Länsförsäkringar Hypotek

Annual Report

2022

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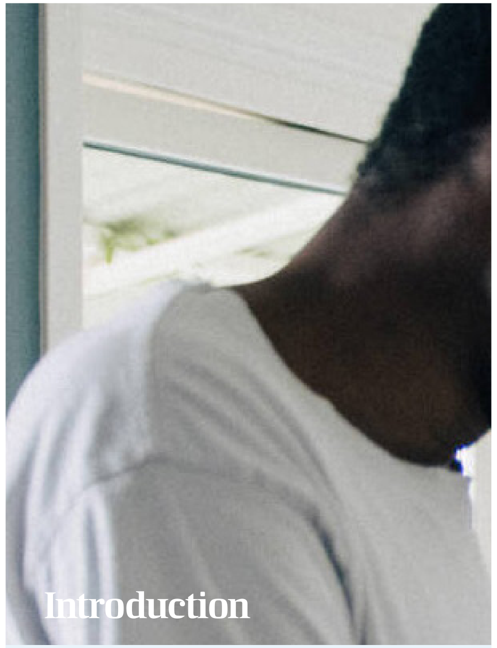

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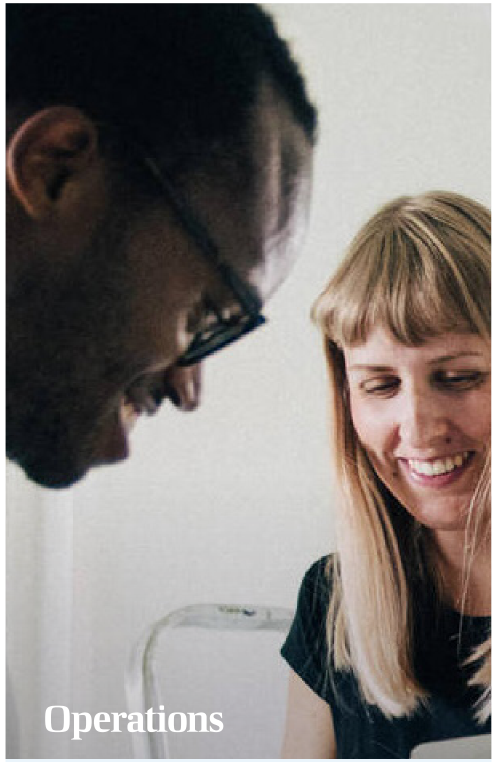

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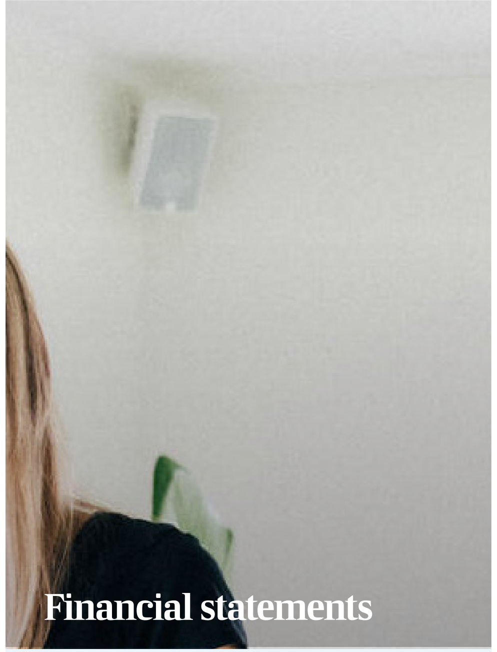

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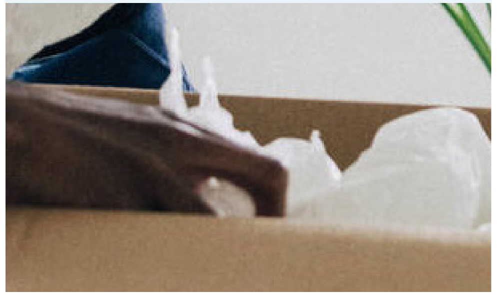

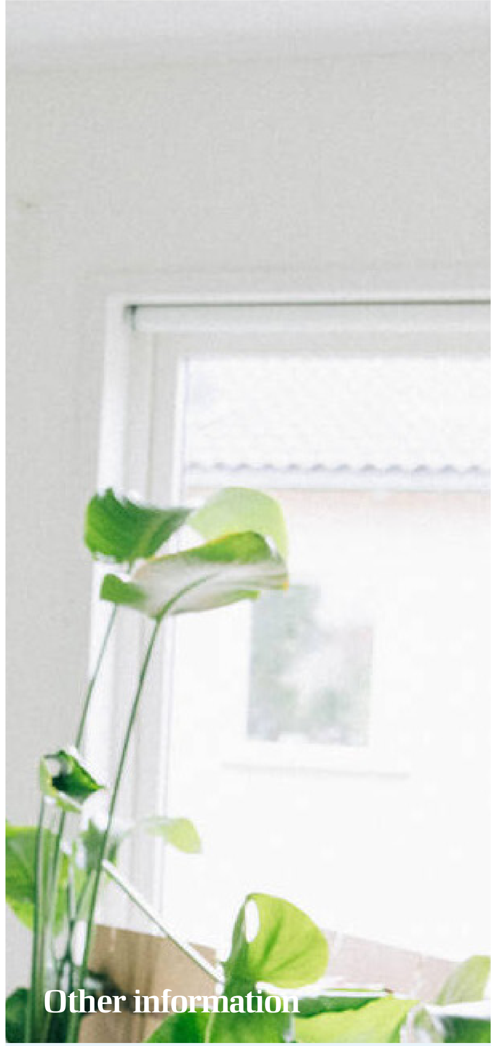

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Please note, the original Annual Report is in Swedish and in European single electronic format (ESEF). The Annual report is available on https://www.lansforsakringar.se/stockholm/privat/om-oss/finansiellt/lansforsakringar-hypotek/

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About Länsförsäkringar Hypotek

One of Sweden's largest mortgage institutions

Länsförsäkringar Hypotek is one of Sweden's leading mortgage institutions with loans of SEK 297 billion and about 298,000 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 8,500 employees.

3.9 million customers

23 local regional insurance companies

Länsförsäkringar AB

Länsförsäkringar Bank AB

Länsförsäkringar Hypotek AB	Länsförsäkringar Fondförvaltning AB	Wasa Kredit AB
Retail mortgages	Mutual funds	Leasing, hire purchase and unsecured loans

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The 2022 fiscal year

EARNINGS 2022 *Figures in parentheses pertain to the same period in 2021*

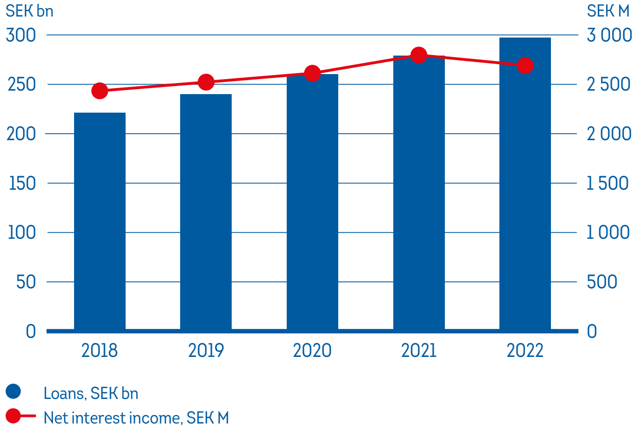
- Operating profit declined 1% to SEK 1,423 M (1,433) and the return on equity amounted to 7.5% (8.1).
- Net interest income declined 4% to SEK 2,692 M (2,796).
- Credit losses amounted to SEK 4 M (-4), net, corresponding to a credit loss level of 0.00% (0.00).
- Operating profit was impacted by fees levied of SEK 214 M, of which risk tax comprised SEK 113 M.
- Lending increased 7% to SEK 296.9 billion (278.5).
- The Common Equity Tier 1 capital ratio amounted to 18.9% (17.8) on 31 December 2022.

KEY FIGURES

SEK M	2022	2021	2020	2019	2018
Return on equity, %	7.5	8.1	8.2	8.1	7.7
Return on total assets, %	0.34	0.39	0.38	0.37	0.36
Investment margin, %	0.87	0.96	0.95	0.96	1.04
Cost/income ratio before credit losses	0.08	0.08	0.09	0.09	0.09
Common Equity Tier 1 capital ratio, %	18.9	17.8	18.4	18.2	18.3
Total capital ratio, %	18.9	17.8	19.1	19.0	19.4
Share of credit-impaired loan receivables (stage 3), %	0.05	0.07	0.07	0.07	0.07
Reserve ratio for loan receivables stage 1, %	0.00	0.00	0.00	0.00	0.00
Reserve ratio for loan receivables stage 2, %	0.11	0.04	0.08	0.07	0.08
Reserve ratio for loan receivables stage 3, %	1.50	0.69	0.72	1.12	1.06
Reserve ratio for loan receivables stage 3, incl. withheld remuneration to regional insurance companies, %	7.52	3.44	3.61	5.59	5.29
Credit loss level, %	0.00	−0.00	0.00	−0.00	−0.00

[1] Risk weight floor for mortgages in Pillar II.

Loans and net interest income



Loans have increased an average of 8% and net interest income an average of 5% over the past five years.

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2022 in brief

Continuing focus on digitisation

Länsförsäkringar Bank is currently making far-reaching changes to its customer processes, particularly when it comes to lending products. Mortgage processes are the focal point for the year ahead, and this will make handling loans considerably easier for customers when they apply for new mortgages and make changes to their existing mortgages.

Rising inflation, higher market interest rates and falling house prices

The world changed significantly during the year both geopolitically and in the macroeconomic area. Rising inflation led to rapid and sharp rises in key interest rates by central banks, which led to higher market interest rates. House prices also fell due to great uncertainty and higher market interest rates.

Länsförsäkringar Bank also had the highest customer satisfaction among the major banks this year.

In terms of customer satisfaction – both among retail customers and with regard to sustainability – Länsförsäkringar once again ranked the highest among the major banks in 2022.

Launch of green mortgages and green bonds.

In 2022, Länsförsäkringar Bank and Länsförsäkringar Hypotek launched green mortgages and energy efficiency loans for their customers to make it easier to use energy more efficiently in customers' homes, and to highlight the importance of doing so. Green bonds were also launched during the year to make it more efficient to refinance green loans.

Strong mortgage trend yet major challenges for mortgage customers

Growth in mortgage volumes was strong in 2022, although this is expected to soften in the year ahead. Mortgage customers are experiencing huge challenges with high costs of living, increased interest rates and an uncertain macroeconomic trend.

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A year of major changes in the world around us

STATEMENT BY THE PRESIDENT

2022 was characterised by major changes in our world. Both the geopolitical and macroeconomic trends were volatile and changeable, resulting in significant increases to key interest rates to curb inflation and a gloomier macroeconomic outlook. Our mortgage customers have thus experienced considerable uncertainty concerning the economic outlook, and in many cases have seen costs rise, such as in the form of energy, interest rates, food and other goods.

The past year was characterised by major changes in our world. This particularly impacted Länsförsäkringar Hypotek's core area of mortgages. We saw a sharp rise in inflation, which led to extensive and rapid rate increases by the central banks, including Sweden's Riksbank. We also saw a substantial decline in house prices in most sub-markets and cities around the country.

Naturally, all of these factors are having a major impact on our retail mortgage customers in the form of higher costs, increased mortgage rates and lower values of their homes. However, we believe that customers have healthy margins for overcoming the difficult conditions and times that we are currently experiencing and that we will continue to experience over the next year.

High-quality lending

With our credit granting process, we maintain a high level of quality in our loan portfolio and above all ensure that customers are able to pay their loans and other costs even when conditions in the world change. We are convinced that with the meticulous reviews and assessments we perform of customer finances when they apply for a loan, we can help to create financial security and make it possible for customers to overcome tough times.

Our credit assessments test the customer's resilience to interest-rate increases, consider various costs and mortgage repayments, and asses the decline in house prices. Our financial tools in the form of the Internet bank and app provide further assistance in handling and assessing customers' personal finances. Our private financial advisors are also doing their utmost to make it easier to understand the impact of global circumstances on our customers and the economy.

Competitive situation in the mortgage market

High competition remains a feature of the mortgage market. Although volume growth was lower than last year, Länsförsäkringar still remained competitive and again this year captured a larger share of growth than our market share.

Digitising mortgage processes

After Länsförsäkringar Bank's core banking system was renewed and replaced a couple of years ago, focus was directed to developing customer-centric systems and simplifying everyday life for customers with our banking services.

Customer processes for lending products were the focal point of last year and will continue to be moving forward. Over the next year, primarily mortgage processes will be further developed and digitised, and this will make handling loans considerably easier for customers when they apply for new mortgages and make changes to their existing mortgages.

Strong earnings

Länsförsäkringar Hypotek's earnings were strong and stable in 2022, with healthy growth in mortgage lending. Credit quality remained very high and we maintained very low credit loss levels.

With Länsförsäkringar Hypotek's very high credit quality and strong financial position, we are convinced that we will continue to offer security in people's everyday lives by providing a competitive mortgage offering.

Stockholm, March 2023

Anders Larsson
President and CEO

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One of the leading companies in the mortgage market

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 and an additional 200,000 are agricultural 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 85% are offered by Länsförsäkringar Hypotek. 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.

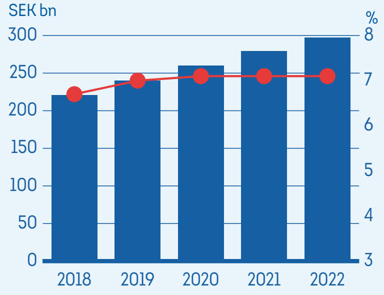
Customer ownership

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

Customer meetings and local market knowledge

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

Loans and market shares

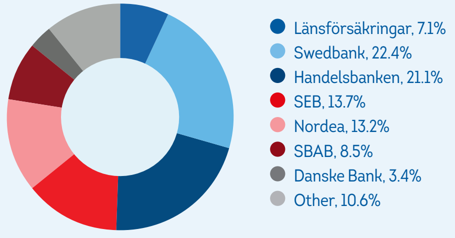


Loans have increased an average of 8% over the past five years. The market position is continuously strengthened.

Source: Länsförsäkringar and Statistics Sweden

Retail mortgages

Source: Statistics Sweden



The market position in mortgages amounted to 7.1%.

Market share, retail mortgages

7.1%

Percentage of market growth, mortgage lending

+8.7%

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

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Weaker economic climate, high inflation and rising interest rates.

ECONOMIC ENVIRONMENT AND MARKET

2022 was characterised by a weaker economic climate, high inflation and rapidly rising interest rates, with the central banks raising interest rates considerably to bring down inflation. Following a recovery in 2021, the Swedish economy is headed toward lower GDP in 2023 and house prices have also fallen from the peak noted at the start of 2022.

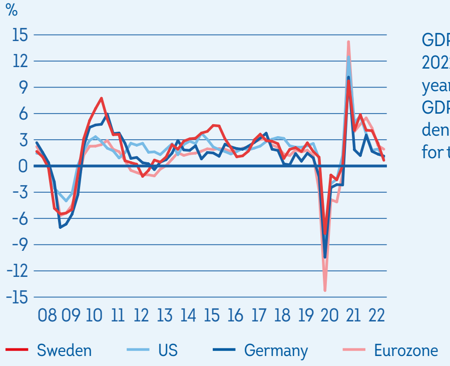
The outlook for the global economy was gloomier in the fourth quarter of 2022. Inflation remained high and the central banks of developed economies raised their key interest rates at a very fast pace. This pace of rate hikes has slowed slightly, although the ECB and the Fed have announced that interest rates may continue to be raised well into 2023. There is much uncertainty surrounding how inflation and key interest rates will trend in 2023, and the market is expecting weaker growth with a high risk of an even gloomier outcome.

The performance of the US economy continued to be surprisingly strong despite the Fed's rapid pace of key interest rate hikes. Confidence indicators suggest weaker growth, but the trend in the labour market remains strong with surprisingly strong employment figures and salaries increasing rapidly. Inflation was lower than expected in recent reported outcomes, but the strong trend in the labour market indicates that it will take time to lower inflation to the target of 2% and doing so will require high interest rates. It is expected that the key interest rate will continue to be raised, meaning that the risks of a recession in the US economy have increased considerably.

The eurozone experienced high energy prices, which resulted in inflation of more than 10% and households have lower confidence in the economy. Consumer confidence was at record-breaking low levels due to higher inflation, rising interest rates and an uncertain geopolitical situation. German industry has also suffered from high energy prices and uncertainty about the future. Indicators stabilised in the fourth quarter but continued to suggest a sharp downturn in the eurozone economy. The market expects a weak trend in GDP for the quarters ahead, but the ECB announced that high inflation is expected to result in more interest rate increases in 2023.

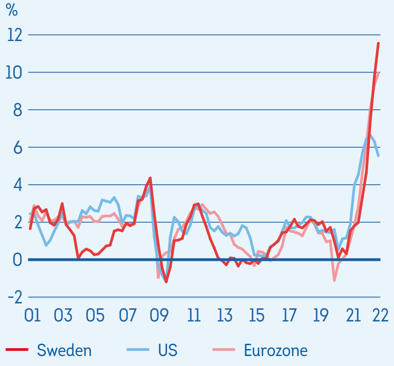
The Swedish economy performed better than expected in the fourth quarter yet is showing clear signs of a significant downturn in the next few quarters. The Economic Tendency Survey said that the Swedish economy was showing much weaker sentiment than normal and that consumer confidence was at a record-breaking low.

GDP growth



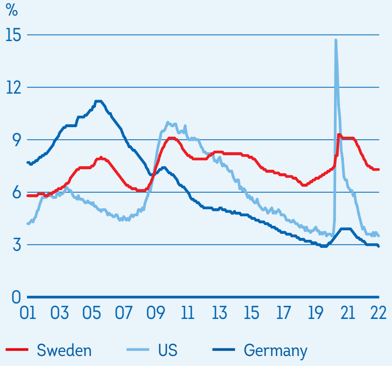
GDP growth declined in 2022 after recovery in the year before. A decrease in GDP is expected in Sweden and other countries for the year ahead.

Inflation



Inflation rose considerable, creating concern in the financial markets.

Unemployment



Unemployment in 2022 was stable but started to rise in Sweden in recent months.

Source: Macrobond

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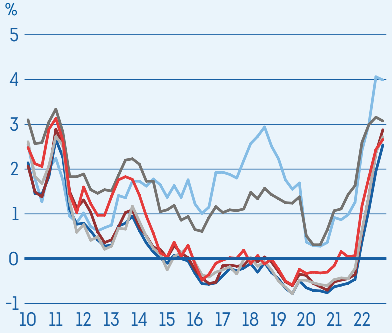
Inflation remained high and the Riksbank lifted its policy rate to 2.50% in December 2022.

The financial markets were volatile in the fourth quarter, but stock markets were up and government-backed paper fell on the back of lower inflation than expected in the US economy. The MSCI World Index rose 6.4% in the fourth quarter, the US S&P 500 Index was up 5.4% and the Stockholm Stock Exchange, including dividends, increased 13.9%. However, looking at the full-year 2022 as a whole, rising interest rates and weaker growth prospects led to a sharp decline in equities markets. The Stockholm Stock Exchange fell 10.2% and the S&P 500 was down 19.6% in 2022.

Higher key interest rates led to a rapid increase in market interest rates in developed economies during 2022. Interest on mortgage bonds in Sweden was also affected by a lower risk appetite and the spread between government bonds and mortgage bonds widened during the year.

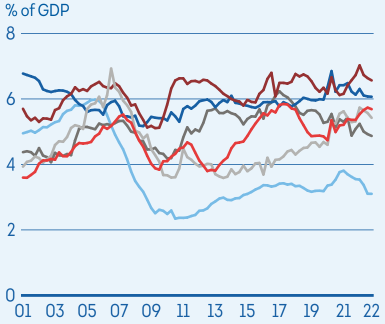
A higher key interest rate and higher interest on mortgage bonds resulted in higher funding costs for banks in Sweden. This is the reason for the significant increase in mortgage rates. Higher mortgage rates and lower consumer confidence led to a rapid slump in the housing market following a strong trend during the pandemic. According to Valueguard's housing index, HOX, house prices have fallen 16% compared with the peak listings in March 2022.

Government bond rates (five-year)



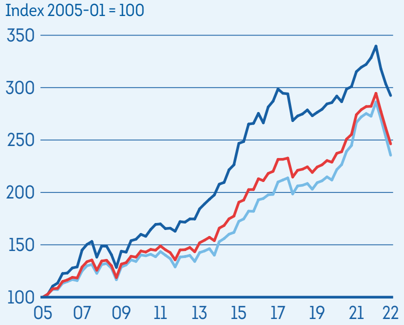
Due to rapid and substantial rises in key interest rates by central banks to curb inflation, market interest rates increased in 2022 even though signs of stabilisation could be seen in recent months.

Housing construction



Housing construction slowed during the year, partly as a result of the sharp fall in house prices. However, the shortage of housing in the large cities remains significant due to high population growth and many years of low new housing development.

Housing-price trend



House prices fell sharply in 2022, down 16% from the peak in March 2022. The turnover rate in the market is low and uncertainty is prevailing as to when the decline in house prices will plateau.

Source: Macrobond

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Loan portfolio with high credit quality

LOANS AND CREDIT QUALITY

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

The high credit quality of the loan portfolio is the result of the low risk profile, credit regulations combined with the credit evaluation process 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

House 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 297 billion. Mortgages for private individuals' housing comprises 95% of Länsförsäkringar Hypotek's loan portfolio, with collateral in single-family homes, and tenant-owned apartments. An additional approximately 4% comprises first-lien mortgages for multi-family housing and less than 1% 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.

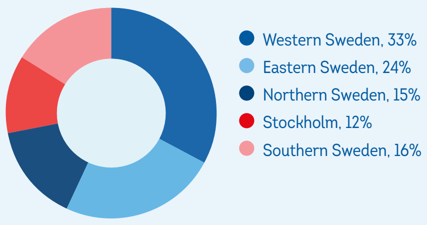
Cover pool

The cover pool, which forms the basis of issuance of covered bonds, contains SEK 282 billion in mortgages, corresponding to 95% 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 1.48 M. The weighted average loan-to-value ratio, LTV, was 54.5% and the nominal, current OC (overcollateralisation) amounted to 29%. Länsförsäkringar Hypotek's cover pool has a healthy buffer to manage any downturns in house 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 64% on 31 December 2022. No impaired loans are included in the cover pool.

Standard for greater transparency

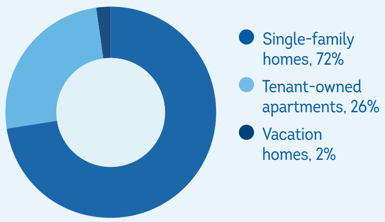
To increase transparency, Länsförsäkringar Hypotek publishes information in accordance with the European Covered Bond Council's (ECBC) Covered Bond Label Harmonised Transparency Tem-

Cover pool by geography



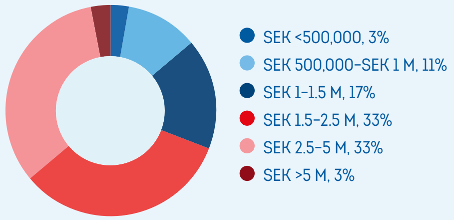
The cover pool is highly diversified throughout Sweden and is not exposed to concentration risk.

Cover pool by collateral



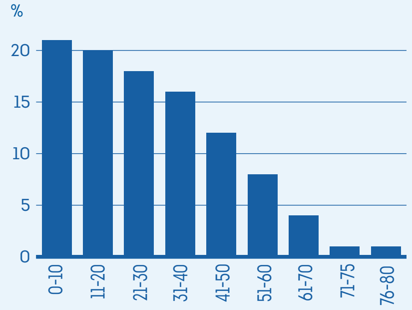
The collateral in the cover pool exclusively comprises private homes, and predominantly single-family homes.

Cover pool by commitment



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

Cover pool by LTV ratio*



* Continuous distribution with each loan distributed over several internals, in accordance with the Association of Swedish Covered Bond Issuers ASCB). The cover pool's weighted average LTV amounted to 54.5% on 31 December 2022.

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plate. This is a joint standard for greater transparency in the European covered bond market. Länsförsäkringar Hypotek's website is updated every quarter in accordance with harmonised reporting templates and with additional information about the cover pool.

Credit losses and credit-impaired loan receivables

Credit losses amounted to SEK 4 M (-4), net, corresponding to a credit loss level of 0.00% (0.00). Credit-impaired loan receivables (stage 3) before provisions amounted to SEK 163 M, corresponding to a share of credit-impaired loan receivables of 0.05%. The loss allowance for credit-impaired loan receivables was SEK 2.4 M. The reserve ratio for credit-impaired loan receivables amounted to 1.50%. In addition, SEK 9.8 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 12.2 M. The reserve ratio for credit-impaired loan receivables, including withheld remuneration to the regional insurance companies, amounted to 7.5% and the total recognised loss allowance was SEK 45.9 M, of which SEK 36.7 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 the section on Credit losses in the Board of Directors' Report on page 15 and 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	31 Dec 2022	31 Dec 2021
Total volume, SEK billion	292	277
Swedish mortgages, SEK billion	282	267
Liquid assets, SEK billion	10	10
Collateral	Private homes	Private homes
Weighted average LTV, %	54.5	54.4
OC[1], %	29	29
Seasoning, months	68	66
Number of loans	439,725	429,536
Number of borrowers	191,224	189,193
Number of properties	189,289	187,998
Average commitment, SEK 000s	1,475	1,411
Average loan, SEK 000s	641	621
Interest rate type, variable, %	57	49
Interest rate type, fixed, %	43	51
Impaired loans	None	None

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

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Stable financing with covered bonds

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 2022, Länsförsäkringar Hypotek had six 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

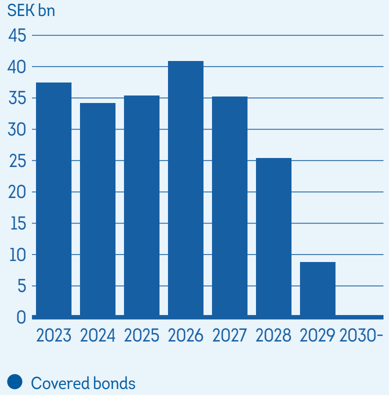
Funding through covered bonds functioned well during the year and demand from investors was high.

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 declined 1% to SEK 218 billion during the year. During the year, Länsförsäkringar Hypotek issued a new Swedish covered bond (LFH522), which matures in September 2029 and a five-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 12 billion was repurchased in 2022.

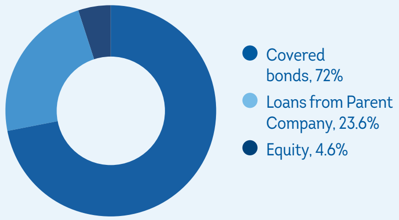
Liquidity

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 2022, the liquid assets amounted to SEK 9.9 billion, comprising 100% Swedish covered bonds with an AAA/Aaa credit

Funding programme by maturity

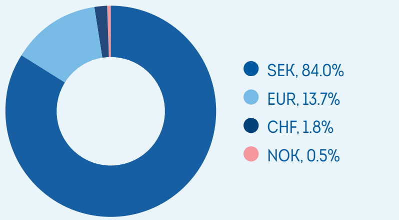


Financing sources



Lending is primarily financed by covered bonds, comprising 72% 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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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 2022, SEK bn	Coupon, %
516	20 September 2023	26.0	1.25
517	18 September 2024	25.3	1.50
518	17 September 2025	28.2	1.25
519	16 September 2026	32.3	1.50
520	15 September 2027	27.8	1.00
521	20 September 2028	20.4	0.50
522	19 September 2029	7.4	3.00
Total		**167.2**	

Euro benchmark covered bonds

Loans	Date of maturity	Coupon, %
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	31 May 2027	1.375
EUR 500m	27 September 2028	0.01

Funding programme

Programme	Limit, Nom, bn	Issued in 2022, Nom, SEK bn	Issued in 2021, Nom, SEK bn	Outstanding, 31 Dec 2022, Nom, SEK bn	Outstanding, 31 Dec 2021, Nom, SEK bn	Remaining average maturity, 31 Dec 2022	Remaining average maturity, 31 Dec 2021
Swedish covered SEK Benchmark	Unlimited	32.6	39.7	167.2	165.5	3.3	3.3
MTCN	SEK 30	1.8	1.0	15.7	13.9	2.6	4.4
EMTCN	EUR 6	5.2	5.1	34.8	34.8	2.8	3.0
Total		**39.6**	**45.8**	**217.7**	**214.2**	**3.2**	**3.3**

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Regulatory development Länsförsäkringar Hypotek

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

Capital adequacy rules

In 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 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.

The risk weight floor of 25% for Swedish mortgages was extended by the FSA at the end of 2021. The decision applies until 30 December 2023.

In June 2022, the FSA decided to raise the countercyclical capital buffer to 2%. The new buffer applies from June 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 FSA has initiated and partly completed its review process of Länsförsäkringar Bank's and Länsförsäkringar Hypotek's internal models. Approval for the use of new PD models in the Bank Group was received in January 2023. A decision on other new models is expected in 2023.

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 came into effect on 8 July 2022.

MREL

In December 2022, 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, which includes Länsförsäkringar Bank. MREL is based on the implementation of the new Resolution Act that came into effect in 2021 and includes both a risk-based and a non-risk-based MREL. The Debt Office also decided on individual minimum requirements for Länsförsäkringar Bank's subsidiary Länsförsäkringar Hypotek.

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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Board of Directors' Report

The Board of Directors and the President of Länsförsäkringar Hypotek AB (publ) hereby submit the Annual Report for 2022.

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 customer offering is the 189 branches of Länsförsäkringar Fastighetsförmedling throughout Sweden.

Impact of the war in Ukraine
The war in Ukraine is continuing to impact the outlook for the European economy and the financial markets, which has also contributed to higher inflation and raises both in key interest rates and in market interest rates. Rapidly rising market interest rates result in the need to pass on the effects of higher financing costs to customers, for example, by raising mortgage rates. Since customers' repayment capacity is assessed using assumptions regarding higher interest rates in the "left to live on" calculation, which is part of the credit evaluation process, mortgage customers are considered to have a solid margin for managing the situation of higher interest rates. Rising rates have contributed to falling house prices and a weaker housing market The impact of falling house prices is, to date, limited. Activity in the housing market has softened and if house prices continue to fall further, it would lead to even lower lending growth and a lower average loan-to-value ratio in the mortgage portfolio. The funding markets have continued to function, although uncertainty has widened credit spreads, meaning higher funding costs. The Bank Group has a strong liquidity position and thus the capacity to manage periods of disruption in the funding market. Wider credit spreads also have a negative impact on holdings in the liquidity reserve.

Geopolitical uncertainty combined with high inflation and rising interest rates result in weaker growth prospects. The regular update of the macroeconomic scenarios led to a slight impact on the loss allowance for expected credit losses. It cannot be ruled out that additional downward revisions of forward-looking macro forecasts in the future will have greater effects on the loss allowance for expected credit losses. Very minor effects were seen for actual or probable credit losses, but it cannot be ruled out that a greater impact on the loss allowance will arise in the future. Since the impact of the war in Ukraine on the income statement, balance sheet and credit quality has been relatively limited to date, the effect in terms of capital adequacy is also limited.

Länsförsäkringar Hypotek – part of the Länsförsäkringar Alliance

3.9 million customers

23 local regional insurance companies

Länsförsäkringar AB

Länsförsäkringar Bank AB

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

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2022 COMPARED WITH 2021

Growth and customer trend

Loans to the public rose 7%, or SEK 18 billion, to SEK 297 billion (279), with continued very high credit quality. The number of customers was 298,400 and 86% of retail mortgage customers have Länsförsäkringar as their primary bank.

Earnings and profitability

Operating profit fell 1% to SEK 1,423 M (1,433) mainly due to lower net interest income, net losses from financial items and the introduction of risk tax for banks. The investment margin amounted to 0.87% (0.96). Profit before credit losses and fees levied increased 7% to SEK 1,640 M (1,529). Return on equity amounted to 7.5% (8.1).

Income

Operating income increased 7% to SEK 1,783 M (1,660), due to lower remuneration to the regional insurance companies. Net interest income declined 4% to SEK 2,692 M (2,796) attributable to slightly lower margins. Net losses from financial items declined to SEK -26 M (gains: 40). Net commission income amounted to SEK -884 M (-1,176).

Expenses

Operating expenses amounted to SEK 142 M (131). The cost/income ratio before credit losses and fees levied amounted to 0.08 (0.08).

Credit losses

Credit losses amounted to SEK 4 M (-4), net, corresponding to a credit loss level of 0.00% (0.00).

During the fourth quarter of 2022, the macroeconomic scenarios for calculating expected credit losses were updated with more negative outlooks for the future, which led to slightly higher loss allowances. Furthermore, a decision was made to make a manual expert adjustment to mortgage lending, which increased the loss allowance by SEK 21 M, in light of the rapidly increasing uncertainty in the business world and its impact on households.

The impact of the macroeconomic trend on credit quality and the loss allowance has been limited to date. However, it cannot be ruled out that developments may lead to higher loss allowances in the future.

Credit-impaired loan receivables (stage 3) before provisions amounted to SEK 162.6 M, corresponding to a share of credit-impaired loan receivables of 0.05%. The loss allowance for credit-impaired loan receivables was SEK 2.4 M. The reserve ratio for credit-impaired loan receivables amounted to 1.50%. In addition, SEK 9.8 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 12.2 M. The reserve ratio for credit-impaired loan receivables, including withheld remuneration to the regional insurance companies, amounted to 7.5% and the total recognised loss allowance was SEK 45.9 M, of which SEK 36.7 M pertained to withheld remuneration to the regional insurance companies*.

Loss allowance, stage 3

SEK M	31 Dec 2022	31 Dec 2021
Loans to the public	296,894	278,523
Credit-impaired loan receivables (stage 3)	162.6	200.2
Total loss allowance for credit-impaired loan receivables (stage 3), incl. withheld remuneration to the regional insurance companies	12.2	6.9
of which loss allowance for credit-impaired loan receivables (stage 3)	2.4	1.4
of which withheld remuneration to regional insurance companies for credit-impaired loan receivables (stage 3)	9.8	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 18 billion, to SEK 297 billion (279). The credit quality of the loan portfolio, comprising 71.3% (71.5) loans with collateral in single-family homes, 24.6% (24.6) collateral in tenant-owned apartments and 3.4% (3.2) collateral in multi-family housing, remained favourable. On 31 December 2022, the market share of retail mortgages increased slightly to 7.1% (7.1) according to Statistics Sweden.

Cover pool

The cover pool, which forms the basis for issues of covered bonds, contains mortgages of SEK 282.1 billion, corresponding to 95% 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 1.48 M (1.41). The weighted average loan-to-value ratio, LTV, was 54.5% (54.4) and the nominal, current OC (over-collateralisation) amounted to 29% (29). Länsförsäkringar Hypotek's cover pool has a healthy buffer to manage any downturns in house 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 64% (63) on 30 December 2022. 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 remains favourable and the maturity profile is well diversified. Debt securities in issue fell 1% to a nominal SEK 217.7 billion (214.2). Issued covered bonds during the period totalled a nominal SEK 39.6 billion (45.8) and repurchases of a nominal SEK 12.5 billion (4.5) were executed. Matured covered bonds amounted to a nominal SEK 23.6 billion (16.3). During the year, Länsförsäkringar Hypotek issued a new Swedish covered bond (LFH522), which matures in September 2029 and a five-year Euro benchmark covered bond for a nominal EUR 500 M.

Liquidity

On 31 December 2022, liquid assets totalled SEK 9.9 billion (10.0). Liquidity remains healthy and contractual undertakings can be met for about two years without needing to secure new funding in the capital market. Liquid assets comprised 100% (100) Swedish covered bonds with the credit rating of AAA/Aaa.

Interest-rate risk

On 31 December 2022, 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 −112 M (−119).

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 82,124 (81,262). Continued growth in lending, primarily to households in the form of mortgages,

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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 18.9% (17.8) and the total capital ratio to 18.9% (17.8). For more information on capital adequacy, see note 3.

Employees

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. For more information about sustainability at the Länsförsäkringar Bank Group, see the sustainability description in Länsförsäkringar Bank's 2022 Annual Report. 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 is available in Länsförsäkringar AB's 2022 Annual Report, which includes a sustainability report and appendix, see link:

lansforsakringar.se/arsredovisning2022

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. However, it can be stated that the macroeconomic trend is unusually uncertain due to fiscal austerity, for example, which could have further negative effects for households. In addition, it cannot be ruled out that continuing steep declines in house prices could lead to negative effects for households and for the value of collateral in the mortgage lending. The geopolitical risks could also result in significant macroeconomic consequences and increased cyber and other security risks. For more information about macroeconomic developments and the impact of the war in Ukraine, refer to pages 6 and 13. 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 in line with the market strategy primarily via existing customers in the regional insurance companies by paying close attention to changes in the business environment, the financial situation and the prevailing circumstances in the capital market. A healthy liquidity situation and strong capitalisation will continue to be maintained going forward. The year ahead is expected to continue to feature inflation, higher interest rates and a weaker economy, which will affect customers and may slow growth, while slightly higher credit losses cannot be ruled out. Länsförsäkringar Hypotek's and the Bank Group's strong financial position creates excellent conditions for continuing to grow and support customers.

Other events

In December 2022, Anders Larsson took up his role as President of Länsförsäkringar Hypotek, succeeding Anders Borgcrantz who had previously announced that he intended to retire at the end of the year. Anders Larsson previously served as Head of Staff at Länsförsäkringar Hypotek.

Events after the end of the period

On 20 January 2023, the FSA approved the Länsförsäkringar Bank Group's application to use new probability of default (PD) models. The decision means that all of the PD models will be replaced by new models. The effect of the implementation of the new models for Länsförsäkringar Hypotek is a decrease in the risk exposure amount if the risk weight floor for mortgage lending is excluded, but after including this risk exposure amount the effect for Länsförsäkringar Hypotek on the total risk exposure amount will largely be unchanged.

Proposed appropriation of profit

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

	SEK
Fair value reserve	13,796,304
Retained earnings	10,062,015,995
Net profit for the year	992,009,583
Profit to be appropriated	11,067,821,882

The Board proposes that SEK 11,067,821,882 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 21–58. See page 16 for the five-year summary. All figures in the Annual Report are reported in SEK M unless otherwise specified.

Rating

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

[1] Pertains to the company's covered bonds.

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SEK M	2022	2021	2020	2019	2018
INCOME STATEMENT					
Net interest income	2,691.8	2,795.6[1]	2,611.9	2,521.5	2,433.6
Net commission income	-883.7	–1,175.8	–1,107.2	–1,176.6	–1,239.6
Net gains/losses from financial items	-25.5	40.1	–22.2	3.5	–1.9
Other operating income	-	–	–	–	–
Total operating income	**1,782.6**	**1,660.0**	**1,482.5**	**1,348.4**	**1,192.1**
Staff costs	-15.5	-13.8	-21.1	-15.5	-14.9
Other administration expenses	-126.8	-116.9	-112.3	-105.2	-94.0
Depreciation and impairment of property and equipment	-0.1	-0.2	-0.2	-0.2	-0.2
Total operating expenses	**-142.4**	**–130,8**	**–133,5**	**–120,9**	**–108,9**
Profit before credit losses and fees levied	**1,640.3**	**1,529.2**	**1,349.0**	**1,227.6**	**1,083.0**
Credit losses, net	-4.1	4.2	-0.8	0.9	1.3
Risk tax levied and resolution fee	-213.5	100[1]	-	-	-
Operating profit	**1,422.7**	**1,433.4**	**1,348.2**	**1,228.5**	**1,084.4**
Appropriations	-169.0	-275.7	-274.1	-258.0	-249.5
Tax on net profit for the year	-261.7	-241.1	-239.2	-214.5	-176.4
Net profit for the year	**992.0**	**916.6**	**835.0**	**756.0**	**658.5**
BALANCE SHEET					
Assets					
Loans to credit institutions	5,951.3	4,272.6	3,933.2	4,186.8	4,631.1
Loans to the public	296,894.5	278,522.8	259,499.5	240,061.6	221,107.9
Bonds and other interest-bearing securities	9,869.7	9,968.6	10,674.4	10,304.0	9,916.6
Derivatives	7,873.0	4,166.0	5,199.7	7,568.2	5,540.2
Other assets	-4,259.3	716.1	349.6	84.0	172.2
Total assets	**316,329.2**	**297,646.1**	**279,656.4**	**262,204.7**	**241,368.0**
Liabilities and equity					
Due to credit institutions	77,341.9	58,632.3	65,341.8	56,972.8	54,426.9
Debt securities in issue	220,754.4	220,591.8	195,861.4	188,500.7	171,195.1
Derivatives	11,915.5	1,350.3	651.3	374.4	430.7
Subordinated liabilities	-	-	500.0	500.0	661.0
Other liabilities	-9,779.5	2,239.0	3,734.4	3,368.2	3,157.1
Equity and untaxed reserves	16,096.9	14,832.6	13,567.4	12,488.6	11,497.4
Total liabilities, untaxed reserves and equity	**316,329.2**	**297,646.1**	**279,656.4**	**262,204.7**	**241,368.0**

SEK M	2022	2021	2020	2019	2018
KEY FIGURES					
Return on equity, %	7.5	8.1	8.2	8.1	7.7
Return on total assets, %	0.34	0.39	0.38	0.37	0.36
Investment margin, %	0.87	0.96[1]	0.95	0.96	1.04
Cost/income ratio before credit losses and fees levied	0.08	0.08	0.09	0.09	0.09
Common Equity Tier 1 capital ratio, %	18.9	17.8	18.4	18.2	18.3
Total capital ratio, %	18.9	17.8	19.1	19.0	19.4
Share of credit-impaired loan receivables (stage 3), %	0.05	0.07	0.07	0.07	0.07
Reserve ratio for loan receivables stage 1, %	0.00	0.00	0.00	0.00	0.00
Reserve ratio for loan receivables stage 2, %	0.11	0.04	0.08	0.07	0.08
Reserve ratio for loan receivables stage 3, %	1.50	0.69	0.72	1.12	1.06
Reserve ratio for loan receivables stage 3, incl. withheld remuneration to regional insurance companies, %	7.52	3.44	3.61	5.59	5.29
Credit loss level, %	0.00	0.00	0.00	-0.00	-0.00

[1] Comparative figures have been adjusted since the Resolution fee has been reclassified from Interest expense to Risk tax levied and resolution fee.

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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 identity, measure, monitor and manage risks and full regulatory compliance. Risk and capital control and capital planning are a part of the internal control.

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

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

Shareholders and General Meeting

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

Nomination Committee

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

The Board is to have a sufficient number of Board members 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, an assessment can be made as to whether the Board has a suitable composition, with respect to the operations, stage of development and other conditions of the company, that ensures that the overall competencies necessary

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for the company are in place, characterised by diversity in terms of, for example, age, gender and ethnic origin. See also the section on Suitability assessment of the Board of Directors and the President below.

External auditors

The Annual General Meeting appoints the external auditors. In accordance with the Articles of Association, Länsförsäkringar Hypotek is to have between one and three auditors and between zero and three deputy auditors. The registered audit firm Deloitte AB was elected the auditor of the company at the 2022 Annual General Meeting, with Patrick Honeth as auditor in charge. The auditor was appointed for the period up to the 2026 Annual General Meeting.

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 half-yearly report.

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 between January and April 2022, and was subsequently expanded to six members at the Annual General Meeting held on 2 May 2022. The Chairman of the Board is the President of Länsförsäkringar Bank AB. A presentation of the Board members can be found on page 63.

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.

According to the formal work plan, the Chairman is to lead the Board's work and ensure that the Board fulfils its duties. The Chairman is also to ensure that the Board meets as required, that Board members are provided with the opportunity to participate in meetings and receive satisfactory information and documentation for decision-making, and apply an appropriate working methodology. On the basis of ongoing contact with the President and in addition to Board meetings, the Chairman is also to keep himself informed of significant events and developments in Länsförsäkringar Hypotek, and support the President in his work.

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 served at the President of the company until he retired on 19 November 2022, when he was replaced by Anders Larsson. A more detailed presentation of Anders Larsson can be found on page 63. The President, Head of Staff and Head of Risk Control are the members of corporate management.

The company's organisation and outsourced operations

Länsförsäkringar Hypotek's own organisation conducts operations in front office, which is responsible for the company's funding, liquidity management and managing financial risks. Other parts of Länsförsäkringar Hypotek's operations are outsourced to companies in the Länsförsäkringar AB Group under a special outsourcing agreement, including IT, accounting, product development and credit management as well as the internal-control functions of Internal Audit and Compliance.

The company has employees who are responsible for monitoring and controlling outsourced operations and functions. The Board regularly receives information about significant events in outsourced operations and also receives an annual report on the scope of the company's outsourced operations and the combined risks inherent in these operations.

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

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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.

The assessment of the Board members is carried out by the President of the Parent Company Länsförsäkringar Bank AB in consultation with the CEO of Länsförsäkringar AB, 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 63.

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Internal control over financial reporting

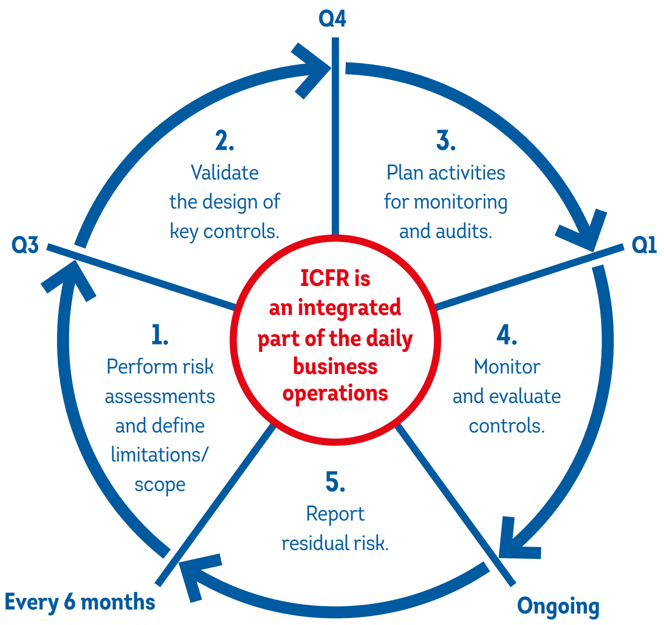
The Board's responsibility is to ensure that efficient systems are in place to monitor and control the company's operations and financial position. Internal control over financial reporting (ICFR) is a framework for providing reasonable assurance of the reliability of the financial reporting to management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

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 for decision-making by the Board.

2. Validate the design of key controls

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



3. Plan activities for monitoring and audits

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

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 President and the Board. The report describes the residual risk after the controls have been performed together with any compensating controls or other measures adopted to reduce risk in the financial reporting.

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

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SEK M	Not	2022	2021
Interest income	5	6,044.2	4,150.8
Interest expense	5	-3,352.4	-1,355.2
Net interest income		**2,691.8**	**2,795.6**
Commission income	6	35.9	37.3
Commission expense	6	-919.6	-1,213.0
Net commission		**-883.7**	**-1,175.8**
Net gains/losses from financial items	7	-25.5	40.1
Total operating income		**1,782.6**	**1,660.0**
Staff costs	8	-15.5	-13.8
Other administration expenses	9, 10	-126.8	-116.9
Total administration expenses		**-142.3**	**-130.6**
Depreciation and impairment of property and equipment		-0.1	-0.2
Total operating expenses		**-142.4**	**-130.8**
Profit before credit losses		**1,640.3**	**1,529.2**
Credit losses, net	11	-4.1	4.2
Risk tax levied and resolution fee[1)]		-213.5	-100.0
Operating profit		**1,422.7**	**1,433.4**
Appropriations	26	-169.0	-275.7
Tax	12	-261.7	-241.1
Net profit for the year		**992.0**	**916.6**

[1)] Comparative figures have been adjusted since the Resolution fee has been reclassified from Interest expense to Risk levied and resolution fee.

Statement of comprehensive income

SEK M	2022	2021
Net profit for the year	992.0	**916.6**
Other comprehensive income		
Items that have been transferred or can be transferred to profit or loss		
Cash-flow hedges		
of which change in value for the period	5,283.9	2,679.9
of which reclassification to profit or loss	-5,095.6	-2,597.8
Change in fair value of debt instruments measured at FVOCI		
of which change in value for the period	-58.1	9.6
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	-26.8	-18.9
Total other comprehensive income for the year, net after tax	103.3	**72.9**
Comprehensive income for the year	**1,095.3**	**989.4**

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SEK M	Not	2022-12-31	2021-12-31
ASSETS			
Loans to credit institutions	13	5,951.3	4,272.6
Loans to the public	14	296,894.5	278,522.8
Bonds and other interest-bearing securities	15	9,869.7	9,968.6
Derivatives	16	7,873.0	4,166.0
Fair value changes of interest-rate risk hedged items in portfolio hedge	17	-4,303.9	659.1
Property and equipment	18	0.3	0.5
Deferred tax assets		-	35.8
Other assets		10.9	0.3
Prepaid expenses and accrued income	19	33.5	20.4
TOTAL ASSETS		**316,329.2**	**297,646.1**
LIABILITIES, PROVISIONS AND EQUITY			
Due to credit institutions	20	77,341.9	58,632.3
Debt securities in issue	21	220,754.4	220,591.8
Derivatives	16	11,915.5	1,350.3
Fair value changes of interest-rate risk hedged items in portfolio hedge	17	-11,447.8	329.3
Deferred tax liabilities		3.0	-
Other liabilities	22	90.5	97.4
Accrued expenses and deferred income	23	1,573.0	1,810.7
Provisions	24	1.8	1.6
Total liabilities and provisions		300,232.3	282,813.5
Subordinated liabilities	25	**1,885.1**	**1,716.1**
Untaxed reserves	26		
Restricted equity			
Share capital		3,129.9	3,129.9
Statutory reserve		14.1	14.1
Total restricted equity		3,144.0	3,144.0
Non-restricted equity			
Fair value reserve		13.8	-89.5
Retained earnings		10,062.0	9,145.4
Net profit for the year		992.0	916.6
Total non-restricted equity		11,067.8	9,972.5
Total equity		**14,211.8**	**13,116.5**
TOTAL LIABILITIES, PROVISIONS AND EQUITY		**316,329.2**	**297,646.1**

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Cash-flow statement, indirect method

SEK M	Not	2022	2021
Cash and cash equivalents, 1 January		3,079.7	1,998.6
Operating activities			
Operating profit before tax		1,422.7	1,433.4
Adjustment of non-cash items	33	1,291.8	-521.3
Change in assets of operating activities			
Change in interest-bearing securities		-554.0	634.3
Change in loans to the public		-18,371.7	-19,019.7
Change in other assets		-3,701.4	745.2
Change in liabilities of operating activities			
Net changes in debt securities in issue		-551.7	25,286.2
Change in other liabilities		18,266.3	-6,977.0
Cash flow from operating activities		**-2,198.0**	**1,581.1**
Investing activities			
Acquisition of property and equipment		0.1	0.0
Cash flow from investing activities		**0.1**	**0.0**
Financing activities			
Amortisation of subordinated debt		-	-500.0
Unconditional shareholder contribution		**198.5**	**-**
Cash flow from financing activities		**198.5**	**-500.0**
NET CASH FLOW FOR THE YEAR		**-1,999.4**	**1,081.1**
Cash and cash equivalents, 31 December	33	**1,080.2**	**3,079.7**

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

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Statement of changes in shareholders' equity

	Restricted equity		Non-restricted equity				
			Fair value reserve				
SEK M	**Share capital**	**Statutory reserve**	**Fair value reserve**	**Hedge reserve**	**Retained earnings**	**Profit for the period**	**Total**
Opening balance, 1 January 2021	**3,129.9**	**14.1**	**40.8**	**-203.3**	**8,310.5**	**835.0**	**12,127.1**
Net profit for the year						916.6	916.6
Other comprehensive income for the year			7.7	65.2			72.9
Comprehensive income for the year			**7.7**	**65.2**		**916.6**	**989.4**
Resolution by Annual General Meeting					835.0	-835.0	-
Closing balance, 31 December 2021	**3,129.9**	**14.1**	**48.5**	**-138.1**	**9,145.4**	**916.6**	**13,116.5**
Opening balance, 1 January 2022	**3,129.9**	**14.1**	**48.5**	**-138.1**	**9,145.4**	**916.6**	**13,116.5**
Net profit for the year						992.0	992.0
Other comprehensive income for the year			-46.2	149.6			103.3
Comprehensive income for the year			**-46.2**	**149.6**		**992.0**	**1,095.4**
Resolution by Annual General Meeting					916.6	-916.6	-
Unconditional shareholder contribution					198.5		198.5
Group contribution paid					-250.0		-250.0
Tax on group contribution paid					51.5		51.5
Closing balance, 31 December 2022	**3,129.9**	**14.1**	**2.3**	**11.5**	**10,062.0**	**992.0**	**14,211.8**

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All figures in SEK M unless otherwise stated.

NOTE 1 COMPANY INFORMATION

The Annual Report for Länsförsäkringar Hypotek AB (publ) (Corp. Reg. No.556244- 1781) was presented on 31 December 2022. Länsförsäkringar Hypotek AB (publ) is a mortgage institut 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 statement 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 (FSA) regulations and general guidelines regarding annual accounts for credit institutions and securities companies (FFFS 2008:25) and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. The company applies legally restricted IFRS pertaining to standards adopted for application with the restrictions stipulated by RFR 2 and FFFS 2008:25. This means that all IFRS and interpretations adopted by the EU are applied, unless otherwise stated, as far as possible within the framework of the Swedish Annual Accounts Act and taking into consideration the connection between accounting and taxation.

CONDITIONS RELATING TO THE PREPARATION OF THE FINANCIAL STATEMENTS

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

JUDGEMENTS AND ESTIMATES

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

SIGNIFICANT JUDGEMENTS APPLIED TO THE COMPANY'S ACCOUNTING POLICIES

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

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

Significant sources of estimation uncertainty

Estimation uncertainty arises in the valuation of expected credit losses since such valuations are based on complex models and assessments. The estimate of expected credit losses is primarily based on models, but an individual assessment is performed for cases in which significant information is available that is not incorporated in these models. One of the main areas in which important assessments are to be made is the identification of a significant increase in credit risk. Such an assessment of is performed at the end of every reporting period and determines the number of loans transferred from stage 1 to stage 2. An increase in loans in stage 2 entails an increase in the estimated reserves for credit losses ("loss allowances"), while a reduction in loans in stage 2 would have the opposite effect.

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

SIGNIFICANT EVENTS DURING THE YEAR

The impact of the ongoing war in Ukraine on the financial statements, the capital requirement, own funds and major exposures is described in the Board of Directors' Report and in note 3 Risks and capital adequacy.

AMENDED ACCOUNTING POLICIES APPLIED FROM2022

Accounting policies due to new fees

The risk tax levied on the Bank Group on the basis of the Swedish Act on Risk Tax on Credit Institutions (2021:1256) is recognised in income successively over the fiscal year and is recognised in profit or loss on a new line: Risk tax levied and resolution fee. Resolution fees that were recognised in net interest income in prior periods have been reclassified to the new income statement line "Risk tax levied and resolution fee." Comparative figures for prior periods have been restated.

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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 income 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.

Also, no information is available on surpluses and deficits in the plan or whether these surpluses and deficits would then affect the contributions for the plan in future years.

Remuneration for termination of employment

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

Impairment

The carrying amounts of the company's assets are tested on every balance-sheet date to determine whether there are any indications of impair-

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ment. 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 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 27 Pledged assets, contingent liabilities and commitments.

Financial assets and liabilities are initially measured at fair value plus directly attributable transaction costs, except for assets and liabilities measured at fair value through profit or loss, which are initially measured at fair value.

Offsetting financial assets and liabilities

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

Classification and measurement

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

The company's financial assets comprise:

- Debt instruments
- Derivative instruments

Financial assets are classified and recognised in one of the following three measurement categories, in accordance with the provisions of IFRS 9:

1) amortised cost

2) fair value through other comprehensive income

3) fair value through profit or loss

Debt instruments

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

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

Amortised cost

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

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

Fair value through other comprehensive income

The company manages its holdings of treasury bills and other eligible bills and bonds and other interest-bearing securities in a business model whose objec-

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tive is to realise the assets by both receiving contractual cash flows and through sales. These assets are therefore measured at FVOCI. This recognition means that the assets are continuously measured at fair value through other comprehensive income with the accumulated unrealised changes in values recognised in the fair value reserve. Interest income is recognised in net interest income in profit or loss. If an asset in this category is sold, the previous unrealised gain/loss is reclassified from other comprehensive income to profit or loss and is recognised on the line item net gains/losses from financial items.

Fair value through profit or loss

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

Derivative instruments

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

Financial liabilities

The company's financial liabilities are presented in the note Classification of financial assets and liabilities. 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, which means that the ratio between the change in fair value for the hedged risk in the hedged item and the derivative must be in the interval of 80–125%. 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.

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 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.

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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

Provisions

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

A provision differs from other liabilities since there is uncertainty regarding the date of payment and the amount for settling the provision. A restructuring provision is recognised when an established, detailed and formal restructuring plan exists, and the restructuring process has either commenced or been publicly announced. No provisions are made for future operating expenses. Where the effect of when a payment is made is significant, provisions are calculated by discounting the 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.

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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.

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

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procedures and processes for financial reporting, the operation and management of information systems and the operations' risk-management system.

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

The President is responsible for ensuring that daily management takes place in accordance with the strategies, guidelines and governance documents established by the Board. The President also ensures that the methods, models, systems and processes that form the internal measurement and control of identified risks work in the manner intended and decided by the Board. The President is to continuously ensure relevant reporting from each unit, including Risk Management, to the Board.

Credit risk

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

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

Due to the gloomier outlook for companies and households associated with rising inflation, interest rates and costs for electricity and fuel, the Bank Group adjusted the cost of capital in the KALP calculation ("left to live on") for retail customers. Analyses of the potential impact of the gloomier outlook for the Bank Group's customers were regularly carried out in the second half of the year.

Credit process

The banking operations impose strict requirements in terms of customer selection, customers' repayment capacity and the quality of collateral. Länsförsäkringar Hypotek is responsible for ensuring that loan origination is carried out according to uniform procedures based on the Board's adopted guidelines, which forms a foundation for a shared view on lending in the Länsförsäkringar Alliance. Länsförsäkringar Hypotek continuously monitors and reviews the quality of the loan portfolio and borrowers' repayment capacity. Combined with system support for risk classification, this leads to balanced and consistent lending. The 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 by an advisor. Decision-making mandates for each 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
- 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. Approval to use the new PD models was received from the FSA in January 2023, but decisions on the LGD models have not yet been received.

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 commercial properties, industrial properties and multi-family housing. 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. Several updates were made to market values in 2022. Länsförsäkringar Hypotek makes use of both internal and external valuers and statistical valuations.

Credit quality

Lending increased to SEK 297 billion (279). Essentially all lending qualifies for inclusion in the covered-bond operations, which are regulated by the Swedish Covered Bonds (Issuance) Act (2003:1223). The term covered bonds refers to bonds with preferential rights in the sections of the issuing institution's assets that are approved by legislation (cover pool). The remaining lending pertains partly to multi-family housing that qualifies for inclusion in the cover pool but that Länsförsäkringar Hypotek has chosen to exclude. A specification of Länsförsäkringar Hypotek's maximum credit risk exposure is presented in the following tables.

Credit risk exposure, SEK M	**31 Dec 2022**	**31 Dec 2021**
Credit risk exposure for items recognised in the balance sheet		
Cash and balances with central banks		
Loans to credit institutions	5,951.3	4,272.6
of which collateral in repurchase agreements	*153.5*	*875.1*
Loans to the public	296,903.7	278,526.5
Bonds and other interest-bearing securities	9,869.7	9,968.6
Derivative instruments	7,873.0	4,166.0
Other assets	10.9	0.3
Credit risk exposure for memorandum items		
Guarantees		
Loan commitments and other credit commitments	10,826.5	12,718.9
Total	**331,435.1**	**309,652.9**

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

Covered bonds, SEK M	31 Dec 2022	31 Dec 2021
AAA/Aaa	10,390.0	9,790.0
Total	**10,390.0**	**9,790.0**

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 2022			
	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Loans to the public	Gross carrying amount	Gross carrying amount	Gross carrying amount	Gross carrying amount
Internal rating 1–3	210,085.0		6.7	210,091.7
Internal rating 4–6	81,784.0	41.1	13.7	81,797.7
Internal rating 7–9	2,406.1	1,766.2	2.8	2,450.0
Internal rating 10–11	10.0	648.8	0.3	1,776.4
Defaulted	-	-	139.1	787.9
Not risk classified	-	-	-	-
Total	**294,285.1**	**2,456.0**	**162.6**	**296,903.7**

Credit risk exposure by internal risk classification, SEK M	31 Dec 2022			
	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Loan commitments and other credit commitments	Credit risk exposure	Credit risk exposure	Credit risk exposure	Credit risk exposure
Internal rating 1–3	6,264.4	-	-	6,264.4
Internal rating 4–6	4,105.7	-	-	4,105.7
Internal rating 7–9	409.4	36.4	-	445.8
Internal rating 10–11	4.7	5.9	-	10.6
Defaulted	-	-	-	-
Not risk classified	-	-	-	-
Total	**10,784.2**	**42.3**	**-**	**10,826.5**

Credit risk exposure by internal risk classification, SEK M	31 Dec 2021			
	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Loans to the public	Gross carrying amount	Gross carrying amount	Gross carrying amount	Gross carrying amount
Internal rating 1–3	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	-	-	-	-
Total	**276,393.8**	**1,932.5**	**200.2**	**278,526.5**

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Credit risk exposure by internal risk classification, SEK M	31 Dec 2021			
	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Loan commitments and other credit commitments	Credit risk exposure	Credit risk exposure	Credit risk exposure	Credit risk exposure
Internal rating 1–3	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	-	-	-	-
Total	**12,659.1**	**59.8**	**-**	**12,718.9**

Credit risk exposure by region, SEK M	31 Dec 2022			
	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Loans to the public	Gross carrying amount	Gross carrying amount	Gross carrying amount	Gross carrying amount
Western Sweden	69,040.8	534.9	29.8	69,605.5
Eastern Central Sweden	64,158.1	493.1	47.4	64,698.6
Stockholm	34,172.8	509.7	19.9	34,702.4
Southern Sweden	46,032.6	355.4	23.9	46,411.9
Northern Central Sweden	26,345.1	180.3	11.5	26,536.9
Småland and islands	29,859.7	215.8	12.3	30,087.8
Northern Norrland	15,345.2	68.6	6.7	15,420.5
Central Norrland	9,330.8	98.2	11.1	9,440.1
Total	**294,285.1**	**2,456.0**	**162.6**	**296,903.7**

Credit risk exposure by region, SEK M	31 Dec 2022			
	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Loan commitments and other credit commitments	Credit risk exposure	Credit risk exposure	Credit risk exposure	Credit risk exposure
Western Sweden	2,697.4	10.4	-	2,707.8
Eastern Central Sweden	2,028.2	9.6	-	2,037.8
Stockholm	2,424.9	7.1	-	2,432.0
Southern Sweden	1,727.0	7.4	-	1,734.4
Northern Central Sweden	565.1	-	-	565.1
Småland and islands	853.4	3.6	-	857.0
Northern Norrland	271.7	2.1	-	273.8
Central Norrland	216.5	2.1	-	218.6
Total	**10,784.2**	**42.3**	**-**	**10,826.5**

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Credit risk exposure by region, SEK M — 31 Dec 2021

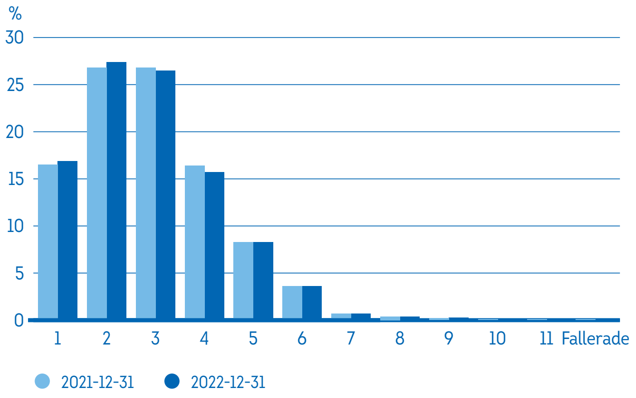
	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Loans to the public	**Gross carrying amount**	**Gross carrying amount**	**Gross carrying amount**	**Gross carrying amount**
Western Sweden	64,388.8	382.5	36.9	64,808.2
Eastern Central Sweden	60,175.9	392.0	52.7	60,620.6
Stockholm	33,394.7	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
Total	**276,393.8**	**1,932.5**	**200.2**	**278,526.5**

Credit risk exposure by region, SEK M — 31 Dec 2021

	Not credit-impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Loan commitments and other credit commitments	**Credit risk exposure**	**Credit risk exposure**	**Credit risk exposure**	**Credit risk exposure**
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
Total	**12,659.1**	**59.8**	**-**	**12,718.9**

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

	31 Dec 2022		31 Dec 2021	
Collateral	**SEK M**	**%**	**SEK M**	**%**
Single-family homes	211,452.1	71.2	198,880.9	71.4
Tenant-owned apartments	72,919.6	24.6	68,550.2	24.6
Multi-family housing	10,182.0	3.4	9,170.1	3.3
Industrial properties	1,924.2	0.6	1,572.9	0.6
Other	425.8	0.1	352.4	0.1
Loans to the public, gross	**296,903.7**	**100**	**278,526.5**	**100.0**
Reserves	**-9.2**		**-3.7**	
Total	**296,894.5**		**278,522.8**	

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 2022**	**31 Dec 2021**
Residential properties, including tenant-owned apartments	145.3	179.9
Commercial immovable property	17.3	20.3
Total credit-impaired loan receivables	**162.6**	**200.2**

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Cover pool

On 31 December 2022, the cover pool had a volume of SEK 293 billion (277). 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 55% (54) and the average commitment per property was SEK 1.5 M (1.4). The market value of all single-family homes and tenant-owned apartments in the loan portfolio is updated annually.

Cover pool	31 Dec 2022	31 Dec 2021
Cover pool, SEK billion	292.5	277.0
of which, Swedish mortgages, SEK billion	282.1	267.0
of which, substitute collateral, SEK billion	10.4	9.8
Collateral	Private homes	Private homes
Weighted average LTV, %	54.5	54.4
Seasoning, months	68.2	66
Number of loans	439,725	429,536
Number of properties	189,289	187,998
Average commitment, SEK 000s	1,475.1	1,410.7
Average loan, SEK 000s	641.5	621.3
Interest rate type, 3 month, %	57	49
Interest rate type, fixed, %	43	51
OC[1], %	29	29
Impaired loans	None	None

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

Cover pool by geography, %[1]

Region	31 Dec 2022	31 Dec 2021
Stockholm	12.0	12.8
Gothenburg	9.3	9.3
Malmö	4.0	4.0
Southern Sweden	11.8	11.7
Western Sweden	24.0	24.0
Eastern Sweden	23.7	23.1
Northern Sweden	15.2	15.1
Total	**100**	**100.0**

[1] Distribution in accordance with the Association of Swedish Covered Bond Issuers' reporting for National Templates.

Cover pool by LTV	31 Dec 2022		31 Dec 2021	
LTV interval, %	SEK M	%	SEK M	%
0–10	59,756.9	21.2	57,565.2	21.6
11–20	55,724.3	19.8	53,256.6	20.0
21–30	50,708.4	18.0	48,070.1	18.0
31–40	43,852.5	15.5	41,393.5	15.5
41–50	33,842.0	12.0	32,262.0	12.1
51–60	21,920.3	7.8	21,752.3	8.2
61–70	11,412.3	4.0	10,491.0	3.9
71–75	2,637.6	0.9	2,096.5	0.8
76–80	2,214.8	0.8	-	-
Total	**282,069.1**	**100**	**266,887.2**	**100.0**

Cover pool by collateral

	31 Dec 2022		31 Dec 2021	
Collateral	SEK M	%	SEK M	%
Single-family homes	203,472.2	72.1	192,382.1	72.1
Tenant-owned apartments	71,909.7	25.5	68,304.2	25.6
Vacation homes	6,687.2	2.4	6,200.9	2.3
Total	**282,069.1**	**100**	**266,887.2**	**100.0**

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 64% (63) compared with a current weighted average LTV of 55% (54) on 31 December 2022.

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 2022	31 Dec 2021
Receivables 10–30 days past due	-	-
Receivables 31–60 days past due	77.2	63.4
Receivables 61–90 days past due	28.2	21.2
Receivables >90 days past due	28.3	17.6
Total	**133.7**	**102.2**

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 2022, the total loss allowance requirement for loans to the public and commitments amounted to SEK 46 M (19), of which Länsförsäkringar Hypotek AB's recognised loss allowance accounted for SEK 9 M (4); the remaining SEK 37 M (15) was settled against the regional insurance companies' withheld funds, according to the model described above. The higher allowance requirement was due to a manual adjustment of SEK 21 M. For more information on loss allowances, refer to note 2 Accounting policies, note 14 Loans to the public and note 27 Pledged assets, contingent liabilities and commitments. Credit losses amounted to SEK 4.1 M (-4.2), 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 0.1%. The sensitivity analysis includes loss allowance for loans to the public, commitments and guarantees, although the liquidity portfolio and loans to credit institutions are not included since loss allowances for these portfolios are deemed to fall below the materiality threshold for this purpose.

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

	Base scenario				Negative scenario				Positive scenario			
SEK M	**2023**	**2024**	**2025**	**2026**	**2023**	**2024**	**2025**	**2026**	**2023**	**2024**	**2025**	**2026**
House prices, annual change in %	1.98%	4.03%	5.03%	5.03%	-4.12%	4.03%	5.03%	5.03%	8.42%	4.03%	5.03%	5.03%
GDP, annual change in %	-0.87%	1.26%	2.32%	2.24%	-1.51%	0.93%	2.32%	2.24%	-0.22%	1.59%	2.32%	2.24%
Unemployment, level in %	8.15%	8.38%	8.13%	7.29%	8.73%	9.04%	8.62%	7.52%	7.74%	7.92%	7.73%	7.01%

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 2022 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, %
9.4	Positive scenario	8.9	-5.7%
	Negative scenario	10.0	6.4%

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

	31 Dec 2022					31 Dec 2021
		Collateral				
SEK M	**Maximum credit risk exposure**	**Cash and cash equivalents**	**Securities**	**Other**	**Net exposure**	**Net exposure**
AAA-AA	1,314.1	1,354.5	-	-	18.0	19.3
A	6,558.9	3,362.4	-	-	8.4	2,493.3
Total	**7,873.0**	**4,716.9**	**-**	**-**	**26.4**	**2,512.6**

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. In 31 December 2022, 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 -111.9 M (-119.4).

Impact of interest-rate risk, SEK M	31 Dec 2022	31 Dec 2021
Interest-rate risk	-111.9	-119.4
Impacts profit	0.0	0.0
Impacts equity	0.7	1.8
Impacts own funds	0.0	0.0

Interest-rate risk by currency, SEK M	31 Dec 2022	31 Dec 2021
EUR	2.9	0.0
CHF	0.0	0.0
NOK	0.0	0.0
USD	0.0	0.0
SEK	-114.8	-119.3

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 2022	31 Dec 2021
Parallel shift, up 100 bp	283.4	297.8
Parallel shift, down 50 bp	-141.7	-148.9

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 USD 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 FSA on 27 December 2021 Stibor may continue to be used until the FSA announces otherwise. There is currently no indication about when the FSA will make a decision on the application.

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. The trial period has now been concluded and Swestr can be used as a reference rate in financial contracts.

Regarding developments internationally, the Group 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 both Euribor and Nibor will continue to exist. USD Libor will continue to be published until 30 June 2023.

	Nominal amount per IBOR					
31 Dec 2022, SEK M	**Stibor**	**Euribor**	**CHF Libor**	**GBP Libor**	**Nibor**	**Total nominal amount**
Cash flow hedge						
Currency risk						
Cross-currency interest rate swaps	-	33,360.6	-	-	1,057.7	34,418.3
Fair value hedge						
Interest-rate risk						
Interest-rate swaps	303,690.0	33,360.6	-	-	2,115.4	339,166.1

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

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Hedge accounting – Hypotek

	Derivatives		Assets		Liabilities		Hedge accounting			
	Nominal amount		Carrying amount		Carrying amount		Change in value for the year		Accumulated changes in value	
SEK M	**31 Dec 2022**	**31 Dec 2021**	**31 Dec 2022**	**31 Dec 2021**	**31 Dec 2022**	**31 Dec 2021**	**2022**	**2021**	**31 Dec 2022**	**31 Dec 2021**
Fair value hedges										
Interest-rate contracts										
Hedged items[2]										
Treasury bills and other eligible bills										
Bonds and other interest-bearing securities			9,869.7	9,968.6			-563.7	-96.3	-621.8	-0.1
Debt securities in issue										
Hedging instruments										
Interest-rate swaps	10,390.0	9,790.0	624.1	65.1		10.3	562.8	96.2		
Ineffectiveness[1]							-0.8	-0.1		
Currency contracts										
Hedged items[2]										
Treasury bills and other eligible bills										
Bonds and other interest-bearing securities										
Debt securities in issue					37,684.3	37,411.8	2,925.7	629.9	-2,501.2	-424.6
Hedging instruments										
Cross-currency interest rate swaps	40,049.3	36,883.2	46.4	670.1	2,430.7	85.7	-2,933.5	-621.8		
Ineffectiveness[1]							-7.8	8.1		
Portfolio of fair value hedges										
Interest-rate contracts										
Hedged items										
Loans to the public			131,086.1	150,040.7			-3,974.6	-601.3	-4,303.9	-329.3
Deposits and funding from the public										
Debt securities in issue					146,462.2	158,420.9	10,788.7	2,459.1	-11,447.8	659.1
Hedging instruments										
Interest-rate swaps	294,750.0	309,960.0	3,981.7	1,068.8	11,297.4	1,244.5	- 6,795.3	-1,852.0		
Ineffectiveness[1]							18.8	5.8		
Cash flow hedges[5]										
Currency contracts										
Hedged items[3]							177.7	135.2		
Hedging instruments										
Cross-currency interest rate swaps[4]	40,049.3	37,496.3	5,096.3	2,362.0	62.9	9.8	-177.7	-135.2		
Ineffectiveness[1]										
Total hedged item			**140,955.8**	**160,009.4**	**184,146.5**	**195,832.7**	**9,353.8**	**2,526.5**	**-18,874.7**	**-1,413.0**
Total hedging instruments	**385,238.6**	**394,129.5**	**9,748.5**	**4,166.0**	**13,791.0**	**1,350.3**	**-9,343.7**	**-2,512.7**		
Total ineffectiveness							**10.1**	**13.8**		

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

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

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

4) Of changes in value for the year, SEK -5,095.6 M pertains to amounts reclassified to profit or loss. Amounts reclassified to profit or loss for terminated hedging relationships amounted to SEK 0 M.

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

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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 2022 was 0.9% (0.2).

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.

Maturity profile for nominal amounts in hedging instruments

	31 Dec 2022 Remaining contractual term			31 Dec 2021 Remaining contractual term		
	<1 year	1–5 years	>5 years	<1 year	1–5 years	>5 years
Currency risk						
Nominal amount	7,249.4	27,239.8	5,560.1	5,761.2	26,587.1	5,148.0

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. Effectiveness is assessed by comparing the change in value of the swap with the change in value of the hedged item.

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

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

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

Cash flow hedging of currency risk

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

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

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

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

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

Sources of ineffectiveness

The ineffectiveness arising in a hedging relationship is recognised in profit or loss. Sources of ineffectiveness in the 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 commitments under both normal and stressed market conditions when access to funding is limited or non-existent. Liquidity risk is managed by the Treasury

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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 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 2022, SEK M	Up to 3 months	3–12 months	1–5 years	More than 5 years	Total
Loans	178,957.9	42,940.9	79,704.9	1,242.1	**302,845.8**
Bonds, etc.	-	1,900.0	8,490.0	0.0	**10,390.0**
Total	**178,957.9**	**44,840.9**	**88,194.9**	**1,242.1**	**313,235.8**
Due to credit institutions	77,341.9	-	-	-	**77,341.9**
Debt securities in issue, etc.	11,000.0	34,415.6	141,897.0	34,940.1	**222,252.7**
Total	**88,341.9**	**34,415.6**	**141,897.0**	**34,940.1**	**299,594.6**
Difference assets and liabilities	**90,616.0**	**10,425.2**	**-53,702.1**	**-33,698.0**	
Interest-rate derivatives, nominal values, net	-65,178.3	-13,849.4	49,940.0	33,490.1	
Net exposure	**25,437.7**	**-3,424.1**	**-3,762.1**	**-207.9**	

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**
Total	**155,411.1**	**43,441.0**	**92,066.7**	**1,666.6**	**292,585.4**
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**
Total	**68,945.5**	**34,360.0**	**135,344.2**	**36,938.0**	**275,587.7**
Difference assets and liabilities	**86,465.6**	**9,081.0**	**-43,277.4**	**-35,271.4**	
Interest-rate derivatives, nominal values, net	-56,200.4	-13,527.0	36,962.2	35,363.0	
Net exposure	**30,265.2**	**-4,446.0**	**-6,315.3**	**91.6**	

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

31 Dec 2022, SEK M	On demand	<3 months	>3 months <1 year	>1 year <5 years	>5 years	Without maturity	Total nominal cash flows	Carrying amount	Of which, expected recovery period of >12 months
Assets									
Treasury bills and other eligible bills	-	-	-	-	-		-	-	-
Loans to credit institutions	5,797.8	153.5	-	-	-		5,951.3	5,951.3	-
Loans to the public	-	1,413.5	4,228.3	21,197.7	270,055.1		296,894.5	296,894.5	291,252.7
Bonds and other interest-bearing securities	-	-	1,900.0	8,490.0	-		10,390.0	9,869.7	8,490.0
Other assets	-	32.4	-	-	-		32.4	32.4	-
Total assets	**5,797.8**	**1,599.3**	**6,128.3**	**29,687.7**	**270,055.1**	**-**	**313,268.1**	**312,747.8**	**299,742.7**
Liabilities									
Due to credit institutions	-	5,120.4	-	72,221.5	-		77,341.9	77,341.9	72,221.5
Debt securities in issue	-	-	39,114.4	148,891.8	34,940.1		222,946.3	220,754.4	183,831.9
Other liabilities	-	244.5	636.4	-	-		880.9	880.9	-
Subordinated liabilities	-	-	-	-	-		-	-	-
Total liabilities	**-**	**5,364.9**	**39,750.8**	**221,113.3**	**34,940.1**	**-**	**301,169.1**	**298,977.2**	**256,053.4**
Difference assets and liabilities	**5,797.8**	**-3,765.6**	**-33,622.5**	**-191,425.6**	**235,115.0**	**-**	**12,099.0**	**13,770.6**	**43,689.3**

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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
Assets									
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	-
Total assets	**3,397.5**	**2,214.0**	**5,030.3**	**27,928.2**	**254,034.5**	**-**	**292,604.5**	**292,783.1**	**281,962.7**
Liabilities									
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	-	-	-	-	-	-	-	-	-
Total liabilities	**-**	**2,589.1**	**37,581.5**	**199,326.1**	**36,938.0**	**-**	**276,434.7**	**280,071.1**	**236,264.1**
Difference assets and liabilities	**3,397.5**	**-375.2**	**-32,551.2**	**-171,397.8**	**217,096.4**	**-**	**16,169.8**	**12,712.0**	**45,698.6**

Liquidity exposure, derivatives

31 Dec 2022, SEK M	<3 months	>3 months <1 year	>1 year <5 years	>5 years	Total nominal cash flows
Derivatives at fair value in profit or loss					
– Currency	-	-	-	-	-
– Interest	-	-	-	-	-
Derivatives in hedge accounting					
– Currency	-142.6	1,662.2	3,548.4	481.7	5,549.6
– Interest	-332.7	333.0	1,938.0	706.9	2,645.2
Total difference derivatives	**-475.3**	**1,995.2**	**5,486.4**	**1,188.6**	**8,194.8**

31 Dec 2021, SEK M	<3 months	>3 months <1 year	>1 year <5 years	>5 years	Total nominal cash flows
Derivatives at fair value in profit or loss					
– Currency	-	-	-	-	-
– Interest	-	-	-	-	-
Derivatives in hedge accounting					
– Currency	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
Total difference derivatives	**104.1**	**1 172.1**	**3,859.5**	**355.0**	**5,490.7**

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. Operational risk encompasses the entire banking operations, including outsourced operations.

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

Risk categories

Länsförsäkringar Hypotek categorises operational risk into the following risk categories:

Product and process risks

- Personnel risks
- Legal risks
- Compliance risks
- IT risks
- Security risks
- Model risks

Risk management process

The process for managing operational risk comprise continuous identification, assessment (measurement), management, monitoring and reporting operational risks. The main stages are described below:

Risk evaluation and monitoring controls for assessing operational risk

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

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

- Probability – expected number of risk outcomes per year
- Consequence – expected cost each time risks actually materialise.

The assessment of 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, measuring, monitoring and managing operational risk in their area of responsibility. The process owner is responsible for documenting the process and its con-

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trols and for identifying, measuring, monitoring and managing operational risk for the process, including its products and services.

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

Risk indicators

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

Approval process

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

Incident reporting

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 Bank 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. Länsförsäkringar Hypotek works constructively to prevent and improve the management of this type of incident. 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. Exercises are conducted at least once annually to ensure that the plans are suitable.

Capital requirement for operational risk

Länsförsäkringar Hypotek applies the Standardised Approach to calculate the capital requirement for operational risks. The capital requirement for operational risk is stated in the table Capital-adequacy analysis – overview of total risk exposure amounts.

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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Capital-adequacy analysis – key figures	31 Dec 2022	31 Dec 2021
Available own funds (amounts)		
Common Equity Tier 1 capital	15,481.0	14,426.4
Tier 1 capital	15,481.0	14,426.4
Total capital	15,481.0	14,426.4
Risk-weighted exposure amounts		
Total risk exposure amount	82,123.7	81,262.3
Capital ratios (as a percentage of risk-weighted exposure amount)		
Common Equity Tier 1 capital ratio (%)	18.9%	17.8%
Tier 1 ratio (%)	18.9%	17.8%
Total capital ratio (%)	18.9%	17.8%
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)		
Additional own funds requirements to address risks other than the risk of excessive leverage	1.2%	0%
of which: to be made up of Common Equity Tier 1 capital (percentage points)	0.7%	0%
of which: to be made up of Tier 1 capital (percentage points)	0.9%	0%
Total SREP own funds requirements (%)	9.2%	8%
Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)		
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 (%)	1%	0%
Systemic risk buffer (%)	0%	0%
Global Systemically Important Institution buffer (%)	0%	0%
Other Systemically Important Institution buffer (%)	0%	0%
Combined buffer requirement (%)	3.5%	2.5%
Overall capital requirements (%)	12.7%	10.5%
Common Equity Tier 1 capital available after meeting the total SREP own funds requirements (%)	9.7%	13.3%
Leverage ratio		
Total exposure measure	325,393.4	305,919.6
Leverage ratio (%)	4.8%	4.7%
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)		
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%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)		
Leverage ratio buffer requirement (%)	0%	0%
Overall leverage ratio requirement (%)	3%	3%
Liquidity Coverage Ratio		
Total high-quality liquid assets (HQLA) (Weighted value - average)	0.0	0.0
Cash outflows - Total weighted value	7,083.6	4,691.6
Cash inflows - Total weighted value	4,134.3	6,932.2
Total net cash outflows (adjusted value)	2,949.3	1,502.6
Liquidity coverage ratio (%)	0%	0%
Net Stable Funding Ratio		
Total available stable funding	235,688.4	243,982.7
Total required stable funding	239,329.5	229,051.7
NSFR (%)	98.5%	107%

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

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

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

Common Equity Tier 1 capital

Equity in Länsförsäkringar Hypotek comprises share capital, capital contributed, reserves and net profit for the year. Equity included in the Common Equity Tier 1 capital increased net during the period, primarily due to generated profit. Changes in equity attributable to cash flow hedges may not be included in own funds, which is why this effect is excluded. Common Equity Tier 1 capital is also adjusted due to the regulatory requirements regarding prudent valuation of items measured at fair value and the IRB deficit. Common Equity Tier 1 capital after applicable deductions amounted to SEK 15,481 M (14,426).

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 2022.

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 2022, Länsförsäkringar Hypotek's Tier 2 capital amounted to SEK 0 M (0).

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Capital-adequacy analysis – overview of total risk exposure amounts	Total risk exposure amounts (TREA)		Total own funds requirements	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Credit risk (excluding CCR)	**78,713.7**	**75,815.7**	**6,297.1**	**6,065.3**
of which the Standardised Approach	996.1	2,446.0	79.7	195.7
of which the Foundation IRB (F-IRB) Approach	4,805.1	4,353.8	384.4	348.3
of which the Advanced IRB (A-IRB) Approach	16,603.0	15,395.6	1,328.2	1,231.6
of which risk weight floor according to Article 458 CRR	56,309.6	53,620.4	4,504.8	4,289.6
Counterparty credit risk (CCR)	**1,214.5**	**3,435.0**	**97.2**	**274.8**
of which the Standardised Approach	703.1	3,271.6	56.2	261.7
of which credit valuation adjustment	511.4	163.5	40.9	13.1
of which other CCR	-	-	-	-
Operational risk	2,195.5	2,011.5	**175.6**	**160.9**
of which the Standardised Approach	**2,195.5**	**2,011.5**	175.6	160.9
Total	**82,123.7**	**81,262.3**	**6,569.9**	**6,501.0**

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 2022, the total Risk Exposure Amount (REA) in Länsförsäkringar Hypotek was SEK 82,124 M (81,262). 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 FSA'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. The FSA raised the requirement of the countercyclical capital buffer from 0% to 1% of REA during the year, which corresponded to SEK 821 M (0) on 31 December 2022. The capital conservation buffer is to be 2.5% of REA, which corresponded to SEK 2,053 M (2,032) on 31 December 2022. 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.

Risk-based capital requirements

In the third quarter of 2022, the FSA completed its Supervisory Review and Evaluation Process regarding the P2R for Länsförsäkringar Hypotek on an individual level. The FSA decided on a P2R of 1.2% and a P2G of 0.0%. Together, this means a total own funds requirement and P2G of 12.7% on 31 December 2022 compared with the total capital ratio of 18.9%

	31 Dec 2022		31 Dec 2021	
Risk-based capital requirements	**SEK M**	**% of REA**	**SEK M**	**% of REA**
Pillar I	6,569.9	8.0%	6,501.0	8.0%
Pillar II Requirements (P2R)	960.8	1.2%	0.0	0.0%
Combined buffer requirement	2,874.3	3.5%	2,031.6	2.5%
Pillar II Guidance (P2G)	0.0	0.0%	0.0	0.0%
Total	**10,405.1**	**12.7%**	**8,532.6**	**10.5%**

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 June 2022, the FSA decided to raise the countercyclical capital buffer to 2%. The new buffer will apply from June 2023-

In November 2018, the FSA 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 (IRBs). The FSA is continuing its review process of Länsförsäkringar Hypotek's internal models. The Länsförsäkringar Bank Group's application to use new probability of default (PD) models was approved on 20 January 2023. The decision means that all of the bank's PD models will be replaced by new models. The effect of the implementation of the new models for Länsförsäkringar Hypotek is a decrease in the risk exposure amount if the risk weight floor for mortgage lending is excluded, but after including this risk exposure amount the effect for Länsförsäkringar Hypotek on the total risk exposure amount will largely be unchanged.

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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.

The new Resolution Act came into effect in July 2021 and is based on the requirements introduced through the EU's revisions to the Bank Recovery and Resolution Directive (BRRD II). The requirements are based on Länsförsäkringar Hypotek's capital requirement and comprise a risk-weight and a non-risk-weight requirement. In December 2022, 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 20.8% of REA, and the non-risk-weighted requirement is 6% of the exposure amount for the leverage ratio. These requirements will be phased in and must be fully met by 1 January 2024.

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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NOTE 4 SEGMENT REPORTING

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

NOTE 5 NET INTEREST INCOME

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

SEK M	2022	2021
Interest income		
Loans to credit institutions [1]	98.4	59.2
Loans to the public	5,459.6	4,304.3
Interest-bearing securities [1]	54.4	36.8
Derivatives	431.8	-249.4
Other interest income	0.0	-
Total interest income according to the effective interest methode	**6,044.2**	**4,150.8**
Interest expense		
Due to credit institutions [1]	-1175.2	-646.6
Interest-bearing securities	-1961.0	-1,561.8
Subordinated liabilities	-	-1.7
Derivatives	-215.6	855.7
Other interest expense	-0.5	-100.7
Total interest expense according to the effective interest methode	**-3,352.4**	**-1,455.2**
Total net interest income	**2,691.8**	**2,695.6**
Average interest rate on loans to the public during the period, %	1.9	1.6

[1] Of which negative interest of Loans to credit institutions SEK 0.0 M (0.0). Interest-bearing securities SEK -0.1 M (-0.3) and Due to credit institutions SEK 0.3 M (0.2).

NOTE 6 NET COMMISSION

SEK M	2022	2021
Commission income		
Loans	35,9	37.3
Total commission income [1]	**35,9**	**37.3**
Commission expense		
Remuneration to regional insurance companies	-919,1	-1,212.7
Other commission	-0,5	-0.3
Total commission expense	**-919,6**	**-1,213.0**
Total net commission	**-883,7**	**-1,175.8**

[1] Refers to revenue from contracts with customers.

NOTE 7 NET GAINS/LOSSES FROM FINANCIAL ITEMS

SEK M	2022	2021
Interest-bearing assets and liabilities and related derivatives	-32,5	-3.0
Other financial assets and liabilities	-	0.0
Interest compensation (refers to items measured at amortised cost)	7,0	43.1
Total net gains/losses from financial items	**-25,5**	**40.1**

SEK M	2022	2021
Profit/loss by measurement category		
Financial assets measured at FVPL	0,0	-
Financial assets measured at amortised cost	7,0	43.1
Financial liabilities measured at amortised cost	-42,7	-16.9
Financial assets measured at FVOCI	0,0	0.0
Hedge accounting at fair value	10,1	13.8
Exchange-rate effect	0,0	0.1
Total	**-25,5**	**40.1**

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NOTE 8 EMPLOYEES. STAFF COSTS AND REMUNERATION OF SENIOR EXECUTIVES

Average number of employees. Sweden	2022	2021
Men	5	6
Women	2	2
Total number of employees	**7**	**8**

Salaries and other remuneration. as well as social security expenses. other employees SEK M	2022	2021
Salaries and remuneration	-4.8	-3.5
of which. variable remuneration	-	-
Social security expenses	-2.3	-1.9
of which. pension costs	-0.7	-0.7
Total	**-7.1**	**-5.4**

Board of Directors and other senior executives. 8 (5) SEK M	2022	2021
Salaries and remuneration	-4.6	-4.8
of which. fixed salary to the President and Executive Vice President	-3.2	-3.2
of which. variable remuneration to the President and Executive Vice President	-1.2	-1.2
Social security expenses	-3.7	-3.7
of which. pension costs	-1.8	-1.8
Total	**-8.3**	**-8.6**

Total salaries. other remuneration and social security expenses SEK M	2022	2021
Salaries and remuneration	-9.3	-8.3
of which. variable remuneration	-	-
Social security expenses	-6.0	-5.7
of which. pension costs	-2.5	-2.5
Total	**-15.4**	**-14.0**

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
2022					
Anders Larsson, President	0.1	-	-	0.1	35
Anders Borgcrantz, former President	3.1	-	1.3	4.5	-
Göran Zakrisson, Board member	0.1	-	-	0.1	-
Anders Långström, Board member	0.0	-	-	0.0	-
Jonas Rosman, Board member	0.0	-	-	0.0	-
Magnus Olsson, Board member	0.0	-	-	0.0	-
Other senior executives (1 person)	1.2	-	0.5	1.7	40
Totalt	**4.6**	**-**	**1.8**	**6.4**	
2021					
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
Total	**5.4**	**0.1**	**1.9**	**7.4**	

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

Pensions

The retirement age for the President is 65, with the terms complying with the collective agreements between the Swedish Insurance Employers' Association (FAO), Forena and SACO. In addition to this, a pension premium corresponding to one full price base amount per year is paid. The retirement age for the previous 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 other members of the corporate management is 65. The terms comply with 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 twelve months' salary will be paid, in addition to the period of notice. 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.

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

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.

Number of women among senior executives, %	31-Dec-22	31-Dec-21
Board members	17	0
Other senior executives	0	0

Loans to senior executives

	Länsförsäkringar Hypotek		Länsförsäkringar AB koncernen	
SEK M	**2022**	**2021[1]**	**2022**	**2021[1]**
Board members	**1.3**	**15.0**	**83.9**	**98.7**
of which, loans from Länsförsäkringar Bank	-	4.2	8.9	15.7
of which, loans from Länsförsäkringar Hypotek	1.3	10.7	75.0	82.8
of which, loans from Wasa Kredit	-	-	-	0.3
President and Executive Vice Presidents	-	**-**	**23.9**	**15.5**
of which, loans from Länsförsäkringar Bank	-	-	0.5	1.5
of which, loans from Länsförsäkringar Hypotek	-	-	23.3	13.7
of which, loans from Wasa Kredit	-	-	0.5	0.3
Senior executives	-	**-**	**41.8**	**28.7**
of which, loans from Länsförsäkringar Bank	-	-	2.4	2.8
of which, loans from Länsförsäkringar Hypotek	-	-	39.1	25.9
of which, loans from Wasa Kredit	-	-	0.4	0.0

[1] Comparative figures have been adjusted.

Loans granted comprise personnel loans and unsecured loans. Personnel loans and unsecured loans carry loan terms comparable to what applies for other customers. Interest for personnel loans is set based on the interest rate that the 10% of the best customers have received for their fixed-interest periods for the past month. The interest for unsecured loans is the government funding rate on 30 November last year, plus 1%.

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	2022	2021
Management costs	-10.0	-10.5
Other administration expenses	-116.8	-106.4
Total administration expenses	**-126.8**	**-116.9**

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

NOTE 10 REMUNERATION OF AUDITORS

Mkr	2022	2021
Deloitte AB, audit assignment	-1.1	-
Deloitte AB, audit activities in addition to the audit assignment	-	-
Deloitte AB, tax advice	-	-
Deloitte AB, other assignment	-	-
KPMG AB, audit assignment	-	-1.0
KPMG AB, audit activities in addition to the audit assignment	-0.3	-0.7
KPMG AB, tax advice	-	-
KPMG AB, other assignments	-	-
Total fees and remunerations of auditors	**-1.4**	**-1.7**

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

NOTE 11 CREDIT LOSSES, NET

SEK M	2022	2021
Change in loss allowance for loan receivables		
Stage 1 (not credit-impaired)	-2.6	2.6
Stage 2 (not credit-impaired)	-1.8	1.0
Stage 3 (credit-impaired)	-1.0	0.0
Total change in loss allowance for loan receivables	**-5.5**	**3.6**
Expense for confirmed credit losses	-0.7	-1.8
Payment received for prior confirmed credit losses	2.5	2.4
Net expense for the period for credit losses for loan receivables	**-3.6**	**4.3**
Change in loss allowance for commitments	-0.2	0.1
Net expense for other credit losses	-	-
Net expense of the modification result for the period	-0.2	-0.2
Net expense for credit losses for the period	**-4.1**	**4.2**

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 2022, total credit losses amounted to SEK -26.3 M (18.3), of which Länsförsäkringar Hypotek's recognised credit losses amounted to SEK -4.1 M (4.2) and the remainder of SEK -22.2 M (14.2) was settled against remuneration to the regional insurance companies.

Loss allowance

SEK M	31-Dec-22	31-Dec-21
Financial assets measured at amortised cost		
Loans to credit institutions	-	-
Loans to the public	9.2	3.7
Other assets	-	-
Financial assets measured at FVOCI		
Bonds and other interest-bearing securities	0.1	0.1
Provisions		
Commitments	0.2	0.1
Total loss allowance	**9.5**	**3.9**

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

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NOTE 12 TAX

SEK M	2022	2021
Current tax		
Current tax expense	-261.7	-241.1
Adjustment of tax expense pertaining to prior years	-	-
Total current tax	**-261.7**	**-241.1**
Total recognised tax expense	**-261.7**	**-241.1**
Reconciliation of effective tax rate		
Profit before tax	1,253.7	1,157.6
Tax at applicable tax rate	-258.2	-238.5
Tax on non-deductible income	0.5	1.0
Tax on non-deductible costs	-2.1	-2.2
Tax attributable to changed tax rates	-1.9	-1.4
Tax attributable to prior years	0.0	0.0
Total tax on net profit for the year	-261.7	-241.1
Applicable tax rate	20.6%	20.6%
Effective tax rate	20.9%	20.8%
Tax items recognised in other comprehensive income		
Tax on financial assets measured at fair value through other comprehensive income	12.0	-2.0
Tax on cash flow hedges	-38.8	-17.0
Total tax attributable to other comprehensive income	**-26.8**	**-18.9**

NOTE 13 LOANS TO CREDIT INSTITUTIONS

SEK M	31-Dec-22	31-Dec-21
Loans to credit institutions	5,951.3	4,272.6
Total loans to credit institutions	**5,951.3**	**4,272.6**

Loans to credit institutions includes investments of SEK 5,791.9 M (3,372.6) in the Parent Company. For loss allowance, see note 11.

NOTE 14 LOANS TO THE PUBLIC

Loan receivables are geographically attributable in their entirety to Sweden.

SEK M	31-Dec-22	31-Dec-21
Loans to the public before reserves		
Corporate sector	9,853.2	8,570.1
Retail sector	287,050.5	269,956.4
Total	**296,903.7**	**278,526.5**
Reserves	-9.2	-3.7
Loans to the public	**296,894.5**	**278,522.8**
Fixed-interest period		
Remaining term of not more than 3 months	64,788.9	142,816.3
Remaining term of more than 3 months but not more than 1 year	133,884.4	44,732.2
Remaining term of more than 1 year but not more than 5 years	96,279.2	89,645.5
Remaining term of more than 5 years	1,942.0	1,328.8
Total loans to the public	**296,894.5**	**278,522.8**

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

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NOTE 14, CONT. LOANS TO THE PUBLIC

Reconciliation of gross carrying amount and loss allowance

	Note Credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
SEK M	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
Opening balance 1 Jan 2021	**257,183.1**	**-4.2**	**2,133.8**	**-1.8**	**189.9**	**-1.4**	**259,506.8**	**-7.3**
New loans	53,129.4	-0.9	44.6	0.0	1.6	0.0	53,175.5	-1.0
Changes:								
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
Transfer between stages:								
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
Closing balance 31 Dec 2021	**276,393.8**	**-1.5**	**1,932.5**	**-0.8**	**200.2**	**-1.4**	**278,526.5**	**-3.7**
Opening balance 1 Jan 2022	**276,393.8**	**-1.5**	**1,932.5**	**-0.8**	**200.2**	**-1.4**	**278,526.5**	**-3.7**
New loans	57,674.0	-0.9	17.5	0.0	7.9	-0.1	57,699.5	-1.0
Changes:								
Change in loss allowance model or method	-	-0.1	-	0.0	-	0.0	-	-0.1
Repayment	-38,880.9	0.2	-376.6	0.2	-61.3	0.3	-39,318.8	0.7
Change in risk parameters	-	-4.2	-	-0.5	-	-0.6	-	-5.3
Other	-	0.0	-	0.0	-	0.0	-	0.0
Transfer between stages:								
Transfer from stage 1 to stage 2	-1,913.5	1.7	1,913.5	-2.0	-	-	-	-0.3
Transfer from stage 2 to stage 1	1,011.2	-0.1	-1,011.2	0.1	-	-	-	0.1
Transfer to stage 3	-43.2	0.6	-33.7	0.5	76.9	-1.1	-	0.0
Transfer from stage 3	43.6	0.0	14.0	0.0	-57.6	0.3	-	0.3
Write-off	-	-	-	-	-3.5	0.1	-3.5	0.1
Closing balance 31 Dec 2022	**294,285.1**	**-4.2**	**2,456.0**	**-2.6**	**162.6**	**-2.4**	**296,903.7**	**-9.2**

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 2022, the total credit reserve requirement for loan receivables amounted to SEK 46.0 M (18.5) of which the company's recognised loss allowance for loan receivables accounted for SEK 9.2 M (3.7) and the remainder of SEK 36.8 M (14.8) was settled against the remuneration to the regional insurance companies. The recognised loss allowance increased SEK 5.5 M (3.6) during the year, primarily driven by 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 1.2 M (1.9) on 31 December 2022.

Modified loan receivables in loans to the public, SEK M	31 Dec 2022	31 Dec 2021
Loan receivables modified during the period that were in stages 2 and 3 when they were modified	-	-
Amortised cost before modification	31.5	32.5
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	32.8	62.3

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NOTE 15 BONDS AND OTHER INTEREST-BEARING SECURITIES

Issued by organisations other than public bodies

SEK M	31-Dec-22	31-Dec-21
Carrying amount		
Swedish mortgage institutions	9,869.7	9,968.6
Total bonds and other interest-bearing securities	**9,869.7**	**9,968.6**
Fair value	9,869.7	9,968.6
Amortised cost	10,468.0	9,942.9
Nominal value	10,390.0	9,790.0
Market status		
Securities listed	9,869.7	9,968.6

For loss allowance, see note 11.

NOTE 16 DERIVATIVES

SEK M	31-Dec-22 Nominal value	31-Dec-22 Fair value	31-Dec-21 Nominal value	31-Dec-21 Fair value
Derivatives with positive values				
Derivatives in hedge accounting				
Interest	131,110.0	4,605.7	190,085.0	1,133.9
Currency	23,369.0	3,267.3	32,348.3	3,032.1
Total derivatives with positive values	**154,479.0**	**7,873.0**	**222,433.3**	**4,166.0**
Derivatives with negative values				
Derivatives in hedge accounting				
Interest	174,030.0	11,297.4	129,665.0	1,254.8
Currency	17,738.0	618.1	6,174.7	95.5
Total derivatives with negative values	**191,768.0**	**11,915.5**	**135,839.7**	**1,350.3**

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-22	31-Dec-21
Assets		
Carrying amount at beginning of year	659.1	272.0
Changes during the year pertaining to lending	-4,303.9	-272.0
Changes during the year pertaining to funding	-659.1	659.1
Carrying amount at year-end	**-4,303.9**	**659.1**
Liabilities		
Carrying amount at beginning of year	329.3	1,800.1
Changes during the year pertaining to funding	-11,447.8	-1,800.1
Changes during the year pertaining to lending	-329.3	329.3
Carrying amount at year-end	**-11,447.8**	**329.3**

NOTE 18 PROPERTY AND EQUIPMENT

SEK M	31-Dec-22	31-Dec-21
Equipment		
Opening cost	0.9	0.9
Purchases	-	-
Sales / disposals	-0.4	0.0
Closing cost	**0.5**	**0.9**
Opening depreciation	-0.4	-0.2
Sales / disposals	0.3	-
Depreciation for the year	-0.1	-0.2
Closing accumulated depreciation	**-0.2**	**-0.4**
Total property and equipment	**0.3**	**0.5**

NOTE 19 PREPAID EXPENSES AND ACCRUED INCOME

SEK M	31-Dec-22	31-Dec-21
Accrued interest income	32.4	19.0
Other accrued income	1.0	-
Prepaid expenses	0.2	1.4
Total prepaid expenses and accrued income	**33.5**	**20.4**

NOTE 20 DUE TO CREDIT INSTITUTIONS

SEK M	31-Dec-22	31-Dec-21
Swedish credit institutions	77,341.9	58,632.3
Total liabilities due to credit institutions	**77,341.9**	**58,632.3**
Credit granted in Länsförsäkringar Bank amounts to	SEK 100.0 bn	SEK 90.0 bn

Liabilities to credit institutions include funding of SEK 72,471.5 M (56,781.9) from the Parent Company. Genuine repurchase transactions amounted to SEK 153.5 M (1,532.7), of which SEK 0.0 M (0.0) with Group companies.

NOTE 21 DEBT SECURITIES IN ISSUE

SEK M	31-Dec-22	31-Dec-21
Bond loans	220,754.4	220,591.8
Total debt securities in issue	**220,754.4**	**220,591.8**

All securities are covered bonds.

NOTE 22 OTHER LIABILITIES

SEK M	31-Dec-22	31-Dec-21
Accounts payable	1.2	0.5
Tax liabilities	75.8	68.8
Other liabilities	13.5	28.1
Total other liabilities	**90.5**	**97.4**

NOTE 23 ACCRUED EXPENSES AND DEFERRED INCOME

SEK M	31-Dec-22	31-Dec-21
Accrued interest expense	872.9	842.5
Accrued remuneration of regional insurance companies	645.1	907.6
Other accrued expenses	55.0	60.6
Total accrued expenses and deferred income	**1,573.0**	**1,810.7**

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NOTE 24 PROVISIONS

SEK M	31-Dec-22	31-Dec-21
Loss allowance for commitments	0.2	0.1
Other provisions	1.6	1.5
Total	**1.8**	**1.6**

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 2023 for the FTP plan amount to SEK 0.3 M.

SEK M	2022	2021
Expenses for defined-contribution plans	1.1	1.1

NOTE 25 UNTAXED RESERVES

SEK M	31-Dec-22	31-Dec-21
Tax allocation reserve	1,885.1	1,716.1
Total tax allocation reserve	**1,885.1**	**1,716.1**

NOTE 26 EQUITY

SEK M	31-Dec-22	31-Dec-21
Restricted equity		
Share capital	3,129.9	3,129.9
Statutory reserve	14.1	14.1
Total restricted equity	**3,144.0**	**3,144.0**
Non-restricted equity		
Fair value reserve	13.8	-89.5
Retained earnings	10,062.0	9,145.4
Net profit for the year	992.0	916.6
Total non-restricted equity	**11,067.8**	**9,972.5**
Total equity	**14,211.8**	**13,116.5**

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-22	31-Dec-21
Other reserves	13,796,304	-89,509,035
Retained earnings	10,062,015,995	9,145,445,239
Net profit for the year	992,009,583	916,570,756
Profit to be appropriated	11,067,821,882	9,972,506,960

The Board proposes that the following be carried forward SEK 11,067,821,882 (9,972,506,960).

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NOTE 27 PLEDGED ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

SEK M	31-Dec-2022	31-Dec-2021
For own liabilities, pledged assets		
Collateral paid due to repurchase agreement	153.5	1,532.7
Loan receivables, covered bonds	282,069.1	266,886.7
Loan receivables, substitute collateral	10,390.0	9,790.0
Total for own liabilities, pledged assets	**292,612.6**	**278,209.3**
Commitments		
Loans approved but not disbursed	10,826.5	12,718.9
Total	**10,826.5**	**12,718.9**

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

Reconciliation of gross carrying amount and loss allowance for commitments

	Note credit-impaired		Credit impaired				Total	
	Stage 1		Stage 2		Stage 3			
SEK M	Credit risk exposure	Loss allowance	Credit risk exposure	Loss allowance	Credit risk exposure	Loss allowance	Credit risk exposure	Loss allowance
Opening Balance 1 Jan 2021	**13 464,5**	**-0.2**	**95.8**	**0.0**	**0.0**	**0.0**	**13 560,3**	**-0.2**
New loan commitments and increase in existing loan commitments	**63 270,5**	**-0.3**	**-**	**-**	**-**	**-**	**63 270,5**	**-0.3**
Changes:								
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
Transfer of loan commitments and credit commitments:								
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	-	-	-	-	-	-	-	-
Expired loan commitments	**-47 809,8**	**0.3**	**-175.9**	**0.1**	**-0.8**	**0.0**	**-47 986,5**	**0.3**
Closing balance 31 Dec 2021	**12 659,1**	**-0.1**	**59.8**	**0.0**	**0.0**	**0.0**	**12 718,9**	**-0.1**
Opening Balance 1 Jan 2022	**12 659,1**	**-0.1**	**59.8**	**0.0**	**0.0**	**0.0**	**12,718.9**	**-0.1**
New loan commitments and increase in existing loan commitments	**52 223,6**	**-0.3**	**-**	**-**	**5.5**	**0.0**	**52,229.2**	**-0.3**
Changes:								
Change in loss allowance model or method	**-**	0.0	-	0.0	-	-	-	0.0
Net change in existing loan commitments and credit commitments (utilised and repaid)	-12 626,4	0.0	-18.5	-	-5.5	-	-12,650.5	0.0
Change in risk parameters	-	-0.1	-	-	-	-	-	-0.1
Transfer of loan commitments and credit commitments:							**-**	
Transfer from stage 1 to stage 2	-150,8	0.0	150.8	0.0	-	-	-	0.0
Transfer from stage 2 to stage 1	4,3	0.0	-4.3	0.0	-	-	-	-
Transfer to stage 3	-9,6	0.0	-	-	9.6	0.0	-	-
Transfer from stage 3	-	-	-	-	-	-	-	-
Expired loan commitments	**-41 315,9**	**0.2**	**-145.5**	**0.0**	**-9.6**	**0.0**	**-41,471.1**	**0.3**
Closing balance 31 Dec 2022	**10 784,2**	**-0.1**	**42.3**	**0.0**	**0.0**	**0.0**	**10,826.5**	**-0.2**

The loss allowance increased by SEK 0.1 M (-0.1) during the year. This was due to higher degree of utilisation of existing loan commitments and credit commitments. On 31 December 2022, the total loss allowance for commitments amounted to SEK 1.0 M (0.5), of which the company's recognised loss allowance amounted to SEK 0.2 M (0.1) and the remainder of SEK 0.8 M (0.4) 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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NOTE 28 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

	Financial assets measured at FVPL		Financial assets measured at FVOCI			
31-Dec-22, SEK M	Derivatives used in hedge accounting	Financial assets measured at amortised cost	Debt instruments measured at FVOCI	Equity instruments	Total carrying amount	Fair value
Assets						
Loans to credit institutions		5,951.3			5,951.3	5,951.3
Loans to the public		296,894.5			296,894.5	293,314.4
Bonds and other interest-bearing securities			9,869.7		9,869.7	9,869.7
Derivatives	7,873.0				7,873.0	7,873.0
Other assets		-			-	-
Prepaid expenses and accrued income		32.4			32.4	32.4
Total assets	**7,873.0**	**302,878.1**	**9,869.7**		**320,620.8**	**317,040.8**

	Financial liabilities measured at FVPL			
31-Dec-22, SEK M	Derivatives used in hedge accounting	Financial liabilities measured at amortised cost	Total carrying amount	Fair value
Liabilities				
Due to credit institutions		77,341.9	77,341.9	77,274.0
Debt securities in issue		220,754.4	220,754.4	209,250.0
Derivatives	11,915.5		11,915.5	11,915.5
Other liabilities		9.4	9.4	9.4
Accrued expenses and deferred income		872.9	872.9	872.9
Total liabilities	**11,915.5**	**298,978.6**	**310,894.1**	**299,321.7**

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NOTE 28, CONT. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

	Financial assets measured at FVPL		Financial assets measured at FVOCI			
31-Dec-21, SEK M	**Derivatives used in hedge accounting**	**Financial assets measured at amortised cost**	**Debt instruments measured at FVOCI**	**Equity instruments**	**Total carrying amount**	**Fair value**
Assets						
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			9,968.6		9,968.6	9,968.6
Derivatives	4.166,0				4 166,0	4 166,0
Other assets		-			-	-
Prepaid expenses and accrued income		19.0			19.0	19.0
Total assets	**4,166.0**	**282,814.4**	**9,968.6**		**296,949.0**	**297,154.7**

	Financial liabilities measured at FVPL			
31-Dec-21, SEK M	**Derivatives used in hedge accounting**	**Financial liabilities measured at amortised cost**	**Total carrying amount**	**Fair value**
Liabilities				
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
Accrued expenses and deferred income		842.5	842.5	842.5
Total liabilities	**1,350.3**	**280,071.8**	**281,422.1**	**283,333.5**

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

NOTE 29 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-22 SEK M	Level 1	Level 2	Level 3	Total
Assets				
Bonds and other interest-bearing securities	9,869.7			9,869.7
Derivatives		7,873.0		7,873.0
Liabilities				
Derivatives		11,915.5		11,915.5

31-Dec-21 SEK M	Level 1	Level 2	Level 3	Total
Assets				
Bonds and other interest-bearing securities	9,968.6			9,968.6
Derivatives		4,166.0		4,166.0
Liabilities				
Derivatives		1,350.3		1,350.3

Derivatives in level 2 essentially refer to swaps for which fair value is calculated by discounting expected future cash flows. In 2022 and 2021, 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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NOTE 29, CONT. FAIR VALUE VALUATION TECHNIQUES

31-Dec-22 SEK M	Level 1	Level 2	Level 3	Total
Assets				
Loans to the public			293,314.4	293,314.4
Liabilities				
Debt securities in issue		209,250.0		209,250.0

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

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 2022 or 2021.

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.

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 30 INFORMATION ABOUT OFFSETTING

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

	Financial assets and liabilities that are offset or subject to netting agreements					
				Related amounts not offset in the balance sheet		
SEK M 31-Dec-22	**Gross amount**	**Offset in balance sheet**	**Net amount in balance sheet**	**Netting framework agreement**	**Collateral Received (-) / Pledged (+)**	**Net amount**
Assets						
Derivatives	7,873.0	-	7,873.0	-3,255.4	-4,617.6	0.0
Reversed repurchase agreements	153.5	-	153.5	-	-153.5	0.0
Liabilities						
Derivatives	-11,915.5	-	-11,915.5	3,255.4	-	-8,660.1
Repurchase agreements	-153.5	-	-153.5	-	153.5	0.0
Total	**-4,042.5**	**-**	**-4,042.5**	**-**	**-4,617.6**	**-8,660.1**

	Financial assets and liabilities that are offset or subject to netting agreements					
				Related amounts not offset in the balance sheet		
SEK M 31-Dec-21	**Gross amount**	**Offset in balance sheet**	**Net amount in balance sheet**	**Netting framework agreement**	**Collateral Received (-) / Pledged (+)**	**Net amount**
Assets						
Derivatives	4,166.0	-	4,166.0	-443.7	-317.8	2,613.4
Reversed repurchase agreements	875.1	-	875.1	-	-875.1	0.0
Liabilities						
Derivatives	-1,350.3	-	-1,350.3	443.7	-	-115.6
Repurchase agreements	-1,532.7	-	-1,532.7	-	1,532.7	0.0
Total	**2,158.1**	**-**	**2,158.1**	**-**	**339.8**	**2,497.9**

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NOTE 31 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 14 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 Länsfösäkringar Hypotek AB purchases and sells within the Länsförsäkringar Alliance is determined by Länsförsäkringar AB's corporate management once a year in conjunction with the adoption of the business plan.

Transactions

	Receivables		Liabilities		Income		Expenses	
SEK M	**31-Dec-22**	**31-Dec-21**	**31-Dec-22**	**31-Dec-21**	**2022**	**2021**	**2022**	**2021**
Länsförsäkringar Bank AB (Parent Company)	9,047.3	6,938.9	89,983.4	57,890.5	644.2	48.4	1,524.3	47.2
Other companies in the Bank Group	-	0.2	0.0	-	-	-	-	0.0
Other companies in the Länsförsäkringar AB Group	-	-	0.3	0.1	-	-	1.6	1.7
Länsförsäkringar Liv- Group	-	-	0.1	0.1	-	-	1.1	-
Regional insurance companies	-	-	645.1	907.6	-	-	919.1	1,212.7

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 32 SUPPLEMENTARY INFORMATION TO STATEMENT OF CASH FLOWS

SEK M	2022	2021
Interest and dividends		
Interest received	6,379.4	4,238.2
Interest paid	-3,339.5	-1,486.3
Adjustments for non-cash items		
Unrealised portion of net gains/losses from financial items	1,291.5	-517.8
Credit losses, excluding recoveries	0.0	-3.6
Other	0.3	0.2
Total non-cash items	**1,291.8**	**-521.3**
Cash and cash equivalents		
Loans to credit institutions	1,080.2	3,079.7
Total ash and cash equivalents	**1,080.2**	**3,079.7**

NOTE 33 EVENTS AFTER BALANCE-SHEET DATE

On 20 January 2023, the FSA approved the Länsförsäkringar Bank Group's application to use new probability of default (PD) models. The decision means that all of the PD models will be replaced by new models. The effect of the implementation of the new models for Länsförsäkringar Hypotek is a decrease in the risk exposure amount if the risk weight floor for mortgage lending is excluded, but after including this risk exposure amount the effect for Länsförsäkringar Hypotek on the total risk exposure amount will largely be unchanged.

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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.

The annual Report and consolidated financial statements were approved for publication by the Board of Directors on 8 March 2023. The company's statement of income, comprehensive income and financial position are subject to approval by the Annual General Meeting to be held on 24 April 2023.

Stockholm, the date stated on the electronic signature.

Sven Eggefalk
Chairman

Susanne Calner
Board member

Bengt Clemedtson
Board member

Jonas Ekegren
Board member

Martin Rydin
Board member

Tobias Ternstedt
Board member

Anders Larsson
President

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

Deloitte AB

Patrick Honeth
Authorised Public Accountant

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To the general meeting of the shareholders of Länsförsäkringar Hypotek AB (publ) corporate identity number 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 financial year 2022-01-01 - 2022-12-31 except for the corporate governance statement on page 17-20. The annual accounts of the company are included on pages 13-59 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the company as of 31 December 2022 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not cover the corporate governance statement on pages 17-20. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet.

Our opinions in this report on the annual accounts are consistent with the content of the additional report that has been submitted to the company's 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.

Other matter

The audit of the annual accounts for 2021 was performed by another auditor who submitted an auditor´s report dated March 11, 2022, with unmodified opinions in the Report on the annual accounts.

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.

Provisions for expected credit losses

Description of risk	Our audit procedures
Accounting and valuation of financial instruments according to IFRS 9 is an area that largely affects Länsförsäkringar Hypoteks financial reporting. IFRS 9 requires significant assessments to determine the size of the provisions for expected credit losses. Key areas of judgment include: ▪ The interpretation of the requirements for determining the size of the provision for expected losses, which are reflected in the bank's model for calculating expected credit losses. ▪ Identification of exposures with a significant deterioration in credit quality. ▪ Assumptions that are applied in the model for calculating expected credit losses, such as the counterparty's financial position, expected future cash flows and forward-looking macroeconomic factors. As of December 31, 2022, lending to the public amounted to SEK 296 904 million, with provisions for expected loan losses of SEK 9 million, after taking into account the off-set against accrued renumeration to the regional insurance companies according to the distribution model. Given the significant share of the total assets, the impact that the inherent uncertainty and subjectivity involved in the assessment of the need for provisions, and since the disclosure requirements are significant, we consider this to be a key audit matter for our audit. The description of accounting principles for provisions for expected credit losses are included in note 2. Other related information on credit risk are included in note 3 and detailed information in note 11 and 14 in the annual report	Our audit procedures included, but were not limited to: ▪ We have evaluated that relevant controls within the lending process have been appropriately designed, including controls for credit decision, credit review and identification and determination of the loans to be provisioned for. ▪ We have evaluated the modelling techniques and model methods against the requirements of IFRS 9. We have examined the appropriateness of the models developed for the calculation of the reserve for expected credit losses. We have involved our specialists in credit risk modeling in assessing whether credit risk modeling decisions are consistent with the requirements of IFRS 9. We have evaluated material assumptions and calculation methods and ensured the completeness of input data to the models. ▪ We examined a selection of credit commitments in detail and designed measures to evaluate whether credit commitments with a significant deterioration in credit quality are identified in time, and for significant commitments within stage 3 evaluated management assessment of the recoverable amount. ▪ We assessed the completeness and reliability of the disclosures relating to provisions for expected credit losses to assess compliance with disclosure requirements included in IFRS.

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Valuation of financial instruments at fair value in accordance with level 2 and 3

Description of risk	Our audit procedures
The Entity's financial instruments recorded at fair value consist of bonds and other interest-bearing securities and derivatives and amount to SEK 17 743 million in assets and to SEK 11 916 in liabilities as of 31 December 2022. The main risk associated with valuation of financial instruments at fair value relates to financial instruments categorized as level 2 and 3 in accordance with the guiding principles in IFRS 13, that is, financial instruments where quoted prices on an active market are missing. In note 29 it is disclosed that the recorded value of financial instruments categorized as level 2 amount to SEK 7 873 million in assets and to SEK 11 916 million in liabilities. The Entity does not have any financial instruments categorized as level 3. Determination of fair value in accordance with level 2 is made via valuation techniques that builds on assumptions, estimates and judgements and on significant elements of input data that are not observable in the market. Incorrect assumptions, estimates and judgements in connection with these valuations and/or incorrect input data can affect the valuation to a significant extent. Therefore, this is deemed to be a key audit area in our audit. Please refer to the section on accounting principles in note 2, the section on risks and risk management with regards to assumptions, estimates and judgements in note 3 as wells as associated disclosures with regards to financial instruments recorded at fair value in note 28 and 29 for further details.	Our procedures have included, but not been limited to: ▪ We have tested selected control activities associated with valuation of financial instruments at fair value. ▪ We have tested general IT-controls associated with systems and applications deemed as critical for the data that form the basis for the valuation of financial instruments at fair value. ▪ We have, on a sample basis, reviewed input data used in connection with the valuation of financial instruments at fair value, including prices, exchange rates and data used for discounting purposes vis-á-vi data from external suppliers of financial market data and reconciled holdings against statements from the custodians. In addition, we have assessed that the choice of valuation method has been made in accordance with established standards and industry practice. ▪ We have also evaluated whether disclosures associated with financial instruments recorded at fair value are fair and complete based on the Entity's accounting principles

Other information than the annual accounts

This document also contains other information than the annual accounts and is found on pages 1–12 and 63–66. 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 intends 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.

A further description of our responsibilities for the audit of the annual accounts is located at the Swedish Inspectorate of Auditors website: https://www.revisorsinspektionen.se/revisornsansvar. This description forms part of the auditor´s report.

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 financial year 2022-01-01 - 2022-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to 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 the company 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.

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Auditor's responsibility

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

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

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

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

A further description of our responsibilities for the audit of the management's administration is located at the Swedish Inspectorate of Auditors website: https://www.revisorsinspektionen.se/revisornsansvar. This description forms part of the auditor´s report.

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 the financial year 2022-01-01 - 2022-12-31.

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

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

Basis for opinion

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 firm applies International Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable 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. 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 audit 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 assumptions made by the Board of Directors and the Managing Director.

The procedures mainly include a validation that the Esef report has been prepared in a valid XHMTL format and a reconciliation of the Esef report with the audited annual accounts.

The Auditor's Examination of the Corporate Governance Statement

The Board of Directors is responsible for that the corporate governance statement on pages 17–20 has been prepared in accordance with the Annual Accounts Act.

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

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

Deloitte AB, was appointed auditor of Länsförsäkringar Hypotek AB (publ) by the general meeting of the shareholders on the 2022-05-02 and has been the company's auditor since 2022-05-02.

Stockholm
Deloitte AB

Patrick Honeth
Authorised public accountant

Board of Directors

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.

MARTIN RYDIN

Born 1968. CFO. Employed since 2012.

Education: Legal studies, Stockholm University.

Previous experience: Head of Treasury Länsförsäkringar Bank AB, Head of Long Term Funding Swedbank.

SUSANNE CALNER

Born 1969. Head of President's staff. Employed since 2012.

Education: M.Sc. in Business and Economics, Stockholm University.

Previous experience: Office Manager at SEB, auditor and management consultant at Andersen.

BENGT CLEMEDTSON

Born 1964. Head of Customer and Market. Employed since 2006.

Education: M.Sc. in Business and Economics, Stockholm University.

Previous experience: Asset Management at Skandia, President of Skandiabanken Bolån AB.

JONAS EKEGREN

Born 1971. Employed 2016. CFO and Head of Finance.

Education: M.Sc. in Business and Economics, Örebro University.

Previous experience: Head of Business and Capital Planning at Länsförsäkringar AB, Head of Group Business Control and Reporting Nordea, Group Controller Nordea, Head of Business Control Handelsbanken Liv.

TOBIAS TERNSTEDT

Born 1972. Head of Product, Process, Operations & IT. Employed 2010.

Education: M.Sc. in Computer and Information Science, Faculty of Engineering LTH at Lund University.

Previous experience: 20 years' experience from IT, mainly in banking and finance.

Auditor:
Deloitte AB, with Patrick Honeth as auditor in charge.

Corporate management

ANDERS LARSSON

Born 1965. President of Länsförsäkringar Hypotek AB. Employed since 1997.

Education: M.Sc. in Business and Economics.

Previous experience: Head of Staff at Länsförsäkringar Hypotek AB. Head of Treasury, Head of Finance and Finance Manager Länsförsäkringar Bank.

MARIA EDSPARR

Born 1971. Head of Staff at Länsförsäkringar Hypotek AB. Employed since 2022.

Education: Business and Economics, Stockholm University.

Previous experience: Head of Finance at Länsförsäkringar Bank AB, Financial Director and compliance officer at Länsförsäkringar AB.

ANNELI VON LODE

Born 1962. Head of Risk Control at Länsförsäkringar Hypotek AB. Employed since: 2020.

Education: M.Sc. in Business and Economics, Uppsala University.

Previous experience: 20 years of experience in senior positions in finance, risk and auditing at Skandia and Danske Bank.

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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.

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