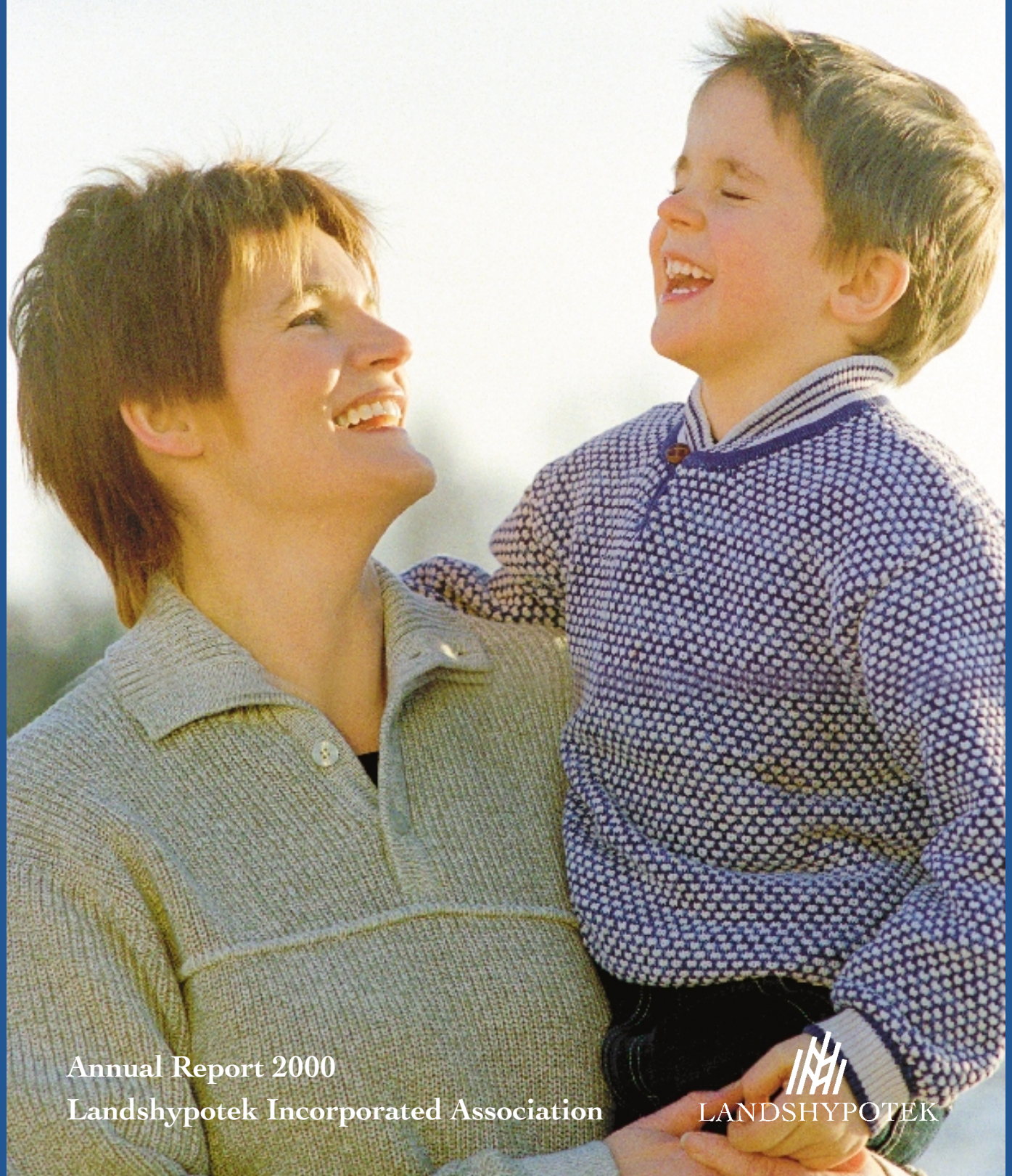


# Why borrow from someone else?



Annual Report 2000  
Landshypotek Incorporated Association

  
LANDSHYPOTEK



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## Schedule of Information

Interim Report Q1	May 2001
Annual General Meeting	May 22, 2001
Interim Report Q2	August 2001
Interim Report Q3	November 2001
Financial report for 2001	March 2002

Cover: Anna-Karin Olofsdotter with son Axel at the farm in Skuttunge, Björklinge. Together with her cohab Anders Johansson, Anna-Karin runs a plant growing operation. The family is a part-owner of Landshypotek, Region Mälardalen.



## When you can borrow from yourself.

Small expenses are the foundation of a sound economy.  
That's the way it has always been.

That is also true today when you need to borrow money,  
to invest in your farm, or for a new harvester.

If you chose to place your first mortgage loan with us at  
Landshypotek, you not only get a low borrowing cost.  
You also become an owner of our incorporated association  
and you get a refund on your loan interest.

For 2000, SEK 142.4 million goes back to our borrowers  
in the form of refunds. This means that our owners lower  
their borrowing cost by an average of 0.54 percentage  
points.

If you then add our loyalty and large customer rebate,  
you will probably see it as clearly as we do: You will have a  
hard time finding lower costs for your primary financing.  
Anywhere!



# The Year in Summary



The refund to members of Landshypotek Incorporated Association is proposed to be MSEK 142.4, equivalent to 8 percent of loan interest paid.

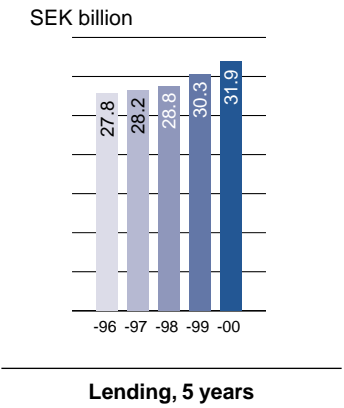
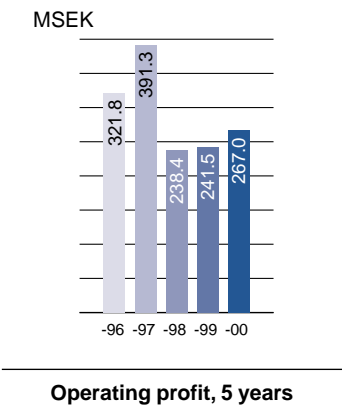
The Group increased its lending by 5.6 percent to MSEK 31,950 (30,257).

Operating profit was MSEK 267.0 (241.5).

The return on adjusted shareholder's equity was 7.23 (7.00) percent.

The average lending rate was 6.33 percent, a drop of 0.27 percentage points.

The cooperation with Länsförsäkring Group has continued and the product offering has developed.



# The Business in Brief

Landshypotek incorporated association is the organisation of which farmers and forest owners become members when they borrow from Landshypotek AB. Landshypotek incorporated association has more than 69,000 members.

Landshypotek's **business concept** is to satisfy Swedish agriculture's and forestry's financing needs in the form of first mortgage loans on the markets most favourable terms.

Landshypotek is the **market leader** in Sweden in first mortgage loans to farmers and forest owners. With loans outstanding of SEK 32 billion, Landshypotek has more than half of the first mortgage market. In co-operation with Länsförsäkringsgruppen, Landshypotek also offers bank and insurance services.

The incorporated association makes it possible for Landshypotek to give the members **refunds** of loan interest paid, which leads to even more favourable borrowing terms. The proposed refund for 2000 is MSEK 142.4, which means 8 percent of loan interest paid, or an average of about 0.54 percentage points lower loan interest.

Appraisals are handled by the ten regional boards of directors of the Incorporated Association. The board members are themselves farmers and forest owners who know their localities well.

## **[www.landshypotek.se](http://www.landshypotek.se)**

Landshypotek's Web site contains current information about loans, interest rates, refunds and rebates. New services will be introduced gradually during 2001 making it possible for members to handle much of their loan business via the Internet.



# Comments of the Managing Director



Year 2000 was Landshypotek's sixth year of operation since our new organisation was initiated January 1, 1995. But our history started as early 1836. For several generations, we have specialised in becoming a long-term partner to Swedish agriculture and forestry. Our most important goal is to give our members the most favourable terms on their first mortgage loans secured by agricultural and forest property. All borrowers become owners of our incorporated association and get a refund on loan interest, and also earn good interest on their subscription capital. For the 2000 operating year, 62.5 percent of operating profit goes back to the members of the association (MSEK 166.9) including interest on contribution funds according to the proposal of the Board of Directors to the Annual General Meeting. This is equivalent to 8 percent of interest eligible for refund. This means that our owners lower their borrowing cost by an average of 0.54 percentage points. Since the new organisation was put in place on Jan-

uary 1, 1995, member subscription capital has now reached MSEK 863.4 after the profit allocations proposed for the 2000 financial year.

Member confidence in Landshypotek as a co-operative continues to be strong. That is proven by the growth in loans outstanding and has also been confirmed in a customer attitude study. More and more people feel that it is better to borrow from yourself.

## 2000 operating year

Lending in the Landshypotek AB Group increased by MSEK 1,693.6, or 5.6 percent, to MSEK 31,950.3 at year-end. It is particularly gratifying to note a strong increase in lending of MSEK 623, or 28 percent, in Lantbrukskredit AB. Loan demand was indeed stronger than we had budgeted for.

New loans approved in Landshypotek AB amounted to MSEK 3,084.4, of which 68.8 percent were collateralised within 65 percent of loan value, and 31.2 percent were between 65 and 75 percent of loan value.

The proportion of loans with adjustable interest rate increased sharply during the operating year and stood at over SEK 9.8 billion at year-end.

On the funding side, the increase in lending is reflected in increased commercial paper borrowing. An increase of the commercial paper program from SEK 8 billion to SEK 10 billion was therefore arranged. On the international market, Landshypotek has established an EMTN programme in the amount of MEUR 1,000. Bilateral loans, so-called Schuldscheine, in a total amount of MEUR 160 have also been raised. History repeats itself; to borrow abroad was very common among our predecessors.

The interaction with Länsförsäkringar and Länsförsäkringar Bank is developing positively. The Farmer Package, which offers bank products, is an excellent complement to Landshypotek's services. Our product offerings have been expanded gradually, and the bank now offers Internet services. The parties intend to extend the co-operation agreement beyond April 1, 2001.

Slightly weaker net interest income, MSEK 327.4 (338.3), is explained by Landshypotek's lower margins and the increase in adjustable interest rate lend-

ing, as well as by more aggressive rebates for large denomination loans.

Operating expenses of MSEK 133.6 (13.7.7) are lower thanks to lower IT expenses. Loan losses continue to be very low; you could almost say positive. The year's net cost was MSEK +1.9 for Landshypotek AB.

Operating income amounted to MSEK 221.2 for Landshypotek AB and to MSEK 267.7 for the Landshypotek AB Group. Loan losses for the Group were MSEK +8.2. The Landshypotek Incorporated Association Group reports operating income of MSEK 267.0. Our subsidiary Lantbrukskredit reports its best result ever with a profit of MSEK 28.

Landshypotek's profit sharing foundation received a contribution to our employees of MSEK 1.8 for the year. For 2000 the amount was MSEK 1.7. 2001 was the second year of the foundation's history and it is gratifying to note that funds were contributed again this year.

#### **Customer survey October 2000**

Since January 1995, Landshypotek has conducted a customer survey to gain increased knowledge about the values and attitudes our customers have about Landshypotek. A regional breakdown was done for the first time in 1997. It is important to be able to identify changes that may have taken place since the last survey. These repeated surveys will serve as a yardstick of value, giving indications about changing needs and desires on the part of our customers. As a basic premise it can be noted that customers place increased requirements on a credit institution in most instances.

When it comes to the most important factor – giving favourable interest rate terms – Landshypotek has become even better than the year before. Here there is a steady rise since 1995: 80.5 percent of Landshypotek's borrowers feel that the service level is good. This is a clear improvement over previous surveys. A majority of lenders expect to keep their loan/loans with Landshypotek for another year, at least. That proportion is 95 percent, which is marginally higher than last year.

Fifty-three percent of Landshypotek's borrowers use the Internet today. Internet use is increasing and the most rapidly growing segment is "doing banking business."

Landshypotek has improved in almost every respect, although there are still customer needs to satisfy in some areas.

#### **The future**

After having had the privilege of serving as managing director of the Landshypotek Group from the organisational change January 1, 1995, I will retire after the Annual General Meeting. My successor, Kjell Stillman, has already been appointed and takes office after the Annual General Meeting to be held May 22. Kjell comes from FöreningsSparbanken, where he was MD of FöreningsSparbanken Jordbrukskredit and Deputy MD of Spintab. I wish him the best of luck!

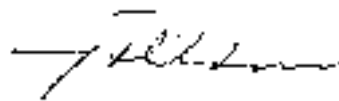
I also extend a heartfelt thanks to all employees for good co-operation and good results during these years, and to my close associates for good advice and good support. My thanks also go to our representatives, who have really believed in us, and made demands when called for.

In our goals for 2001 can be read the following: Defend and develop Landshypotek's role as the dominating player in the credit market for agriculture by continuing go on the offensive with interest rates and high quality in customer dialogue and market communication. Continued technology initiatives in systems support. Internet and telephone and more resources for training and competence development supports this development.

Landshypotek shows stable earnings performance. With an unchanged interest rate situation we are predicting net interest income as well as profit during 2001 to be on a par with year 2000.

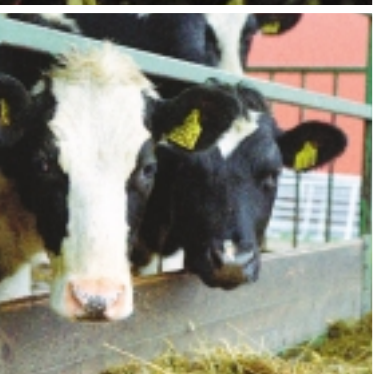
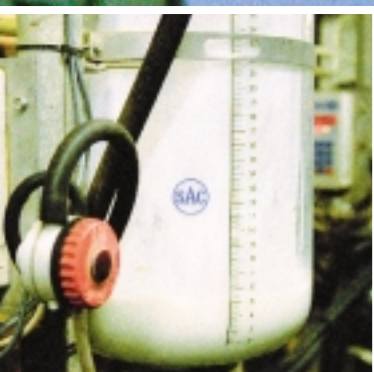
Why borrow from someone else when you can borrow from yourself!

Stockholm, February 2001



Ulf Fredrikson





Gunnel Sundin at Ingelstorps Gård handles insemination on her own. It is practical not to have to wait for the inseminator and she can get things going as soon as a cow comes in heat.



# Full Control with ISO-certified Milk

**Constant improvements with a view to what is best for the animals. That is Stig and Gunnel Sundin's prescription for how to develop the farm and maintain profitability. Ingelstorp is today one of the country's few ISO-certified farms and one of Skåne's leading milk producers.**

– We have had the same aim and direction for the operation during our entire active time here at the farm. Perhaps we are a little boring that way. But there is still nothing that is done the same way as 25 years ago. There has been a sea of change when it comes to precision and follow-up of our products, says Stig Sundin, who runs Ingelstorp's farm in north-western Skåne together with his wife Gunnel.

It was in 1994 that Stig and Gunnel decided to expand. They were faced with the alternative of building a new barn for more cows or to put all their bets on vegetable production. The choice was made to do both: more cows and continued growing of sugar-beets and spinach. The herd was increased from 50 to 150 milking cows. Stig's and Gunnel's conscious strategy with very good animal care and gradual improvements have led to a record-high milk production: 11,200 kilograms milk per cow per year. The farm was recently awarded newspaper Land Lantbruks and Swedish Meat's practitioner price, The Gold Bar. They got the prize for good animal care and exemplary barn hygiene.

## Good order – profit after certification

A few years ago the farm was selected by Skånemerier for a project aimed at qualitative and environmental certification of some 20 farms. This proved to entail an enormously demanding amount of paper work, that Gunnel in particular took responsibility for. Several data lists hang on the side of the milk tanks and while we are there talking an employee passes by and ticks off another task that has been performed.

– I have full control over what and who has performed a certain task. If something breaks, I also prepare a discrepancy report. I believe that it is all these small steps that make the animals feel well and allows us to deliver good milk, says Gunnel.

Keeping things nice and tidy both inside and out is part of the quality philosophy that Stig and Gunnel are totally committed to. Inside the milking department, the morning's milking shift is well under way. Here it is Gunnel that runs the operation with an iron fist. It takes three hours to milk all 150 cows. The milking department has a capacity of 16 cows at a time. The tempo is high and nothing is allowed to go wrong. It has never happened, but if bad milk was to be delivered to the dairy by mistake, there can be as much as SEK 50,000 in fines.

– You have to keep the dirt at bay. That is something I learned young here at the farm. I have also worked at a research laboratory before Stig and I took over the farm. Hygiene and carefulness are in my spine, says Gunnel.

Stig and Gunnel think it is difficult to give an exact figure as to how much the investments made in connection with the certification work are worth. For them, much of the gain lies in that the work can be performed safer and that things are neat and tidy around the farm. The entire feed chain is under control, the animals feel well and the production per cow is among the highest in southern Sweden. Stig and Gunnel get paid a little better for their milk and the day they want to sell the farm, it will be worth more because it is so well maintained and everything is documented.

## Spinach and politics

Stig is responsible for operations outdoors, consisting of grain growing, which is also complemented by sugar-beets and contract-grown spinach. Such cultivation accounts for less than 10 percent of the farm's revenues. Every tenth frozen package of spinach of the Findus brand is said to come from Ingelstorp.

If there is any time left over, Stig is active in politics. He has been a member of the local government council for several years and he serves as First Vice Chairman of the social welfare board for the Centre party. Assignments which give no money, but still creates valuable contacts in the long-run.

## New investments

– Landshypotek has been a good and trouble-free partner for financing our enterprise. They are very professional, says Stig.

And soon there are likely to be new discussions with Landshypotek. At the top of the wish-list is a new machine room, a Bobcat and rubber mats for the cows to avoid pressure wounds.

### Ingelstorps Gård, Ängelholm

Family farm run by Stig and Gunnel Sundin with two annual employees. Revenues about MSEK 6.

Milk producer with a total of 370 cattle, of which 150 milking cows.

Produces an average of 11,200 kilograms of milk per cow per year.

Environmentally and quality certified 1998, ISO 14001 and ISO 9002.

Aside from hay-field plants, also grows sugar-beets and spinach.

Owens 100 hectares of forest land and leases 70 hectares.

Buys 700 tons of HP-pulp as basic feed for the cows.

There are some 15 environmentally and quality certified milk producers in Sweden and a total about 30 certified farms.

# Broad Product Portfolio with Internet Possibilities

Landshypotek offers first mortgage loans secured by agricultural and silvicultural properties on highly competitive terms. As a savings product, Landshypotek also offers private bonds and credit market notes, although most of the borrowing is raised in the domestic and international credit market. Development of new Internet services for the members continues on Landshypotek's Web site.

## BORROW

### First mortgage loans with fixed or adjustable interest

Landshypotek offers first mortgage loans secured by agricultural and forest properties. Loan terms are simple and Landshypotek has very competitive interest rate terms.

Landshypotek offers highly competitive interest terms. As a member of the incorporated association, the borrower also gets a refund on paid interest. The size of the refund depends on the result achieved by Landshypotek. For year 2000 the a refund of 8 percent of paid interest is proposed, which is equivalent of approximately 0.54 percentage points lower loan interest. And then there are loan-volume related and loyalty rebates. Landshypotek does not charge origination or loan maintenance fees.

### Loan protection insurance

Landshypotek's members are offered to buy special loan protection insurance from LRF Försäkring.

### The farmer package

The farmer package is aimed at farmers and forest owners and is offered in co-operation with Länsförsäkringar Bank. Among other things, the package includes an operating account, an investment account, loans, forest account, payment services, due date monitoring, Internet bank and VISA card. Every kind of insurance a farmer may need is also offered in co-operation with Länsförsäkringar.

## SAVINGS PRODUCTS

### Bonds

Some of Landshypotek's borrowing comes from the sale of private bonds. These typically give a better return than normal bank savings and it is a secure form of savings unaffected by economic cycles. Bonds are sold in lots of a minimum of SEK 10,000.

### Credit market notes

Landshypotek offers investors to buy credit market notes with a very good return and flexible tenor, from three months up to one year. The notes are sold in lots of a minimum of SEK 100,000.

## BORROWING

Aside from private bonds and credit market notes, which only account for a small portion of the borrowing, Landshypotek funds itself in the credit market. Most of the funding is done in the Swedish market, but the international market is gaining in importance for Landshypotek. Landshypotek feels that it is important to have access to several different types of investors. For that reason, great flexibility has been created by establishing several different borrowing programs. As examples can be mentioned bond programmes, commercial paper programmes, MTN programmes for the Swedish market and EMTN programmes for the international market.

## LANDSHYPOTEK ON THE INTERNET

Landshypotek is developing its Internet operations to satisfy member needs for information and service via the Internet. The goal is to be able to offer members who so desire to handle much of their loan engagements via the Internet during the first half of 2001.

Examples of future services:

- Show loan balances.
- Make loan projections
- Make loan applications.
- Buy credit market notes and private bonds.

### Landshypotek's products

#### Loans

- First mortgage loans with fixed or adjustable interest
- Loan protection insurance
- Farmer package

#### Savings products

- Landshypotek bonds
- Credit market notes

#### Borrowing

- Different types of credit market programmes



# Market-leader in First Mortgage Loans

**Landshypotek is the market leader in financing of Swedish agriculture and forestry. The company is unique with its member-owned corporate form and its extensive knowledge about the general conditions for agriculture. Ongoing changes in Swedish agriculture and forestry will lead to continued strong loan demand.**

The credit market in Scandinavia and Northern Europe has undergone profound restructuring over the last several years, distinguished by mergers and alliances. The players become fewer and larger. Competition in the market for agricultural and forestry-related credit is severe and a growing number of credit institutions is cultivating this segment to an increasing extent. Interest margins are low by tradition, however, and handling is more costly and knowledge-intensive than, for instance, first mortgage lending for the housing market.

## **Strong market position**

Landshypotek keeps up well with the competition from the big banking groups. Swedish agriculture and forestry have an estimated credit volume of just over SEK 80 billion. About 60 percent hereof consists of first mortgage financing, which means that Landshypotek's lending of about SEK 32 billion constitutes more than half of the first mortgage lending market.

## **Efficient organisation and broad know-how**

Landshypotek has a small and cost-efficient organization with broad knowledge about the overall conditions for farming. With the aid of advanced IT systems, work with lending and borrowing is optimised. Lending operations are conducted from ten regional offices. Ten regional boards of directors handle the valuation of collateral in the form of buildings and land on behalf of Landshypotek AB. The regional organization means both close proximity to the customers and good local knowledge when it comes to appraisal issues. Thanks to current development of Internet services currently carried out by Landshypotek, contact surfaces with new as well as existing customers will increase further.

## **Refunds to the members**

All of Landshypotek's borrowers automatically become members of Landshypotek incorporated association. In this way Landshypotek has 69,000 members. The Incorporated Association gives Landshypotek the opportunity of giving its members refunds on paid interest, which leads to even more favourable loan terms. For 2000, the refund is proposed to be as much as MSEK 142.4, equivalent to 8 percent of loan interest paid, or an average of 0.54 percentage points lower loan rate.

The refund is paid to the members in the form of a 30-percent cash payout, while the remainder is deposited to the member's account with the Association until the subscription capital reaches 8 percent of the loan amount. After that, interest is paid directly to the borrower. When the loan is repaid, the amount on deposit is paid out after an average of 2.5 years.

Each year Landshypotek incorporated association subscribes for a new issue of shares in Landshypotek AB. For 2000 the subscription was MSEK 140 (100).

Thanks to these high ratings, Landshypotek has opportunities to borrow money on favourable terms, which leads to lower interest for the members.

**The regional organization means both close proximity to the customers and good local knowledge when it comes to appraisal issues.**

## **Continued good prospects for Landshypotek**

The ongoing development in agriculture and forestry leads to larger and more specialised agricultural enterprises with continuous capital investment needs. The need for investments in plant, product development and market will continue to grow, in part among companies that choose to build up complementary businesses outside the traditional farming operation. A multitude of relatively small forest properties, where the owners get their main sustenance from other sources is another group of potential customers. These operators in many cases have unused first mortgage borrowing capacity.

## **More about agriculture and forestry**

Swedish agriculture and forestry is developing at a rapid rate. The market and the trends are described on the following pages (10–15).

# The Market for Agriculture and Forestry – the Changing Face of Swedish Farming

Swedish agriculture and forestry is today a modern industry marked by variation and new entrepreneurship. Farms are getting larger and operations are more capital-intensive. Profitability in agriculture and forestry is affected primarily by the development in the food industry, the forest and paper industry, and by national and international agricultural politics.

There are about 80,000 active farmers in Sweden, 60,000 of whom also work their own forestland. Farmers own practically all farmland in the country and, together with individual forest owners, half of the forestland. Sweden's agricultural and forestry production generates about 2 percent of the country's gross national product. Seen from the processing angle, however, the industry is more important, since agriculture constitutes the basis for Sweden's food industry, which, in turn, employs 70,000 persons. Timber from the forests, for its part, is the raw material for an industry with export sales equivalent to 13 percent of the country's entire exports.

**Farmers own practically all farmland in the country and, together with individual forest owners, half of the forest land.**

Output from Swedish agriculture and forestry has been relatively constant in recent years. The number of farms is declining and individual farms are getting larger as more and more land is leased. On most farms today, one person in the family works outside the farm. The number of properties solely with forestland is on the rise as owners leave the farm profession, but keep their forestland. New small compa-

nies are instead being formed in rural areas. Former farmers become entrepreneurs and develop new businesses with the farm as the foundation.

## Major geographical differences

Differences in structure and orientation are significant among farms in different parts of the country. In the northernmost parts of Sweden the average tilled acreage is 11–20 hectares per property and the forest acreage is about 100 hectares. More than half of the farms are classified as small-scale farms (less than 400 working hours per year) and the others are dominated by animal production, primarily milk and beef. The pattern is the same in Värmland, Bergslagen and in the forest and intermediate areas of Småland and western Götaland.

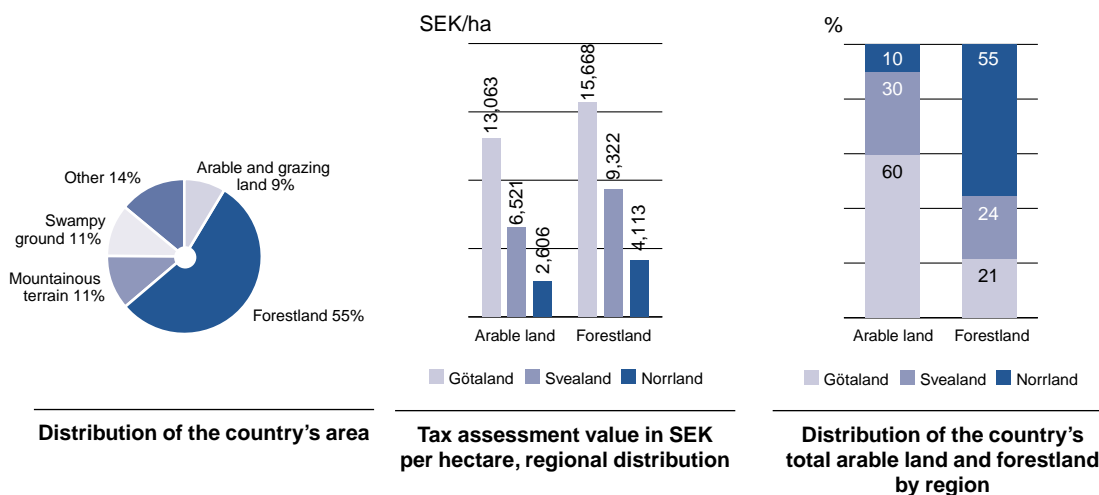
In eastern Svealand and Götaland the areas under cultivation are much larger and the forest holdings are smaller. The average tilled acreage is 40–60 hectares per farm and forest land holdings are about 50 hectares. The proportion of small-scale farms here is about one quarter. This part of the country is also home to much of the country's hog production.

Land value also varies greatly between different parts of the country. Tax assessment values for forestland are 4–5 times as high in southern Sweden as they are in the north and arable land show even greater differences. In a European perspective, land and property prices are low.

## Foodstuffs, wood and paper products

End customers of agriculture and forestry are mainly consumers of foodstuffs, wood products and paper products. The development in these markets determine the conditions for agriculture and forestry and especially in agriculture the dependency on national and international politics is great.

In recent years the food industry has been trans-







formed and the supermarket chains have become larger and more international. The competitive situation was also changed with Sweden's entry in EU. A factor of uncertainty for the future are the WTO negotiations, which may lead to freer trade in the food area.

The development in the forest industry is also in the direction of larger units and more efficient production. The industry is greatly affected by fluctuations in economic activity and currency exchange rates. A strong construction economy, continued favourable economic development in Europe and a low level of interest rates may improve conditions for the forest industry appreciably.

#### **Profitability and quality of life**

Profitability in agriculture and forestry is low by traditional corporate measurements, but so is leverage and bankruptcies are rare. Swedish farmers are well educated, competent and flexible in their way of adapting their business to the conditions of the surrounding world. The driving force for many lies in the choice of lifestyle and the satisfaction it gives to farm the land in an environmentally responsible and efficient way.

Also those farmers who switch profession and start doing something else are keen on keeping their ties to the community and their roots, the cultural heritage and the environment. Being close to nature, wildlife, hunting and other recreation is cherished, as is the lifestyle in general.

#### **New rural businesses**

The changes in food production and the forest industry leads to a growing number of farmers developing

businesses and the number of small companies is growing. The farms are still inhabited and the rural population is actually growing rather than contracting. Among the new products and branches of business that can be developed can be mentioned energy raw materials and other alternative crops, tourism and different forms of rural services. In all likelihood this is just the beginning of a profound transformation of rural enterprise. The spirit of entrepreneurship and the power of development come in very handy here, but the new businesses also require investments in product development and marketing initiatives.

Tourism, as well as other segments of the so-called experience industry, is developing rapidly all over the world. Conditions in Sweden are good, with a relatively small population and very attractive areas. A European urban population with a lot of spending power is increasingly looking for experiences in nature, seclusion and rural environments for recreational living and other relaxation.

#### **Swedish agriculture and forestry in brief**

The total tax assessment value for all of the country's agricultural units is SEK 280 billion, 62 percent of which is for the forestland, 9 percent for the arable land, 21 percent for buildings and 8 percent for miscellaneous.

Between 3,000 and 4,000 agricultural properties are sold in Sweden each year.

The average farmer is a member of four co-operative agricultural societies, with a total of over a quarter million memberships. Dairy, meat packing, farm supply and forestry are the largest branches.

# Agriculture – Efficient Production with Quality

Swedish farms are getting larger and more efficient. New forms of co-operation among farmers are becoming more common by the day because of pressure to achieve economies of scale. Output is of high quality and the environmental awareness is high. At the same time consumer demand for organically grown food is on the rise.

The structure of Swedish agriculture is changing rapidly. Agricultural enterprises are growing in size, while the number of farms is contracting correspondingly. Close to 50 percent of all arable land is leased. The span between large and small farms is also growing. Less than 20 percent of all farmers account for 80 percent of the production of milk, hogs, cattle, eggs and chicken. The concentration of production to fewer units shows sign of continuing for the next several years.

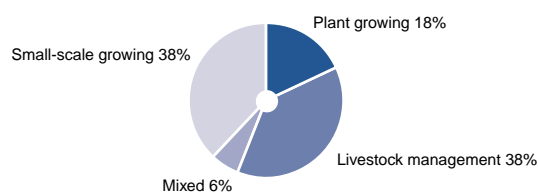
Agriculture has developed from being a labour-intensive to a capital-intensive business. The total investment per full-time employee is today estimated to be between MSEK 3 and MSEK 5.

## Co-farming, KRAV and small-scale production

Parallel with the concentration of production, co-farming in different forms between neighbouring farms is increasing. It can be a matter of everything

**Less than 20 percent of all farmers account for 80 percent of the production of milk, hogs, cattle, eggs and chicken.**

from jointly owned machinery, joint purchasing, common barns and integrated hog production to full-fledged co-operation in jointly owned companies. This leads to better utilisation of resources and larger volumes. Another trend is for farmers to concentrate on special products with added value and in strong demand, such as organic products. More and more producers and ever larger growers are also changing to KRAV-certified cultivation for purely commercial reasons, and not as before on ideological grounds.



**Agriculture mix of operations**



Frequently recurring food scandals have damaged the confidence in conventionally grown products and boosts market demand for organic agriculture every time.

Another niche under development is small-scale production for nearby markets. Farm-stores sell cheese, eggs, bread, berry and fruit preserves, and other foods with a local profile. Within the Svensk Lantmat association, 205 small-business owners co-operate in the sale of niche products. A parallel organisation in the tourist trade is Bo på Lantgård (Live on a Farm), with about 500 members. During 2000, the number of guest-nights increased by 30 percent to 135,000. These activities are gaining in importance for those individual producers who succeed in product development and marketing of their specialities. Market demand can surely increase with increased e-commerce and other smart forms of distribution. Interest in products with unique values is rising among a growing segment of the public with money to spend.

## Swedish quality and environmental awareness

Swedish agriculture is known for high quality and environmentally sensitive production. Looking at the structure and technical level of agriculture, knowledge and awareness among farmers, yield numbers, etc., Sweden has a strong position in Europe, while disadvantages exist in a high cost structure. In the Swedish agricultural movement, intense efforts are underway to raise the entrepreneurial attitude among farmers, which should lead to more determined commercial utilisation of existing competitive advantages.

Swedish food production displays strong values which are being more recognised as European con-





sumers become increasingly aware of food's purity and health effects. Especially the BSE crisis during the fall of 2000, with drastic declines in beef consumption in countries such as France and Germany, can generate competitive advantages for animal production of the Swedish type.

#### Agricultural policy

The profitability of agriculture is increasingly determined by the ability of farmers to keep up with the competition in the market, but for the foreseeable future, political factors will also play a major role. One source of anxiety is the tougher competition in food-stuffs that coming expansion of free trade through WTO, and an expected widening eastward of EU, will bring.

At the same time international trade in food-stuffs is growing and multinational companies are strengthening their leading role. The consumption pattern in Sweden is becoming more similar to that in Continental Europe, at the same time as it is getting to be more varied under the influence of other cultures. Swedes are changing their eating habits and are, for instance, consuming more pasta and chips rather than potatoes, and a abundance of different sausages instead of the typical Swedish 'Falun sausage'. In order to keep up with the competition, added value must be given Swedish products through a clearer profiling.

#### Agricultural co-operative movement under change

It is becoming increasingly important for Swedish farmers and their co-operative societies to maintain their high ambitions with respect to the quality of their production and products. This is particularly true of environmental, health and ethical values,

where Swedish products are faring increasingly well. In greater demand today is Swedish meat as opposed to, for example, Danish pork tenderloin or French beef. Another indication of this is the international successes of Swedish cooks.

The structure of the agricultural co-operative movement has changed at a rapid pace since the mid-nineties. Competition has forced rationalisation and concentration of production, and has also been a driving force towards greater customer orientation and investments in marketing. Overall, the dairy industry has managed its structural, marketing and image issues in a satisfactory manner. The meat and meat product industry has problems in most of

**More and more producers and ever larger growers are also changing to KRAV-certified cultivation for purely commercial reasons, and not as before on ideological grounds.**

**Swedish agriculture is known for high quality and environmentally sensitive production. Looking at the structure and technical level of agriculture, knowledge and awareness among farmers, yield numbers, etc., Sweden has a strong position in Europe.**

Europe and also in Sweden. Here, the agricultural co-operative movement has had internal structural problems and has therefore been unable to direct sufficient outward force into the market. The Lantmännen organisation is now creating a new structure with a nation-wide societal corporation, Svenska Lantmännen. This opens good opportunities for rationalisation and development of the business, which is important for the continued competitiveness of agriculture.

#### Swedish agriculture in brief

Swedish agriculture generates revenue of about SEK 30 billion annually. Close to 60 percent thereof comes from animal products, half of which from milk.

Direct payments (agricultural support) amount to about SEK 7 billion annually.

Agriculture buys machinery for about SEK 4 billion annually.

At 57,000 of the country's 80,000 farms, the labour input is less than one full-time employee per year.

Sweden's imports of food-stuffs and agricultural products have increased by one third since the EU entry; exports have increased by 50 percent.

# Forestry

## – Environmentally Aware Export Industry

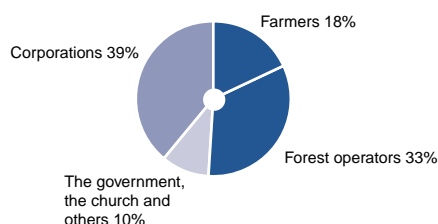
Swedish forestry is one of the country's main industries. Forest ownership is distinguished by a large number of individual owners with an ever growing environmental interest. The forest industry is marked by rationalisation and structural changes. Fluctuations in currency rates and changes in economic conditions affect its profitability.

Swedish forests are owned by a large number of individual owners. Sixty thousand of the country's 80,000 active farmers are also active in forestry, but Sweden has a total of about 350,000 individual owners of forestland. For most forest owners the forest operations are a typical sideline. Private forest owners concentrate their efforts on forest care, while felling is typically left to forest owner associations or some professional.

The ownership situation and operating conditions vary significantly between different parts of the country. The farther north, the greater the relative importance of forestry to the farmer. Growth per hectare is also lower the farther north one gets, tree dimensions are smaller and transportation distances longer. The individually owned proportion of forest land drops from 80 percent in southern Sweden to less than half in the north.

**The ownership situation and operating conditions vary significantly between different parts of the country. The farther north, the greater the relative importance of forestry to the farmer.**

Swedish forest industry is by tradition export-oriented, with primarily bulk goods, such as sawn timber, pulp and paper. From the standpoint of



**Distribution of ownership forest land**



value, pulp and paper account for two thirds of the forest industry's output and wood products for one third. For forest owners, conditions are the opposite. Eighty percent of the forest's root value comes from saw timber and the remainder from pulpwood. Forest owners are therefore extremely dependent on the sawmill industry for their profitability.

At the early stages of production, wood products and semi-manufactured goods, the sharp changes in economic conditions are troublesome. In timber, competition from the former eastern countries is mounting, with increased pricing pressures as a result.

### **Environmental certification and other co-operation with the sawmills**

Environment and quality are increasingly becoming key factors for forest owners and environmental certification of family-owned forestry, PEFC, has been widely embraced. The Swedish sawmills also stand behind the certification process. In export markets, certification has increasingly become a requirement for sawn timber and paper, and it is expected that in the future certification will become an absolute necessity in order to enter a market.

Forest owners and sawmills also co-operate when it comes to product development and marketing initiatives for wood products. In one pan-Nordic project, for example, the initial focus is on product development and marketing of speciality goods for the British construction market. Parallel with such efforts, co-operation is increasing within the country to develop the use of wood and to create new competitive products. Profitability is improving with a





gradual rise in the proportion of processed products and by getting closer to the end consumer.

#### **Rationalisation and raw material processing**

In forestry, as in most other markets, the raw material portion of a finished product's price is diminishing. Rationalisation at all levels has so far made profitability possible and the trend is continuing.

For the large forest companies, owning forestland is no longer a strategic resource. It is not unlikely that large acreages of forest land will be sold off. Assi-Domän appears to be taking the opposite route by selling off its industrial assets to become a focused forest company. To what extent the Government will be buying any of this forest land is uncertain, as is the future structure of the administration of the Government's forestlands. There is every indication that the opportunities for private individuals to buy forestland will increase in the current process.

#### **Good economic conditions for pulp and paper**

Economic conditions for pulp and paper were good during 2000 and the strong dollar has contributed further to good profits. More than likely, the economic peak is behind us for this time, which may mean pressure on pulpwood prices during 2001.

The sawmill industry suffers from over-capacity in Europe, but market demand for sawn timber is rising in Sweden thanks to a stronger construction economy. The sawmill industry is undergoing consolidation and structural transformation. Since certain forest areas have been hard hit by rain during the year, there may be a shortage of saw timber in large parts of the country during 2001.

**In export markets, certification has increasingly become a requirement for sawn timber and paper.**

#### **Swedish forestry in brief**

Sweden exports forest products for about SEK 95 billion and the Swedish forest industry employs 79,000 persons.

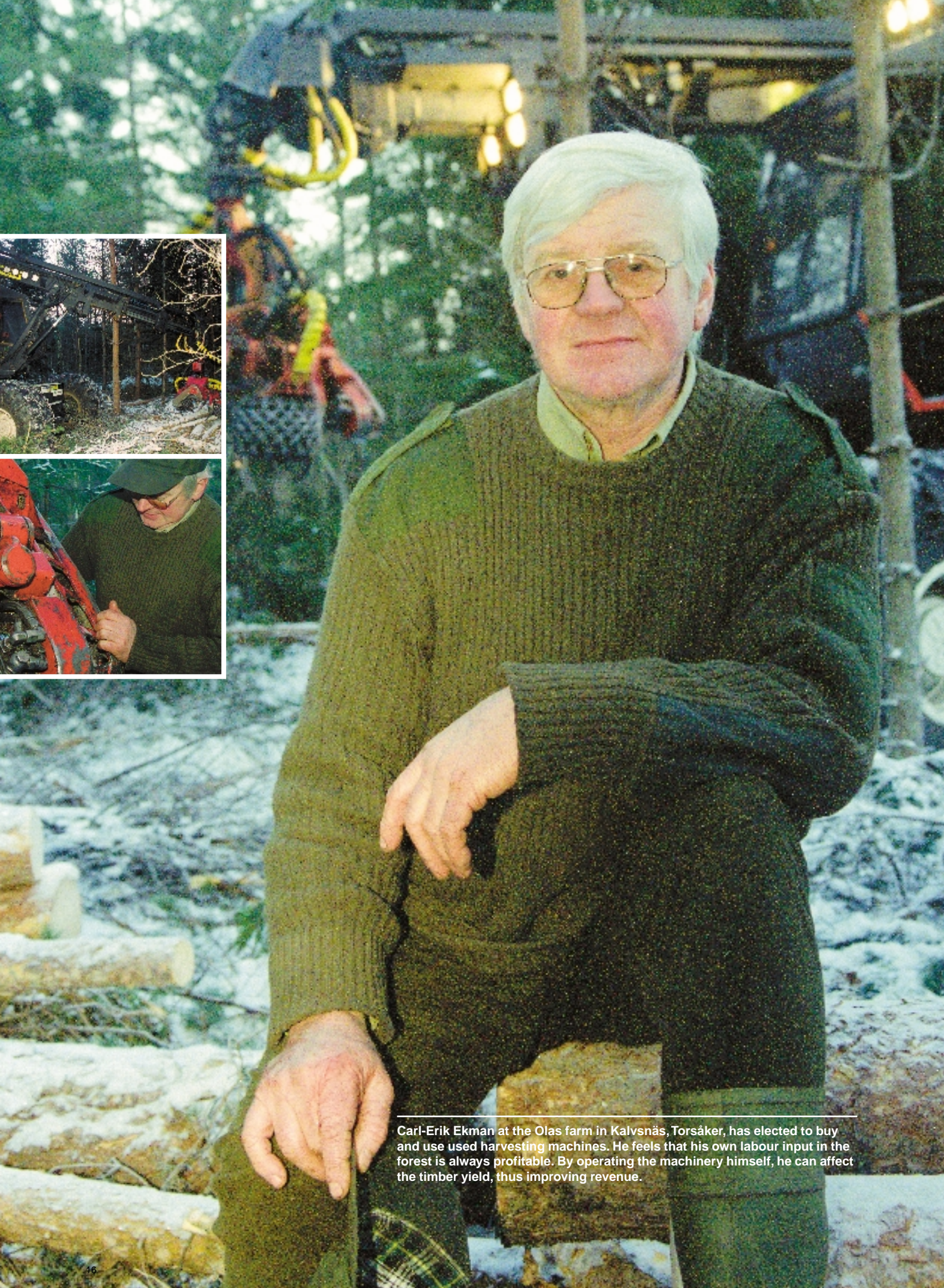
Sixty million cubic metres of timber is felled each year in Sweden's forests. Ninety percent goes to the sawmills and the pulp and paper industry, less than 10 percent is used for fuel.

About 70 percent of the growth in Sweden's forest's is felled. Since the 1930's, Sweden's forest reserves have grown by 50 percent.

About 60 percent of felling is in private forests. Forest owners do about 20 percent of the felling work themselves and 50 percent of the forest care.

Sweden produces about 5 percent of the world's conifer timber and pulp/paper and has 10 percent of the world trade.





Carl-Erik Ekman at the Olas farm in Kalvsnäs, Torsåker, has elected to buy and use used harvesting machines. He feels that his own labour input in the forest is always profitable. By operating the machinery himself, he can affect the timber yield, thus improving revenue.



# Well Thought-out Product Mix Gives the Best Yield

**All land must be productive and the influence of politicians and authorities should be as small as possible. That is the strategy for the Olas farm in Gästrikland. The choice here has been to do as much as possible yourself and to make well thought-out investments to retain independence and profitability.**

– You can't let yourself have any lazy areas; everything must be in production. When I took over the farm from my parents in 1975, we adopted a long-term strategy. All land and all buildings must be part of the production. But we didn't want to get into the heavily regulated areas, such as pork, grain or milking cows. The unpredictability of the authorities is not for us. Instead we chose forestry and potatoes, which we complement with some cattle, says Carl-Erik Ekman.

The Olas farm in Kalvsnäs near Torsåker in Gästrikland is run by Carl-Erik Ekman and his wife Birgitta. The product mix has been carefully adapted to the conditions of these wooded lands. Before the couple took over the farm, Carl-Erik worked with capital investments for SKF in Hofors and Birgitta worked as a teacher. Now both work full-time at the farm.

## Potatoes give the best economic yield in farming

Carl-Erik would much prefer to spend his time in forestry, but potatoes actually generate 30–50 percent of the revenue. A couple of hundred tons of Bintje, King Edward and Ukama are harvested annually on about 15 hectares of land, which is planted with grain for crop rotation. The Ekmans now cut a deal directly with the Hemköp chain, who likes to buy from local producers.

From the yard in front of the large white house built in the 1880's, you can look across a small lake and the fields nearby. In order to get a more effective land area, both owned and leased land has been drained. A stone's throw away stands the isolated potato warehouse where the boxes stand high towards the rafters. The potatoes are handled by sorting and packing machines and a used truck.

– Nothing very modern is needed. We rarely buy new machinery. Instead we look for good used when needed. When the hay is to come in, we have to call on the family and take out dad's old hay press and hay-forks and work hard for a few days, but that's only good for you, laughs Carl-Erik.

## Selective harvesting with their own harvester

Instead, the Ekmans have invested in forestland and their own machinery. Today they have over 400 hectares productive forestland. The goal is to get as much money out of the forest as possible, which means that between 2,000 and 2,500 cubic metres are felled each year. A couple of years ago, Carl-Erik

bought a used harvester and a forwarder. He is very careful with what is felled in the forest so that as many fine trees are left as possible for when it is time for final felling.

– The trick is to be very selective and choose the right quality of trees to cut. With my own machines I can get out there in the forest and collect a load of birch timber that pays very well, says Carl-Erik.

For Carl-Erik it is not only the income statement in the company that counts, but also what happens to the balance sheet. When, for example, the tax assessment value of the forest land went up by a million kronor, the loan value also increased, which is not all bad if there is a capital expenditure outlay ahead.

## Several areas of operation secures the future

In order to achieve full production on all of the farm's land, there are 15 cattle for meat, milking cows and calves. Not a big deal, but it still makes an important

**Part of the Ekman strategy is to have several legs to stand on; if in the future there would be a stop in the forest, the animal production can instead be developed.**

contribution to revenue. Part of the Ekman strategy is to have several legs to stand on; if in the future there would be a stop in the forest, the animal production can instead be developed.

– Naturally I would like to have change of generations on the farm, says Carl-Erik. Holdings of forest land are then a big advantage since they can be divided up among the children. If we had gone in for large-scale animal production, it would have been more difficult to pass things on to the next generation and the children would have been more locked into a certain type of operation.

### Olas freehold farm in Kalvsnäs, Torsåker

Family farm and forestry run by Carl-Erik and Birgitta Ekman for the past 25 years.

Own 400 hectares of forestland, 20 hectares of arable land and 55 hectares of leased land.

Forestry accounts for about 50 percent of revenue, potatoes for about 40 percent and the meat animals for 10 percent. Some grain is also grown.

The Ekmans fell and haul out the timber with their own machines. Between 2,000 and 2,500 square metres of wood raw material is taken out of the forestland each year.

The Ekmans have their first mortgage loans at Landshypotek. The tax assessment value of the farm is MSEK 6.5.



# Five-Year Summary

## EARNINGS PERFORMANCE FOR LANDSHYPOTEK INCORPORATED ASSOCIATION – GROUP

MSEK	2000	1999	1998	1997	1996
<b>Statement of Income</b>					
Interest income from the public	379.9	380.3	368.0	420.6	442.4
Other operating income	30.8	26.9	23.8	167.8	25.1
Operating expense	– 144.5	– 153.4	– 147.0	– 144.2	– 119.2
Depreciation and amortisation	– 7.4	– 7.4	– 7.0	– 53.4	– 23.2
Loan losses	8.2	– 4.9	0.6	0.5	– 3.3
<b>Operating profit</b>	<b>267.0</b>	<b>241.5</b>	<b>238.4</b>	<b>391.3</b>	<b>321.8</b>
<b>Balance sheet</b>					
<b>Assets</b>					
Lending to the public, net	31,950	30,257	28,814	28,159	27,759
Other assets	1,645	1,382	1,158	1,638	1,086
<b>Total assets</b>	<b>33,595</b>	<b>31,639</b>	<b>29,972</b>	<b>29,797</b>	<b>28,845</b>
<b>Liabilities</b>					
Borrowing	29,991	28,089	26,329	26,122	25,350
Other liabilities	853	980	1,248	1,467	1,574
Shareholder's equity	2,751	2,570	2,395	2,208	1,921
<b>Total liabilities and shareholder's equity</b>	<b>33,595</b>	<b>31,639</b>	<b>29,972</b>	<b>29,797</b>	<b>28,845</b>
<b>Financial highlights</b>					
Interest rate margin	0.78%	0.73%	0.53%	0.84%	0.83%
Return on adjusted equity	7.23%	7.00%	7.46%	13.64%	12.66%
Loan loss level	– 0.03%	0.02%	0.00%	0.00%	0.01%
Provision for loan losses/lending	0.03%	0.06%	0.08%	0.11%	0.16%



# Capital Adequacy



## LANDSHYPOTEK AB WITH SUBSIDIARIES

MSEK	2000	1999	1998	1997	1996
<b>Capital requirement risk-weighted assets</b>					
Group A	0	0	0	0	0
Group B	181	108	145	98	130
Group C	95	27	44	46	32
Group D	33,037	31,020	28,979	28,735	27,357
<b>Risk-weighted assets</b>	<b>33,313</b>	<b>31,155</b>	<b>29,168</b>	<b>28,879</b>	<b>27,519</b>
Assets requiring capital cover	33,593	31,636	29,971	29,795	28,744
Risk-weighted assets in % of total assets requiring capital cover	99%	98%	97%	97%	96%
<b>Capital base</b>					
Core capital	2,602	2,413	2,278	2,056	1,829
Supplementary capital					
Subordinated loans, time	478	589	650	652	810
Perpetual subordinated loans	1,194	1,100	1,014	1,014	400
	1,672	1,689	1,664	1,666	1,210
<b>Capital base</b>	<b>4,274</b>	<b>4,102</b>	<b>3,942</b>	<b>3,722</b>	<b>3,039</b>
<b>Core capital</b>	<b>7.81%</b>	<b>7.75%</b>	<b>7.81%</b>	<b>7.12%</b>	<b>6.65%</b>
<b>Capital adequacy</b>	<b>12.83%</b>	<b>13.17%</b>	<b>13.51%</b>	<b>12.89%</b>	<b>11.04%</b>

# Administration Report

The Board of Directors of Landshypotek Incorporated Association (the Association) in Swedish, Landshypotek Ekonomisk Förening, organization number 769600-5003, hereby submits its Annual Accounts for operations year 2000, the Association's sixth year of operation.

## BUSINESS AND ORGANIZATION

Landshypotek is a borrower-owned credit institution specialised in first mortgage lending to Swedish agriculture and forestry. An organizational chart will be found at the back of the Annual Report.

The Group is owned by about 69,000 borrowers through the Parent Company, Landshypotek Incorporated Association. Landshypotek Incorporated Association performs, through its regional representative organisation, appraisal services for Landshypotek AB, and represents the organisation as member of Federation of Swedish Farmers, Lantbrukarnas Riksförbund (LRF).

Through interaction with Länsförsäkringar and Länsförsäkringar Bank Landshypotek's customers are offered a full line of basic services in the bank and insurance areas at competitive prices.

## Landshypotek AB with subsidiaries

The Group's lending operations are assembled in Landshypotek AB (the Company) with subsidiaries. Operations in credit market companies Landshypotek AB and Landshypotek Jordbrukskredit AB consist of granting long-term credits to agriculture and forestry. Lantbrukskredit AB is a credit market company active in financing investments in the processing side of agriculture and forestry, such as the food industry, the forest industry and the consumer goods retail trade. Lantbrukskredit also finances companies outside the agricultural and forestry sectors, especially in the energy sector.

The General Mortgage Bank, which until mid-1997 was responsible for the borrowing for Landshypotek AB, is being phased out. Operations now solely consist of management of outstanding bond loans. Most of these loans fall due for payment over the next five years and the loan with the longest maturity is due year 2014.

The relationship between Landshypotek AB and The General Mortgage Bank is governed by a financing and administration agreement. Under that agreement, The General Mortgage Bank passes on its borrowing to Landshypotek AB on identical terms and conditions and in the same currency. Landshypotek AB is responsible for all administration and costs for managing the affairs of The General Mortgage Bank.

## MEMBERS

The number of members in the Association was 69,216 (70,859) at year-end. 2,847 (3,270) new members were added during the year and 4,490 (9,488) members left the Association. Subscription funds under notice of redemption amounted to MSEK 30.5 (26.4).

## COMPOSITION OF THE BOARD OF DIRECTORS

Carl Posse left the Board of Directors during the year. Per-Ola Eriksson, Olle Hakelius and Anders Johansson were appointed as new directors at the 2000 annual meeting of the Association. Starting with the 2000 operating year, the Board of Directors has twelve members and four alternates.

## PERSONNEL

The Managing Director and the Deputy Managing Director, who are employed by the Association and hold the same positions in Landshypotek AB, have not received any salary or other compensation from the Association. The Association has no other employed personnel.

Kjell Stillman has been appointed new Managing Director replacing Ulf Fredrikson, who will retire in connection with the 2001 regularly scheduled Annual General Meeting. Kjell Stillman is currently Managing Director of Föreningssparbanken Jordbrukskredit AB.

Fees to directors on the main and regional boards have been paid in an amount of MSEK 2.0 (2.0). MSEK 0.3 (0.3) hereof refers to the main board and the remainder to the regional boards.

## LENDING OPERATIONS

Loan demand continued strong throughout the operating year. The Group's lending increased by 5.6 (5.0) percent and loans outstanding were MSEK 31,950.3 (30,256.7) at year-end.

Newly approved loans in Landshypotek AB amounted to MSEK 3,084.4 (3,805.9). 68.8 (69.6) percent of this amount is below 65 percent of the value of properties financed; the remaining amount is between 65 and 75 percent of loan value.

Landshypotek conducts annual customer attitude surveys. For the seventh consecutive year, increased satisfaction with products, services and interest rates was recorded. The borrower-owned organisational form and the refund system, in combination with competitive interest rates and a service-minded organisation, are cited by the customers as primary reasons for this.

## GROUP LIQUIDITY AND FINANCING

Landshypotek handles its domestic borrowing mostly through programs for Bonds, Medium Term Notes and Commercial Paper. In addition, Landshypotek has agreements for short-term borrowing under Certificates of Deposit, committed credit facilities and confirmed facilities with a number of banks.

Due to the continuing increase in adjustable rate lending, borrowing in the commercial paper market has also increased. An increase of the program from MSEK 8,000 to MSEK 10,000 was arranged during the year. The program was linked to the VPC clearing system during the year.

Landshypotek issues private bonds in the private



and small-company market with shorter maturities, and also credit market notes. A new bond loan aimed at private market was introduced during the year.

Securities issued increased by MSEK 421.0 to MSEK 25,936.1. Utilisation under the MTN program, with a frame amount of MSEK 5,000 was MSEK 2,200 at year-end.

Borrowing by The General Mortgage Bank declined during the year by MSEK 2707,9 (3073,6) to MSEK 7606,6.

On the international market, Landshypotek has arranged an EMTN program in the amount of MEUR 1,000. At year-end MEUR 210 of this facility was utilised. In addition hereto, Landshypotek has raised a number of bilateral loans, so-called *Schuldscheine*, in a total amount of MEUR 160.

## RATING

Landshypotek AB and The General Mortgage Bank has a longterm A- rating from Standard & Poor's and a long term ratio of A from Fitch. Landshypotek AB's commercial paper program has received a K1 rating from Nordisk Rating.

## EARNINGS PERFORMANCE

### Landshypotek Incorporated Association

Costs for central and regional administration amounted to MSEK 4.0 (5.7). In addition hereto, the Association, which for account of the Group is a member of the Federation of Swedish Farmers, was responsible for costs amounting to MSEK 4.1 (4.1) by reason hereof.

### Group

The Group's operating profit amounted to MSEK 267.0 (241.5). Net interest income amounted to MSEK 379.9 (380.3). The development of net interest income is primarily explained by a continued severe competitive situation. Among other things, Landshypotek has reduced the margins on the gradually growing adjustable rate lending, and also improved the rebate terms for large-volume borrowing.

Operating expenses amounted to MSEK 151.9 (160.8). The lower cost level is explained primarily by lower IT costs, as the previous year was burdened with, among other things, costs for adapting the Company's loan system to euro currency and a new millennium. Operating expenses include an allocation to Landshypotek's profit sharing foundation in the amount of MSEK 1.8 (1.7).

Customers' payment ability, coupled with strong demand for agricultural property, has meant that the credit risks in the business are still low. Some of the provisions for loan losses previously set aside have therefore been reversed. The year's net expense for loan losses was MSEK +8.2 (-4.9), of which MSEK +1.9 (-3.6) refers to Landshypotek AB.

## EXPECTED FUTURE DEVELOPMENT

On the condition of an unchanged level of interest rates, net interest income as well as profit is expected to be at a similar level in 2001 as in 2000.

## CAPITAL ADEQUACY

The Association is not embraced by capital adequacy requirements. Landshypotek AB reports capital adequacy in accordance with the rules for financial corporate groups together with The General Mortgage Bank, Lantbrukskredit AB and Landshypotek Jordbrukskredit AB.

The capital adequacy computations contain the proposal for profit allocation of the Board of Directors. The capital adequacy ratio for the financial corporate group stands at 12.83 (13.17) percent. The core capital ratio was 7.81 (7.75) percent. A capital adequacy analysis is provided separately in the Annual Report (page 19).

## LANDSHYPOTEK'S REFUND SYSTEM

Landshypotek's co-operative form of association means that most of the Group's profit is used for refunds and interest on contribution capital to the members of the Association. SEK 166.9 (183.4) of the year's operating profit of SEK 267.0 (241.5) reverts back to the members of the Association.

Refunds are computed as a certain percentage of regular interest payments to Landshypotek AB. Seventy percent of the refund is set aside as individual contribution capital in the Association until the amount of the contribution reaches 8 percent of loan principal. The remainder is paid out in cash.

The Association is furnished with funds for refunds to its members through group contributions. For 2000, the group contribution amounted to MSEK 200.0 (200.0). The contribution capital is used exclusively, but taking the liquidity needed for the refund system into account, for acquiring shares in Landshypotek AB.

During 2000 the Association subscribed for shares in a rights issue by Landshypotek AB in the amount of MSEK 140.0 (100.0).

## ALLOCATION OF PROFIT

The Board of Directors proposes that the year's result be allocated thus that SEK 142.4 (163.0), equivalent to 8.0 (9.1) percent of interest paid, be refunded to the members, and that SEK 24.5 (20.2) be paid as interest on member contribution balances as of year-end 2000. The rate of interest paid on regular contributions is proposed to be 3.25 (3.25) percent and 3.75 (3.75) percent on premature contributions. The year's funds available for disposition, MSEK 18.4, are to be carried forward.

After the above proposed profit allocations, the contribution capital of the Association stands at 863.4 (753.9), divided on refund contributions 862.4 (752.9) MSEK and premature contributions MSEK 1.0 (1.0).



# Statement of Income

		Group		Parent Association	
SEK thousand	Not	2000	1999	2000	1999
Interest income		1,993,094	1,973,535	9,864	4,946
Interest expense		– 1,613,191	– 1,593,219	– 1,567	– 44
<b>Net interest income</b>	<b>1</b>	<b>379,903</b>	<b>380,316</b>	<b>8,297</b>	<b>4,902</b>
Dividend income	2	194	174	0	0
Commission income	3	7,805	9,892	0	0
Commission expense	4	– 5,155	– 8,250	0	0
Net result of financial transactions	5	4,762	3,413	0	0
Other operating income	6	23,156	21,718	0	0
<b>Total operating income</b>		<b>410,665</b>	<b>407,263</b>	<b>8,297</b>	<b>4,902</b>
General administrative expense	7	– 126,357	– 135,475	– 8,199	– 9,871
Depreciation, amortisation and write-down of tangible and intangible fixed assets	8	– 7,380	– 7,369	– 13	– 13
Other operating costs	9	– 18,137	– 17,997	– 751	– 1,462
<b>Total costs before loan losses</b>		<b>– 151,874</b>	<b>– 160,841</b>	<b>– 8,963</b>	<b>– 11,346</b>
<b>Profit before loan losses</b>		<b>258,791</b>	<b>246,422</b>	<b>– 666</b>	<b>– 6,444</b>
Loan losses, net	10	8,243	– 4,944	0	0
<b>Operating profit</b>		<b>267,034</b>	<b>241,478</b>	<b>– 666</b>	<b>– 6,444</b>
Year-end appropriations	11	– 167,175	– 183,411	26,343	14,441
Taxes on the year's profit	12	– 28,037	– 15,673	– 7,260	– 2,406
<b>Net profit</b>		<b>71,822</b>	<b>42,394</b>	<b>18,417</b>	<b>5,591</b>

# Balance Sheet



		Group		Parent Association	
SEK thousand	Not	2000	1999	2000	1999
<b>ASSETS</b>					
Cash and balance due from central banks		297	703	0	0
Loans to credit institutions	13	68,207	293,099	200,457	212,968
Loans to the public	14	31,950,287	30,256,717	0	0
Bonds and other interest-bearing securities	15	181,000	180,000	1,000	0
Shares, etc.	16	76	76	1	1
Shares in group companies	16	0	0	1,460,378	1,320,378
Intangible fixed assets					
Other intangible fixed assets	17	2,944	4,416	0	0
Tangible fixed assets					
Furniture and fixtures	18	9,544	10,297	35	48
Buildings and land	18	140,614	139,159	0	0
Other assets	19	899,618	302,986	55	1,509
Prepaid expenses and accrued income	20	342,424	451,300	8,406	1,046
<b>Total assets</b>		<b>33,595,011</b>	<b>31,638,753</b>	<b>1,670,332</b>	<b>1,535,950</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>					
Due to credit institutions	21	1,826,460	484,518	0	0
Borrowing from the public	22	116,616	107,610	0	0
Securities issued, etc.	23	25,936,057	25,515,046	0	0
Other liabilities	24	54,727	42,573	11,184	6,548
Accrued expenses and prepaid income	25	684,417	817,720	1,564	0
Provisions	26	113,446	119,517	42,724	48,908
Subordinated debt	27	2,112,093	1,981,863	0	0
<b>Total liabilities</b>		<b>30,843,816</b>	<b>29,068,847</b>	<b>55,472</b>	<b>55,456</b>
<b>Untaxed reserves</b>	28	<b>0</b>	<b>0</b>	<b>19,637</b>	<b>13,155</b>
<b>Equity</b>	30				
<b>Restricted equity</b>					
Equity issue in progress		863,407	753,940	863,407	753,940
Statutory reserves/legal reserve		1,767,245	1,753,396	713,399	707,808
<b>Non-restricted equity</b>					
Retained earnings		48,721	20,176	0	0
Net profit for the year		71,822	42,394	18,417	5,591
<b>Total equity</b>		<b>2,751,195</b>	<b>2,569,906</b>	<b>1,595,223</b>	<b>1,467,339</b>
<b>Total liabilities, provisions and equity</b>		<b>33,595,011</b>	<b>31,638,753</b>	<b>1,670 332</b>	<b>1,535,950</b>
Assets pledged		None	None	None	None
Contingent liabilities					
Guaranty to VPC as issuer		None	2,681	None	None
Försäkringsbolaget Pensionsgaranti, FPG		248	230	None	None
Commitments					
Derivative instruments	29	532,933	269,415	0	0





# Statement of Cash Flow

	Group		Parent Association	
SEK thousand	2000	1999	2000	1999
<b>Current operations</b>				
Operating profit	267,034	241,478	– 666	– 6,444
<i>Adjustment for items not included in cash flow</i>				
Depreciation and amortisation	7,380	7,369	13	12
Taxes	– 28,037	– 15,673	– 7,260	– 2,406
<i>Cash flow from current operations before changes in working capital in current operations</i>	246,377	233,174	– 7,913	– 8,838
<i>Changes in assets and liabilities in current operations</i>				
Loans to the public	– 1,693,570	– 1,442,743	0	0
Loans to financial institutions	224,892	– 66,024	12,511	– 43,871
Bonds and other interest-bearing securities	– 1,000	– 29,336	– 1,000	0
Miscellaneous assets	– 487,756	– 132,566	– 5,907	– 687
Securities issued	421,011	1,248,778	0	0
Due to financial institutions	1,341,942	311,538	0	– 3,000
Borrowing from the public	9,006	51,577	0	0
Miscellaneous liabilities	– 127,220	– 266,431	17	7,032
<b>Cash flow from current operations</b>	<b>– 66,318</b>	<b>– 92,033</b>	<b>– 2,292</b>	<b>– 49,364</b>
<b>Investment activities</b>				
Shares in Group companies	0	0	– 140,000	– 100,000
Furniture and fixtures	– 2,985	– 3,735	0	0
Buildings and land	– 3,625	– 1,584	0	0
<b>Cash flow from investment activities</b>	<b>– 6,610</b>	<b>– 5,319</b>	<b>– 140,000</b>	<b>– 100,000</b>
<b>Financing activities</b>				
Subordinated debt	130,230	147,868	0	0
Group contribution received	0	0	200,000	200,000
Member contributions paid in	14	414	14	414
Refunds and member contribution interest paid	– 57,722	– 51,050	– 57,722	– 51,050
<b>Cash flow from financing activities</b>	<b>72,522</b>	<b>97,232</b>	<b>142,292</b>	<b>149,364</b>
<b>Change in liquid funds</b>	<b>– 406</b>	<b>– 120</b>	<b>0</b>	<b>0</b>
Liquid funds at beginning of year	703	823	0	0
Liquid funds at year-end	297	703	0	0

# Accounting Principles

## **Definitions and comparative data**

The principles below with respect to accounting and risk exposure apply in relevant parts to all companies in the Landshypotek Group.

The Landshypotek Group includes Landshypotek Incorporated Association, Landshypotek AB, The General Mortgage Bank of Sweden, Lantbrukskredit AB, Landshypotek Jordbrukskredit AB and other wholly owned inactive companies.

In running text in the Annual Report, "Landshypotek" means the Group, according to the definition above. The complete corporate names are used for individual Group companies. The General Mortgage Bank of Sweden is generally referred to as "The General Mortgage Bank".

Annual reports are prepared in accordance with the directives of the Financial Supervisory Authority (FFFS 1999:14). Consolidated financial statements are prepared in accordance with the recommendation of the Financial Accounting Standards Council (RRI:96).

All amounts are given in SEK thousand. In running text, the prior year's data are given in brackets.

## **Price differences on bond issues**

The premiums and discounts that arise in connection with issuance of bonds are allocated on a straight line basis over the life of the relevant bond issue. Discounts attributable to zero-coupon bonds are allocated to the right periods using the effective rate method.

## **Price differences on repurchased bonds**

Own bonds repurchased are cancelled in connection with the repurchase, unless the loan is subject to a sinking fund plan. Any price differences arising in connection herewith are allocated over time if required to provide a true reflection of the period's financing cost.

Repurchased bonds belonging to issues subject to a sinking fund plan are canceled at the rate prescribed by such sinking fund plan. Uncancelled bonds are valued at the average cost.

## **Interest difference compensation upon early repayment of loans**

Provisions are set aside for interest difference compensation arising in connection with repayments of loans before maturity, and the relevant amounts are allocated to the period to which they are attributable.

## **Principles of depreciation and amortisation**

Buildings used in operations are depreciated by 2 percent per year. Machinery and equipment, and

goodwill is depreciated and amortised, respectively, on a straight-line basis over five years and personal computers are depreciated on a straight-line basis over three years.

## **Receivables and liabilities in foreign currency**

Receivables and liabilities in foreign currency are reported at the rate of exchange prevailing at the time of borrowing. Hedge accounting is applied.

## **Provisions for possible and incurred loan losses**

Loan losses incurred during the year and write-downs for probable loan losses are reported as loan losses. Loans outstanding are reported net, after deduction of incurred loan losses as well as write-downs for possible loan losses.

Incurred losses are those losses whose amount is regarded as finally established, or highly probable because a bankruptcy administrator has provided an estimate of the percentage of assets to be distributed, creditors have accepted a composition proposal, or claims have otherwise been modified.

A receivable is classified as a nonperforming loan if the interest, principal or utilised overdraft is more than 60 days past due.

A nonperforming loan is classified as a doubtful loan when the repayment capacity of the borrower is not expected to improve sufficiently within two years, or when other circumstances compromise its value.

A reserve for possible loan losses is set aside if the value of the collateral does not cover the loan amount. The loan is written down to the amount expected to be collected considering the value of the collateral.

Mortgage deeds against agricultural properties constitute the overwhelming proportion of all collateral held by Landshypotek. These are valued by external or internal appraisers.

Interest on nonperforming loans, for which the value of security or collateral does not cover principal and accrued interest, is not recognised as income. Interest payments received on such credits is reported on a cash basis.

## **Valuation of property taken for protection of claims**

Property taken over for protection of claims is carried as current assets. Upon take-over, such property is written down to fair value, which is determined as described above. In cases where this value is lower than Landshypotek's original security, the difference is reported as incurred loan loss.

# Risk Exposure

## CREDIT RISKS

### Credit risks in lending operations

Landshypotek's operations as a first mortgage lending institutions, specialised in credits to Swedish agriculture and forestry, means that the risks in lending operations are very limited, since all credit is granted against adequate collateral or security.

### Risk evaluation and risk management

Landshypotek's regional organisation constitutes the foundation for management of credit risks in the business. The valuation of loan collateral is the principal aspect of this process.

The personnel of the regional offices are assisted in the valuation process by the organisation of representatives of Landshypotek Incorporated Association who, in the form of regional boards of directors with 6–10 members per region, play a very central role. The network of representatives, which is unique to Landshypotek, ensures that all credit decisions are based on sound industry experience and familiarity with local conditions.

### Routines for valuation and determination of loan value

Routines for determination of the value of loan objects are crucial to the management and control of credit risks.

Landshypotek's lending is based on the principle of individual evaluation of financed properties. All loans are made against mortgage deeds within 75 percent of internally determined loan value.

If the loan amount exceeds 65 percent of loan value, or if there is any form of doubt about that value, the value is always determined based on on-site inspection performed by an appraiser within the organisation of representatives, or by an external appraiser authorised by Landshypotek. At lower loan to loan value ratios simplified valuation procedures are applied.

The net asset valuation of agricultural properties is complemented by business analysis if:

- the loan to loan value ratio is between 65 and 75 percent of the loan value.
- the net asset value is biased in the sense that the property contains a large proportion of farm buildings or forest land.
- net asset valuation for other reasons is deemed inadequate.

Lantbrukskredit AB may accept other similar security or collateral, such as personal guaranty or corporate mortgages. A business analysis is always performed when the credit refers to a loan object other than agricultural property.

### Other elements of the credit evaluation process

An evaluation of the borrower's payment capacity is always performed in connection with all granting of credit and in the course of investigating nonperforming loans.

In respect of larger credits, such evaluation is performed in connection with annual loan reviews.

### Follow-up and control of credit risks

An established customer relationship is typically the basis for the evaluation process. In some cases external credit reports are used.

Due consideration is given to credit risks by setting aside provisions for probable loan losses.

Engagements not subject to provisions are judged not to contain measurable credit risk at the time of the closing of the books, because the value of the collateral or security exceeds the loan claim by an adequate margin.

### Concentration of credit risk

Landshypotek AB's loan portfolio is well diversified, which means that there are no significant concentrations of risk, for instance with respect to size of loan, time of approval, geographical distribution or business orientation.

Of great importance to the evaluation of credit risk in individual farm enterprises is the large holdings of forest land by Swedish farmers. This is unique in an international comparison.

Forest land holdings constitute a considerable reserve and profit equalisation opportunity for farm enterprises.

### Large exposures

Under the rules of the Swedish Financial Supervisory Authority, credits in excess of 10 percent of the lender's capital base are classified as large exposures. Large exposures are reported on a quarterly basis to the Financial Supervisory Authority, by the Group and by each respective Group company.

The Landshypotek Group, capital base MSEK 4,273.5, reports no engagements as being large exposures.

Landshypotek AB, capital base MSEK 3,588.5, has 62 engagements exceeding MSEK 10 and has no engagements to report as being large exposures.

Lantbrukskredit AB, capital base MSEK 267.5, reports 26 engagements as being large exposures. The largest engagement is in the amount of MSEK 116.0 and others at between MSEK 91.4 and MSEK 28.3, or a total of MSEK 1,609.8.

For eight of the engagements in Lantbrukskredit, a total of MSEK 689.9, risk-sharing guaranties



totalling MSEK 155.0 have been granted by Landshypotek Jordbrukskredit AB.

Landshypotek Jordbrukskredit AB, capital base MSEK 420.7, has no large exposures.

#### **Other credit risks**

Due consideration is given to risks related to other financial assets by evaluation of counterparties. Such risks are restricted by limits set by the Board of Directors.

#### **FINANCIAL RISKS**

Financial risks are divided into the categories market risks and liquidity risks as defined below.

Management and control of the financial risks in the business are primarily exercised by the Company's organisation, divided into areas of responsibility with well defined administrative boundaries, and by instructions and control documents issued by the Board of Directors.

Well functioning internal control has had high priority in building the organisation.

In addition, the business is supported by very modern financial management systems with well developed routines for the day-to-day work as well as for risk calculations and analysis.

#### **Market risks**

In Landshypotek's business, market risks are mainly interest risks and currency risks.

##### *Interest risks*

Interest risks arise when interest fixing periods or interest bases for assets and liabilities or off-balance-sheet items are mismatched.

Due consideration is given to interest risks related to lending pursuant to the principle of matched borrowing. Any discrepancy is analysed on a current basis using so-called gap analysis.

If matched borrowing cannot be obtained, interest rate swaps are utilised to ensure that actual risks incurred do not exceed the limits approved by the Board of Directors.

##### *Currency risks*

Currency risks arise when the present value of assets and liabilities, including derivative positions, in a foreign currency are mismatched.

All currency positions in Landshypotek are hedged through currency swap agreements with first-class counterparties.

#### **Liquidity risks**

By liquidity risks is meant the risk that one or more of the Group's companies is temporarily unable to discharge a liability due for payment because of

failure in borrowing opportunities due, for instance, to disturbances in the market.

Landshypotek's borrowing strategy is one of deliberate diversification of borrowing, both in terms of different types of instruments and different geographical markets. From a risk point of view, this means that major disturbances are required within as well as outside Sweden for Landshypotek's borrowing opportunities to be negatively affected.

Landshypotek AB's adjustable-rate lending is financed mainly by the Company's commercial paper program in the amount of SEK 10 billion. Committed credit facilities from Swedish and foreign banks totalling about SEK 6 billion are in place to support the commercial paper borrowing program in the event that disturbances should erupt in the market. For borrowing by The General Mortgage Bank, there is also the Swedish Government's guarantee fund in the amount of MSEK 700.

#### **OPERATIVE RISKS**

So-called operative risks also arise in the company in addition to credit risks and financial risks. By this is meant the risks that arise in the running of the business, such as risks related to failure of IT systems, criminal activity or incorrect processing of matters due to negligence or ignorance on the part of individual persons.

Landshypotek's policy is to minimise this type of risk by having a well-functioning organisation, rules and routines, and active security work.

Management and control of operative risks is mainly by internal rules and instructions, and by follow-up and oversight by active internal audit procedures.

In the IT area, where the greatest risks are judged to exist, security arrangements include a host of different measures. Everything from choice of suppliers and co-operation partners, to building and organising IT systems and development of quality-assured routines for operations and systems maintenance.

Landshypotek's policy is to create close and long-term relationships with suppliers of critical functionality and to develop a high level of competence within the Company in areas of critical importance to the business.

In a low head-count business such as Landshypotek's, dependency is great on the knowledge and loyalty to the Company of individual persons in a number of respects. Good HR policy is critical to nurture our know-how as well as loyalty, and to contribute to creating a good work climate.

Landshypotek has complementary protection in the form of well designed insurance protection.

# Notes to the Financial Statements

	Group		Parent Association	
SEK thousand	2000	1999	2000	1999
<b>NOTE 1 NET INTEREST INCOME</b>				
<b>Interest income</b>				
Interest income on loans to credit institutions	8,546	13,072	35	32
Interest income on loans to group companies	0	0	9,794	4,897
Interest income on loans to the public	1,971,414	1,952,415	0	0
Less interest losses	-285	-1,300	0	0
Interest income on interest-bearing securities	12,741	8,838	0	0
Other interest income	678	510	35	17
<b>Total interest income</b>	<b>1,993,094</b>	<b>1,973,535</b>	<b>9,864</b>	<b>4,946</b>
Average interest on loans to the public	6.34%	6.61%	-	-
All interest income is attributable to the Swedish market.				
<b>Interest expense</b>				
Interest on liabilities to Group companies	0	0	1,567	44
Interest on liabilities to credit institutions – other	60,358	10,637	0	0
Interest expense on deposits and borrowing from the public	737	1,551	0	0
Interest expense on interest-bearing securities	1,471,902	1,542,682	0	0
Interest expense on subordinated debt	158,051	135,450	0	0
Other interest expense	-77,857	-97,101	0	0
<b>Total interest expense</b>	<b>1,613,191</b>	<b>1,593,219</b>	<b>1,567</b>	<b>44</b>
<b>Net interest income</b>	<b>379,903</b>	<b>380,316</b>	<b>8,297</b>	<b>4,902</b>
<b>NOTE 2 DIVIDEND INCOME</b>				
Dividends on other shares	194	174	0	0
	<b>194</b>	<b>174</b>	<b>0</b>	<b>0</b>
<b>NOTE 3 COMMISSION INCOME</b>				
Loan commissions	7,805	9,892	0	0
	<b>7,805</b>	<b>9,892</b>	<b>0</b>	<b>0</b>
<b>NOTE 4 COMMISSION EXPENSE</b>				
Commissions on securities	854	3,433	0	0
Other commissions	4,301	4,817	0	0
	<b>5,155</b>	<b>8,250</b>	<b>0</b>	<b>0</b>
<b>NOTE 5 NET RESULT OF FINANCIAL TRANSACTIONS</b>				
Capital gains and losses, interest-bearing securities	4,762	3,404	0	0
Exchange rate changes	0	9	0	0
	<b>4,762</b>	<b>3,413</b>	<b>0</b>	<b>0</b>
<b>NOTE 6 OTHER OPERATING INCOME</b>				
Income from real estate	22,981	21,668	0	0
Other	175	50	0	0
	<b>23,156</b>	<b>21,718</b>	<b>0</b>	<b>0</b>

	Group		Parent Association	
SEK thousand	2000	1999	2000	1999
<b>NOTE 7 GENERAL ADMINISTRATIVE EXPENSE</b>				
<b>Personnel costs</b>				
Salaries and other compensation to Managing Director, Deputy Managing Director and Board of Directors	4,355	4,703	474	498
Salaries, etc. to other representatives and personnel	39,280	39,790	1,787	1,482
Allocation to profit sharing foundation	1,798	1,661	0	0
Pension costs	12,729	4,072	0	0
Social insurance contributions	14,701	15,036	662	646
Other personnel costs	1,213	1,483	255	644
<b>Total personnel costs</b>	<b>74,076</b>	<b>66,745</b>	<b>3,178</b>	<b>3,270</b>
<b>Specification of pension costs</b>				
Increase in provision for pensions	914	–6,544	0	0
Pension premiums	7,621	6,219	0	0
of which to Managing Director and Deputy Managing Director	(1,507)	(3,837)	(0)	(0)
Direct pension disbursements	1,936	4,066	0	0
Payroll and yield taxes attributable to pension costs	2,258	331	0	0
<b>Total pension costs</b>	<b>12,729</b>	<b>4,072</b>	<b>0</b>	<b>0</b>
Number of men employed	48	50	0	0
Number of women employed	59	54	0	0
	<b>107</b>	<b>104</b>	<b>0</b>	<b>0</b>
Average number of people paid, including temporary employees	102.5	106.3	0.0	0.0
Loans to members of the Board of Directors amount to	45,435	40,575	0	0
Loans to members of senior management amount to	1,000	0		
Terms do not differ from those applied to other lenders and personnel				
For the Managing Director of The General Mortgage of Sweden, Landshypotek Jordbrukskredit and the Deputy Managing Director of Landshypotek AB the earliest retirement age is 60 years. In the event of termination at the initiative of the Company, there is a right to severance pay in the amount of one annual salary. Pension commitments are covered by insurance and by allocation to provision for pensions credit insured with FPG.				
<b>Other administrative expense</b>				
Costs for premises	3,110	2,595	33	34
Office costs	3,833	3,962	14	9
Telephone, data network and postage costs	6,131	6,528	0	783
IT costs	6,439	17,295	0	0
Purchased services	12,382	12,957	4,405	5,088
Auditing	746	870	90	41
Audit fee Öhrlings PricewaterhouseCoopers	573	536	42	41
Other assignments than the audit assignment	556	878	115	29
Auditor appointed by the Financial Supervisory Authority	239	163	0	0
Other	19,018	23,816	412	617
<b>Total other administrative expense</b>	<b>52,281</b>	<b>68,730</b>	<b>5,021</b>	<b>6,601</b>
<b>Total general administrative expense</b>	<b>126,357</b>	<b>135,475</b>	<b>8,199</b>	<b>9,871</b>
<b>NOTE 8 DEPRECIATION, AMORTIZATION AND WRITE DOWN OF TANGIBLE AND INTANGIBLE FIXED ASSETS</b>				
<b>Tangible</b>				
Furniture, fixtures and equipment	3,738	5,169	13	13
Real estate	2,170	2,097	0	0
<b>Intangible</b>				
Fixed assets	1,472	1,472	0	0
Reversal of negative goodwill	0	–1,369	0	0
<b>Total depreciation, amortisation and write-down</b>	<b>7,380</b>	<b>7,369</b>	<b>13</b>	<b>13</b>
<b>NOTE 9 OTHER OPERATING COSTS</b>				
Marketing expense	9,285	10,162	385	1,132
Costs for premises	7,238	6,943	0	0
Other	1,614	892	366	330
<b>Total other operating costs</b>	<b>18,137</b>	<b>17,997</b>	<b>751</b>	<b>1,462</b>



	Group		Parent Association	
SEK thousand	2000	1999	2000	1999
<b>NOTE 10 LOAN LOSSES, NET</b>				
<b>Loan losses</b>				
Year's write-down for actual losses	1,730	9,675		
Reversal of prior provisions for probable loan losses, reported as actual losses in this year's accounts	-1,462	-9,125		
Write-down for probable loan losses	5,004	9,175		
Recovery of previous actual losses	-1,517	-1,728		
Reversal of prior provisions for probable loan losses	-12,219	-4,446		
<b>Total loan losses</b>	<b>-8,464</b>	<b>3,551</b>		
All loan losses are attributable to loans to the public.				
<b>Change in value of property taken over</b>				
Net result of sales of property taken over	221	1,200		
Net result on disposal of property taken over	0	193		
<b>Total change in value of property taken over</b>	<b>221</b>	<b>1,393</b>		
<b>Total loan losses, net</b>	<b>-8,243</b>	<b>4,944</b>		
<b>NOTE 11 APPROPRIATIONS</b>				
Change in timing difference reserve	0	0	6,482	2,148
Group contribution to Landshypotek Incorporated Association	0	0	-200,000	-200,000
Refund	142,626	163,219	142,626	163,219
Group contributions to subsidiaries	24,549	20,192	24,549	20,192
<b>Total appropriations</b>	<b>167,175</b>	<b>183,411</b>	<b>-26,343</b>	<b>-14,441</b>
<b>NOTE 12 TAXES ON THE YEAR'S PROFIT</b>				
Current taxes	27,345	12,111	7,260	2,406
Deferred taxes	692	3,562	0	0
<b>Total taxes</b>	<b>28,037</b>	<b>15,673</b>	<b>7,260</b>	<b>2,406</b>
<b>NOTE 13 LOANS TO CREDIT INSTITUTIONS</b>				
Loans to Group companies	0	0	198,500	212,000
Loans to banks	66,080	290,334	1,957	968
Loans to the postal giro system	2,116	2,754	0	0
Other	11	11	0	0
<b>Total loans to credit institutions</b>	<b>68,207</b>	<b>293,099</b>	<b>200,457</b>	<b>212,968</b>
<b>Loans specified by time to maturity</b>				
Payable on demand	67,874	92,771	1,957	968
Remaining to maturity: up to 3 months	333	200,328	28,500	212,000
Remaining to maturity: 3 months to 1 year	0	0	170,000	0
Remaining to maturity: 1 year to 5 years	0	0	0	0
Remaining to maturity: more than 5 years	0	0	0	0
	<b>68,207</b>	<b>293,099</b>	<b>200,457</b>	<b>212,968</b>
<b>Loans specified by remaining period of fixed interest</b>				
Payable on demand	67,874	92,771	1,957	968
Remaining period of fixed interest: up to 3 months	333	200,328	28,500	212,000
Remaining period of fixed interest: 3 months to 1 year	0	0	170,000	0
Remaining period of fixed interest: 1 year to 5 years	0	0	0	0
Remaining period of fixed interest: more than 5 years	0	0	0	0
	<b>68,207</b>	<b>293,099</b>	<b>200,457</b>	<b>212,968</b>

	Group		Parent Association	
SEK thousand	2000	1999	2000	1999
<b>NOTE 14 LOANS TO THE PUBLIC</b>				
Loans outstanding	31,960,568	30,275,845	0	0
Less provisions for probable loan losses	- 10,281	- 19,128	0	0
<b>Net loans outstanding</b>	<b>31,950,287</b>	<b>30,256,717</b>	<b>0</b>	<b>0</b>
1. Nonperforming loans with interest reported on accrual basis	333,767	351,626		
2a. Nonperforming loans	46,764	37,228		
2b. Loans with reduced interest	0	0		
4. Interest etc. on problem loans recognised as income during the period	4,901	2,225		
5. Annual current return on problem loans	11.67%	5.24%		
6. Annual interest on assets, which are not problem loans	6.33%	6.60%		
7. Reserve for possible loan losses	11,228	19,861		
8. Estimated value of problem loans before write-down for possible loan losses (3+7)	57,992	57,089		
<b>Specification of loans by time remaining to maturity</b>				
Payable on demand	0	0		
Remaining to maturity: up to 3 months	13,161,575	9,394,897		
Remaining to maturity: 3 months to 1 year	4,469,278	3,200,103		
Remaining to maturity: 1 year to 5 years	13,374,304	16,706,867		
Remaining to maturity: more than 5 years	945,130	954,850		
	<b>31,950,287</b>	<b>30,256,717</b>		
<b>Specification of loans by remaining period of fixed interest</b>				
Payable on demand	0	0		
Remaining period of fixed interest: up to 3 months	13,155,925	9,454,897		
Remaining period of fixed interest: 3 months to 1 year	4,469,278	3,200,103		
Remaining period of fixed interest: 1 year to 5 years	13,379,702	16,646,867		
Remaining period of fixed interest: more than 5 years	945,382	954,850		
	<b>31,950,287</b>	<b>30,256,717</b>		
<b>NOTE 15 BONDS AND OTHER INTEREST-BEARING SECURITIES</b>				
<b>Bonds</b>				
Issued by non-financial institutions	181,000	180,000	1,000	
	<b>181,000</b>	<b>180,000</b>	<b>1,000</b>	<b>0</b>
<b>Holdings by time remaining to maturity</b>				
Remaining to maturity: up to 1 year	0	0		
Remaining to maturity: 1 year to 5 years	61,000	0		
Remaining to maturity: 5 years to 10 years	120,000	180,000		
Remaining to maturity: more than 10 years	0	0		
	<b>181,000</b>	<b>180,000</b>	<b>0</b>	<b>0</b>
<b>Holdings by remaining period of fixed interest</b>				
Remaining period of fixed interest: up to 1 year	180,000	180,000		
Remaining period of fixed interest: 1 year to 5 years	1,000	0		
Remaining period of fixed interest: 5 years to 10 years	0	0		
Remaining period of fixed interest: more than 10 years	0	0		
<b>Total holdings by remaining period of fixed interest</b>	<b>181,000</b>	<b>180,000</b>	<b>0</b>	<b>0</b>
<b>NOTE 16 SHARES</b>				
<b>Shares, etc.</b>				
OM-Gruppen AB 38,808 shares à SEK 2	71	71	0	0
Other	5	5	1	1
	<b>76</b>	<b>76</b>	<b>1</b>	<b>1</b>
<b>Shares in group companies</b>				
Holdings in credit institutions				
Landshypotek AB 1,320,328 shares à SEK 1,000	0	0	1,320,328	1,220,328
Share capital paid in but not registered			140,000	100,000
Other holdings				
Samkredit AB 5,000 shares a à SEK 10	0	0	50	50
	<b>0</b>	<b>0</b>	<b>1,460,378</b>	<b>1,320,378</b>
<b>Total shares</b>	<b>76</b>	<b>76</b>	<b>1,460,379</b>	<b>1,320,379</b>
All subsidiaries are wholly owned. Refer to separate organizational chart.				

	Group		Parent Association	
SEK thousand	2000	1999	2000	1999
<b>NOTE 17 INTANGIBLE ASSETS</b>				
<b>Other intangible fixed assets</b>				
Opening cost	7,360	7,360	0	0
Fixed assets added during the year	0	0	0	0
Closing cost	7,360	7,360	0	0
Opening accumulated amortisation	-2,944	-1,472	0	0
Year's amortisation	-1,472	-1,472	0	0
Closing accumulated amortisation	-4,416	-2,944	0	0
<b>Book value, net</b>	<b>2,944</b>	<b>4,416</b>	<b>0</b>	<b>0</b>
<b>NOTE 18 TANGIBLE ASSETS</b>				
<b>Furniture, fixtures and equipment</b>				
Fixed assets				
Book value opening balance	41,268	39,950	94	93
Added during the year	3,716	3,734	0	1
Disposals during the year	-7,284	-2,416	0	0
<b>Closing cost</b>	<b>37,700</b>	<b>41,268</b>	<b>94</b>	<b>94</b>
Accumulated depreciation at beginning of year	-30,971	-28,219	-46	-33
Year's depreciation and write-down	-3,738	-5,169	-13	-13
Accumulated depreciation on assets sold	6,553	2,417	0	0
<b>Closing accumulated depreciation</b>	<b>-28,156</b>	<b>-30,971</b>	<b>-59</b>	<b>-46</b>
<b>Total furniture, fixtures and equipment</b>	<b>9,544</b>	<b>10,297</b>	<b>35</b>	<b>48</b>
<b>Buildings and land</b>				
Current assets				
Agricultural properties taken over for protection of claims				
Number of properties	3	3		
Tax assessment values	3,151	4,943		
Estimated fair value	3,399	5,720		
<b>Book value</b>	<b>3,399</b>	<b>3,620</b>		
Net booked return, SEK thousand	-104	-143		
Fixed assets				
Operating properties				
Number of properties	10	10		
Tax assessment values	226,577	161,762		
Estimated fair value	570,150	466,150		
Opening cost	161,879	160,195		
Capitalised rebuilding expense	3,846	1,684		
<b>Closing cost</b>	<b>165,725</b>	<b>161,879</b>		
Opening accumulated depreciation	-26,340	-24,243		
Year's depreciation	-2,170	-2,097		
<b>Closing accumulated depreciation</b>	<b>-28,510</b>	<b>-26,340</b>		
<b>Book value</b>	<b>137,215</b>	<b>135,539</b>		
<b>Total buildings and land</b>	<b>140,614</b>	<b>139,159</b>		
<b>NOTE 19 OTHER ASSETS</b>				
Advised interest and repayments	56,978	39,627	0	0
Due from Group companies	0	0	0	5
Translation difference on currency swaps	564,619	157,438	0	0
Other receivables	278,021	105,921	55	1,504
	<b>899,618</b>	<b>302,986</b>	<b>55</b>	<b>1,509</b>
<b>NOTE 20 PREPAID EXPENSES AND ACCRUED INCOME</b>				
Prepaid expenses	25,236	16,409	0	0
Accrued interest	317,188	434,891	8,406	1,046
	<b>342,424</b>	<b>451,300</b>	<b>8,406</b>	<b>1,046</b>



	Group		Parent Association	
SEK thousand	2000	1999	2000	1999
<b>NOTE 21 DUE TO CREDIT INSTITUTIONS</b>				
Banks in Swedish currency	408,011	50,000	0	0
Banks in foreign currency	1,418,449	434,518	0	0
	<b>1,826,460</b>	<b>484,518</b>	<b>0</b>	<b>0</b>
<b>Specification of borrowing by time remaining to maturity</b>				
Payable on demand	0	0	0	0
Remaining to maturity up to 3 months	408,284	50,257	0	0
Remaining to maturity 3 months to 1 year	0	0	0	0
Remaining to maturity 1 year to 5 years	1,068,642	434,261	0	0
Remaining to maturity more than 5 years	349,534	0	0	0
	<b>1,826,460</b>	<b>484,518</b>	<b>0</b>	<b>0</b>
<b>Specification of borrowing by remaining period of fixed interest</b>				
Payable on demand	0	0	0	0
Remaining period of fixed interest: up to 3 months	990,624	50,257	0	0
Remaining period of fixed interest: 3 months to 1 year	835,836	0	0	0
Remaining period if fixed interest: 1 year to 5 years	0	434,261	0	0
Remaining period of fixed interest: more than 5 years	0	0	0	0
	<b>1,826,460</b>	<b>484,518</b>	<b>0</b>	<b>0</b>
<b>NOTE 22 BORROWING FROM THE PUBLIC</b>				
Other notes payable	116,616	107,610		
	<b>116,616</b>	<b>107,610</b>		
<b>Specification of borrowing by time remaining to maturity</b>				
Payable on demand	0	0		
Remaining to maturity up to 3 months	76,482	79,546		
Remaining to maturity 3 months to 1 year	36,884	15,364		
Remaining to maturity 1 year to 5 years	3,250	6,000		
Remaining to maturity more than 5 years	0	6,000		
	<b>116,616</b>	<b>107,610</b>		
<b>Specification of borrowing by remaining period of fixed interest</b>				
Payable on demand	0	0		
Remaining period of fixed interest: up to 3 months	76,482	79,546		
Remaining period of fixed interest: 3 months to 1 year	36,884	15,364		
Remaining period of fixed interest: 1 year to 5 years	3,250	6,700		
Remaining period of fixed interest: more than 5 years	0	6,000		
	<b>116,616</b>	<b>107,610</b>		
<b>NOTE 23 SECURITIES ISSUED, ETC.</b>				
<b>Commercial paper</b>				
In Swedish kronor	6,585,010	6,797,787		
	<b>6,585,010</b>	<b>6,797,787</b>		
<b>Bonds</b>				
In Swedish kronor	16,327,021	17,870,000		
In foreign currency	3,024,026	847,259		
	19,351,047	18,717,259		
<b>Total securities issued</b>	<b>25,936,057</b>	<b>25,515,046</b>		
<b>Specification of borrowing by time remaining to maturity</b>				
Remaining to maturity up to 1 year	11,078,972	10,443,624		
Remaining to maturity 1 year to 5 years	13,636,374	13,323,527		
Remaining to maturity 5 years to 10 years	1,168,966	1,723,911		
Remaining to maturity more than 10 years	51,745	23,984		
	<b>25,936,057</b>	<b>25,515,046</b>		
<b>Specification of borrowing by remaining period of fixed interest</b>				
Remaining to maturity up to 1 year	14,319,666	12,526,344		
Remaining to maturity 1 year to 5 years	10,625,680	11,804,007		
Remaining to maturity 5 years to 10 years	938,966	1,160,711		
Remaining to maturity more than 10 years	51,745	23,984		
	<b>25,936,057</b>	<b>25,515,046</b>		

	Group		Parent Association	
SEK thousand	2000	1999	2000	1999
<b>NOTE 24 OTHER LIABILITIES</b>				
Tax liabilities	32,406	28,699	11,175	6,515
Due to Group companies	0	0	9	0
Other liabilities	22,321	13,874	0	33
	<b>54,727</b>	<b>42,573</b>	<b>11,184</b>	<b>6,548</b>
<b>NOTE 25 ACCRUED EXPENSES AND PREPAID INCOME</b>				
Accrued interest	651,182	740,581	1,564	0
Other accrued income	10,010	12,810	0	0
Prepaid expenses	23,225	64,329	0	0
	<b>684,417</b>	<b>817,720</b>	<b>1,564</b>	<b>0</b>
<b>NOTE 26 PROVISIONS</b>				
Provisions for pensions	12,396	11,482	0	0
Provisions for taxes	58,326	57,635	0	0
Other provisions	42,724	50,400	42,724	48,908
	<b>113,446</b>	<b>119,517</b>	<b>42,724</b>	<b>48,908</b>
<b>NOTE 27 SUBORDINATED DEBT</b>				
<b>In Swedish kronor</b>				
1991/2001 SEK 40 000 000 12.00% notes	40,000	40,000		
1993/2003 SEK 50 000 000 12.75% notes	50,000	50,000		
1995/2005 SEK 100 000 000 10.20% notes	100,000	100,000		
1996/2006 SEK 50 000 000 10.00% notes	50,000	50,000		
1996/2006 SEK 40 000 000 9.97% notes	40,000	40,000		
1997/2007 SEK 200,000 000 7.05% notes	200,000	200,000		
	<b>480,000</b>	<b>480,000</b>		
<b>In foreign currency</b>				
1992/2002 CHF 75 000 000 7 3/8% bonds	438,090	401,400		
1993/2003 GBP 30 000 000 8.73% perpetual	252,923	247,963		
1997/2002 USD 100 000 000 6.47% perpetual	941,080	852,500		
	<b>1,632,093</b>	<b>1,501,863</b>		
<b>Summa efterställda skulder</b>	<b>2,112,093</b>	<b>1,981,863</b>		
<b>NOTE 28 UNTAXED RESERVES</b>				
Timing difference reserve	0	0	19,637	13,155
	<b>0</b>	<b>0</b>	<b>19,637</b>	<b>13,155</b>
<b>NOTE 29 OBLIGATIONS, DERIVATIVE INSTRUMENTS</b>				
<b>Instruments with positive values</b>				
Interest-based swaps	35,273	135,368		
Currency-related swaps	579,962	176,969		
<b>Total</b>	<b>615,235</b>	<b>312,337</b>		
<b>Instruments with negative values</b>				
Interest-based swaps	-55,877	-18,434		
Currency-related swaps	-26,425	-24,488		
<b>Total</b>	<b>-82,302</b>	<b>-42,922</b>		
<b>Derivative instruments, net</b>	<b>532,933</b>	<b>269,415</b>		

# **NOTE 30 EQUITY**

Group	Share capital	Equity issue in progress	Restricted reserves	Non-restricted reserves	Result for the year	Total equity
<b>Opening equity</b>	<b>752,939</b>	<b>1,001</b>	<b>1,753,396</b>	<b>20,176</b>	<b>42,394</b>	<b>2,569,906</b>
Allocation to statutory reserves of 1999 retained earnings			5,592	– 36,802	– 42,394	
Corrected preliminary refund for 1999	211					
Preliminary refund for 2000						
Refund, preliminary 2000	142,415					
Less cash portion 30% 1999	– 42,725					
Reversal of cash portion allocated 1999	21,101					
Interest on contribution accounts 2000	24,512	37				
Less cash portion 30% 2000	– 7,341	– 11				
Contribution capital paid in/disbursed during the year						
Opening contributions with notice of redemption	– 26,851					
Other contributions	– 1,869	– 12				
Transfer between unrestricted / restricted			8,257	– 8,257		
Year's net profit					71,822	
<b>Closing equity</b>	<b>862,392</b>	<b>1,015</b>	<b>1,767,245</b>	<b>48,721</b>	<b>71,822</b>	<b>2,751,195</b>

Parent Association	Share capital	Equity issue in progress	Restricted reserves	Non-restricted reserves	Årets resultat	Total equity
<b>Opening equity</b>	<b>752,939</b>	<b>1,001</b>	<b>707,808</b>	<b>0</b>	<b>5,591</b>	<b>1,467,339</b>
Allocation to statutory reserves of 1999 retained earnings			5,591		– 5 591	
Corrected preliminary refund for 1999	211					
Preliminary refund for 2000						
Refund, preliminary 2000	142,415					
Less cash portion 30% 1999	– 42,725					
Reversal of cash portion allocated 1999	21,101					
Interest on contribution accounts 2000	24,512	37				
Less cash portion 30% 2000	– 7,341	– 11				
Contribution capital paid in/disbursed during the year						
Opening contributions with notice of redemption	– 26,851					
Other contributions	– 1,869	– 12				
Year's net profit					18,417	
<b>Closing equity</b>	<b>862,392</b>	<b>1,015</b>	<b>713,399</b>	<b>0</b>	<b>18,417</b>	<b>1,595,223</b>

# **NOTE 31 SPECIFICATION OF BALANCE SHEET – GROUP**

ASSETS	Current assets		Fixed assets	
	Book value	Verkligt värde	Fair value	Fair value
Cash and balance due from central banks	297	297		
Loans to credit institutions	68,207	243,144		
Loans to the public	46,764	46,764	31,903,523	32,691,473
Bonds and other interest-bearing securities			181,000	186,061
Shares, etc.			76	9,042
Intangible fixed assets				
Other intangible assets			2,944	2,944
Tangible fixed assets				
Furniture and fixtures			9,544	9,544
Buildings and land	3,399	3,399	137,215	573,549
Other assets	899,618	899,618		
Prepaid expenses and accrued income	342,424	342,424		
<b>Total assets</b>	<b>1,360,709</b>	<b>1,535,646</b>	<b>32,234,302</b>	<b>33,472,613</b>
LIABILITIES	Book value		Fair value	
Due to credit institutions		1,826,460		1,863,014
Borrowing from the public		116,616		293,275
Securities issued, etc.		25,936,057		26,913,545
Other liabilities		54,727		54,727
Accrued expenses and prepaid income		684,417		684,417
Provisions				0
Provision for pensions		12,396		12,396
Other provisions		42,724		42,724
Subordinated debt		2,112,093		2,188,722
<b>Total liabilities</b>		<b>30,843,816</b>		<b>32,111,146</b>



# Allocation of Profit

The Board of Directors proposes that the profit be allocated in accordance with the proposal in the Administration Report.

Stockholm, March 14, 2001

Lars Eggertz  
*Chairman*

August Trolle-Löwen  
*Vice Chairman*

Carl Edblom  
*Second Vice Chairman*

Bertil Andersson

Jörgen Blakstad

Berndt Carlsson

Jörgen Ehrensvärd

Per-Ola Eriksson

Olle Hakelius

Olof Jakobsson

Anders Johansson

Stig Lindén

Ulf Fredrikson  
*Managing Director*

# Audit Report

To the Annual General Meeting of Landshypotek Incorporated Association, organization number 769600-5003

We have examined the annual accounts, the consolidated financial statements and the accounting records, and the administration of the Board of Directors and the Managing Director of Landshypotek Incorporated Association for the year 2000. These financial statements and the administration are the responsibility of the Board of Directors and the Managing Director. Our responsibility is to express an opinion on the annual accounts and the administration based on our audit.

The audit was conducted in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts and the consolidated financial statements are free of material misstatements. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures contained in the financial statements. An audit also includes assessing the accounting principles and the Board of Directors' and the Managing Director's application thereof, as well as evaluating the overall annual

accounts and consolidated financial statements presentation. We have examined significant decisions, measures and circumstances in the Company in order to evaluate whether or not any Director or the Managing Director is liable for damages to the Company, or in any other way has acted in breach of the Companies Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Company's Articles of Association. We believe that our audit provides a reasonable basis for our opinion below.

The annual accounts and the consolidated financial statements are prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and therefore provide a fair representation of the Company's and the Group's results and financial position in accordance with generally accepted accounting standards in Sweden.

We recommend that the Annual General Meeting adopts the statement of income and the balance sheet for the Parent Company and the Group, that the profit be allocated in accordance with the recommendation contained in the Administration Report and that the members of the Board of Directors and the Managing Director be granted discharge from liability for the financial year.

Stockholm, March 14, 2001

Göran Raspe  
*Authorized Public Accountant*

Magnus Aaby-Ericsson

Peder Thott



Lars Eggertz



Bertil Andersson



Jörgen Blakstad



Berndt Carlsson

## Board of Directors and Auditors

### BOARD OF DIRECTORS

**Lars Eggertz**, b. 1936, Chairman, University Diploma in Farm Management, Director since 1994, Director, The General Mortgage Bank since 1993, Director, LRF.

**Bertil Andersson**, b. 1940, Farmer, Director since 1997, Chairman, Svensk Mjök, Director, Arla and LRF.

**Jörgen Blakstad**, b. 1932, Land Owner, Director since 1994.

**Berndt Carlsson**, b. 1939, Farmer, Director since 1997.

**Carl Edblom**, b. 1944, Second Vice Chairman, Social studies graduate, Freeholder, Director since 1994, Director, The General Mortgage Bank since 1991, Chairman, Eltech Electronic Nord AB, Local Government Commissioner, 1977–1991.

**Jörgen Ehrensvärd**, b. 1932, University Diploma in Farm Management, Director since 1994, Member, Swedish Academy of Forestry and Agriculture.

**Per-Ola Eriksson**, b. 1946, Director since 2000, Director General, Swedish National Board for Industrial and Technical Development since 1999, Chairman, Landshypotek AB since 1994, Chairman, The General Mortgage Bank since 1994, Director, Anticimex försäkringar AB, Chairman, ALMI Företagspartner AB, former Member of Parliament.

**Olle Hakelius**, b. 1938, Agronomist, Director since 2000, Chairman, SLR, First Vice Chairman, LRF, Member, Swedish Academy of Forestry and Agriculture.

Carl Edblom



Jörgen Ehrensvärd



Per-Ola Eriksson







**Olle Hakelius**



**Olof Jakobsson**



**Anders Johansson**

**Olof Jakobsson**, b. 1944, University Diploma in Farm Management, Director since 1994, Director Swedish Meats.

**Anders Johansson**, b. 1948, Farmer, Director since 2000.

**Stig Lindén**, b. 1940, University Diploma in Farm Management, Director since 1994, Chairman, Sveriges Frö- och Oljeväxtodlare, Member, Swedish Academy of Forestry and Agriculture.

**August Trolle-Löwen**, b. 1933, First Vice Chairman, MBA, Director since 1994, Director, The General Mortgage Bank since 1993, Member, Swedish Academy of Forestry and Agriculture.

**Ulf Fredrikson**, b. 1936, Master of Political Science, Managing Director, Director since 1994, Chairman, Lantbrukskredit AB, Landshypotek Jordbrukskredit AB, Director, LRF Försäkring Livförsäkringsbolag, LRF Försäkringsaktiebolag, AIK Fotboll AB.

#### DEPUTIES

**Lars-Åke Folkmer**, Farmer, Vara.

**Lennart Lindström**, Farmer, Luleå.

**Inge Nilsson**, Farmer, Everöd.

**Pär-Uno Svensson**, Farmer, Storebro.

#### AUDITORS

**Göran Raspe**, Authorized Public Accountant, Stockholm.

**Peder Thott**, MBA, Svedala.

**Magnus Aaby-Ericsson**, University Diploma in Farm Management, Alvesta.

**Stig Lindén**



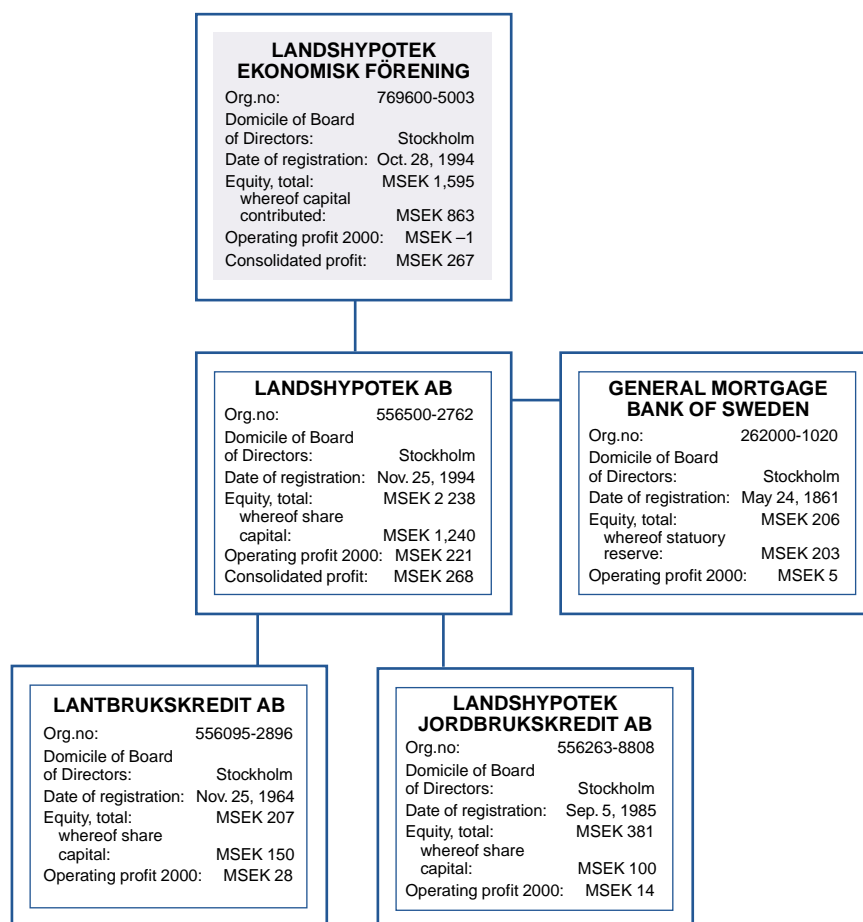
**August Trolle-Löwen**



**Ulf Fredrikson**



# Organization



# Landshypotek on the Internet – www.landshypotek.se



Landshypotek's Web site got a new look and a new structure during the year. The development of new services continues. The goal is for members to be able to manage large parts of their loan engagement with Landshypotek via the Internet. Welcome to [www.landshypotek.se](http://www.landshypotek.se)!

Concept and graphic form: ArtoDito

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Translation: Ole Böök

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Rollover of loans: 020-44 00 30

Paying and receiving: 020-44 00 40

Membership: 020-44 00 50

Private bonds: 020-44 00 60

Interest information: 020-44 00 70

Internet: [www.landshypotek.se](http://www.landshypotek.se)

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