



Landshypotek Bank

Landshypotek Bank AB Interim report Q2 2018

January – June 2018 (compared with corresponding year-earlier period)

Per Lindblad, CEO of Landshypotek Bank comments on H1 2018:

I am pleased to report that we are continuing to post strong results. Landshypotek Bank aims to become a bank that meets more people's needs and is growing in terms of customer numbers and in terms of lending and saving volumes. Talk of the drought that has heavily impacted agriculture dominated the start of the summer. We are maintaining close dialogues with our customers about the financial consequences. As the farmers and foresters' own bank, we want to be part of meeting and overcoming temporary challenges to otherwise sound long-term entrepreneurship, together with our customers.

January – June 2018

compared with January – June 2017

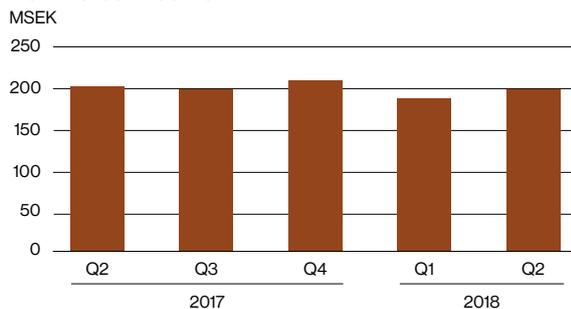
- Operating profit amounted to MSEK 197.9 (154.8).
- The underlying operating profit, excluding the net result of financial transactions, was MSEK 178.8 (197.8).
- Net interest income amounted to MSEK 386.0 (394.0).
- Costs totalled MSEK 218.9 (193.4).
- Net credit losses resulted in a gain of MSEK 8.7 (loss: 3.8).
- Lending amounted to SEK 70.8 billion (67.2).
- Deposits amounted to SEK 13.5 billion (12.4).

April – June 2018

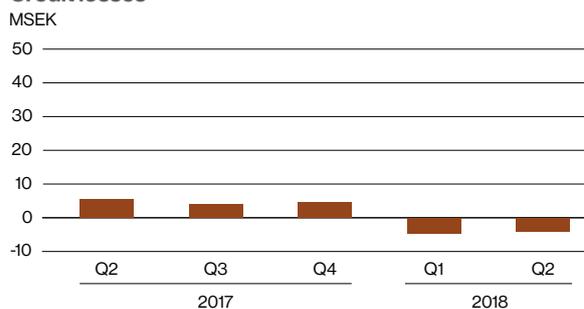
compared with January – March 2018

- Operating profit amounted to MSEK 95.7 (102.2).
- The underlying operating profit, excluding the net result of financial transactions, was MSEK 91.4 (87.4).
- Net interest income amounted to MSEK 198.6 (187.4).
- Costs totalled MSEK 112.5 (106.4).
- Net credit losses resulted in a gain of MSEK 4.0 (loss: 4.7).
- Lending amounted to SEK 70.8 billion (69.6).
- Deposits amounted to SEK 13.5 billion (13.0).

Net interest income



Credit losses



Landshypotek Bank

Landshypotek Bank is a bank for borrowing and for saving. Loans are offered to farmers and foresters, and homeowners across the country. Savings are open to Sweden's general public and companies. The bank's history dates back to 1836, but it is also a growing bank undergoing rapid development. Landshypotek's focus outside of the major cities means it defines 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 2017, the bank started to offer homeowner mortgages and has now started to establish itself in the mortgage market. Landshypotek Bank is one of the ten largest banks in Sweden and is of considerable importance for farming and forestry financing.

The bank's 40,000 farming and forestry borrowers own the bank through the cooperative association and are responsible for its capital, and share in its earnings. All business and licensable activities are conducted within the bank, which has about 185 employees nationwide.

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

- *For a richer life in the countryside:* The bank's brand promise: "For a richer life in the countryside" is interwoven throughout the bank's and its employees working 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 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 relationships with customers are complemented by the regional member organisation of the cooperative association.
- *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 relations with the members.
- *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 to 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, to allow people to quickly and simply become customers, open accounts and start saving at Landshypotek Bank. In 2017, a new platform was launched that facilitates convenient online mortgage applications. Digitalisation enables more efficient work and improves possibilities for customers.
- *Challenger position in mortgages:* 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 experience, and has an eye for opportunities nationwide. The bank applies competitive and transparent interest rates.
- *Promoting a sustainable countryside:* A living countryside, where fields and forests are cultivated, and thereby create growth and jobs. These are the cornerstones for a well-developed business community and Swedish welfare. 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.

Landshypotek Bank — in brief

- Founded in 1836
- Has 76,000 customers in the farming and forestry sector, as well as mortgage borrowers and savers.
- Has loaned slightly more than SEK 68.5 billion to farming and forestry in Sweden and SEK 2.3 billion in homeowner mortgages.
- Has savings customers with savings approaching SEK 13.5 billion.
- Owned by the 40,000 farming and forestry loan customers. SEK 153 million of the earnings for 2017 was distributed back to farming and forestry customers.
- Has around 185 employees. The bank has 19 offices enabling it to meet farming and forestry customers locally. Relationships with savers and homeowner mortgage customers are managed online and by telephone.



Better banks chose their own path

Having recently joined Landshypotek Bank, one is struck by the energy and potential intrinsic to choosing your own path. Offering customers a secure bank with extensive experience that is financial sound and regulatorily compliant — and on the back of this basing development on doing things differently, innovatively and truly beneficially for customers and the market. In summing up the first six months, results were satisfactory and several steps were taken that strengthen us going forward.

During the quarter we issued a new green bond in the financial market. The bond is based on Swedish forestry and the efforts made daily by our customers, the foresters, to promote sustainable development. The aim was to make this the first green covered bond and, moreover, the largest green bond issued in Swedish krona. Market interest was overwhelming! The SEK 5.25 billion bond was quickly oversubscribed. We utilised our unique mix of skills in forestry and finance with this bond which, at its listing ceremony at the world's largest green exchange in Luxembourg, was described as pioneering. We broke new ground — and took our own successful path.

We have started dialogues with our customers about the drought afflicting farms across the country. We are actively monitoring developments and taking the necessary steps to prepare for when the financial consequences become apparent. There is strength in being close to customers and we have encouraged our customers to talk with us at an early stage. We always make individual assessments about what is good and what is possible for each entrepreneur. As the farmers and foresters' own bank, we want to be part of meeting and overcoming temporary challenges to otherwise sound long-term entrepreneurship.

In May we were able to welcome our thousandth mortgage loan family and surpassed SEK 2 billion in lending to homeowners. In our autumn market launch, we used a new digital solution for loan applications. We took the lead for a new transparent pricing model, whereby we reward low loan-to-value ratios and where customers can see the interest rate directly without any negotiation. Once again, we chose our own path. We have also taken further steps and strengthened ourselves by offering competitive interest rates for more fixed-rate periods.

There are many new entrants to the mortgage market. We are in for the long term. Even if home mortgages are viewed as more simplified products and can be digitised, as we have shown, at the same time we know that these loans are significant for customers, and are often the largest personal transaction. Interest and repayments are a significant part of our personal finances. Events occur in our lives that require contact with the bank. Customer respect is a necessity as is long-term security that extends beyond the maturity of a mortgage loan. Accordingly, there is a resulting responsibility to be available to meet questions and generate security. We refer to ourselves as challengers in the mortgage market, but when we challenge, we do not jeopardise customers' security.

During the quarter, we created a platform for further strengthening customer focus and development drivers. For several years, the bank has focused on becoming a better bank, with the strong internal focus required for issues regarding capital and regulations. We are now working intensively and in parallel with continuing to build the bank to manage increased external customer focus. We have also merged various parts of the bank that meet customers into one department to thereby realise synergies and for a coherent customer focus. In parallel, we are challenging the mindset often used for development. We want to see development close to customers' operations as a natural part of everything we do at the bank. We need to develop daily — driven by our customers' needs. We are therefore eliminating independent departments working with "development" and allowing these employees to inspire and engage from positions closer to where efforts are noted and make a difference for customers.

Once again, we chose our own path. As a small bank, we can move quickly from idea to action, and build on the commitment generated when employees see that they are making a difference and working for a greater goal. In the summer and the autumn, we are bringing out parts of our operations to meet customers and other stakeholders at expos and harvest festivals across the country. See you there — in summer Sweden!

Per Lindblad
CEO of Landshypotek Bank

Events at the bank in Q2

A lot is happening at Landshypotek Bank. In Q2, actions by Landshypotek Bank included issuing the world's first green covered bond backed by sustainable forestry, driving dialogue about the consequences of the drought and attracting attention as a challenger bank in the mortgage market.

Events in Q2:

- Landshypotek Ekonomisk Förening held its General Meeting at Gröna Lundsteatern in Stockholm. Per-Olof Hilmér was elected as Chairman of the Association and the dividend for the year was adopted. SEK 153 million of the earnings for 2017 was distributed back to Sweden's farmers and foresters.
- Landshypotek Bank launched a framework for issuing green bonds. The bond was issued in May, when Landshypotek Bank became the first bank in the world to issue a covered bond fully backed by sustainable forestry's contribution to biodiversity and to reducing carbon dioxide in Earth's atmosphere. This is also Sweden's first and largest ever green covered bond. Market interest was extremely high and the bond was oversubscribed within half an hour. The green bond also attracted considerable media attention. At the end of May, the bond was listed on Nasdaq and a listing event arranged. At the end of June, a listing ceremony was also held at the Luxembourg Green Exchange.
- The bank passed the two billion krona mark for homeowner mortgages. Customers' interest in Landshypotek Bank as a new mortgage market entrant has been considerable and growth continues. There is a need for a challenger and a bank with a difference in the Swedish banking market.
- The bank invited customers to join a dialog about the drought and its consequences. The warm weather this spring and the lack of rain has led to drought conditions over much of the country. Many farmers have been hit and are concerned about the consequences for harvests and caring for their livestock. Landshypotek Bank encourages customers to contact the bank if they believe the drought could have significant financial consequences for their company.
- The bank received permission from Finansinspektionen to use the IRB capital adequacy approach for retail exposures. In November, the bank received permission to use F-IRB, which means permission to use a fundamental IRB approach to calculate risk and capital requirements for larger corporates in farming and forestry. In April, this was supplemented by a new permission to use A-IRB, an adaptation of the previously approved IRB retail approach, which can now also be used for the new mortgages.
- Landshypotek Bank continued the dialogues addressing key countryside issues through *Lokalsamtal*, dialogue evenings across the country, which are arranged by Folkets hus and parks in collaboration with the organisation, Rural Sweden (*Hela Sverige ska leva*).
- The bank presented a survey that showed that half of the country's farmers believe that the single most important election issue for the future of farming and forestry is improving Sweden's food self-sufficiency. However, even equal terms with the rest of Europe and strengthening ownership rights are issues that farmers believe are important for politicians to raise in this year's elections.
- The bank started a new partnership with the company Falu Rödfärg and went on tour through summer Sweden. Landshypotek Bank and Falu Rödfärg are in 14 locations around the country with a small cottage painted Falu red, where visitors can discuss their house plans and get tips on how to care for and maintain their house or cottage.
- The bank established a new scholarship for a paper on the future of the agriculture and forestry industries, which will be awarded for the first time at the beginning of June.
- In H1, the bank has focused in particular on being more active in the market for forest owners and customers who wish to borrow for forestry. The venture has attracted attention and the bank has welcomed several forest owners as new customers.

Summary Landshypotek Bank

	Q2 2018	Q2 2017	Q1 2018	Jan–Jun 2018	Jan–Jun 2017	Full-year 2017
Net interest income, MSEK	198.6	208.5	187.4	386.0	394.0	800.4
Operating profit, MSEK	95.7	90.3	102.2	197.9	154.8	339.2
Profit after tax, MSEK	78.2	68.2	78.4	156.6	116.1	256.4
Loans to the public, MSEK	70,822	67,219	69,596	70,822	67,219	68,488
Increase in lending, %	1.8	1.0	1.6	1.8	1.1	3.0
Interest margin, LTM, %	1.15	1.13	1.18	1.15	1.13	1.19
Deposits from the public, MSEK	13,533	12,396	13,003	13,533	12,396	12,675
Increase in deposits from the public, %	4.1	2.9	2.6	6.8	5.7	8.0
C/I ratio including financial transactions	0.55	0.52	0.52	0.54	0.55	0.53
C/I ratio excluding financial transactions	0.56	0.49	0.56	0.56	0.49	0.50
Credit loss level, % ¹⁾	–	0.03	–	–	0.01	0.02
Total capital ratio, %	21.1	42.2	42.4	21.1	42.2	42.4
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	184	169	179	184	169	176

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



Ongoing events impacting the bank and its customers

Healthy growth, tempered by concerns of a trade war and the consequences of the drought comprise some of the items that dominated Q2 in the finance market and the operations of the bank's farming and forestry customers. Price increases in the housing market have levelled off, but few people are concerned about the economy.

Drought and a warm spring are creating challenges for farmers.

In May and the first half of June 2018, record high temperatures were noted and it was extremely dry. In May, the average temperature in many parts of Sweden was 5–6 degrees higher than normal, with very little rain.

The drought is creating challenges for agriculture. Cereal farmers' crops are ripening too early and receiving insufficient water, which will negatively impact the harvest. Pest insects favour the heat and attack oilseed plants. The lack of precipitation has also impacted the hay harvest, which is used as animal feed. This leads to negative consequences for the dairy and meat producers, which could ultimately lead to forced slaughter for entrepreneurs who are unable to afford the replacement of the lost hay harvest with feed purchases. The poor hay harvest also poses a challenge for farms with horses. The drought has forced forest entrepreneurs to be cautious when planting, and bark beetle infestations and forest fires have created problems in parts of the country. The winners in this warm weather have been the horticultural entrepreneurs who can irrigate their crops.

The exact scope of the total production loss in agriculture for 2018 is still too early to predict. There are indications that the total harvest volume could be reduced by more than 20 percent, but the final outcome depends on what happens with the weather through the rest of the year. However, following a number of years with a booming economy, good harvests, positive price trends and low interest rates — the resilience of agriculture as a whole is strong.

Developments in a number of farming and forestry sectors

In H1 2018, milk prices were down an average of 5 percent year-on-year. However, milk prices have started to rise again in recent months. In recent years, the EU has built up large intervention stocks of skimmed-milk powder and some concerns exist over the impact on prices when these are released to the market.

The added value represented by the Swedish model for beef and pork production remains in demand with

consumers. In Sweden, animals are healthy and have the lowest levels of antibiotic use in the EU. Imports have declined and exports continued to increase during early 2018, which means a general strengthening of the position of Swedish meat producers. Settlement prices were slightly lower year-on-year.

The downward revisions to forecast harvests of cereals in the Nordic countries, the Baltic States and parts of Russia as a result of the ongoing drought applied upward pressure to grain prices in Q2. If the price trend continues, it could compensate for some of the lost income that the poorer harvest forecast indicates for cereal producers.

The forestry sector remains strong with healthy demand for both timber and pulp wood. What is unique is that the US and China are both demanding a lot of wood at the same time. Pulp producers and sawmills have both been boosted by the weak krona. However, parts of the sawmill industry and pulp mills have faced challenges due to a harsh winter and a reduced supply of raw materials. In the first few months of the year, sawmill production declined slightly. The favourable economic conditions for the forestry sector was reflected in price increases for timber and pulp wood, even in areas that had previously noted a weaker price trend.

Stabilised house prices and increased competition

The new repayment requirement introduced on 1 March 2018 resulted in fewer homes being sold in Q2 than at the start of the year, but has yet to have any greater impact on price levels. In Sweden as a whole, house prices are up 1 percent over the last 3 months and remain unchanged over the last 12 months. Even in major metropolitan areas, housing prices have remained relatively stable in recent months. The price adjustment noted in the property market over the past year is strongly linked to the Stockholm region and, particularly to tenant-owner apartments the prices of which have fallen around 10 percent year-on-year.

A fresh report from Landshypotek Bank shows that major differences exist in attitudes to and concern for personal finances depending on where in the country people live. Only one in four Swedes are concerned about higher

interest rates. Residents of major cities are however more concerned about higher interest rates, a housing bubble and the new repayment requirements.

In addition to the new repayment requirement and a more stable price trend, the market has seen new entrants with different business models to traditional models that have either introduced mortgage offerings or announced future launches over the last six months, often attracting considerable media attention. The mortgage market is still dominated by the major banks with about three fourths of the market. However, the majors only account for 50 percent of new lending at present. The remaining 50 percent stems almost exclusively from well-known, traditional banks. The new mortgage lenders that are not banks in the traditional sense have been inspired by the Dutch market, where mortgage funds have been established as a financial structure in recent years. Whether a similar scenario will arise in Sweden is too early to tell; the actual outcome will have to wait.

Robust US trends, but risks of a trade war cloud growth prospects

In financial markets, increased fears of a trade war between the US and China, in particular, have negatively affected prospects for global growth. After a period of relief in the word war and constructive trade negotiations, President Trump announced new tariffs on both Chinese and European goods. During the quarter, European financial markets were affected by the elections in Italy that resulted in a coalition government. Italian long-term interest rates rose sharply and inspired other southern European interest rates to follow suit. At the same time, German interest rates fell, and the US and Swedish long-term interest rates tracked the downward movement. A new election was a more negative prospect for the market than the coalition government that was formed and the markets stabilised with lower interest rates in southern Europe, while German and Swedish interest rates climbed.

The US economy remains strong and continued to show favourable growth prospects. Record-low unemployment and increased private consumption are driving economic activity. Even business showed continued optimism. President Trump's tax reform is expected to further stimulate US growth. As expected, the Federal Reserve hiked its key interest rate another 25 basis points to the 1.75–2.00 percent interval at its latest meeting. Moreover, it changed its forecast to a total of four rate hikes in 2018 compared with three at the previous meeting.

The economic recovery is slightly weaker in Europe and concern regarding a general economic slowdown has intensified. Several economic indicators are increasingly upbeat, including continued low unemployment and a slight increase in capacity utilisation. The European Central Bank's (ECB) guidance on the interest rate, which is now expected to remain at its current level until after summer 2019, created movement in the currency and interest rate markets. The market was expecting the first hike to come earlier.

The Swedish economy continued its robust trend. First quarter GDP was 3.3 percent, which continued to be high. However, the GDP trend is partly driven by earlier housing investments. The pace of investment is now lower, which is expected to have a negative effect on GDP going forward. No negative impact from last autumn's fall in housing prices has been reported in statistics to date. Household consumption remains stable. However, the contribution from Swedish exports to growth remains weak despite the sustained weakness of the krona, which should provide much needed support. In May, CPIF inflation rose in line with expectations to 2.1 percent, mainly due to a weaker currency and higher energy prices. Underlying core inflation remains at 1.5 percent, which is slightly lower than the Riksbank's forecast.

There is an upward trend for long-term interest rates driven by the Federal Reserve's hikes. At its last meeting, the ECB confirmed that the hikes will be delayed, but that bond purchases are expected to be terminated at year end, which should result in rising long-term interest rates even in Europe. Growth prospects clouded over slightly during the quarter as a result of concerns for rising tariffs. Such a scenario could provoke central banks into further deferring forecast rate hikes, which would push market interest rates downwards.

Our financial performance

Landshypotek Bank's continued to post strong earnings for the first six months. An improved net result of financial transactions boosted earnings. Net interest income continued its positive trend and costs remained up slightly year-on-year. Credit losses continued to be very low.

Financial report for the first half of 2018

The bank's consolidated operating profit amounted to MSEK 197.9, up MSEK 43.1 compared with 2017 (MSEK 154.8). The improvement in earnings was primarily attributable to an increase in the net result of financial transactions.

Excluding the net result of financial transactions, operating profit amounted to MSEK 178.7 (197.8), down MSEK 19.1. Higher net interest income in 2017 was mainly attributable to a change in the accounting treatment of doubtful interest payments, which resulted in a nonrecurring item of MSEK 27.0. Excluding this nonrecurring item, operating profit excluding the net result of financial transactions increased MSEK 7.9.

Net interest income and volumes

Net interest income totalled MSEK 386.0 (394.0) and interest income amounted to MSEK 608.9 (660.0). Lending increased SEK 3.6 billion compared with the close of H1 2017.

Interest expenses amounted to MSEK 222.8 (266.0), down MSEK 43.2 year-on-year. The new financing was conducted at lower interest rates than the previous financing that matured.

Interest expenses included fees to the Swedish National Debt Office's resolution fund, which amounted to MSEK 39.8 (28.6). This was a year-on-year increase of MSEK 11.2 as a consequence of the fee being raised. After excluding the resolution fee, the underlying interest margin improved.

Other operating income

Other operating income for H1 2018 amounted to MSEK 22.1 (loss: 42.1), up MSEK 64.2 compared with the

year-earlier period. This was due to an increase of MSEK 62.2 in the net result of financial transactions to MSEK 19.2 (loss: 43.0). This amount, comprised an unrealised gain of MSEK 19.8 and a realised loss of MSEK 0.6.

From 1 January 2018, Landshypotek Bank applies IFRS 9 for hedge accounting for borrowing in a foreign currency. This means that the change in value of the basis spreads in the cross-currency interest-rate swaps used as hedging instruments are recognised in other comprehensive income. This leads to less volatility in the net result of financial transactions.

Costs

Costs amounted to MSEK 218.9 (193.4), up MSEK 25.5 year-on-year, but still in line with the bank's plans. Employee numbers grew during 2017 and early 2018, in part to administer new mortgage customers and in part to allow the continued strengthening of the bank as a whole.

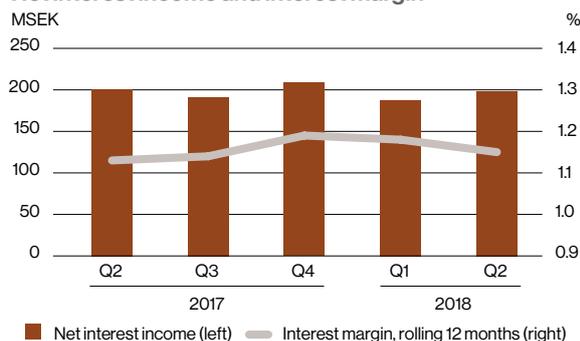
Year-on-year, business development activities were also higher in H1 2018.

Credit losses and credit-impaired assets

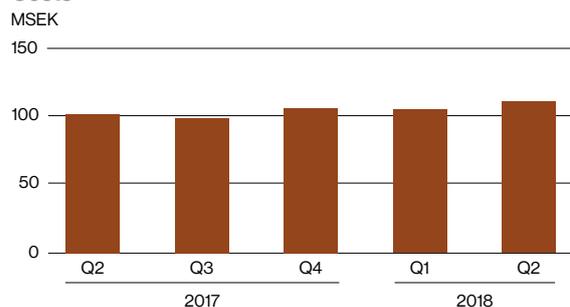
From 1 January 2018, Landshypotek Bank applies IFRS 9, which means credit losses are recognised for both non-credit-impaired assets (stages 1 and 2) and credit-impaired assets (stage 3). See notes 3 and 4 for further information.

For H1 2018, net credit losses had a positive earnings impact of MSEK 8.7 (negative: 3.8), comprised of a positive earnings impact of MSEK 10.4 from net credit losses for non-credit-impaired assets and a negative earnings impact of MSEK 1.7 from credit-impaired assets. Credit losses arising from credit-impaired assets comprised the net change in the credit loss allowance and confirmed losses during

Net interest income and interest margin



Costs



Operating profit

	Jan–Jun 2018	Jan–Jun 2017
Net interest income, MSEK	386.0	394.0
Other operating income, MSEK	22.1	-42.1
Of which net result of financial transactions	19.2	-43.0
Costs, MSEK	-218.9	-193.4
C/I ratio including financial transactions	0.56	0.49
C/I ratio excluding financial transactions	0.54	0.55
Net recognised credit losses, MSEK	8.7	-3.8
Credit loss level, % ¹⁾	–	0.01
Operating profit, MSEK	197.9	154.8
Operating profit excluding the net result of financial transactions	178.8	197.8

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

the period with a negative earnings impact of MSEK 4.8, together with recoveries of previously confirmed losses with a positive earnings impact of MSEK 3:1 (0.4).

The total credit loss allowance for non-credit-impaired assets amounted to MSEK 29.5 at the end of H1. Of this allowance, MSEK 3.5 pertained to a collectively measured credit loss allowance attributable to wind power commitments.

Gross credit-impaired assets amounted to MSEK 557.9 and the credit loss allowance to MSEK 40.1. At 31 March 2018, gross credit-impaired assets amounted to MSEK 612.0 and the credit loss allowance to MSEK 59.6. The provisions for credit-impaired assets pertained to individual commitments within varying types of farming and geographic locations.

Other comprehensive income

Other comprehensive income for January–June 2018 amounted to an expense of MSEK 76.7 compared with MSEK 24.6 in 2017. From 1 January 2018, the change in value of the basis spreads in the cross-currency interest-rate swaps used as hedging instruments are recognised in other comprehensive income and negatively impacted other comprehensive income with MSEK 27.0.

Actuarial gains and losses in defined-benefit pensions amounted to a loss of MSEK 53.4 (loss: 1.4). The discount rate continued to decline over the year, and the lower rate entails an increased revaluation effect in terms of the present value of the obligation. Inflation expectations increased over the period, which has also given rise to an increase in the present value of the obligation.

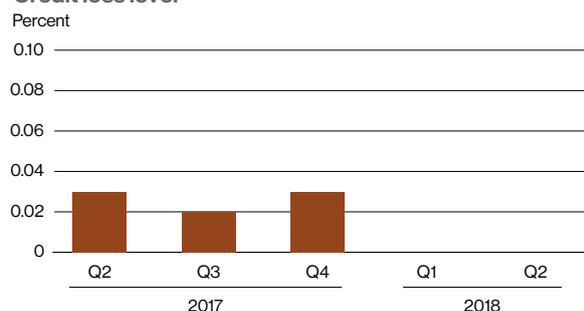
Capital and capital adequacy

In November 2017, Finansinspektionen gave the bank permission to use a fundamental IRB approach to calculate capital requirements for corporate exposures. In April 2018, the bank was also granted permission to change the IRB approach for retail exposures. These permissions were implemented by the bank as of 30 June 2018. The changes in the bank's IRB approach aim to better reflect the current structure of lending to Swedish farming and forestry, and to adapt to applicable and forthcoming regulatory changes.

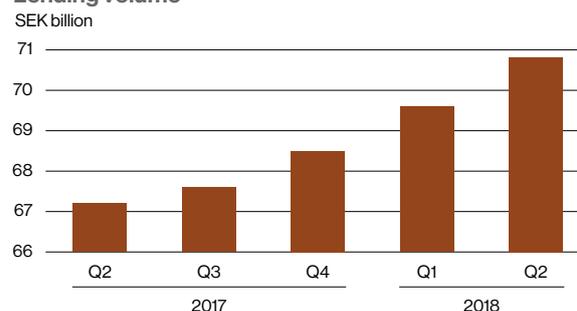
The internally assessed capital requirement for the consolidated situation on 30 June 2018 was SEK 5.0 billion, which should be compared with own funds of SEK 6.0 billion.

The transfer of a larger portion of the portfolio from the

Credit loss level



Lending volume



Balance Sheet

Assets, MSEK	30 Jun 2018
Loans to credit institutions	591
Loans to the public	70,822
Liquidity portfolio	12,769
Derivatives	1,809
Tangible and intangible assets	134
Prepaid expenses, etc.	457
Total assets	86,583

Total liabilities and equity, MSEK	30 Jun 2018
Liabilities to credit institutions	1,844
Deposits from the public	13,533
Debt securities issued	63,180
Derivatives	403
Other liabilities	1,795
Equity	5,827
Total liabilities and equity	86,583

retail exposure class to the corporate exposure class has a material impact on the capital requirement through the use of the prescribed LGD estimates (average 36 percent) instead of internal LGD estimates (average 16 percent).

See also Note 1 for further information.

Comparison with the first quarter of 2018

Operating profit for the second quarter of 2018 totalled MSEK 95.7 (102.2). Excluding the net result of financial transactions, operating profit for Q2 was MSEK 91.4 (87.4), up MSEK 4.0. This improvement was mainly due to higher net interest income, which was offset slightly by higher costs. The underlying interest margin remained favourable.

Assets

The largest asset item in the balance sheet is Loans to the public, which increased SEK 2.3 billion in H1 to SEK 70.8 billion and where the largest part of the upturn was attributable to the new mortgage operations. The increase corresponded to lending growth of 3.4 percent for the quarter, compared with 1.1 percent in the corresponding

period in 2017. The geographic distribution of lending is stable over time.

At 30 June 2018, Landshypotek Bank's liquidity portfolio totalled SEK 12.8 billion (12.9). 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 2018, the liquidity portfolio was 8.0 times (1.9) 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

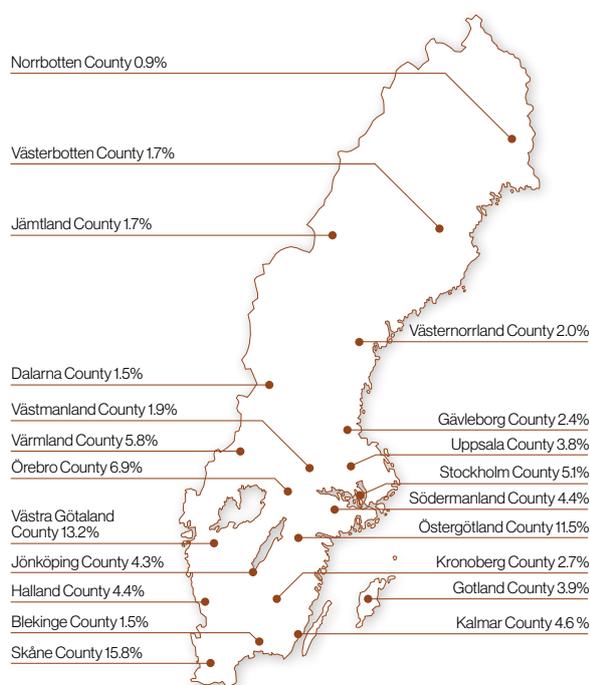
Landshypotek Bank actively raises funds via bond markets, and always strives to meet investors' wishes regarding tenors and interest-rate structures. Investor relations are of major importance as part of ensuring that investors' levels of awareness and interest are maintained in Landshypotek Bank. In Q2 2018, green covered bonds to a value of SEK 5.25 billion were issued. Moreover, senior bonds to a value of SEK 1.7 billion were also issued. In Q2 2018, bonds matured or were repurchased to a value of approximately SEK 6.5 billion, of which about SEK 5.4

Funding

MSEK	Issued 30 Jun 2018	Limit	Issued 31 Dec 2017
Swedish commercial paper	0	10,000	–
MTN programme	45,454	60,000	46,368
EMTN programme	12,638	36,559 ¹⁾	11,700
Registered covered bonds	3,551		3,341
Subordinated loans	1,900		1,900

¹⁾ MEUR 3,500

Geographic distribution of Landshypotek Bank's lending to farming and forestry



billion pertained to covered bonds. The funding market for Nordic banks functioned smoothly in the first quarter of 2018. Landshypotek Bank has been very successful in its funding activities and demand for Landshypotek's bonds has been favourable.

Deposits from the public

At 30 June 2018, deposits from the public totalled SEK 13.5 billion (12.4). In H1, deposits grew SEK 0.8 billion.

Rating

Landshypotek Bank has credit ratings from two different rating agencies, Standard & Poor's and Fitch. In 2017, both Standard & Poor's and Fitch confirmed Landshypotek's ratings of A- and A respectively. Standard & Poor's changed its outlook for the Swedish economy and thereby Landshypotek Bank from negative to stable.

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.

Events after the end of the period

No significant events occurred after the end of the reporting period.

Stockholm, 20 July 2018

Per Lindblad

CEO of Landshypotek Bank

Accounting policies

This report encompasses the Group comprising Landshypotek Bank AB and two dormant subsidiaries: Sveriges Allmänna Hypoteksbank AB and Hypoteksbanken AB. In addition, Landshypotek Bank AB is reported separately. The main difference between the separate company Landshypotek Bank and the Group is the reporting of defined-benefit pensions, according to IAS 19. Amounts in parentheses refer to the corresponding period in the preceding year.

This interim report has been prepared in accordance with IAS 34. From 1 January 2018, financial instruments are recognised in accordance with IFRS 9 Financial Instruments. The impact of the transition to IFRS 9 on reporting and accounting policies is detailed in Note 39 of the 2017 Annual Report. Accounting policies, calculation methods and risk management are otherwise unchanged compared to those applied in the most recent annual report (see www.landshypotek.se/en/about-landshypotek/investor-relations/).

Income Statement

Landshypotek Bank AB Group, SEK thousand	Note	Q2 2018	Q2 2017	Q1 2018	Jan–Jun 2018	Jan–Jun 2017	Full-year 2017
Interest income		308,150	337,217	300,733	608,883	660,029	1,295,831
Interest expenses		-109,548	-128,714	-113,296	-222,844	-266,024	-495,459
- of which fees for deposit insurance		-1,965	-2,222	-1,965	-3,930	-4,443	-6,777
- of which fees for resolution fund		-18,698	-14,523	-21,150	-39,848	-28,607	-56,945
Net interest income	Note 2	198,602	208,503	187,437	386,039	394,006	800,372
Net result of financial transactions		4,335	-9,874	14,829	19,164	-42,996	-48,093
Other operating income		1,267	415	1,672	2,940	946	1,875
Total operating income		204,204	199,044	203,938	408,142	351,955	754,154
General administrative expenses		-108,150	-99,489	-102,307	-210,458	-186,938	-388,542
Depreciation, amortisation and impairment of tangible and intangible assets		-4,327	-3,736	-4,028	-8,355	-6,311	-13,762
Other operating expenses		-16	-26	-82	-97	-105	-150
Total expenses before credit losses		-112,493	-103,250	-106,417	-218,910	-193,354	-402,455
Profit before credit losses		91,711	95,794	97,522	189,232	158,601	351,699
Net credit losses	Note 3	3,984	-5,484	4,719	8,703	-3,779	-12,488
Operating profit		95,695	90,310	102,240	197,935	154,822	339,211
Tax expense for the period		-17,490	-22,119	-23,852	-41,342	-38,736	-82,846
Net profit for the period		78,206	68,191	78,389	156,594	116,086	256,366

Statement of Comprehensive Income

Landshypotek Bank AB Group, SEK thousand	Q2 2018	Q2 2017	Q1 2018	Jan–Jun 2018	Jan–Jun 2017	Full-year 2017
Net profit for the period	78,206	68,191	78,389	156,594	116,086	256,366
Other comprehensive income						
Items to be reclassified to income statement						
Cash-flow hedges	-	865	-	-	1,807	8,620
Available-for-sale financial assets	-	36,726	-	-	31,570	20,907
Financial assets at FVTOCI	4,782	-	-28	4,753	-	-
- of which change in credit risk	-1	-	1	-	-	-
Change in cross-currency basis spreads in fair value hedges	-14,373	-	-20,282	-34,655	-	-
Tax on items that will be reclassified	2,110	-8,270	4,468	6,578	-7,343	-6,496
Total items that will be reclassified	-7,481	29,322	-15,842	-23,323	26,035	23,031
Items that will not be reclassified						
Actuarial changes, defined benefit pensions	-63,111	-12,194	-5,374	-68,485	-1,838	-14,881
Tax on items that will not be reclassified	13,884	2,682	1,182	15,066	404	3,274
Total items that will not be reclassified	-49,227	-9,512	-4,192	-53,419	-1,434	-11,607
Total other comprehensive income	-56,709	19,810	-20,034	-76,743	24,601	11,424
Comprehensive income for the period	21,497	88,000	58,355	79,851	140,686	267,790

Income Statement

Landshypotek Bank AB Parent Company, SEK thousand	Note	Q2 2018	Q2 2017	Q1 2018	Jan–Jun 2018	Jan–Jun 2017	Full-year 2017
Interest income		308,150	337,225	300,733	608,883	660,045	1,295,831
Interest expenses		-109,460	-128,714	-113,209	-222,669	-266,023	-495,408
- of which fees for deposit insurance		-1,965	-2,222	-1,965	-3,930	-4,443	-6,777
- of which fees for resolution fund		-18,698	-14,523	-21,150	-39,848	-28,607	-56,945
Net interest income	Note 2	198,689	208,511	187,524	386,214	394,023	800,423
Net result of financial transactions		4,335	-9,874	14,829	19,164	-42,996	-48,093
Other operating income		1,267	415	1,672	2,940	946	1,875
Total operating income		204,292	199,052	204,025	408,317	351,972	754,205
General administrative expenses		-108,685	-98,367	-102,966	-211,651	-186,361	-389,949
Depreciation, amortisation and impairment of tangible and intangible assets		-4,327	-3,736	-4,028	-8,355	-6,311	-13,762
Other operating expenses		-16	-26	-82	-97	-105	-150
Total expenses before credit losses		-113,028	-102,128	-107,076	-220,103	-192,777	-403,861
Profit before credit losses		91,264	96,923	96,950	188,214	159,195	350,344
Net credit losses	Note 3	3,984	-5,484	4,719	8,703	-3,779	-12,488
Operating profit		95,249	91,439	101,668	196,917	155,416	337,856
Tax expense for the period		-17,231	-22,249	-23,726	-40,957	-38,748	-82,548
Net profit for the period		78,018	69,190	77,942	155,960	116,667	255,308

Statement of Comprehensive Income

Landshypotek Bank AB Parent Company, SEK thousand	Q2 2018	Q2 2017	Q1 2018	Jan–Jun 2018	Jan–Jun 2017	Full-year 2017
Net profit for the period	78,018	69,190	77,942	155,960	116,667	255,308
Other comprehensive income						
Items to be reclassified to income statement						
Cash-flow hedges	-	865	-	-	1,807	8,620
Available-for-sale financial assets	-	36,726	-	-	31,570	20,907
Financial assets at FVTOCI	4,782	-	-28	4,753	-	-
- of which change in credit risk	-1	-	1	-	-	-
Change in cross-currency basis spreads in fair value hedges	-14,373	-	-20,282	-34,655	-	-
Income tax related to other comprehensive income	2,110	-8,270	4,468	6,578	-7,343	-6,496
Total items that will be reclassified	-7,481	29,322	-15,842	-23,323	26,035	23,031
Total other comprehensive income	-7,481	29,322	-15,842	-23,323	26,035	23,031
Comprehensive income for the period	70,536	98,512	62,100	132,637	142,702	278,339

Balance Sheet

Landshypotek Bank AB SEK thousand Note	Group				Parent Company			
	30 Jun 2018	31 Mar 2018	31 Dec 2017	30 Jun 2017	30 Jun 2018	31 Mar 2018	31 Dec 2017	30 Jun 2017
ASSETS								
Eligible treasury bills ¹⁾	4,982,811	5,014,701	5,559,234	6,246,608	4,982,811	5,014,701	5,559,234	6,246,608
Loans to credit institutions	590,849	457,628	393,346	573,140	590,623	457,397	393,115	572,909
Loans to the public Note 4	70,821,864	69,595,853	68,488,409	67,219,077	70,821,864	69,595,853	68,488,409	67,219,077
Value change of interest-hedged items in portfolio hedges	73,809	66,859	63,621	76,857	73,809	66,859	63,621	76,857
Bonds and other interest-bearing securities	7,786,316	7,842,384	7,862,707	8,620,200	7,786,316	7,842,384	7,862,707	8,620,200
Derivatives	1,809,106	1,660,301	1,466,052	1,558,227	1,809,106	1,660,301	1,466,052	1,558,227
Shares in Group entities	-	-	-	-	200	200	200	200
Intangible assets	118,074	105,551	99,355	83,467	118,074	105,551	99,355	83,467
Tangible assets								
Equipment	7,106	7,757	8,300	9,661	7,106	7,757	8,300	9,661
Buildings and land	9,241	9,378	9,515	9,790	9,241	9,378	9,515	9,790
Other assets	13,898	14,040	7,099	38,586	13,896	14,040	7,098	38,586
Current tax assets	2,398	-	-	1,173	2,398	-	-	1,173
Deferred tax assets	18,795	14,318	4,087	3,003	392	9,540	365	1,838
Prepaid expenses and accrued income	348,269	458,643	435,825	460,527	348,269	458,643	435,825	460,527
TOTAL ASSETS Notes 5, 6	86,582,537	85,247,411	84,397,550	84,900,316	86,564,106	85,242,602	84,393,796	84,899,121
LIABILITIES, PROVISIONS AND EQUITY								
Liabilities to credit institutions	1,843,718	1,422,819	424,038	958,269	1,843,718	1,422,819	424,038	958,269
Deposits from the public	13,533,483	13,002,612	12,675,325	12,396,256	13,533,483	13,002,612	12,675,325	12,396,256
Debt securities issued	63,180,190	62,421,829	62,877,705	63,380,046	63,180,190	62,421,829	62,877,705	63,380,046
Derivatives	403,344	539,377	705,737	835,303	403,344	539,377	705,737	835,303
Other liabilities	117,072	272,931	306,405	93,612	116,551	272,407	305,883	93,089
Tax liabilities	-	7,313	3,681	27,123	-	7,315	3,681	27,123
Accrued expenses and prepaid income	391,183	544,200	393,505	445,997	391,183	544,200	393,505	445,997
Provisions	86,651	23,717	17,712	6,624	2,796	2,522	1,319	1,324
Subordinated liabilities	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Total liabilities	80,755,641	79,434,798	78,604,109	79,343,230	80,671,265	79,413,081	78,587,193	79,337,408
Equity	5,826,896	5,812,613	5,793,441	5,557,086	5,892,841	5,829,521	5,806,603	5,561,713
TOTAL LIABILITIES, PROVISIONS AND EQUITY Notes 5, 6	86,582,537	85,247,411	84,397,550	84,900,316	86,564,106	85,242,602	84,393,796	84,899,121

¹⁾ From 2018, investments in municipal bonds are recognised as eligible treasury bills.
Previously, municipal bonds were recognised as Bonds and interest-bearing securities. The comparative figures for 2017 have been restated.

Statement of cash flow

Landshypotek Bank AB, SEK thousand	Group			Parent Company		
	Jan-Jun 2018	Jan-Jun 2017	Full-year 2017	Jan-Jun 2018	Jan-Jun 2017	Full-year 2017
Opening cash and cash equivalents	393,346	592,071	592,071	393,115	591,839	591,839
Cash flow from operating activities	237,026	-13,726	-417,323	237,031	-13,725	-417,322
Cash flow from investment activities	-25,606	-22,735	-44,439	-25,606	-22,735	-44,439
Cash flow from financing activities	-13,917	17,530	263,037	-13,917	17,530	263,037
Cash flow for the period	197,503	-18,931	-198,725	197,508	-18,930	-198,724
Closing cash and cash equivalents	590,849	573,140	393,346	590,623	572,909	393,115

Statement of changes in equity

Landshypotek Bank AB Group SEK thousand	Share capital	Other contribut- ed equity	Hedge reserve	Fair value reserve	Credit loss allowance	Actuarial gains and losses	Tier 1 capital	Retained earnings	Total
Equity, 31 December 2016	2,253,000	1,026,254	-6,724	21,715	-	-16,359	-	1,445,583	4,723,470
Comprehensive income for the period			6,724	16,307		-11,607		256,366	267,789
Total change before transactions with owners	-	-	6,724	16,307	-	-11,607	-	256,366	267,789
Tier 1 capital instruments issued							700,000		700,000
Dividend on Tier 1 capital instruments								-21,139	-21,139
Shareholders' contributions								256,000	256,000
Group contributions paid								-170,100	-170,100
Tax on Group contributions paid								37,422	37,422
Equity, 31 December 2017	2,253,000	1,026,254	-	38,022	-	-27,966	700,000	1,804,132	5,793,441
Change on initial transition to IFRS 9				64	-64			-32,481	-32,481
Restated opening balance 1 January 2018	2,253,000	1,026,254	-	38,086	-64	-27,966	700,000	1,771,651	5,760,961

Landshypotek Bank AB Group SEK thousand	Share capital	Other contribut- ed equity	Cross-currency basis spreads in fair value hedges	Fair value reserve	Credit loss allowance	Actuarial gains and losses	Tier 1 capital	Retained earnings	Total
Restated opening balance 1 January 2018	2,253,000	1,026,254	-	38,086	-64	-27,966	700,000	1,771,651	5,760,961
Comprehensive income for the period			-27,031	3,708	-	-53,419		156,594	79,851
Total change before transactions with owners and holders of Tier 1 capital instruments	-	-	-27,031	3,708	-	-53,419	-	156,594	79,851
Dividend on Tier 1 capital instruments								-13,917	-13,917
Equity, 30 June 2018	2,253,000	1,026,254	-27,031	41,794	-64	-81,385	700,000	1,914,328	5,826,896

Landshypotek Bank AB Parent Company SEK thousand	Share capital	Other contribut- ed equity	Hedge reserve	Fair value reserve	Credit loss allowance	Actuarial gains and losses	Tier 1 capital	Retained earnings	Total
Equity, 31 December 2016	2,253,000	1,016,694	-6,724	21,715	-	-	-	1,441,397	4,726,081
Comprehensive income for the period			6,724	16,307				255,308	278,339
Total change before transactions with owners	-	-	6,724	16,307	-	-	-	255,308	278,339
Tier 1 capital instruments issued							700,000		700,000
Dividend on Tier 1 capital instruments								-21,139	-21,139
Shareholders' contributions								256,000	256,000
Group contributions paid								-170,100	-170,100
Tax on Group contributions paid								37,422	37,422
Equity, 31 December 2017	2,253,000	1,016,694	-	38,022	-	-	700,000	1,798,888	5,806,603
Change on initial transition to IFRS 9				64	-64			-32,481	-32,481
Restated opening balance 1 January 2018	2,253,000	1,016,694	-	38,086	-64	-	700,000	1,766,407	5,774,122

Landshypotek Bank AB Parent Company SEK thousand	Share capital	Other contribut- ed equity	Cross-currency basis spreads in fair value hedges	Fair value reserve	Credit loss allowance	Actuarial gains and losses	Tier 1 capital	Retained earnings	Total
Restated opening balance 1 January 2018	2,253,000	1,016,694	-	38,087	-64	-	700,000	1,766,407	5,774,122
Comprehensive income for the period			-27,031	3,708	-			155,960	132,637
Total change before transactions with owners and holders of Tier 1 capital instruments	-	-	-27,031	3,708	-	-	-	155,960	132,637
Dividend on Tier 1 capital instruments								-13,917	-13,917
Equity, 30 June 2018	2,253,000	1,016,694	-27,031	41,794	-64	-	700,000	1,908,450	5,892,841

Notes

Note 1 Capital and capital adequacy

In November 2017, Finansinspektionen gave the bank permission to use a fundamental IRB approach¹⁾ to calculate capital requirements for corporate exposures. In April 2018, the bank was also granted permission to change the IRB approach for retail exposures. These permissions were implemented by the bank as of 30 June 2018. The new permissions primarily encompass the following:

- New definitions of retail and corporate exposures, which has led to the bank's largest customers, who conduct operations as a sole trader, being moved from the retail exposure class to the corporate exposure class (SEK 26.2 billion). The bank has also started to use the IRB approach for exposures to legal entities (SEK 3.0 billion). For the majority of these exposures, the IRB approach for corporate exposures is applied for capital adequacy purposes. Previously, the standardised approach was used.
- New PD model for the bank's larger corporate customers and development of the PD model, in the form of additional risk classes and new risk drivers, for mortgage customers and customers with smaller business operations.
- Higher weighting for downturn years in the bank's estimates of default rates together with higher margins of conservatism (MoCs) in the bank's PD estimates.
- Changed method for cyclical adjustments of PD estimates, which means the portfolio PD for healthy credits is less dependent on the business cycle and is more constant over time.

The changes in the bank's IRB approach aim to better reflect the current structure of lending to Swedish farming and forestry, and to adapt to applicable and forthcoming regulatory changes. In the new approach, the bank has taken into account, inter alia, Finansinspektionen's memorandum (FI-Ref. 15-13020) regarding the number of downturn years for long-term default rates and the EBA's guidelines (EBA/GL/2017/16), which apply from 2021, regarding MoCs in PD estimates.

In H2 2017, the bank started to offer mortgages to homeowners. Initially, the standardised approach for credit risk was used for capital adequacy purposes. The above development of the PD model together with new permissions means the bank has been meeting capital adequacy requirements for homeowner mortgages using the IRB approach from 30 June 2018.

Since the decision to apply new definitions for retail and corporate exposures, the bank has prepared for the above changes in approach with in the Pillar II framework for the internally assessed capital requirement. The difference arising following the implementation of the permission as of 30 June 2018 is only a reallocation between Pillar I and Pillar II. The reallocation is in the form of an increase in the minimum capital requirement and the deduction from own funds²⁾, while the Pillar II premium is reduced. In other words, the difference between the capital requirement and own funds is not impacted. The capital adequacy assessment takes into account the minimum capital requirement, the combined buffer requirement and the Pillar II capital requirement.

The internally assessed capital requirement for the consolidated situation on 30 June 2018 was SEK 5.0 billion, which should be compared with own funds of SEK 6.0 billion. The surplus of slightly more than SEK 1 billion can be compared with a surplus of SEK 1.2 billion at 31 March 2018.

The increase in the regulatory capital requirement was due to the changes in the first, third and fourth bullet points in the column to the left. The transfer of a larger portion of the portfolio from the retail exposure class to the corporate exposure class has a material impact on the capital requirement through the use of the prescribed LGD estimates (average 35 percent) instead of internal LGD estimates (average 16 percent). Essentially (>99 percent), corporate exposures comprise credits secured against immovable property and with an average LTV ratio of 54 percent. Accordingly, the LGD estimates used do not reflect the characteristics and risk scenario of the lending.

At 30 June 2018, the total capital ratio amounted to 19.8 percent for the consolidated situation and the CET1 capital ratio was 14.8 percent. At Landshypotek Bank AB, the total capital ratio amounted to 21.1 percent and the CET1 capital ratio was 14.9 percent. For the consolidated situation, own funds was MSEK 6,010 and the minimum capital requirement was MSEK 2,426.

The leverage ratio for the consolidated situation amounted to 5.9 percent.

¹⁾ In the fundamental IRB approach for credit risk, internal estimates are only used for the PD risk dimension. For retail exposures, the bank uses internal estimates for all risk dimensions (PD, LGD and EAD).

²⁾ Deductions arising from expected credit losses exceeding the outstanding provisions for credit losses (negative amounts resulting from the calculation of expected loss amounts).

continued Note 1 Capital adequacy analysis

SEK thousand	Consolidated situation ¹⁾ 30 June 2018	Landshypotek Bank AB 30 June 2018
CET1 capital: Instruments and reserves		
Member contributions	1,678,520	–
Share capital	–	2,253,000
Other contributed equity	1,797,796	1,016,694
Tier 1 capital instruments	700,000	700,000
Reserves	14,698	14,698
Actuarial changes	-81,384	–
Retained earnings	1,618,909	1,752,490
Net profit for the year ²⁾	147,548	155,960
Equity in the balance sheet	5,876,088	5,892,843
Deductions related to the consolidated situation and other foreseeable costs	-55,784	-72,989
Deductions for Tier 1 capital instruments classified as equity	-700,000	-700,000
CET1 capital before regulatory adjustments³⁾	5,120,304	5,119,854
CET1 capital: regulatory adjustments		
Further value adjustments	-14,982	-14,982
Intangible assets	-118,074	-118,074
Deferred tax assets that rely on future profitability	-18,795	-392
Fair value reserves related to gains or losses on cash-flow hedges	–	–
Negative amounts resulting from the calculation of expected loss amounts (IRB)	-479,049	-479,049
Defined-benefit pension plans	–	–
Total regulatory adjustments to CET1 capital	-630,900	-612,497
CET1 capital	4,489,403	4,507,358
Additional Tier 1 capital: instruments		
Tier 1 capital instruments	–	700,000
<i>of which classified as equity under applicable accounting standards</i>	–	700,000
Qualifying Tier 1 capital included in consolidated additional Tier 1 capital issued by subsidiaries and held by third parties	577,018	–
Tier 1 capital (CET1 capital + Tier 1 capital)	5,066,422	5,207,358
Tier 2 capital: instruments and provisions		
Capital instruments and subordinated loans eligible as Tier 2 capital	–	1,200,000
Positive amounts resulting from the calculation of expected loss amounts (IRB)	–	–
Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third parties	943,938	–
Tier 2 capital before regulatory adjustments	943,938	1,200,000
Tier 2 capital: regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	–	–
Tier 2 capital	943,938	1,200,000
Own funds (Tier 1 capital + Tier 2 capital)	6,010,360	6,407,358
Total risk-weighted exposure amount	30,324,586	30,324,407
Capital ratios and buffers		
Own funds requirement	2,425,967	2,425,953
CET1 capital ratio (%)	14.8	14.9
Tier 1 capital ratio (%)	16.7	17.2
Total capital ratio (%)	19.8	21.1
Institution-specific CET1 capital requirement including buffer requirements (%)	9.0	9.0
<i>of which capital conservation buffer requirement (%)</i>	2.5	2.5
<i>of which countercyclical buffer requirement (%)</i>	2.0	2.0
CET1 capital available to meet buffers (%) ⁴⁾	10.3	10.4

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

²⁾ A decision by Finansinspektionen in February 2018 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⁾ 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 Own funds requirement by risk, approach and exposure class

Consolidated situation 30 June 2018				
SEK thousand	Exposure value ¹⁾	Risk-weighted exposure amount ²⁾	Own funds requirement ³⁾	Average risk weight ⁴⁾
Credit risk – IRB approach	72,468,311	25,938,858	2,075,109	36%
Retail – real estate collateral	43,384,059	6,555,599	524,448	15%
Corporates	28,986,893	19,285,900	1,542,872	67%
Other non-credit-obligation assets	97,359	97,359	7,789	100%
Credit risk – Standardised approach	15,477,321	1,591,919	127,354	10%
Central governments or central banks	102,020	–	–	0%
Regional governments or local authorities	5,610,590	–	–	0%
Institutions	2,316,168	734,021	58,722	32%
Corporates	14,914	14,914	1,193	100%
Retail	38,828	27,526	2,202	71%
Secured by mortgage liens on immovable property	209,757	92,908	7,433	44%
Exposures in default	2,894	4,336	347	150%
Covered bonds	7,182,149	718,215	57,457	10%
Operational risk – Basic indicator approach		1,366,604	109,328	
Credit valuation adjustment risk – Standardised approach	1,798,584	1,424,986	113,999	79%
Additional risk exposure amounts under Article 3 CRR		2,218	177	
Total	89,744,215	30,324,586	2,425,967	–

Landshypotek Bank AB, 30 June 2018				
SEK thousand	Exposure value ¹⁾	Risk-weighted exposure amount ²⁾	Own funds requirement ³⁾	Average risk weight ⁴⁾
Credit risk – IRB approach	72,467,759	25,938,306	2,075,064	36%
Retail – real estate collateral	43,384,059	6,555,599	524,448	15%
Corporates	28,986,893	19,285,900	1,542,872	67%
Other non-credit-obligation assets	96,807	96,807	7,745	100%
Credit risk – Standardised approach	15,461,227	1,592,292	127,383	10%
Central governments or central banks	81,007	–	–	0%
Regional governments or local authorities	5,613,701	–	–	0%
Institutions	2,317,956	734,378	58,750	32%
Corporates	14,914	14,914	1,193	100%
Retail	38,848	27,541	2,203	71%
Secured by mortgage liens on immovable property	209,757	92,908	7,433	44%
Exposures in default	2,894	4,336	347	150%
Covered bonds	7,182,149	718,215	57,457	10%
Operational risk – Basic indicator approach		1,366,604	109,328	
Credit valuation adjustment risk – Standardised approach	1,798,584	1,424,986	113,999	79%
Additional risk exposure amounts under Article 3 CRR		2,218	177	
Total	89,727,569	30,324,407	2,425,953	–

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. Does not include any buffer requirements.

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

Note 2 Net interest income

Landshypotek Bank AB – Group ¹⁾ SEK thousand	Q2 2018	Q2 2017	Q1 2018	Jan–Jun 2018	Jan–Jun 2017	Full-year 2017
Interest income						
Interest income on loans to credit institutions	0	-55	-44	-44	-162	-1,699
Interest income on loans to the public	301,406	325,778	300,752	602,158	634,226	1,254,083
Interest income on interest-bearing securities	4,044	8,208	-2,604	1,440	18,942	31,592
Other interest income	2,699	3,287	2,629	5,328	7,024	11,856
Total interest income²⁾	308,150	337,217	300,733	608,883	660,029	1,295,831
Interest expenses						
Interest expenses for liabilities to credit institutions	2,963	1,717	1,365	4,328	2,954	5,109
Interest expenses for deposits from the public	-24,155	-22,239	-23,014	-47,169	-43,915	-87,551
- of which fees for deposit insurance	-1,965	-2,221	-1,965	-3,930	-4,443	-6,777
Interest expenses for interest-bearing securities	-110,202	-142,107	-112,815	-223,017	-278,376	-553,193
Interest expenses for subordinated liabilities	-6,845	-9,753	-6,236	-13,081	-20,904	-34,458
Interest expenses for derivative instruments	53,166	63,180	53,656	106,822	114,348	249,755
Other interest expenses	-24,475	-19,512	-26,253	-50,727	-40,131	-75,122
- of which fees for resolution fund	-18,698	-14,523	-21,150	-39,848	-28,607	-56,945
Total interest expenses	-109,548	-128,714	-113,296	-222,844	-266,024	-495,459
Total net interest income	198,602	208,503	187,437	386,039	394,006	800,372

¹⁾ Net interest income for the Parent Company differs only marginally from net interest income for the Group. The difference is attributable to interest income on loans to credit institutions.

²⁾ All interest income is attributable to the Swedish market.

Note 3 Net credit losses

Landshypotek Bank AB – Group and Parent Company, SEK thousand	Q2 2018	Q2 2017	Q1 2018	Jan–Jun 2018	Jan–Jun 2017	Full-year 2017
Change in credit loss allowance, Stage 1	1,733	-	-665	1,068	-	-
Change in credit loss allowance, Stage 2	6,053	-	3,260	9,313	-	-
- of which change in collective credit loss allowance, Stage 2	236	-	-144	92	-	-
Collective allowances under IAS39	-	921	-	-	82	376
Net credit losses, non-credit-impaired lending	7,785	921	2,596	10,381	82	376
Change in credit loss allowance, Stage 3	19,457	0	11,207	30,664	0	0
Write-off for the period for confirmed losses	-24,388	-3,410	-11,094	-35,482	-11,937	-22,802
Recoveries of previously confirmed losses	1,129	152	2,011	3,140	435	2,754
Specific provisions under IAS39	-	-3,146	-	-	7,641	7,184
Net credit losses, credit-impaired lending	-3,801	-6,405	2,123	-1,678	-3,861	-12,864
Total net credit losses	3,984	-5,484	4,719	8,703	-3,779	-12,488

No properties were taken over in foreclosure to protect claims.

Note 4 Loans to the public

Landshypotek Bank AB – Group and Parent Company SEK thousand	30 Jun 2018	31 Mar 2018	31 Dec 2017	30 Jun 2017
Loan receivables, stage 1	59,869,738	58,496,483	–	–
Loan receivables, stage 2	10,462,425	10,583,091	–	–
Loan receivables, stage 3	557,864	611,959	–	–
Gross loan receivables	70,890,027	69,691,533	68,537,095	67,274,172
Less credit loss allowance under IFRS 9	-68,163	-95,680	–	–
- of which change in collectively measured credit loss allowance	-3,536	-3,772	–	–
Less provisions under IAS 39	–	–	-48,686	-55,095
Net loan receivables	70,821,864	69,595,853	68,488,409	67,219,077
Disclosures on overdue loan receivables, gross				
Loan receivables overdue 5–90 days	22,680	97,490	4,227	1,102
Loan receivables overdue more than 90 days	232,364	218,327	308,540	368,058
Total overdue loan receivables, gross	255,044	315,817	312,767	369,160

Credit loss allowance SEK thousand	Transition to IFRS 9	Non-credit- impaired lending		Credit- impaired lending	Total credit loss allowance lending	Of which credit loss allowance for balance- sheet assets	Of which pro- visions for off- balance-sheet exposures
		Stage 1	Stage 2	Stage 3			
Closing provision at 31 Dec 2017 under IAS 39	-48,686						
Reclassification from accrued interest	-20,357						
Remeasurement under IFRS 9	-41,642						
Reclassification under IFRS 9	110,685	-6,917	-33,005	-70,763		-107,134	-3,551
Opening balance at 1 Jan 2018 under IAS 39		-6,917	-33,005	-70,763	-110,685	-107,134	-3,551
Increases due to origination and acquisition		-658	-1,968	-49	-2,674	-2,337	-337
Decreases due to derecognition		442	3,518	3,809	7,769	4,929	2,840
Decrease in allowance due to write-offs				35,482	35,482	35,482	–
Changes due to change in credit risk		1,283	7,762	-8,577	468	897	-428
Closing balance 30 June 2018		-5,850	-23,692	-40,098	-69,640	-68,163	-1,477

Collateral exists in the form of immovable property for lending.

Note 5 Fair-value hierarchy for financial instruments

Landshypotek Bank AB – Group and Parent Company, SEK thousand	30 June 2018				30 June 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL								
Eligible treasury bills, etc.	319,218			319,218	1,274,619			1,274,619
Interest-rate swaps				–				–
Cross-currency interest-rate swaps				–		35,324		35,324
Derivatives identified as hedging instruments				–				–
Interest-rate swaps		898,089		898,089		919,326		919,326
Cross-currency interest-rate swaps		911,018		911,018		603,577		603,577
Available-for-sale financial assets								
Eligible treasury bills, etc.	–			–	6,246,608			6,246,608
Bonds and other interest-bearing securities		–		–	7,345,581			7,345,581
Financial assets at FVTOCI								
Eligible treasury bills, etc.	4,982,811			4,982,811				–
Bonds and other interest-bearing securities	7,467,098			7,467,098				–
Total assets measured at fair value	12,769,127	1,809,107	–	14,578,234	14,866,808	1,558,227	–	16,425,035
Financial liabilities at FVTPL								
Interest-rate swaps		25,969		25,969		138,017		138,017
Cross-currency interest-rate swaps				–		20,829		20,829
Derivatives identified as hedging instruments								
Interest-rate swaps		256,712		256,712		381,919		381,919
Cross-currency interest-rate swaps		120,663		120,663		294,538		294,538
Total liabilities measured at fair value	–	403,344	–	403,344	–	835,303	–	835,303

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

Landshypotek Bank AB – Group ¹⁾ SEK thousand	30 June 2018 Carrying amount	30 June 2018 Fair value	30 June 2017 Carrying amount	30 June 2017 Fair value
Assets				
Eligible treasury bills	4,982,811	4,982,811	6,246,610	6,246,610
Loans to credit institutions	590,849	590,849	573,140	573,140
Loans to the public	70,821,864	71,622,734	67,219,077	68,326,569
Bonds and other interest-bearing securities	7,786,316	7,786,316	8,620,200	8,620,200
Derivatives	1,809,106	1,809,106	1,558,227	1,558,227
Total assets	85,990,947	86,791,817	84,217,255	85,324,746
Liabilities and provisions				
Liabilities to credit institutions	1,843,718	1,843,718	958,269	958,269
Deposits from the public	13,533,483	13,533,483	12,396,256	12,396,256
Debt securities issued	63,180,190	63,973,610	63,380,046	64,427,877
Derivatives	403,344	403,344	835,303	835,303
Subordinated liabilities	1,200,000	1,263,816	1,200,000	1,263,912
Total liabilities	80,160,735	81,017,971	78,769,874	79,881,618

¹⁾ Carrying amounts and fair values for the Parent Company's financial instruments differ only marginally from the amounts and values for the Group. The difference is attributable to loans to credit institutions.

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 relevant 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 allowances as a percentage of 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.

Summary of APMs	Q2 2018	Q2 2017	Q1 2018	Jan-Jun 2018	Jan-Jun 2017	Full-year 2017
Change in lending	1,226	634	1,107	2,333	701	1,971
Opening balance, loans outstanding	69,596	66,585	68,488	68,488	66,518	66,518
Change in lending, %	1.8	1.0	1.6	3.4	1.1	3.0
Net interest income, accumulated LTM	792	755	802	792	755	800
Average loans outstanding, LTM	68,861	66,535	67,994	68,861	66,535	67,351
Interest margin, LTM, %	1.15	1.13	1.18	1.15	1.13	1.19
Change in deposits from the public	531	350	327	858	665	944
Opening balance deposits from the public	13,003	12,046	12,675	12,675	11,731	11,731
Change in deposits from the public, %	4.1	2.9	2.6	6.8	5.7	8.0
Costs before credit losses	-112	-103	-106	-219	-193	-402
Total operating income	204	199	204	408	352	754
C/I ratio including financial transactions	0.55	0.52	0.52	0.54	0.55	0.53
Costs before credit losses	-112	-103	-106	-219	-193	-402
Total operating income excluding financial transactions	200	209	189	389	395	802
C/I ratio excluding financial transactions	0.56	0.49	0.56	0.56	0.49	0.50
Net credit losses calculated on a full-year basis	16	-22	19	8	-8	-12
Average loans outstanding, LTM	68,861	66,535	67,994	68,861	66,535	67,351
Credit loss level, %¹	-	0.03	-	-	0.01	0.02
Credit-impaired assets, gross	558		612	558		708 ²⁾
Less provisions made	-40		-60	-40		-71 ²⁾
Credit-impaired assets, net	518		552	518		637²⁾
Loans to the public	70,822		69,596	70,822		68,488
Net credit-impaired assets after allowances as a percentage of total loans outstanding, %	0.73		0.79	0.73		0.93²⁾
Profit after tax						256
Average equity						5,426
Return on equity, %						4.7

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

² Pertains to the outcome at 1 January 2018 after the transition to IFRS 9.

Reporting calendar

Landshypotek Bank's reports are available at:
www.landshypotek.se/en/about-landshypotek/investor-relations/financial-reports

Interim report Q3	25 October 2018
Year-end report 2018	25 January 2019

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