0
Other administration expenses	-106.4	-102.3
<b>Total administration expenses</b>	<b>116.9</b>	<b>-112.3</b>

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

**NOTE 11 CREDIT LOSSES, NET**

SEK M	2021	2020
<b>Change in loss allowance for loan receivables</b>		
Stage 1 (not credit-impaired)	2.6	-1.8
Stage 2 (not credit-impaired)	1.0	-0.1
Stage 3 (credit-impaired)	0.0	0.4
<b>Total change in loss allowance for loan receivables</b>	<b>3.6</b>	<b>-1.5</b>
Expense for confirmed credit losses	-1.8	-1.0
Payment received for prior confirmed credit losses	2.4	2.0
<b>Net expense for the period for credit losses for loan receivables</b>	<b>4.3</b>	<b>-0.4</b>
Change in loss allowance for commitments	0.1	-0.1
Net expense for other credit losses	-	-
Net expense of the modification result for the period	-0.2	-0.3
<b>Net expense for credit losses for the period</b>	<b>4.2</b>	<b>-0.8</b>

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 2021, total credit losses amounted to SEK 18.3 M (-5.1), of which Länsförsäkringar Hypotek's recognised credit losses amounted to SEK 4.2 M (-0.8) and the remainder of SEK 14.2 M (-4.3) was settled against remuneration to the regional insurance companies.

**Loss allowance**

SEK M	31-Dec-21	31-Dec-20
<b>Financial assets measured at amortised cost</b>		
Loans to credit institutions	-	-
Loans to the public	3.7	7.3
Other assets	-	-
<b>Financial assets measured at FVOCI</b>		
Bonds and other interest-bearing securities	0.1	0.1
<b>Provisions</b>		
Commitments	0.1	0.2
<b>Total loss allowance</b>	<b>3.9</b>	<b>7.6</b>

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.

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**Other information****NOTE 12 TAX**

SEK M	2021	2020
<b>Current tax</b>		
Current tax expense	-241.1	-235.5
Adjustment of tax expense pertaining to prior years	-	-3.6
<b>Total current tax</b>	<b>-241.1</b>	<b>-239.2</b>
<b>Total recognised tax expense</b>	<b>-241.1</b>	<b>-239.2</b>
<b>Reconciliation of effective tax rate</b>		
Profit before tax	1,157.6	1,074.1
Tax at applicable tax rate	-238.5	-229.9
Tax on non-deductible income	1.0	1.6
Tax on non-deductible costs	-2.2	-6.6
Tax attributable to changed tax rates	-1.4	-0.6
Tax attributable to prior years	0.0	-3.6
<b>Total tax on net profit for the year</b>	<b>-241.1</b>	<b>-239.2</b>
Applicable tax rate	20.6%	21.4%
Effective tax rate	20.8%	22.3%
<b>Tax items recognised in other comprehensive income</b>		
Tax on financial assets measured at fair value through other comprehensive income	-2.0	-6.8
Tax on cash flow hedges	-17.0	12.4
<b>Total tax attributable to other comprehensive income</b>	<b>-18.9</b>	<b>5.6</b>

**NOTE 13 LOANS TO CREDIT INSTITUTIONS**

SEK M	31-Dec-21	31-Dec-20
Loans to credit institutions	4,272.6	3,933.2
<b>Total loans to credit institutions</b>	<b>4,272.6</b>	<b>3,933.2</b>

Loans to credit institutions includes investments of SEK 3,372.6 M (1,993.3) in the Parent Company.  
For loss allowance, see note 11.

**NOTE 14 LOANS TO THE PUBLIC**

SEK M	31-Dec-21	31-Dec-20
<b>Loans to the public before reserves</b>		
Corporate sector	8,570.1	7,473.0
Retail sector	269,956.4	252,033.9
<b>Total</b>	<b>278,526.5</b>	<b>259,506.8</b>
<b>Reserves</b>	<b>-3.7</b>	<b>-7.3</b>
<b>Loans to the public</b>	<b>278,522.8</b>	<b>259,499.5</b>
Remaining term of not more than 3 months	142,816.3	121,298.7
Remaining term of more than 3 months but not more than 1 year	44,732.2	37,234.3
Remaining term of more than 1 year but not more than 5 years	89,645.5	99,661.6
Remaining term of more than 5 years	1,328.8	1,304.9
<b>Total</b>	<b>278,522.8</b>	<b>259,499.5</b>

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

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## Reconciliation of gross carrying amount and loss allowance

SEK M	Note Credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carry-ing amount	Loss allowance	Gross carry-ing amount	Loss allowance	Gross carry-ing amount	Loss allowance		
<b>Opening balance 1 Jan 2020</b>	<b>237,570.1</b>	<b>-2.4</b>	<b>2,335.4</b>	<b>-1.7</b>	<b>162.0</b>	<b>-1.8</b>	<b>240,067.4</b>	<b>-5.8</b>
New loans	50,474.3	-1.5	28.5	0.0	1.8	0.0	50,504.6	-1.6
<b>Changes:</b>								
Change in loss allowance model or method	-	0.0	-	0.0	-	0.0	-	0.0
Repayment	-30,591.9	0.3	-412.8	0.3	-55.8	0.7	-31,060.5	1.3
Change in risk parameters	-	-1.8	-	0.3	-	-0.5	-	-2.0
Other	-	-	-	-	-	-	-	-
<b>Transfer between stages:</b>								
Transfer from stage 1 to stage 2	-1,540.4	0.7	1,540.4	-1.0	-	-	-	-0.3
Transfer from stage 2 to stage 1	1,356.8	-0.1	-1,356.8	0.2	-	-	-	0.1
Transfer to stage 3	-98.6	0.6	-31.8	0.2	130.4	-0.8	0.0	0.0
Transfer from stage 3	12.9	0.0	30.9	0.0	-43.7	0.3	-	0.3
Write-off	-	-	-	-	-4.7	0.8	-4.7	0.8
<b>Closing balance 31 Dec 2020</b>	<b>257,183.1</b>	<b>-4.2</b>	<b>2,133.8</b>	<b>-1.8</b>	<b>189.9</b>	<b>-1.4</b>	<b>259,506.8</b>	<b>-7.3</b>
<b>Opening balance 1 Jan 2021</b>	<b>257,183.1</b>	<b>-4.2</b>	<b>2,133.8</b>	<b>-1.8</b>	<b>189.9</b>	<b>-1.4</b>	<b>259,506.8</b>	<b>-7.3</b>
New loans	53,129.4	-0.9	44.6	0.0	1.6	0.0	53,175.5	-1.0
<b>Changes:</b>								
Change in loss allowance model or method	-	0.0	-	0.0	-	-	-	0.0
Repayment	-33,627.0	0.6	-466.6	0.4	-60.0	0.3	-34,153.7	1.3
Change in risk parameters	-	2.2	-	0.9	-	0.0	-	3.2
Other	-	0.0	-	0.0	-	-	-	0.0
<b>Transfer between stages:</b>								
Transfer from stage 1 to stage 2	-1,458.5	0.4	1,458.5	-0.5	-	-	-	-0.1
Transfer from stage 2 to stage 1	1,213.0	0.0	-1,213.0	0.1	-	-	-	0.0
Transfer to stage 3	-63.5	0.4	-31.8	0.2	95.3	-0.5	-	0.0
Transfer from stage 3	17.3	0.0	7.1	0.0	-24.4	0.1	-	0.1
Write-off	-	-	-	-	-2.2	0.1	-2.2	0.1
<b>Closing balance 31 Dec 2021</b>	<b>276,393.8</b>	<b>-1.5</b>	<b>1,932.5</b>	<b>-0.8</b>	<b>200.2</b>	<b>-1.4</b>	<b>278,526.5</b>	<b>-3.7</b>

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 2021, the total credit reserve requirement for loan receivables amounted to SEK 18.5 M (36.1) of which the company's recognised loss allowance for loan receivables accounted for SEK 3.7 M (7.3) and the remainder of SEK 14.8 M (28.8) was settled against

the remuneration to the regional insurance companies. The recognised loss allowance increased SEK 3.6 M (1.5) during the year, primarily driven by portfolio growth and a negative change in risk parameters.

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 1.9 M (1.8) on 31 December 2021.

Modified loan receivables in loans to the public, SEK M	31 Dec 2021	31 Dec 2020
Loan receivables modified during the period that were in stages 2 and 3 when they were modified		
Amortised cost before modification	32.5	176.8
Modification gain/loss	-	-
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	62.3	114.4

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**NOTE 15 BONDS AND OTHER INTEREST-BEARING SECURITIES**

Issued by organisations other than public bodies

SEK M	31-Dec-21	31-Dec-20
<b>Carrying amount</b>		
Swedish mortgage institutions	9,968.6	10,674.4
<b>Total bonds and other interest-bearing securities</b>	<b>9,968.6</b>	<b>10,674.4</b>
Fair value	9,968.6	10,674.4
Amortised cost	9,942.9	10,555.7
Nominal value	9,790.0	10,390.0
<b>Market status</b>		
Securities listed	9,968.6	10,674.4

For loss allowance, see note 11.

**NOTE 16 DERIVATIVES**

SEK M	31-Dec-21		31-Dec-20	
	Nominal value	Fair value	Nominal value	Fair value
<b>Derivatives with positive values</b>				
<i>Derivatives in hedge accounting</i>				
Interest	190,085.0	1,133.9	162,192.0	2,093.1
Currency	32,348.3	3,032.1	34,254.0	3,106.6
<b>Total derivatives with positive values</b>	<b>222,433.3</b>	<b>4,166.0</b>	<b>196,446.0</b>	<b>5,199.7</b>
<b>Derivatives with negative values</b>				
<i>Derivatives in hedge accounting</i>				
Interest	129,665.0	1,254.8	124,675.0	477.6
Currency	6,174.7	95.5	1,394.2	173.7
<b>Total derivatives with negative values</b>	<b>135,839.7</b>	<b>1,350.3</b>	<b>126,069.2</b>	<b>651.3</b>

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-21	31-Dec-20
<b>Assets</b>		
Carrying amount at beginning of year	272.0	-
Changes during the year pertaining to lending	-272.0	272.0
Changes during the year pertaining to funding	659.1	-
<b>Carrying amount at year-end</b>	<b>659.1</b>	<b>272.0</b>
<b>Liabilities</b>		
Carrying amount at beginning of year	1,800.1	1,241.2
Changes during the year pertaining to funding	-1,800.1	558.9
Changes during the year pertaining to lending	329.3	-
<b>Carrying amount at year-end</b>	<b>329.3</b>	<b>1,800.1</b>

**NOTE 18 PROPERTY AND EQUIPMENT**

SEK M	31-Dec-21	31-Dec-20
<b>Equipment</b>		
Opening cost	0.9	0.8
Purchases	-	0.5
Sales / disposals	0.0	-0.4
<b>Closing cost</b>	<b>0.9</b>	<b>0.9</b>
Opening depreciation	-0.2	-0.3
Sales / disposals	-	0.2
Depreciation for the year	-0.2	-0.2
<b>Closing accumulated depreciation</b>	<b>-0.4</b>	<b>-0.2</b>
<b>Total property and equipment</b>	<b>0.5</b>	<b>0.7</b>

**NOTE 19 PREPAID EXPENSES AND ACCRUED INCOME**

SEK M	31-Dec-21	31-Dec-20
Accrued interest income	19.0	19.7
Prepaid expenses	1.4	4.3
<b>Total prepaid expenses and accrued income</b>	<b>20.4</b>	<b>23.9</b>

**NOTE 20 DUE TO CREDIT INSTITUTIONS**

SEK M	31-Dec-21	31-Dec-20
Swedish credit institutions	58,632.3	65,341.8
<b>Total liabilities due to credit institutions</b>	<b>58,632.3</b>	<b>65,341.8</b>
Credit granted in Länsförsäkringar Bank amounts to	SEK 90.0 bn	SEK 75.0 bn
Liabilities to credit institutions include funding of SEK 56,781.9 M (63,407.2) from the Parent Company. Genuine repurchase transactions amounted to SEK 1,532.7 M (1,934.6), of which SEK 0.0 M (0.0) with Group companies.		

**NOTE 21 DEBT SECURITIES IN ISSUE**

SEK M	31-Dec-21	31-Dec-20
Bond loans	220,591.8	195,861.4
<b>Total debt securities in issue</b>	<b>220,591.8</b>	<b>195,861.4</b>
All securities are covered bonds.		

**NOTE 22 OTHER LIABILITIES**

SEK M	31-Dec-21	31-Dec-20
Accounts payable	0.5	0.3
Tax liabilities	68.8	116.0
Other liabilities	28.1	42.3
<b>Total other liabilities</b>	<b>97.4</b>	<b>158.6</b>

**NOTE 23 ACCRUED EXPENSES AND DEFERRED INCOME**

SEK M	31-Dec-21	31-Dec-20
Accrued interest expense	842.5	853.9
Accrued remuneration of regional insurance companies	907.6	857.2
Other accrued expenses	60.6	63.0
<b>Total accrued expenses and deferred income</b>	<b>1,810.7</b>	<b>1,774.1</b>

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**Other information****NOTE 24 PROVISIONS**

SEK M	31-Dec-21	31-Dec-20
Loss allowance for commitments	0.1	0.2
Other provisions	1.5	1.4
<b>Total</b>	<b>1.6</b>	<b>1.6</b>

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 2022 for the FTP plan amount to SEK 0.1 M.

SEK M	2021	2020
Expenses for defined-contribution plans	1.1	2.1

**NOTE 25 SUBORDINATED LIABILITIES**

SEK M	31-Dec-21	31-Dec-20
Subordinated debt	-	500.0
<b>Total subordinated liabilities</b>	<b>-</b>	<b>500.0</b>

Specification of subordinated debt from Länsförsäkringar Bank AB (publ)	31-Dec-21	31-Dec-20	Coupon rate of interest
	Carrying amount	Carrying amount	
Subordinated debt 2015/2025 LF Bank	-	500.0	variable 3 months
<b>Total</b>	<b>-</b>	<b>500.0</b>	

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-21	31-Dec-20
Tax allocation reserve	1,716.1	1,440.3
<b>Total tax allocation reserve</b>	<b>1,716.1</b>	<b>1,440.3</b>

**NOTE 27 EQUITY**

SEK M	31-Dec-21	31-Dec-20
<b>Restricted equity</b>		
Share capital	3,129.9	3,129.9
Statutory reserve	14.1	14.1
<b>Total restricted equity</b>	<b>3,144.0</b>	<b>3,144.0</b>
<b>Non-restricted equity</b>		
Fair value reserve	-89.5	-162.4
Retained earnings	9,145.4	8,310.5
Net profit for the year	916.6	835.0
<b>Total non-restricted equity</b>	<b>9,972.5</b>	<b>8,983.1</b>
<b>Total equity</b>	<b>13,116.5</b>	<b>12,127.1</b>

Reserves refer to the fair value reserve and the hedging reserve. The fair value reserve comprises the accumulated net change in financial assets measured at fair value through other comprehensive income until the asset is derecognised from the balance sheet. The hedging reserve comprises hedging of currency risk in future cash flows for the company's debt securities in issue in foreign currency.

The other changes in equity for the period are presented in the Statement of changes in equity.

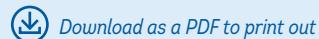
Share capital comprises 70,335 (70,335) shares with a quotient value of SEK 44,487 (44,487).

**Proposed appropriation of profit**

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

SEK	31-Dec-21	31-Dec-20
Other reserves	-89,509,035	-162,336,247
Retained earnings	9,145,445,239	8,310,465,047
Net profit for the year	916,570,756	834,980,192
Profit to be appropriated	9,972,506,960	8,983,108,992

The Board proposes that the following be carried forward SEK 9,972,506,960 (8,983,108,992).



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**Other information****NOTE 28 PLEDGED ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS**

SEK M	31 Dec 2021	31 Dec 2020
<b>For own liabilities, pledged assets</b>		
Collateral paid due to repurchase agreement	1,532.7	1,934.6
Loan receivables, covered bonds	266,886.7	248,609.4
Loan receivables, substitute collateral	9,790.0	10,390.0
<b>Total for own liabilities, pledged assets</b>	<b>278,209.3</b>	<b>260,934.0</b>
<b>Commitments</b>		
Loans approved but not disbursed	12,718.9	13,560.3
<b>Total</b>	<b>12,718.9</b>	<b>13,560.3</b>

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.

**Reconciliation of gross carrying amount and loss allowance for commitments**

SEK M	<b>Note credit-impaired</b>		<b>Credit impaired</b>				<b>Total</b>	
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3	Stage 4	Stage 1	Stage 2
<b>Opening Balance 31 Dec 2020</b>	<b>10,561.9</b>	<b>-0.1</b>	<b>42.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>10,604.0</b>	<b>-0.1</b>
<b>New loan commitments and increase in existing loan commitments</b>	<b>58,080.3</b>	<b>-0.5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>58,080.3</b>	<b>-0.5</b>
<b>Changes:</b>								
Change in loss allowance model or method	-	0.0	-	-	-	-	-	0.0
Net change in existing loan commitments and credit commitments (utilised and repaid)	-13,965.6	0.0	-28.4	0.0	-	-	-13,994.1	0.1
Change in risk parameters	-	0.0	-	-	-	-	-	0.0
<b>Transfer of loan commitments and credit commitments:</b>								
Transfer from stage 1 to stage 2	-254.4	0.1	254.4	-0.1	-	-	-	0.0
Transfer from stage 2 to stage 1	-	-	-	-	-	-	-	-
Transfer to stage 3	-0.8	0.0	-	-	0.8	-	-	-
Transfer from stage 3	-	-	-	0.0	-	-	-	-
<b>Expired loan commitments</b>	<b>-40,956.8</b>	<b>0.3</b>	<b>-172.3</b>	<b>0.0</b>	<b>-0.8</b>	<b>0.0</b>	<b>-41,130.0</b>	<b>0.4</b>
<b>Closing balance 31 Dec 2020</b>	<b>13,464.5</b>	<b>-0.2</b>	<b>95.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>13,560.3</b>	<b>-0.2</b>
<b>Opening Balance 31 Dec 2021</b>	<b>13,464.5</b>	<b>-0.2</b>	<b>95.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>13,560.3</b>	<b>-0.2</b>
<b>New loan commitments and increase in existing loan commitments</b>	<b>63,270.5</b>	<b>-0.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>63,270.5</b>	<b>-0.3</b>
<b>Changes:</b>								
Change in loss allowance model or method	-16,073.4	0.1	-51.4	0.0	-	-	-16,124.8	0.1
Net change in existing loan commitments and credit commitments (utilised and repaid)	-	0.0	-	0.0	-	-	-	0.0
Change in risk parameters	-	0.0	-	0.0	-	-	-	0.0
<b>Transfer of loan commitments and credit commitments:</b>								
Transfer from stage 1 to stage 2	-196.2	0.0	196.2	0.0	-	-	-	0.0
Transfer from stage 2 to stage 1	4.9	0.0	-4.9	0.0	-	-	-	0.0
Transfer to stage 3	-1.4	0.0	-	-	0.8	0.0	-0.6	-
Transfer from stage 3	-	-	-	-	-	-	-	-
<b>Expired loan commitments</b>	<b>-47,809.8</b>	<b>0.3</b>	<b>-175.9</b>	<b>0.1</b>	<b>-0.8</b>	<b>0.0</b>	<b>-47,986.5</b>	<b>0.3</b>
<b>Closing balance 31 Dec 2021</b>	<b>12,659.1</b>	<b>-0.1</b>	<b>59.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>12,718.9</b>	<b>-0.1</b>

The loss allowance increased by SEK -0.1 M (0.1) during the year. This was due to new loan commitments and higher degree of utilisation of existing loan commitments.

On 31 December 2021, the total loss allowance for commitments amounted to SEK 0.5 M (1.0), of which the company's recognised loss allowance amounted to SEK 0.1 M

(0.2) and the remainder of SEK 0.4 M (0.8) 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.

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**Other information****NOTE 29 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES**

31-Dec-21, SEK M	Financial assets measured at FVPL		Financial assets measured at FVOCI			Fair value
	Derivatives used in hedge accounting	Financial assets measured at amortised cost	Debt instruments measured at FVOCI	Equity instruments	Total carrying amount	
<b>Assets</b>						
Loans to credit institutions		4,272.6			4,272.6	4,272.6
Loans to the public		278,522.8			278,522.8	278,728.5
Bonds and other interest-bearing securities			9968.6		9968.6	9968.6
Derivatives	4,166.0				4,166.0	4,166.0
Other assets		-			-	-
Prepaid expenses and accrued income		19.0			19.0	19.0
<b>Total assets</b>	<b>4,166.0</b>	<b>282,814.4</b>	<b>9,968.6</b>		<b>296,949.0</b>	<b>297,154.7</b>

31-Dec-21, SEK M	Financial assets measured at FVPL		Total carrying amount	Fair value
	Derivatives used in hedge accounting	Financial liabilities measured at amortised cost		
<b>Liabilities</b>				
Due to credit institutions		58,632.3	58,632.3	58,709.6
Debt securities in issue		220,591.8	220,591.8	222,425.9
Derivatives	1,350.3		1,350.3	1,350.3
Other liabilities		5.2	5.2	5.2
Subordinated liabilities		-	-	-
Accrued expenses and deferred income		842.5	842.5	842.5
<b>Total liabilities</b>	<b>1,350.3</b>	<b>280,071.8</b>	<b>281,422.1</b>	<b>283,333.5</b>

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**NOTE 29, CONT. KLASIFICERING AV FINANSIELLA TILLGÅNGAR OCH SKULDER**

31-Dec-20, SEK M	Financial assets measured at FVPL		Financial assets measured at FVOCI		
	Derivatives used in hedge accounting	Financial assets measured at amortised cost	Debt instruments measured at FVOCI	Equity instruments	Total carrying amount
<b>Assets</b>					
Loans to credit institutions		3,933.2			3,933.2 3,933.2
Loans to the public		259,499.5			259,499.5 260,233.0
Bonds and other interest-bearing securities			10,674.4		10,674.4 10,674.4
Derivatives	5,199.7				5,199.7 5,199.7
Other assets		-			- -
Prepaid expenses and accrued income		19.7			19.7 19.7
<b>Total assets</b>	<b>5,199.7</b>	<b>263,452.4</b>	<b>10,674.4</b>		<b>279,326.5 280,060.0</b>
 <b>Financial assets measured at FVPL</b>					
31-Dec-20, SEK M	Derivatives used in hedge accounting		Financial liabilities measured at amortised cost		Total carrying amount
					Fair value
<b>Liabilities</b>					
Due to credit institutions			65,341.8	65,341.8	65,373.0 <sup>1)</sup>
Debt securities in issue			195,861.4	195,861.4	200,532.3 <sup>1)</sup>
Derivatives	651.3			651.3	651.3
Other liabilities			0.3	0.3	0.3
Subordinated liabilities			500.0	500.0	519.5
Accrued expenses and deferred income			853.9	853.9	853.9
<b>Total liabilities</b>	<b>651.3</b>		<b>262,557.4</b>	<b>263,208.7</b>	<b>270,930.3</b>

<sup>1)</sup> Comparative figures have been adjusted.

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 arising on the derecognition of assets recognised at amortised cost in interest compensation receiver. 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-21 SEK M	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Bonds and other interest-bearing securities		9,968.6		9,968.6
Derivatives		4,166.0		4,166.0
<b>Liabilities</b>				
Derivatives		1,350.3		1,350.3
31-Dec-20 SEK M	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Bonds and other interest-bearing securities		10,674.4		10,674.4
Derivatives		5,199.7		5,199.7
<b>Liabilities</b>				
Derivatives		651.3		651.3

Derivatives in level 2 essentially refer to swaps for which fair value is calculated by discounting expected future cash flows. In 2021 and 2020, there have been no significant transfers between level 1 and 2. Nor have there been any transfers from level 3 during the years.

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**Other information****NOTE 30. CONT. FAIR VALUE VALUATION TECHNIQUES**

31-Dec-21 SEK M	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Loans to the public		278,728.5	278,728.5	
<b>Liabilities</b>				
Debt securities in issue	222,425.9		222,425.9	
Subordinated liabilities	-		-	

31-Dec-20 SEK M	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Loans to the public		260,233.0	260,233.0	
<b>Liabilities</b>				
Debt securities in issue	200,532.3		200,532.3	
Subordinated liabilities	519.5		519.5	

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 2021 or 2020.

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.

SEK M 31-Dec-21	Financial assets and liabilities that are offset or subject to netting agreements				
	Gross amount	Offset in balance sheet	Net amount in balance sheet	Netting framework agreement	Related amounts not offset in the balance sheet
<b>Assets</b>					
Derivatives	4,166.0	-	4,166.0	-1,234.8	-317.8 2,613.4
Reversed repurchase agreements	875.1	-	875.1	-	-875.1 0.0
<b>Liabilities</b>					
Derivatives	-1,350.3	-	-1,350.3	1,234.8	- 115.6
Repurchase agreements	-1,532.7	-	-1,532.7	-	1,532.7 0.0
<b>Total</b>	<b>2,158.1</b>	<b>-</b>	<b>2,158.1</b>	<b>-</b>	<b>339.8 2,497.9</b>

SEK M 31-Dec-20	Financial assets and liabilities that are offset or subject to netting agreements				
	Gross amount	Offset in balance sheet	Net amount in balance sheet	Netting framework agreement	Related amounts not offset in the balance sheet
<b>Assets</b>					
Derivatives	5,199.7	-	5,199.7	-443.7	- 4,756.0
Reversed repurchase agreements	1,934.6	-	1,934.6	-	-1,934.6 0.0
<b>Liabilities</b>					
Derivatives	-651.3	-	-651.3	443.7	- 207.6
Repurchase agreements	-1,934.6	-	-1,934.6	-	1,934.6 0.0
<b>Total</b>	<b>4,548.4</b>	<b>-</b>	<b>4,548.4</b>	<b>-</b>	<b>0.0 4,548.4</b>

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**Other information****NOTE 32 DISCLOSURES ON RELATED PARTIES, PRICING AND AGREEMENTS****Related parties**

Related legal entities to Länsförsäkringar Hypotek include companies within the Länsförsäkringar AB Group and companies within the Länsförsäkringar Liv Group. In addition, the company makes a broader interpretation of those considered to be related legal entities than the definition of related parties stipulated in the regulations. The assessment of whether a close relationship exists or not is based on the financial significance of the relationship and not only the share of ownership in a company. Accordingly, the 23 regional insurance companies, with their subsidiaries, and the 15 local insurance companies are defined as related parties since they jointly own 100% of the Parent Company Länsförsäkringar AB. Related key persons are Board members, senior executives and close family members of these individuals.

**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, process and decisions**

The price level of the goods and services that Länsförsäkringar 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**

SEK M	Receivables		Liabilities		Income		Expenses	
	31-Dec-21	31-Dec-20	31-Dec-21	31-Dec-20	2021	2020	2021	2020
Länsförsäkringar Bank AB (Parent Company)	6,938.9	6,163.7	57,890.5	63,993.1	48.4	1,119.8	47.2	280.2
Other companies in the Bank Group	0.2	0.2	-	-	-	-	0.0	0.0
Other companies in the Länsförsäkringar AB Group	-	-	0.1	0.2	-	-	1.7	3.3
Länsförsäkringar Liv- Group	-	-	0.1	-	-	-	-	-
Regional insurance companies	-	-	907.6	857.2	-	-	1,212.7	1,138.9

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 SUPPLEMENTARY INFORMATION TO STATEMENT OF CASH FLOWS**

SEK M	2021	2020
<b>Interest and dividends</b>		
Interest received	4,238.2	4,514.3
Interest paid	-1,486.3	-1,865.8
<b>Adjustments for non-cash items</b>		
Unrealised portion of net gains/losses from financial items	-517.8	219.2
Credit losses, excluding recoveries	-3.6	15
Other	0.2	0.4
<b>Total non-cash items</b>	<b>-521.3</b>	<b>221.0</b>
<b>Cash and cash equivalents</b>		
Loans to credit institutions	3,079.7	1,998.6
<b>Total cash and cash equivalents</b>	<b>3,079.7</b>	<b>1,998.6</b>

**NOTE 34 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.

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The annual Report and consolidated financial statements were approved for publication by the Board of Directors on 7 March 2022. The company's statement of income, comprehensive income and financial position are subject to approval by the Annual General Meeting to be held on 2 May 2022.

Stockholm, the date stated on the electronic signature.

Sven Eggefall  
*Chairman*

Anders Långström  
*Board member*

Magnus Olsson  
*Board member*

Jonas Rosman  
*Board member*

Göran Zakrisson  
*Board member*

Anders Borgcrantz  
*President*

Our audit report was submitted on the date set out by the electronic signature.

KPMG AB

Anders Tagde  
*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 2021. The annual accounts of the company are included on pages 14-60 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 2021 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.

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts, and the corporate governance statement is in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

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.

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## Loan origination and provisions for expected credit losses

See disclosure in notes 3, 11, 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

Länsförsäkringar Hypotek's lending primarily comprises of 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.

The entity's loans to the public amounted to SEK 278 523 (259 500) M on 31 December 2021, corresponding to 94 (93)% of the entity's total assets. The entity's provision for expected credit losses in the loan portfolio amounted to SEK 4 (7) 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 19 (36) M if not taking that into account.

The provision for expected credit losses in the entity's loan portfolio correspond to management's best estimate of potentially occurring credit 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 the entity regarding the provisions for expected credit losses. This is the reason to why we believe that this is a key audit matter.

### Response in the audit

We have tested the entity's key controls in the lending process, including credit decisions, credit examinations, rating classifications and loan loss provisions.

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.

We have 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 also examined the entity's underlying assumptions regarding the calculation of provisions. In our audit we have used our own credit modelling experts to assist us in the various audit procedures that we have performed.

We have assessed the circumstances presented in the disclosures in the annual report and whether the information is sufficiently extensive as a description of the entity's assessments.

## Valuation 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

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 classified as Level 2 in the IFRS valuation hierarchy and correspond to assets of a value of SEK 4 166 (5 200) M and liabilities of SEK 1 350 (651) M.

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.

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 key audit matter.

### Response in the audit

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.

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.

With the assistance of our internal valuation specialists, we challenged the methods and assumptions used in measuring unquoted/illiquid financial instruments.

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 for one of the monthly accounts during the year. The result of this examination was also randomly tested in the annual accounts.

We have assessed the circumstances and how financial instruments are classified and presented in the disclosures in the Annual Report and whether the information is sufficiently extensive as a description of the entity's assessments.



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### **Other Information than the annual accounts**

This document also contains other information than the annual accounts and is found on pages 1-13 and 64-67. 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, measures that have been taken to eliminate the threats or 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 2021 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



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- 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 Esef report

#### Opinion

In addition to our audit of the annual accounts, we have also examined that the Board of Directors and the Managing Director have prepared the annual accounts in a format that enables uniform electronic reporting (the Esef report) pursuant to Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528) for Länsförsäkringar Hypotek AB (publ) for year 2021.

Our examination and our opinion relate only to the statutory requirements.

In our opinion, the Esef report #bVmpwVg+bkn8pI8= has been prepared in a format that, in all material respects, enables uniform electronic reporting.

#### Basis for Opinions

We have performed the examination in accordance with FAR's recommendation RevR 18 Examination of the Esef report. Our responsibility under this recommendation is described in more detail in the Auditors' responsibility 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 evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### 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 Esef report in accordance with the Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528), and for such internal control that the Board of Directors and the Managing Director determine is necessary to prepare the Esef report without material misstatements, whether due to fraud or error.

#### Auditor's responsibility

Our responsibility is to obtain reasonable assurance whether the Esef report is in all material respects prepared in a format that meets the requirements of Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528), based on the procedures performed.

RevR 18 requires us to plan and execute procedures to achieve reasonable assurance that the Esef report is prepared in a format that meets these requirements.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an engagement carried out according to RevR 18 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Esef report.

The audit firm applies ISQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with professional ethical requirements, professional standards and legal and regulatory requirements.

The examination involves obtaining evidence, through various procedures, that the Esef report has been prepared in a format that enables uniform electronic reporting of the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the report, whether due to fraud or error. In carrying out this risk assessment, and in order to design procedures that are appropriate in the circumstances, the auditor considers those elements of internal control that are relevant to the preparation of the Esef report by the Board of Directors and the Managing Director, but not for the purpose of expressing an opinion on the effectiveness of those internal controls. The examination also includes an evaluation of the appropriateness and reasonableness of the assumptions made by the Board of Directors and the Managing Director.

The procedures mainly include a technical validation of the Esef report, i.e. if the file containing the Esef report meets the technical specification set out in the Commission's Delegated Regulation (EU) 2019/815 and a reconciliation of the Esef report with the audited annual accounts.

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 11 March 2022

KPMG AB

Anders Tagde  
Authorized Public Accountant

# Board of Directors

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### SVEN EGGEFALK

**Chairman.** 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.



### ANDERS LÅNGSTRÖM

**Born 1968. President of Länsförsäkringar Norrbotten.** Elected 2020.

**Education:** Economics programme, Luleå University College.

**Other Board appointments:** Board member of Försäkringsbolaget Agria (publ), Länsförsäkringar Norrbotten Holding AB and Länsförsäkringar i Norr Holding AB.

**Previous experience:** Head of Bank at Föreningsbanken and Länsförsäkringar Norrbotten, Head of Bank & Life Assurance at Länsförsäkringar Norrbotten, Head of Retail Market at Länsförsäkringar Norrbotten, Head of Corporate Market at Länsförsäkringar Norrbotten, Head of Non-life Insurance/Executive Vice President at Länsförsäkringar Norrbotten.



### MAGNUS OLSSON

**Born 1964. President of Länsförsäkringar Jönköping.** Elected 2021.

**Education:** M.Sc. in Agriculture, specialising in economics.

**Other Board appointments:** Länsförsäkringar Mäklarservice AB.

**Previous experience:** Head of Sales Retail and Agriculture Östgöta Brandstödsbolag, Head of Marketing Non-life Insurance Östgöta Brandstödsbolag, Head of Claims Östgöta Brandstödsbolag, President of Länsförsäkringar Blekinge, Regional Manager LRF Konsult.



### JONAS ROSMAN

**Born 1963. President of Länsförsäkringar Skaraborg.** Elected 2021.

**Education:** Upper-secondary education in economics, agricultural education.

**Other Board appointments:** Chairman of Skaraborg Invest AB. Board member of Hällefors Tierp Skogar AB.

**Previous experience:** Accounting consultant, Business Manager Federation of Swedish Farmers Consulting, chief economist at Federation of Swedish Farmers Consulting, President of Skaraborg Agricultural Society.



### 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. Previously Credit analyst at Credit Suisse, Bank analyst at Fitch and auditor at EY.

# Corporate management



### 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.



### ANDERS LARSSON

**Born 1965. Head of Staff.** Employed since 1997.

**Education:** M.Sc. in Business and Economics.

**Previous experience:** Head of Treasury, Head of Finance and Finance Manager Länsförsäkringar Bank.

# Definitions

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## 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.

### Liquidity Coverage Ratio

Qualitative liquid assets in relation to their net cash outflow measured over a period of 30 days.

### 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.

# Addresses

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### LF Norrbotten

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SE-971 28 Luleå  
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### Länsförsäkringar Västerbotten

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Tel: +46 90 10 90 00  
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### Länsförsäkringar Jämtland

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SE-831 25 Östersund  
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Tel: +46 63 19 33 00  
E-mail: info@lfz.se

### Länsförsäkringar Västernorrland

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SE-871 24 Härnösand  
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Tel: +46 611 36 53 00  
E-mail: info@lfy.se

### Länsförsäkringar Gävleborg

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SE-801 03 Gävle  
Visit: Drottninggatan 35  
Tel: +46 26 14 75 00  
E-mail: info@LFgavleborg.se

### Dalarnas Försäkringsbolag

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SE-791 21 Falun  
Visit: Slaggatan 9  
Tel: +46 23 930 00  
E-mail: info@dalarnas.se

### Länsförsäkringar Värmland

Box 367  
SE-652 14 Karlstad  
Visit: Bogsprötgatan 20  
Tel: +46 54 775 15 00  
E-mail: info@LFvarmland.se

### Länsförsäkringar Uppsala

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Visit: Fyrisborgsgatan 4  
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### Länsförsäkringar Bergslagen

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### Länsförsäkringar Stockholm

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### Länsförsäkringar Södermanland

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### Länsförsäkringar Göteborg och Bohuslän

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### Länsförsäkringar Skaraborg

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SE-541 29 Skövde  
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Tel: +46 500 77 70 00  
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### Länsförsäkringar Östgöta

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### Länsförsäkringar Älvborg

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### JOINT COMPANIES

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**Länsförsäkringar Bank**  
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**Länsförsäkringar Mäklarservice**  
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**Länsförsäkringar Hypotek**  
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