



Landshypotek Bank AB Interim report Q2 2019

January – June 2019

Per Lindblad, CEO of Landshypotek Bank comments on the first six months of 2019:

We look back at a first six months with continued growth. We have grown in terms of volumes for both savings and lending, as well as in all our target groups. Operating profit excluding financial transactions was up on the previous quarter and on the corresponding period last year. However, our growth ambitions stretch even further and we want to reach more customers. However, in a market dominated by lower credit growth and rising interest expenses, the performance for the first half of the year was satisfactory. Moreover, the quarter also saw the profit for 2018 distributed to our owners: our farming and forestry customers. This year, SEK 138 million strengthen agriculture and forestry, and our farmers' and foresters' enterprises. The dividend confirms and highlights our unique role as a bank.

January – June 2019

compared with January – June 2018

- Operating profit amounted to SEK 187 million (197).
- The underlying operating profit, excluding the net result of financial transactions, was SEK 189 million (178).
- Net interest income amounted to SEK 409 million (386).
- Costs totalled SEK 226 million (220).
- Net credit losses had a positive earnings impact of SEK 2 million (positive: 9).
- Lending amounted to SEK 73.9 billion (70.8).
- Deposits amounted to SEK 14.6 billion (13.5).

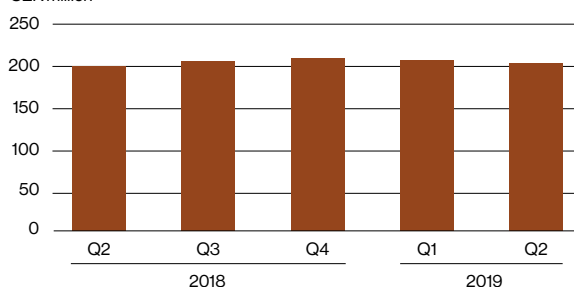
April – June 2019

compared with January – March 2019

- Operating profit amounted to SEK 100 million (87).
- The underlying operating profit, excluding the net result of financial transactions, was SEK 102 million (87).
- Net interest income amounted to SEK 203 million (206).
- Costs totalled SEK 114 million (112).
- Net credit losses had a positive earnings impact of SEK 11 million (negative: 8).
- Lending amounted to SEK 73.9 billion (73.3).
- Deposits amounted to SEK 14.6 billion (14.4).

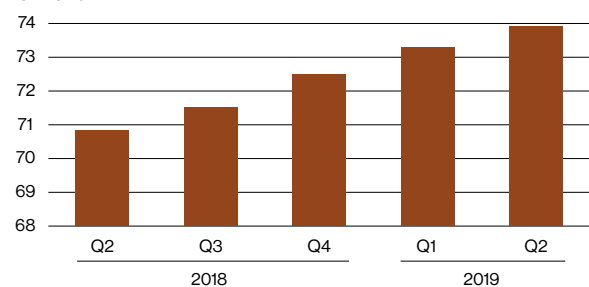
Net interest income

SEK million



Loans to the public

SEK billion



Landshypotek Bank

Landshypotek Bank is a bank for borrowing and for saving. Loans are offered to farmers and foresters, and homeowners across the country. Our savings products are open to Sweden's general public and to companies. The bank has a long history dating back to 1836 with lending focused on ownership and cultivation of farms and forests, and the bank is currently undergoing rapid development and growing with more customers and customer categories. Landshypotek's focus outside of the major cities means it presents itself as a bank for all of Sweden.

Landshypotek Bank is a wholly owned subsidiary of Landshypotek Ekonomisk Förening. Historically, lending has been primarily against collateral in the form of farming and forestry real estate, but in autumn 2017, the bank started to offer homeowner mortgages and is now establishing itself as a new operator in the mortgage market. In terms of the volume of loans outstanding, Landshypotek Bank is one of the ten largest banks in Sweden. Given its major significance for financing Sweden's farming and forestry sectors, the Swedish National Debt Office deems the bank systemically important from a resolution perspective.

The bank's 38,000 farming and forestry borrowers own the bank through the cooperative association and are thereby responsible for its equity, and share its earnings. However, all business and licensable activities are conducted within the bank, which has about 191 employees nationwide.

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

- *Promoting a sustainable countryside:* A living countryside, where fields and forests are cultivated, and thereby create growth and jobs. The country's sustainable development rests on the conditions for living and working throughout Sweden. Landshypotek Bank enables rural living and investments in rural enterprise. This lays the foundation for a future for the cities and the countryside.
- *The bank's brand promise:* "For a richer life in the countryside," which is interwoven throughout the bank's and its employees' work days. The distribution of the bank's surplus to farmers and foresters comprises another key principle for the value-driven operation that is Landshypotek Bank.
- *Close to farming and forestry customers:* The bank's strength in terms of financing farming and forestry are its close links to the sectors. Account managers at offices around the country often have backgrounds in agriculture and forestry, and banking and financing expertise. The bank's close customer relationships are complemented by the cooperative association's regional member organisation.
- *Strength of the member organisation:* The bank is owned by its loan customers in the farming and forestry sector. The cooperative association strengthens ties, commitment and the long-term perspective for the bank's operations. The cooperative association is responsible for member relationships.

- *The force of employee commitment:* The bank is developing together with its employees. Satisfied employees mean satisfied customers. The four employee values — Customer-centric focus, Drive, Enthusiasm and Together — were drawn up by the employees and inspire all work at Landshypotek Bank.
- *Digital development:* Landshypotek Bank's history extends more than 180 years, but it is also quickly developing to meet customers' needs. A unique digital solution has been built on a modern platform that allows people to quickly and simply become customers, open accounts and start saving at Landshypotek Bank. In 2017, a new platform was launched to enable convenient online mortgage applications. In 2018, a new credit management system laid the foundations for more efficient customer administration, and efforts were also initiated with Open Banking. In June this year, the bank made it possible for farming and forestry customers to apply for loans online. Digitisation improves possibilities for customers and enables more efficient work.
- *A challenger as a mortgage bank:* Though relatively recent, the mortgage venture is for the long term. Landshypotek Bank wants to help more people discover a bank with a difference that offers considerable security and extensive experience, and with an eye for potential nationwide. The bank applies competitive interest rates and transparent pricing without any requirements for upselling or full customer offers.

Landshypotek Bank — in brief

- Founded in 1836.
- Has 80,000 customers in the farming and forestry sector, as well as mortgage borrowers and savers.
- Has lending of some SEK 69.2 billion to farming and forestry in Sweden and SEK 4.7 billion in homeowner mortgages.
- Has savings customers with total savings of SEK 14.6 billion.
- Owned by the 38,000 members of the cooperative association active in farming and forestry. SEK 138 million of the earnings for 2018 was distributed back to farming and forestry customers.
- Has 191 employees. The bank's employees meet farming and forestry customers locally across the country. Relationships with savers and homeowner mortgage customers are managed online and by telephone.

CEO's Statement

Continuously evolving together

One year ago, I wrote "Having recently joined Landshypotek Bank, one is struck by the energy and potential intrinsic to choosing your own path." We do this every day at Landshypotek — but we do this based on existing expectations and the opportunities that arise as we interact with our business environment. We are not here just to fulfil our own needs.

The banks' first six months were marked by the interest rate hike at the end of last year. In parallel, consumer credit growth has slowed substantially and competition for customers has intensified. It is difficult to grow profitably in an environment of stiffening competition and rising interest rates. We will not match our ambition for growth, but we will continue to grow and our half-year results are satisfactory.

The year has also started well for many of our professional farmers. In many places, the first hay harvest was at record levels and of good quality. The planted cereal crops appear to have established themselves well, which is good. Because even if many of our talented entrepreneurs performed well despite the drought, many are still suffering the constraints of restricted liquidity.

Our lending is developing as planned with stable growth. More customers means a stronger foundation for financial sustainability over time.

Some predictions forecast an explosion in the number of challengers in the mortgage market, but such was not the case. Reality caught up with many participants and some ceased while still at the planning stage. On the other hand, those that are currently establishing themselves, such as Landshypotek, have already created considerable consumer advantage through enhanced openness and lower interest rates in the market. The stiffer competition in the market is now notable in the actions of the major mortgage banks. The market-leading banks often use the required contact from customers to gather the mortgage data as an opportunity to make a counteroffer and retain the customer at the last second. While this is an understandable response, for the banking market as a whole, it does not promote competition and customer choice. It is doubtful that the regulator intended the mortgage data, which can reasonably be considered the customer's, to be used in this manner. As banks, we should be able to act better in this regard.



During the spring, we intensified efforts together with our employees to develop in our work with continuous change. Each day, we aim to develop at the pace possible based on our prerequisites as a bank and at the pace required to keep and develop advantage for our customers and owners.

We are the first bank to offer digital loan applications to farming and forestry customers. The digital portal, now open in a beta version for customers, complements our otherwise strong interface with farming and forestry customers. We have opened a new portal to welcome more customers.

The digital application is part of efforts to work more coherently with customer focus at Landshypotek Bank, where the boundaries between digital and analogue are being erased. Our chosen path for development is to leverage the energy of our employees, with all their various backgrounds and skills, and to use this energy cohesively to into something that encapsulates Landshypotek. Energy is now becoming actions.

This is more far-reaching than an organisational change. This is a way of building and creating value from what the bank already has. We stand out from the other banks when we meet the market — closer and more committed. We are reliable and secure in our competence. But above all else, we start from our own DNA and our values — that which makes us unique and enables us to take our own path to becoming the best for our customers and owners.

I look forward to the autumn.

Per Lindblad
Chief Executive Officer

Events at Landshypotek Bank in the second quarter of 2019

Landshypotek Bank continues to develop. Over the past quarter, the bank has started a number of new partnerships, continued its mortgage initiative and, inter alia, welcomed new Board members and customers.

- **More mortgage customers**

Landshypotek Bank has continued to offer competitive rates on mortgages, with both short and long fixed terms.

- **The “Your farm – Your Opportunity” competition was a success.**

In June, the winner of the countrywide “Your farm – Your Opportunity” competition was announced. 142 farms from the north to the south took part and 40,000 people voted for their favourites. All progress could be followed on www.landshypotek.se, but was also covered by other parties and the media.

- **MittBolån + Landshypotek Bank = True**

Through a new partnership, Sweden’s largest mortgage broker, MittBolån, will present Landshypotek Bank to new mortgage customers.

- **First year’s party for the bank’s green bond.**

The green forest bond issued by Landshypotek Bank in 2018 celebrated its first year in May. In conjunction with this and to follow up, the bank published its green impact report showcasing the climate benefit derived from customers’ forestry operations.

- **Landshypotek Bank partners with Dansbandsveckan.**

In the spring, Landshypotek Bank started a new partnership with the Dansbandsveckan music and dance festival. The bank met with dance enthusiasts and visitors before, during and after the festival.

- **Substantial commitment at SkogsElmia and Borgeby**

In June, the bank met farming and forestry representatives at the popular expos SkogsElmia and Borgeby Fält dagar. The bank was greeted by substantial commitment due to raising urgent issues for the sector concerning the right of ownership and farming from an environmental perspective. At Borgeby, Landshypotek Bank presented the results from the Lantbrukspanelen: The misunderstood environmental hero.

- **Partnership with Dina Försäkringar**

In June, the bank started a partnership with Dina Försäkringar AB. 11 insurance companies operate under the Dina Försäkringar brand with offices throughout the company. The aim of the partnership is to raise awareness of the bank and Dina försäkringar respectively with shared customers.

- **New Board members joined the bank and the owning cooperative association.**

In conjunction with the AGM, Marie André and Rickard Klingberg joined as new Board members for Landshypotek Ekonomisk Förening. In parallel, Gunilla Aschan was elected as a new member of the Board of Landshypotek Bank.

- **AGM for Landshypotek Ekonomisk Förening**

On 7 May, Landshypotek Ekonomisk Förening, the cooperative association that owns the bank, held its AGM in central Stockholm, which resolved to distribute a dividend of SEK 138 million to the members.

- **Collaboration started with Virkesbörsen**

In April, the bank announced a collaboration with Virkesbörsen, a marketplace that facilitates trading timber for forest owners (both small and large) and companies.

- **Digital loan applications launched for farmers and foresters**

In June, the bank started a service that enables farmers and foresters to start loan applications digitally. This service is in ongoing development in partnership with the customers. The digital loan application provides the bank with another portal for contact with farming and forestry customers. Landshypotek is the first bank to provide such a service to farmers and foresters.



Summary Landshypotek Bank

SEK million	Q2 2019	Q2 2018	Q1 2019	Jan–Jun 2019	Jan–Jun 2018	Full-year 2018
Net interest income	203	199	206	409	386	799
Operating profit	100	95	87	187	197	386
Profit after tax	77	78	67	143	156	294
Loans to the public	73,900	70,822	73,272	73,900	70,822	72,511
Change in loans to the public, %	0.9	1.8	1.0	0.9	1.8	1.4
Interest margin, LTM, %	1.14	1.15	1.14	1.14	1.15	1.13
Deposits from the public	14,622	13,533	14,357	14,622	13,533	14,150
Change in deposits from the public, %	1.8	4.1	1.5	3.3	6.8	11.6
C/I ratio including financial transactions	0.56	0.55	0.54	0.55	0.54	0.52
C/I ratio excluding financial transactions	0.55	0.57	0.54	0.55	0.57	0.53
Credit loss level, % ¹⁾	–	–	0.05	–	–	0.01
Total capital ratio (%) ²⁾	18.7	21.1	18.7	18.7	21.1	19.4
Rating, long-term						
Standard & Poor's, Covered bonds	AAA	AAA	AAA	AAA	AAA	AAA
Standard & Poor's	A-	A-	A-	A-	A-	A-
Fitch	A	A	A	A	A	A
Average number of employees, LTM	191	184	191	191	184	190

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

²⁾ The decline in ratios was mainly attributable to the new IRB permits, the introduction of a risk-weight floor under Pillar 2 and to clarification of the regulations pertaining to own funds.

Our operating environment

Developments in the macroeconomy, financial markets and farming and forestry finances impact Landshypotek Bank. The effects of the drought are still noticeable in the farming and forestry sectors, though conditions appear favourable for this year's harvests. In the consumer market, demand continues to rise for Swedish added value, which increases opportunities for the primary food producers. However, many indicators are now pointing toward a slowdown in the Swedish economy.

Increasingly weak forward-looking indicators

Concern regarding global growth continued to dominate financial market performance in the second quarter of 2019.

Hopes of a solution to the trade conflict between the US and China and a softer line on future monetary policy from the Fed and the ECB have supported a positive stock market trend. Moreover, Brexit has been postponed until 31 October this year.

On the other hand, forward-looking indicators, such as companies' order intake and the purchasing managers index, point toward a slowdown. Macro statistics from the US have shown a weaker trend, where retail is one area that has performed weakly due to declining private consumption. The purchasing managers index continues to decline and indicates that the US economy is also softening. Despite the above, growth remained at expensive levels close to 2% in the second quarter. Core inflation was unchanged at 2.0% in May compared with March.

The Fed, the US central bank, left the key interest rate unchanged at its June meeting. The Fed has not lowered the rate since 2008, but the economic trend and escalating trade conflicts are expected by many to lead to a lowering.

ECB ready to take necessary actions

In Europe, the purchasing managers index declined in June, which indicates a continuing economic slowdown. German industry continues to perform weakly and industrial production in April fell 1.9% compared with March. Order intake indicators continue to point toward a decline.

In June, the ECB announced that it was ready to take the necessary actions given the developments in Europe and left the door open for further stimulus packages. Both lowering interest rates and expanding bond purchases are on the table. During the quarter, ten-year government bonds recorded new lows in Germany and France. Moreover, for the first time, a Swedish ten-year government bond was also traded with a negative interest rate.

Swedish economic slowdown

It is becoming increasingly clear that Sweden cannot continue to withstand the downturn in Europe. The National Institute of Economic Research's latest economic tendency survey showed a clear slowdown. The total economic tendency indicator decreased to 98.1 and dipped below 100 for the first time since April 2015.

Swedish GDP growth was +0.6% for the first quarter. The upturn in GDP was due to a downturn in imports driven by weak private consumption. The purchasing managers index declined over the quarter, but remains over the 50 mark, thus indicating continued low growth. Once again, it is the order intake indicators that pull the results down. Sweden's CPI figures for May were a little higher than expected at 2.1% compared with 2.0% in April.

The Swedish housing market appears increasingly stable and buyers have returned to the market. The outlook for continued low interest rates for a long time ahead support this trend.

The Riksbank's, Sweden's central bank, April meeting took a softer line than anticipated by the market and the next interest rate hike was postponed until 2019, or the start of 2020, which is about one quarter later than the plan announced in February. The Riksbank also announced its intent to continue to purchase bonds in 2020. Since then, Swedish data has been reported in line with or slightly better than the Riksbank's forecasts, which motivates an unchanged interest-rate path. A clear opinion from the Fed and the ECB regarding an increase in global risks should also make it more difficult for the Riksbank to raise the interest rate. Altogether, this means that interest rates will probably remain low, which will benefit the bank's customers moving forward.

Weather as a building block for entrepreneurship

Farming and forestry are highly dependent on weather, climate and environment. Last summer's drought was felt keenly and the effects continued into 2019. Smaller harvests, increased feed costs and long slaughter queues increasingly impact the liquidity of some of the country's enterprises. The outlooks for this harvest season are much brighter for all sectors.

Bark beetle infestations continue to be a challenge for forest owners

The drought also impacted forest owners. Currently, the main focus is on combating and minimising the effects of bark beetle infestations. The population and geographical range of the bark beetle has increased. Storm-damaged forest and the drought-stressed spruce trees provide favourable conditions for the bark beetle. For forest owners, the attacks entail increased costs, poorer payment levels and earlier-than-planned harvesting. Although the attacks give rise to increased costs for individual forest owners, the bank does not foresee any deterioration in credit quality due to bark beetle infestations.

Welcome improvement after last year's drought

The weather has also affected cereal growers in the US, where the spring tillage has been seriously delayed. At the same time, demand for cereals is expected to be larger this year and has resulted in rising prices in the US of late. Higher prices have also been noted in Europe, after a period of declining prices. While cereal prices have also been declining in Sweden, they remain well above normal prices ahead of the forthcoming harvest. In general, the outlook for arable farming in Sweden looks very promising. Acreages sown in the autumn with wheat and oilseed rape are of record size and, overall, look generally good. The silage harvest is also expected to be good, which is a welcome boost after last year's challenges.

Increased demand for Swedish meat

Carcass prices for beef remained stable in Sweden over the last six months, despite increased slaughter rates. Per capita consumption of beef is declining, but demand for Swedish beef is rising. In the first quarter, the trend toward an increased share for Swedish beef of total consumption strengthened according to statistics from Jordbruksverket (the Swedish Board of Agriculture). The same trend is also noticeable for pigmeat, poultry and lamb. Consumers are becoming increasingly aware of good Swedish animal husbandry and the low use of antibiotics.

Beef producers have had to deal with the challenge posed by slaughter queues and increased feed costs as result of the drought. This has resulted in restricted liquidity for several beef producers. Improved silage production and slightly shorter slaughter queues entail brighter prospects for these companies.

The export of pigmeat from the EU has been rising since the swine flu outbreak in China. In the January to April period, the export volume of pigmeat rose 13.2 percent according to figures from the European Commission. This has resulted in higher prices for pigmeat and piglets in several exporting EU countries. Hopes are that prices will also rise in Sweden during the summer or early autumn. Sweden's pig producers are still feeling the effects of the 2018 drought, when many, including normally self-sufficient farms, had to purchase feed grain in the spring.

Mobilising for future weather conditions

The weather, environment and climate issues are a natural and significant part of daily life for farmers and foresters and was confirmed in Landshypotek Bank's most recent Lantbrukspanel. A clear majority confirm that they take an environmental perspective when planning their operations. Moreover, two-thirds says they have taken measures after last summer's drought to be better prepared for future weather changes.

Our financial performance

Landshypotek Bank posted growth in volumes and the bank's earnings remain strong, moreover, the bank posted an improved operating profit excluding financial transactions on the previous quarter and on the corresponding period last year. The six-month period was marked by rising interest expenses and strong competition for customers. Loans to the public increased SEK 0.6 billion during the quarter and credit losses continued to be very low.

Financial statements for the first six months of 2019 compared with the first six months of 2018

The bank's operating profit amounted to SEK 187 million (197), down SEK 10 million year-on-year. The decline in earnings was primarily attributable to a lower net result of financial transactions. Excluding the net result of financial transactions, operating profit amounted to SEK 189 million (178).

Net interest income and volumes

Net interest income was SEK 409 million (386), up SEK 23 million. Interest income totalled SEK 667 million (609), up SEK 58 million as a result of increased lending and rising market interest rates.

Interest expenses amounted to SEK 257 million (223), up SEK 24 million year-on-year. As a result of rising market interest rates, the new financing was arranged at higher interest rate levels than the previous financing that matured. Interest expenses included fees to the Swedish National Debt Office's resolution fund, which amounted to SEK 26 (40) million.

Other operating income

Other operating income was SEK 1 million (22), down SEK 21 million due to the net result of financial transactions.

For the period, unrealised gains accounted for SEK 0 million and realised losses for SEK 2 million.

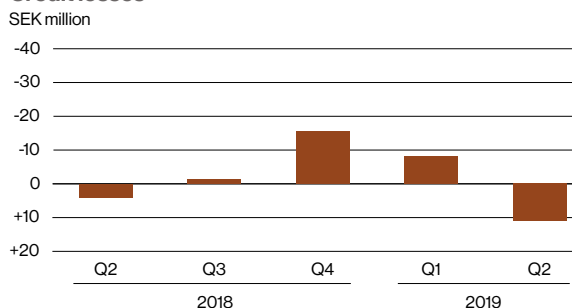
Costs

Costs amounted to SEK 226 million (220), up SEK 6 million year-on-year. Costs have increased in terms of the number of employees and due to expanded business development activities. This follows the plan, which aims in part to manage the bank's growth and in part to continue strengthening the bank as a whole.

Credit losses and credit-impaired assets

Net credit losses amounted to recoveries of SEK 2 million (recoveries: 9), of which net credit losses for non-credit-impaired assets had a negative earnings

Credit losses



Operating profit

SEK million	Jan–Jun 2019	Jan–Jun 2018	Full-year 2018
Net interest income	409	386	799
Other operating income	1	22	22
of which net result of financial transactions	-2	19	17
Costs	-226	-220	-428
C/I ratio including financial transactions	0.55	0.54	0.52
C/I ratio excluding financial transactions	0.55	0.57	0.53
Net recognised credit losses	2	9	-8
Credit loss level, % ¹⁾	-	-	0.01
Operating profit	187	197	386
Operating profit excluding the net result of financial transactions	189	178	369

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

Balance Sheet

Assets, SEK million	30 Jun 2019
Eligible treasury bills	4,851
Loans to credit institutions	522
Loans to the public	73,900
Bonds and other interest-bearing securities	8,598
Derivatives	1,910
Tangible and intangible assets	188
Other assets	428
Total assets	90,397

impact of SEK 3 million and credit-impaired assets had a negative earnings impact of SEK 1 million that was attributable to a few individual commitments. Credit losses arising from credit-impaired assets comprised the net change in the credit loss allowance and confirmed losses during the period with a negative earnings impact of SEK 5 million, together with recoveries of previously confirmed losses with a positive earnings impact of SEK 4 million.

The total credit loss allowance for non-credit-impaired assets amounted to SEK 24 million (30).

Gross credit-impaired assets amounted to SEK 624 million (558) and the credit loss allowance to SEK 52 million (60). The provisions for credit-impaired assets pertained to individual commitments within varying types of farming and geographic locations. For more information, refer to Note 3 and Note 4.

Other comprehensive income

Other comprehensive income amounted to SEK 14 million (expense: 23). Financial assets at fair value had a positive effect of SEK 13 million (4) on other comprehensive income and cross-currency basis spreads in fair value hedges had a net positive impact of SEK 1 million (negative: 27) on other comprehensive income.

Capital and capital adequacy

The total capital ratio for the consolidated situation amounted to 17.6 percent (17.9 at 31 March 2019) and the CET1 capital ratio was 13.2 percent (13.4 at 31 March 2019). The internally assessed capital requirement for the consolidated situation was SEK 4.9 billion (4.9 at 31 March 2019). The capital requirement should be compared with own funds of SEK 6.2 billion. The capital adequacy assessment takes into account the minimum capital requirement, the combined buffer requirement and the Pillar II capital requirement. Refer to Note 1 for further information.

Assets

The largest asset item in the balance sheet is Loans to the public, which increased SEK 0.6 billion to SEK 73.9 billion during the quarter and where the largest part of the increase was attributable to the new mortgage operations. The increase corresponded to lending growth

Liabilities and equity, SEK million	30 Jun 2019
Liabilities to credit institutions	937
Deposits from the public	14,622
Debt securities issued, etc.	66,579
Derivatives	469
Subordinated liabilities	1,200
Other liabilities	524
Equity	6,066
Total liabilities and equity	90,397

of 0.9 percent (1.0) over the quarter. The geographic distribution of lending is stable over time.

Landshypotek Bank's liquidity portfolio totalled SEK 13.0 billion (12.8) at 30 June 2019. The portfolio comprises Swedish covered bonds with the highest credit rating and bonds issued by Swedish municipalities. The holding of interest-bearing securities functions as a liquidity reserve. At 30 June 2019, the liquidity portfolio was 2.8 times (8.0) larger than refinancing requirements for the next six months. The ratio is affected by the allocation of maturing debt for longer than six months and can, therefore, change between measurement periods.

Liabilities

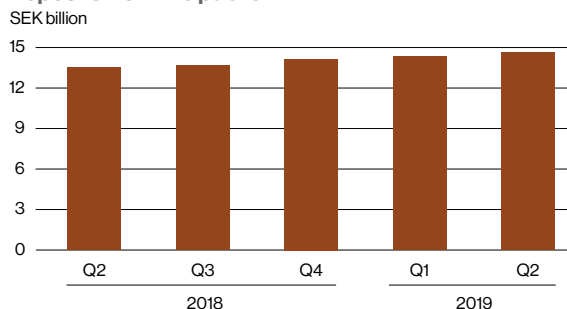
Funding

Landshypotek Bank actively raises funds via the capital markets, and as far as possible always strives to meet investors' wishes regarding tenors and interest-rate structures. Investor relations are of major importance as part of ensuring that investors' levels of awareness and interest are maintained in Landshypotek Bank. In the second quarter of 2019, covered bonds to a value of SEK 4.5 billion were issued. In the second quarter of 2019, bonds matured or were repurchased to a value of SEK 3.7 billion, of which SEK 2.6 billion pertained to covered bonds. The finance market for Nordic banks functioned smoothly over the quarter and demand for the bank's bonds has been favourable.

Deposits from the public

Deposits from the public totalled SEK 14.6 billion (14.4), up SEK 0.2 billion in the quarter.

Deposits from the public



Funding

SEK million	In issue 30 Jun 2019	Limit	In issue 31 Dec 2018
Swedish commercial paper	–	10,000	–
MTN programme	44,983	60,000	41,002
EMTN programme	15,924	36,966 ¹⁾	16,788
Registered covered bonds	3,592		3,446
Subordinated loans	1,900		1,900

¹⁾ EUR 3,500 million Over the year, the limit has increased due to changes in the exchange rate, but no new funding has been arranged.

Comparison with the first quarter of 2019

Operating profit amounted to SEK 100 million (87) for the quarter. Excluding the net result of financial transactions, operating profit amounted to SEK 102 million (87) for the quarter, up SEK 15 million. The upturn was mainly due to the positive earnings impact from the result of credit losses during the period. The credit losses pertained to a few individual commitments within varying types of farming and geographic locations. The underlying interest margin remained favourable.

Rating

Landshypotek Bank has credit ratings from two different rating agencies, Standard & Poor's and Fitch. No changes in the bank's ratings were forthcoming in the first six months of 2019.

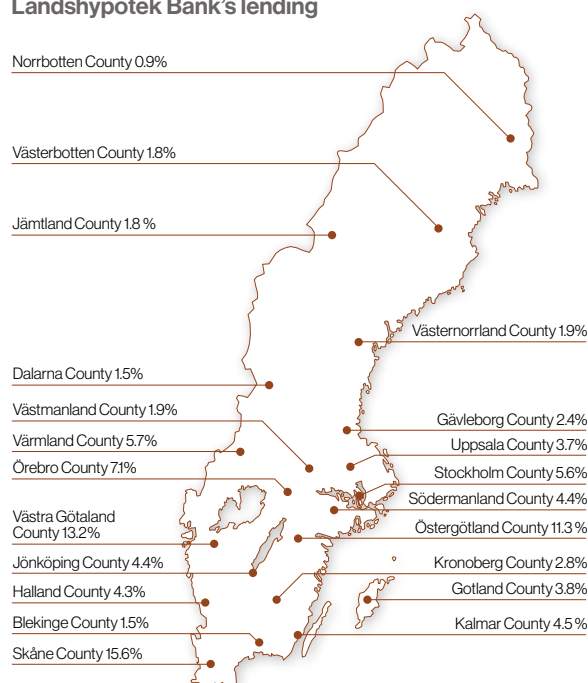
Rating	Long	Short
S&P covered bonds	AAA	
S&P	A-	A-2, K1
Fitch	A	F1

Group structure

All farming and forestry borrowers of Landshypotek Bank are also members of Landshypotek Ekonomisk Förening. Landshypotek Ekonomisk Förening owns 100 percent of the shares in Landshypotek Bank.

All operations are conducted exclusively in Landshypotek Bank. Landshypotek Bank owns all of the shares in two dormant companies: Sveriges Allmänna Hypoteksbank AB and Hypoteksbanken AB.

Geographic distribution of Landshypotek Bank's lending



Events after the end of the period

After the end of the reporting period, the bank completed the sale of a property, which will result in a capital gain of SEK 55 million in the third quarter of 2019. Otherwise, no significant events occurred after the end of the reporting period.

Stockholm, 18 July 2019

Per Lindblad
Chief Executive Officer

Accounting policies

This interim report has been prepared in accordance with IAS 34. From 1 January 2019, lease agreements are recognised in line with IFRS 16 Leases. For lessees, IFRS 16 will have led to the inclusion of almost all leases in the balance sheet. The right to utilise the leased asset is recognised as an asset and the present value of leasing fees are recognised as a corresponding liability in the balance sheet for lessees. The earnings impact encompasses the transfer of costs from general administrative expenses to depreciation, amortisation and impairment of tangible and intangible assets, and interest expenses. As a consequence, the bank recognised tangible non-current assets of SEK 18.2 million together with a corresponding lease liability at 1 January 2019.

In other regards, accounting policies, calculation methods and risk management are unchanged compared with the last annual report, refer to Note 1 in the Annual Report for 2018 (www.landshypotek.se/en/about-landshypotek/investor-relations/).

In accordance with Chapter 7, Section 2 of the Swedish Annual Accounts Act, Landshypotek Bank AB prepares no consolidated accounts. Landshypotek Ekonomisk förening, corporate registration number 769600-5003 domiciled in Stockholm, prepares consolidated accounts for the entire Landshypotek Group, which includes Landshypotek Bank AB, Sveriges Allmänna Hypoteksbank AB and Hypoteksbanken AB.

The main difference between the accounting policies of the company Landshypotek Bank and those of the Group pertain to the accounting for defined-benefit pensions pursuant to IAS 19. Actuarial changes for defined-benefit pensions are recognised in other comprehensive income for the Group.

Unless otherwise specified, amounts in parentheses pertain to the corresponding period for the preceding year.

Income Statement

SEK million	Note	Q2 2019	Q2 2018	Q1 2019	Jan–Jun 2019	Jan–Jun 2018	Full-year 2018
Interest income		339	308	327	667	609	1,229
of which interest income using the effective-interest method		339	308	327	667	608	1,228
of which other interest income		–	1	–	–	1	2
Interest expenses		-136	-109	-121	-257	-223	-430
of which fees for deposit insurance		-3	-2	-3	-6	-4	-10
of which fees for resolution fund		-11	-19	-16	-26	-40	-75
Net interest income	2	203	199	206	409	386	799
Net result of financial transactions		-2	4	0	-2	19	17
Other operating income		2	1	1	3	3	5
Total operating income		203	204	207	410	408	822
General administrative expenses		-105	-109	-104	-209	-212	-408
Depreciation, amortisation and impairment of tangible and intangible assets		-9	-4	-8	-17	-8	-17
Other operating expenses		0	0	0	0	0	-3
Total expenses before credit losses		-114	-113	-112	-226	-220	-428
Profit before credit losses		89	91	95	185	188	394
Net credit losses	3	11	4	-8	2	9	-8
Operating profit		100	95	87	187	197	386
Tax expense for the period		-23	-17	-20	-43	-41	-92
Net profit for the period		77	78	67	143	156	294

Statement of Comprehensive Income

SEK million	Q2 2019	Q2 2018	Q1 2019	Jan–Jun 2019	Jan–Jun 2018	Full-year 2018
Net profit for the period	77	78	67	143	156	294
Other comprehensive income						
Items to be reclassified to income statement						
Financial assets till FVTOCI	0	5	17	16	5	-27
Cross-currency basis spreads in fair value hedges	2	-14	-1	1	-35	-29
Income tax related to other comprehensive income	0	2	-3	-4	7	12
Total items that will be reclassified	1	-7	12	14	-23	-44
Total other comprehensive income	1	-7	12	14	-23	-44
Comprehensive income for the period	78	71	79	157	133	251

Balance Sheet

SEK million	Note	30 Jun 2019	31 Mar 2019	31 Dec 2018	30 Jun 2018
Assets					
Eligible treasury bills		4,851	4,957	4,962	4,983
Loans to credit institutions		522	470	540	591
Loans to the public	4	73,900	73,272	72,511	70,822
Value change of interest-hedged items in portfolio hedges		97	47	41	74
Bonds and other interest-bearing securities		8,598	7,800	6,076	7,786
Derivatives		1,910	1,594	1,304	1,809
Shares in Group entities		0	0	0	0
Intangible assets		164	154	143	118
Tangible assets					
Equipment		16	5	6	7
Buildings and land		9	24	9	9
Other assets		15	13	14	14
Current tax assets		7	14	13	2
Deferred tax assets		0	0	0	0
Prepaid expenses and accrued income		309	389	307	348
Total assets	5, 6	90,397	88,739	85,928	86,564
Liabilities and equity					
Liabilities to credit institutions		937	752	954	1,844
Deposits from the public		14,622	14,357	14,150	13,533
Debt securities issued, etc.		66,579	65,261	62,641	63,180
Derivatives		469	404	461	403
Other liabilities		92	306	251	117
Tax liabilities		-	-	-	-
Accrued expenses and prepaid income		430	462	344	391
Provisions		2	2	3	3
Subordinated liabilities		1,200	1,200	1,200	1,200
Total liabilities		84,330	82,743	80,003	80,671
Total equity		6,066	5,996	5,924	5,893
Total liabilities and equity	5, 6	90,397	88,739	85,928	86,564

Statement of cash flow

SEK million	Jan-Jun 2019	Jan-Jun 2018	Full-year 2018
Opening cash and cash equivalents	540	393	393
Cash flow from operating activities	184	407	352
Cash flow from investment activities	-29	-26	-58
Cash flow from financing activities	-173	-184	-147
Cash flow for the period	-18	198	147
Closing cash and cash equivalents	522	591	540

Statement of changes in equity

January – December 2018 SEK million	Share capital	Other contributed equity	Fair value reserve	Cross-currency basis spreads in fair value hedges	Tier 1 capital	Retained earnings	Total
Opening balance, equity	2,253	1,017	38	-	700	1,766	5,774
Comprehensive income for the period			-21	-23		294	251
Total change before transactions with owners and holders of Tier 1 capital instruments	-	-	-21	-23	-	294	251
Dividend on Tier 1 capital instruments						-28	-28
Shareholders' contributions						51	51
Group contributions paid						-158	-158
Tax on Group contributions paid						35	35
Closing balance, equity	2,253	1,017	17	-23	700	1,960	5,924

January – June 2019 SEK million	Share capital	Other contributed equity	Fair value reserve	Cross-currency basis spreads in fair value hedges	Tier 1 capital	Retained earnings	Total
Opening balance, equity	2,253	1,017	17	-23	700	1,960	5,924
Comprehensive income for the period			13	1		143	157
Total change before transactions with owners and holders of Tier 1 capital instruments	-	-	13	1	-	143	157
Dividend on Tier 1 capital instruments						-15	-15
Closing balance, equity	2,253	1,017	30	-22	700	2,088	6,066

Notes

Note 1 Capital and capital adequacy

The total capital ratio for the consolidated situation amounted to 17.6 percent compared with 17.9 percent at 31 March 2019 and the CET1 capital ratio was 13.2 percent (13.4). At Landshypotek Bank AB, the total capital ratio amounted to 18.7 percent (18.7) and the CET1 capital ratio was 13.2 percent (13.2). Own funds for the consolidated situation decreased SEK 66 million to SEK 6,179 million during the quarter. This was primarily attributable to actuarial changes and the repayment of member contributions. The minimum capital requirement rose SEK 6 million to SEK 2,802 million due mainly to the increased regulatory capital requirement for credit valuation adjustment (CVA) risk and counterparty risk as a result of increased derivative volumes. In the second quarter, the bank ceased to use internally calculated conversion factors for loan offers where the capital requirement is met in the retail exposure class. This followed clarification of the regulations from the EBA. This measure lowered the minimum capital requirement by slightly more than SEK 14 million.

In addition to the minimum capital requirement of 8 percent of the total risk-weighted amount, the capital conservation buffer requirement is 2.5 percent and the countercyclical buffer requirement is 2 percent. These two buffers make up the combined buffer requirement that must be covered by CET1 capital. On 18 September 2018, Finansinspektionen decided to raise the countercyclical buffer to 2.5 percent from 19 September 2019.

The leverage ratio for the consolidated situation amounted to 5.8 percent (6.0).

The internally assessed capital requirement for the consolidated situation on 30 June 2019 was SEK 4.9 billion (4.9), which should be compared with own funds of SEK 6.2 billion.

continued Note 1 Capital adequacy analysis

SEK million	Consolidated situation ¹⁾ 30 June 2019	Landshypotek Bank AB 30 June 2019
CET1 capital: Instruments and reserves		
Member contributions	1,708	–
Share capital	–	2,253
Other contributed equity	1,798	1,017
Tier 1 capital instruments	700	700
Reserves	8	8
Actuarial changes	-54	0
Retained earnings	1,761	1,945
Net profit for the year ²⁾	135	143
Equity in the balance sheet	6,056	6,066
Deductions related to the consolidated situation and other foreseeable costs	-55	-69
Deductions for Tier 1 capital instruments classified as equity	-700	-700
CET1 capital before regulatory adjustments³⁾	5,301	5,297
CET1 capital: regulatory adjustments		
Further value adjustments	-13	-13
Intangible assets	-164	-164
Deferred tax assets that rely on future profitability	-10	0
Fair value reserves related to gains or losses on cash-flow hedges	0	0
IRB deductions ⁴⁾	-481	-481
Defined-benefit pension plans	0	0
Total regulatory adjustments to CET1 capital	-669	-659
CET1 capital	4,632	4,638
Additional Tier 1 capital: instruments		
Tier 1 capital instruments	–	700
of which: classified as equity under applicable accounting standards	–	700
Qualifying Tier 1 capital included in consolidated additional Tier 1 capital issued by subsidiaries and held by third parties	584	–
Tier 1 capital (CET1 capital + Tier 1 capital)	5,216	5,338
Tier 2 capital: instruments and provisions		
Capital instruments and subordinated loans eligible as Tier 2 capital	0	1,200
Positive amounts resulting from the calculation of expected loss amounts (IRB)	0	–
Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third parties	964	–
Tier 2 capital before regulatory adjustments	964	1,200
Tier 2 capital: regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	–	–
Tier 2 capital	964	1,200
Own funds (Tier 1 capital + Tier 2 capital)	6,179	6,538
Total risk-weighted exposure amount	35,024	35,023
Capital ratios and buffers		
Own funds requirement	2,802	2,802
CET1 capital ratio (%)	13.2	13.2
Tier 1 capital ratio (%)	14.9	15.2
Total capital ratio (%)	17.6	18.7
Institution-specific CET1 capital requirement including buffer requirements (%)	9.0	9.0
of which: capital conservation buffer requirement (%)	2.5	2.5
of which: countercyclical buffer requirement (%)	2.0	2.0
CET1 capital available to meet buffers (%) ⁵⁾	8.7	8.7

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

²⁾ A decision by Finansinspektionen in March 2019 gave Landshypotek Bank approval, subject to specific terms and conditions in the decision, for using the interim or full-year surplus in own-funds calculations for the institute and also for its consolidated situation.

³⁾ This item pertains to the consolidated situation and differs from equity under IFRS in that the proposed dividend's contribution to equity is excluded.

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

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

continued Note 1 capital requirements

SEK million	Consolidated situation ¹⁾ 30 June 2019	Landshypotek Bank AB 30 June 2019
Internally assessed capital requirement¹⁾		
Pillar I capital requirement	2,802	2,802
Percentage of total risk-weighted exposure amount	8.0	8.0
Pillar II capital requirement	509	509
Percentage of total risk-weighted exposure amount	1.5	1.5
Combined buffer requirement	1,576	1,576
Percentage of total risk-weighted exposure amount	4.5	4.5
Total capital requirement	4,887	4,887
Percentage of total risk-weighted exposure amount	14.0	14.0
Own funds (Tier 1 capital + Tier 2 capital)	6,179	6,538
Percentage of total risk-weighted exposure amount	17.6	18.7
Capital requirement as assessed by Finansinspektionen²⁾		
Pillar I capital requirement	2,802	2,802
Percentage of total risk-weighted exposure amount	8.0	8.0
Pillar II capital requirement	827	827
Percentage of total risk-weighted exposure amount	2.4	2.4
Combined buffer requirement	1,576	1,576
Percentage of total risk-weighted exposure amount	4.5	4.5
Total capital requirement	5,205	5,205
Percentage of total risk-weighted exposure amount	14.9	14.9
Own funds (Tier 1 capital + Tier 2 capital)	6,179	6,538
Percentage of total risk-weighted exposure amount	17.6	18.7

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

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

Own funds requirement by risk, approach and exposure class

Consolidated situation 30 June 2019 SEK million	Exposure value ¹⁾	Risk-weighted exposure amount ²⁾	Own funds requirement ³⁾	Average risk weight ⁴⁾
Credit risk – IRB approach	74,605	26,072	2,086	35%
Retail – real estate collateral	44,407	6,302	504	14%
Corporates	30,121	19,693	1,575	65%
Other non-credit-obligation assets	77	77	6	100%
Credit risk – Standardised approach	16,156	1,633	131	10%
Central governments or central banks	93	0	0	0%
Regional governments or local authorities	5,673	0	0	0%
Institutions	2,312	719	58	31%
Corporates	11	11	1	100%
Retail	33	23	2	70%
Secured by mortgage liens on immovable property	222	95	8	43%
Exposures in default	2	3	0	149%
Covered bonds	7,810	781	62	10%
Operational risk – Basic indicator approach		1,448	116	
Credit valuation adjustment risk – Standardised approach	1,527	1,072	86	70%
Additional risk exposure amount under Article 458 CRR (risk-weight floor)		4,800	384	
Total	92,288	35,024	2,802	-

Continued Note 1 Own funds requirement by risk, approach and exposure class

Landshypotek Bank AB, 30 June 2019 SEK million	Exposure value ¹⁾	Risk-weighted exposure amount ²⁾	Own funds require- ment ³⁾	Average risk weight ⁴⁾
Credit risk – IRB approach	74,604	26,071	2,086	35%
Retail – real estate collateral	44,407	6,302	504	14%
Corporates	30,121	19,693	1,575	65%
Other non-credit-obligation assets	76	76	6	100%
Credit risk – Standardised approach	16,157	1,633	131	10%
Central governments or central banks	90	0	0	0%
Regional governments or local authorities	5,676	0	0	0%
Institutions	2,313	719	58	31%
Corporates	11	11	1	100%
Retail	33	23	2	70%
Secured by mortgage liens on immovable property	222	95	8	43%
Exposures in default	2	3	0	149%
Covered bonds	7,810	781	62	10%
Operational risk – Basic indicator approach		1,448	116	
Credit valuation adjustment risk – Standardised approach	1,527	1,072	86	70%
Additional risk exposure amount under Article 458 CRR (risk-weight floor)		4,800	384	
Total	92,289	35,023	2,802	–

¹⁾ Exposure value calculated in accordance with the CRR. In certain cases, instead of exposure value, the abbreviation EAD (Exposure at default) and the term exposure amount were used in the bank's previous reports.

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

³⁾ Calculated by multiplying the risk-weighted exposure amount by 8 percent.

⁴⁾ Calculated by dividing the risk-weighted exposure amounts by exposure value for the respective risk/exposure class.

Note 2 Net interest income

SEK million	Q2 2019	Q2 2018	Q1 2019	Jan–Jun 2019	Jan–Jun 2018	Full-year 2018
Interest income						
Interest income on loans to credit institutions	0	0	0	0	0	0
Interest income on loans to the public	325	301	315	640	602	1,207
Interest income on interest-bearing securities	12	4	9	22	1	11
Other interest income	3	3	2	5	5	11
Total interest income	339	308	327	667	609	1,229
Interest expenses						
Interest expenses for liabilities to credit institutions	1	3	1	2	4	7
Interest expenses for deposits from the public	-27	-24	-26	-53	-47	-99
of which fees for deposit insurance	-3	-2	-3	-6	-4	-10
Interest expenses for interest-bearing securities	-136	-110	-123	-259	-223	-428
Interest expenses for subordinated liabilities	-8	-7	-7	-15	-13	-27
Interest expenses for derivative instruments	49	53	56	105	107	212
Other interest expenses	-16	-25	-22	-37	-51	-96
of which fees for resolution fund	-11	-19	-16	-26	-40	-75
Total interest expenses	-136	-109	-121	-257	-223	-430
Total net interest income	203	199	206	409	386	799

All interest income is attributable to the Swedish market

Note 3 Net credit losses

SEK million	Q2 2019	Q2 2018	Q1 2019	Jan–Jun 2019	Jan–Jun 2018	Full-year 2018
Change in credit loss allowance, Stage 1	0	2	0	0	1	1
Change in credit loss allowance, Stage 2	4	6	0	4	9	12
of which change in collective credit loss allowance, Stage 2	0	0	0	0	0	4
Net credit losses, non-credit-impaired lending	4	8	-1	4	10	13
Change in credit loss allowance, Stage 3	10	19	-6	4	31	15
Write-off for the period for confirmed losses	-6	-24	-3	-9	-35	-41
Recoveries of previously confirmed losses	2	1	2	4	3	6
Net credit losses, credit-impaired lending	6	-4	-8	-1	-2	-21
Total net credit losses	11	4	-8	2	9	-8

No properties were taken over in foreclosure to protect claims.

Recognition of loss allowance

The bank recognises expected credit losses for financial assets and off-balance-sheet exposures in the credit portfolio, and for the parts of the liquidity portfolio that are classified as financial assets at FVTOCI. Each asset is categorised to one of three stages:

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

Establishing significant increase in credit risk

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

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

Individually assessed stage 3 credits

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

Measurement

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

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

The most important input data used to measure ECLs is:

- Probability of Default (PD) – estimates the probability of an agreement entering into default.
- Loss Given Default (LGD) – the assessment of how much of the exposure value that Landshypotek Bank stands to lose in the event of default.

- Exposure At Default (EAD) – an estimated credit exposure at a future default date after taking into account expected changes in credit exposure in the form of, inter alia, limit utilisation, extra capital repayments, early redemption and expected risk of default.

- The expected maturity matches the term of the agreement, limited to not longer than 30 years.

In the majority of the credit portfolio agreements, PD and LGD are based on internal historical data and utilise the bank's capital adequacy IRB models (see description in Landshypotek Bank's Information regarding capital adequacy and risk management 2018). The estimates have been recalibrated to capture the current financial position. For agreements in the bank's liquidity portfolio, ECLs are estimated based on, inter alia, the default rates in the rating matrices from an international rating agency.

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

Probability weighted macro-economic scenarios

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

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

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

An example follows of what the bank's credit loss allowance would look like if the respective improved or the deteriorated scenarios were assigned a probability of 100 percent, which would impact the mechanically calculated credit loss allowances (individually assessed stage 3 credits have not been included). For more information, refer to Note 4.

Scenario	Expected credit loss
Current loss allowance	SEK 76 million
Improved scenario	SEK 74 million
Deteriorated scenario	SEK 80 million

Note 4 Loans to the public

SEK million	30 Jun 2019	31 Mar 2019	31 Dec 2018	30 Jun 2018
Loan receivables, stage 1	65,009	64,076	63,071	59,870
Loan receivables, stage 2	8,315	8,747	8,996	10,462
Loan receivables, stage 3	651	537	526	558
Gross loan receivables	73,975	73,360	72,593	70,890
Less credit loss allowance	-75	-89	-82	-68
of which change in collectively measured credit loss allowance	-	-	-	-4
Net loan receivables	73,900	73,272	72,511	70,822
Disclosures on overdue loan receivables, gross				
Loan receivables overdue 5–90 days	-	78	22	2
Loan receivables overdue more than 90 days	324	163	191	232
Total overdue loan receivables, gross	324	242	213	235

Gross loan receivables SEK million	Non-credit-impaired lending		Credit-impaired lending	Total
	Stage 1	Stage 2	Stage 3	
Opening balance 1 Jan 2018	56,985	10,875	678	68,537
Increases in loan receivables due to origination and acquisition	9,760	309	2	10,070
Decreases in loan receivables due to derecognition	-4,552	-1,151	-212	-5,915
Decrease in loan receivables due to confirmed losses	-	-	-99	-99
Migration between stages				
from 1 to 2	-1,511	1,511	-	-
from 1 to 3	-138	-	138	-
from 2 to 1	2,507	-2,507	-	-
from 2 to 3	-	-80	80	-
from 3 to 2	-	40	-40	-
from 3 to 1	20	-	-20	-
Closing balance 31 Dec 2018	63,071	8,996	526	72,593
Opening balance 1 Jan 2019	63,071	8,996	526	72,593
Increases in loan receivables due to origination and acquisition	4,038	133	39	4,210
Decreases in loan receivables due to derecognition	-2,269	-475	-57	-2,801
Decrease in loan receivables due to confirmed losses	-	-	-27	-27
Migration between stages				
from 1 to 2	-885	885	-	-
from 1 to 3	-6	-	6	-
from 2 to 1	1,055	-1,055	-	-
from 2 to 3	-	-183	183	-
from 3 to 2	-	14	-14	-
from 3 to 1	5	-	-5	-
Closing balance 30 Jun 2019	65,009	8,315	651	73,975

continued Loans to the public

Credit loss allowance SEK million	Non-credit-impaired lending		Credit-impaired lending	Total credit loss allowance lending	Of which credit loss allowance for balance-sheet assets	Of which provisions for off-balance- sheet exposures
	Stage 1	Stage 2	Stage 3			
Opening balance 1 Jan 2018	-7	-33	-71	-111	-107	-4
Increases due to origination and acquisition	-1	-3	-1	-5	-4	-1
Decreases due to derecognition	1	6	8	15	12	3
Increases due to origination and acquisition			41	41	41	-
Decreases due to derecognition	2	3	-3	1	1	0
Decrease in allowance due to write-offs	0	1	0	1	1	0
Migration between stages						
from 1 to 2	0	-8	-	-7	-7	0
from 1 to 3	0	-	-26	-26	-26	0
from 2 to 1	-1	11	-	11	11	0
from 2 to 3	-	1	-6	-5	-5	0
from 3 to 2	-	0	0	0	0	0
from 3 to 1	0	-	0	0	0	0
Closing balance 31 Dec 2018	-6	-21	-56	-83	-82	-2
Opening balance 1 Jan 2019	-6	-21	-56	-83	-82	-2
Increases due to origination and acquisition	-1	-1	0	-1	-1	0
Decreases due to derecognition	0	1	4	6	5	1
Increases due to origination and acquisition	-	-	9	9	9	-
Decreases due to derecognition	0	-1	-7	-7	-8	0
Decrease in allowance due to write-offs	-	-	-	0	-	-
Migration between stages						
from 1 to 2	0	-3	0	-3	-3	0
from 1 to 3	0	0	0	0	0	0
from 2 to 1	0	6	0	5	5	0
from 2 to 3	0	2	-2	0	0	0
from 3 to 2	0	0	0	0	0	0
from 3 to 1	0	0	0	0	0	0
Closing balance 30 Jun 2019	-6	-18	-52	-76	-75	-1

Collateral exists in the form of immovable property for lending. For more information about the recognition of credit loss allowances, and estimates and critical assessments, refer to Note 3.

Note 5 Fair-value hierarchy for financial instruments

SEK million	30 June 2019				30 June 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI								
Eligible treasury bills, etc.	4,851			4,851	4,983			4,983
Bonds and other interest-bearing securities	8,598			8,598	7,786			7,786
Derivatives identified as hedging instruments								
Interest-rate swaps		1,217		1,217		898		898
Cross-currency interest-rate swaps		693		693		911		911
Total assets measured at fair value	13,449	1,910	-	15,359	12,769	1,809	-	14,578
Derivatives identified as hedging instruments								
Interest-rate swaps		278		278		283		283
Cross-currency interest-rate swaps		191		191		121		121
Total liabilities measured at fair value	-	469	-	469	-	403	-	403

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

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

Level 1

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

Level 2

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

Level 3

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

Note 6 Fair Value Disclosures

SEK million	30 June 2019		30 June 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Eligible treasury bills	4,851	4,851	4,983	4,983
Loans to credit institutions	522	522	591	591
Loans to the public	73,900	75,062	70,822	71,623
Bonds and other interest-bearing securities	8,598	8,598	7,786	7,786
Derivatives	1,910	1,910	1,809	1,809
Total assets	89,780	90,943	85,991	86,792
Liabilities and provisions				
Liabilities to credit institutions	937	937	1,844	1,844
Deposits from the public	14,622	14,622	13,533	13,533
Debt securities issued, etc.	66,579	67,349	63,180	63,974
Derivatives	469	469	403	403
Subordinated liabilities	1,200	1,237	1,200	1,264
Total liabilities	83,806	84,613	80,161	81,018

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

Alternative performance measures

The bank uses alternative performance measures (APMs) in its interim and annual reports. APMs are financial metrics of historical or future performance, financial position or cash flows that are not defined in the applicable rules for financial reporting (for example, IFRS or the Swedish Annual Accounts Act for Credit Institutions and Securities Companies) nor in the capital adequacy rules. The bank uses APMs when these are rele-

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

Definitions of APMs	Aim
Increase in lending, %: The percentage increase in loans to the public during the period.	The aim is to illustrate the growth in the lending portfolio, which comprises a key parameter for future income.
Interest margin, LTM, %: Net interest income over the last 12 months in relation to average lending during the period.	The aim is to describe the bank's margin on net interest income in relation to lending to the public, which describes the earnings capacity. Cumulative LTM net interest income is used to provide comparable APMs for the period.
Increase in deposits, %: The percentage increase in deposits from the public during the period.	This metric aims to illustrate the growth in the bank's deposits from the public and thereby part of the bank's financing.
C/I ratio including financial transactions: Costs in relation to income including the net result of financial transactions.	The aim is to clarify costs in relation to income, which demonstrates the level of cost-efficiency. This metric includes the net result of financial costs.
C/I ratio excluding financial transactions: Costs in relation to income excluding the net result of financial transactions.	The aim is to clarify costs in relation to income, which demonstrates the level of cost-efficiency. This metric excludes the net result of financial costs.
Credit loss level, %: Net credit losses for the period restated on an annualised basis in relation to average lending during the period.	The aim is to clarify the scope of credit losses in relation to lending. In the quarterly APMs, the results for the quarter have been restated at full-year outcomes to provide comparable APMs for the period.
Net credit-impaired assets after provisions in relation to total loans outstanding, %: Net credit-impaired assets in relation to loans to the public at the balance sheet date.	This metric aims to show the proportion of loans outstanding that are categorised as credit-impaired assets, and for which the bank has not made any provisions.
Return on equity, %: Net profit for the year divided by average equity.	The aim is to show the bank's return on equity, which is a measure of the bank's profitability. In the quarterly APMs, the results for the quarter have been restated at full-year outcomes to provide comparable APMs for the period.

SEK million	Q2 2019	Q2 2018	Q1 2019	Jan–Jun 2019	Jan–Jun 2018	Full-year 2018
Change in loans to the public	628	1,226	761	1,388	2,333	4,022
Opening balance, loans to the public	73,272	69,596	72,511	72,511	68,488	68,488
Change in lending, %	0.9	1.8	1.0	1.9	3.4	5.9
Net interest income, accumulated LTM	822	792	818	822	792	799
Average loans to the public, LTM	72,417	68,861	71,597	72,417	68,861	70,792
Interest margin, LTM, %	1.14	1.15	1.14	1.14	1.15	1.13
Change in deposits from the public	265	531	207	472	858	1,474
Opening balance deposits from the public	14,357	13,003	14,150	14,150	12,675	12,675
Change in deposits, %	1.8	4.1	1.5	3.3	6.8	11.6
Costs before credit losses	-114	-113	-112	-226	-220	-428
Total operating income	203	204	207	410	408	822
C/I ratio including financial transactions	0.56	0.55	0.54	0.55	0.54	0.52
Costs before credit losses	-114	-113	-112	-226	-220	-428
Total operating income excluding financial transactions	205	200	207	412	389	805
C/I ratio excluding financial transactions	0.55	0.57	0.54	0.55	0.57	0.53
Net credit losses calculated on a full-year basis	43	16	-34	5	17	-8
Average loans to the public, LTM	72,417	68,861	71,597	72,417	68,861	70,792
Credit loss level, %¹	-	-	0.05	-	-	0.01
Credit-impaired assets, gross	651	558	541	0	558	526
Less provisions made	-52	-40	-62	0	-40	-56
Credit-impaired assets, net	599	518	478	0	518	470
Credit-impaired assets, net	599	518	478	0	518	470
Loans to the public	73,900	70,822	73,272	73,900	70,822	72,511
Net credit-impaired assets after allowances as a percentage of total loans outstanding, %	0.81	0.73	0.65	0.00	0.73	0.65
Profit after tax						294
Average equity						5,904
Return on equity, %						5.0
Profit after tax						294
Number of shares, million						2
Earnings per share, SEK						130.6

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

Reporting calendar 2019

Landshypotek Bank's reports are available at:
www.landshypotek.se/om-landshypotek

Interim Report Q3	25 October 2019
Year-end report 2019	29 January 2020

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