



Landshypotek Bank

# Landshypotek Bank AB

## Interim report 2014 #3

January – September 2014 (compared with year-earlier period)

### Operating profit amounted to MSEK 300.9 (251.8)

Earnings posted a year-on-year increase of MSEK 49.1. Underlying earnings, meaning operating profit excluding the net result of financial transactions, was MSEK 224.3 (237.2). Net interest income increased year-on-year but was offset by higher costs and loan losses.

### Net interest income amounted to MSEK 550.8 (482.0)

Net interest income was up MSEK 68.8 compared with the year-earlier period. The improvement was attributable to items including higher lending and lower borrowing costs.

### Costs totalled MSEK 249.3 (202.8)

The increase in costs was in line with expectations and was primarily linked to the opening of the digital savings bank. The Bank strengthened its resources with additional employees in the customer support and sales organisations, with associated personnel costs.

### Net loan losses totalled MSEK 66.5 (loss: 34.9)

Realised loan losses of MSEK 25.0 (loss: 26.3) were lower year-on-year, but the provision for probable loan losses increased to MSEK 81.9 (46.5). Landshypotek Bank has developed its work on the credit portfolio, thereby enabling earlier identification of companies with weak

profitability and low liquidity. Provisions pertain to a few individual commitments.

### Lending amounted to SEK 61.8 billion

In 2014, lending increased 1.5 percent (2.6). Growth in the market has eased off and loan amortisation has increased.

### Deposits amounted to MSEK 4,824 (1,751)

In February, Landshypotek Bank opened a new digital savings bank. Deposits increased MSEK 2,677 during 2014.

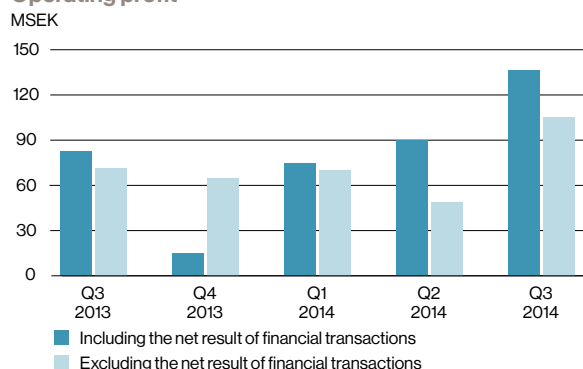
### Capital adequacy amounted to 24.6 percent without taking into account the transitional rules linked to Basel 1

The capital base was MSEK 4,714 and the capital requirement was MSEK 1,533. Under the transitional rules, capital adequacy amounted to 9.5 percent.

### Earnings up compared with the second quarter

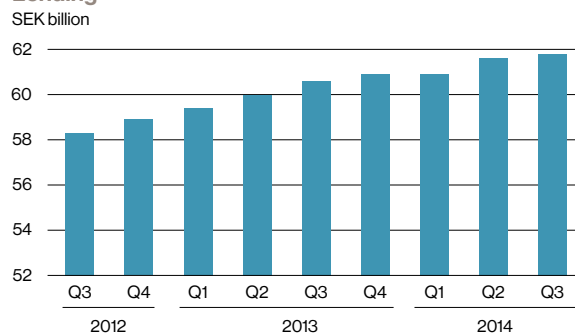
Operating profit was up MSEK 46.8 compared with the second quarter of 2014. Excluding the net result of financial transactions, operating profit increased MSEK 55.9. Compared with the second quarter, net interest income improved and both costs and loan losses decreased.

### Operating profit



Operating profit for the third quarter of 2014 totalled MSEK 136.4. Operating profit excluding the net result of financial transactions was MSEK 105.0.

### Lending



At 30 September 2014, Landshypotek Bank's lending amounted to MSEK 61,795. During the quarter, lending increased 0.3 percent.

# For a richer life in the country

Landshypotek Bank's assignment is to provide competitive financing and offer financial services to Sweden's farmers and foresters. In addition, Landshypotek Bank has introduced savings accounts that offer competitive interest rates for the general public in Sweden. Landshypotek Bank is owned by Landshypotek ekonomisk förening, in which all of the Bank's loan customers are members.

- Landshypotek Bank finances investments and entrepreneurship for a richer life in the country. We specialise in the agricultural and forestry industries and develop financial solutions for farmers and foresters. The core assignment remains unchanged since 1836.
- With nearly SEK 62 billion in loans outstanding, Landshypotek Bank is Sweden's tenth largest bank. We are a clearly profiled niche bank, owned by our loan customers and cut prices for financing agriculture and forestry. We are a different type of bank since we distribute part of our surplus back to the members of the cooperative society.
- Landshypotek Bank is owned by Landshypotek ekonomisk förening, in which all of the Bank's loan customers are members. Our surpluses are reinvested in operations and distributed to loan customers. This year, MSEK 142 of net profit for 2013 was distributed by the cooperative society.
- We are the farmers' and foresters' own bank. For us, the development of agriculture and forestry is crucial for Sweden's future.
- Landshypotek Bank has strong local networks maintained by elected representatives who value agricultural properties and act as ambassadors for our operations.
- Landshypotek Bank systematically recruits account managers who understand financing and have backgrounds in agronomy, forestry or agrology. All as part of supporting customers' business. We understand the people behind the multitude of family businesses in the countryside.
- Landshypotek Bank has opened a digital savings bank that offers competitive interest rates for the general public in Sweden. Accordingly, we are the bank for anyone who wants favourable terms for savings and who holds the countryside dear to their heart. Together with our loan customers, we have been developing the countryside since 1836. Saving with Landshypotek Bank contributes to the continued development of the Swedish countryside.
- Landshypotek Bank contributes actively to a richer countryside with open landscapes, well-kept forests and Swedish food production through the financing of sound agricultural and forestry enterprises.

## Landshypotek Bank is close to its customers

Landshypotek Bank is organised into eight areas and has 19 sales offices throughout Sweden. All account managers at the offices have a background in agriculture and forestry. The sales organisation has access to a network of elected representatives who carry out property valuations. These representatives actively run agricultural businesses and possess good knowledge of local conditions. The company's local presence and expertise in agriculture and forestry are prerequisites and success factors for operations. Landshypotek Bank has a Customer Service Centre that manages customers' day-to-day questions.

## Landshypotek Bank is owned by its members.

All borrowers from Landshypotek Bank also become members of Landshypotek ekonomisk förening. Accordingly, Landshypotek Bank is owned by some 45,000 members. All business operations are conducted in Landshypotek Bank and its subsidiary Landshypotek Jordbrukskredit. The cooperative society is responsible for member relations. Landshypotek ekonomisk förening consists of ten regions. The Board of each region is comprised of up to eight elected representatives who represent the members, act as ambassadors for Landshypotek Bank and carry out valuations. Any surpluses in Landshypotek Bank are reinvested in operations and distributed to loan customers.

# Building a strong bank for agriculture and forestry

Landshypotek Bank's owners, our loan customers, are convinced that a separate bank is needed for the agriculture and forestry sectors. For our owners, our existence ensures favourable terms for credit granting with regard to ownership and entrepreneurship in the agriculture and forestry sector.

Do possibilities exist for the operation of a niche bank in the current banking and finance climate? Regulations and capital requirements are increasing for banks. In addition, there is a strong and continuously developing customer demand for new services and products. When asked this question four years ago, our owners answered, "Yes, it is possible." Since then, Landshypotek Bank has developed vigorously.

A small selection:

- Previously highly fluctuating earnings have stabilised at a satisfactory level. We expect, with this interim report, to achieve earnings of about MSEK 300 for the fourth successive year.
- Legacy IT business support systems have been replaced with modern systems. Among other initiatives, this enabled the investment in a fully digital savings bank. Substantial interest has been shown in our solution from customers and other banks, both domestic and international.
- Investor relations have been strengthened. We now have improved borrowing terms. The ratings from Fitch and Standard & Poor's have improved.
- Our funding now relies on more sources. During the year, with the start of our digital bank, we have established ourselves as a serious contender in the savings market. Our digital savings accounts are a success and we have good momentum toward SEK 5 billion in savings.
- We are moving at a controlled pace from relying solely on first lien mortgage loans, primarily to farmers, to addressing the entire agriculture and forestry market and offering more products and services.
- We have become a bank, changed logotype and developed our communication platform to be able to develop a modern style of communication with new, substantial possibilities.

The agriculture and forestry sectors are facing several challenges. Increased internationalisation and structural



changes in production and distribution require ever more of individual entrepreneurs. Landshypotek Bank has close ties with customers and supports farmers and foresters in meeting these challenges. This is also apparent in this interim report.

The major expansion in credit is over, growth has eased off. In many respects, we believe this is healthy, but there is still demand for credit. Valuations of agricultural properties are supplemented with dialogues about entrepreneurship, annual accounts and business plans. We act considerably, for the long-term and are skilled at meeting entrepreneurs' needs. Measured over time, agriculture and forestry entrepreneurs must conduct long-term sustainable operations. However, in individual cases, profitability may be under pressure, which negatively impacts the repayment capacity of these customers. Through active dialogue, we are identifying customers with poor profitability and low liquidity at an increasingly early stage.

Landshypotek Bank continues to have substantial possibilities and stands strong facing 2015. Ahead of the new year, I am handing over my role as Managing Director of Landshypotek Bank to Liza Nyberg. It has been rewarding years at a bank in rapid transition. The key points remain: a strong bank is needed for the agriculture and forestry sectors and it is possible to develop a strong niche bank in the Swedish banking market.

Kjell Hedman,  
Managing Director

# Our operating environment

Landshypotek Bank and our customers are impacted by the financial market's trends and conditions in the agriculture and forestry sectors. Farmers are now facing challenges including the Russian embargo on agricultural products from EU countries, among others, and in milk production. Interest rates remain low and Landshypotek Bank has continued to lower lending interest rates during the quarter.

## Financial market trends

The financial markets are characterised by the differences in economic trends in the US and the eurozone. The economy is strong in the US and the US central bank is looking at raising interest rates in summer 2015. The recovery in Europe has been put on hold. The European Central Bank (ECB) is working on further measures to avoid deflation.

Growth in the US is expected to reach 3.0 percent this year. The labour market has strengthened and unemployment is now down to 5.9 percent. Salary trends remain weak and, accordingly, inflation. Therefore, despite the robust trend, the forecast of a first rise in interest rates in summer 2015 remains firm. The central bank's bond-buying program is ending now in October. During the quarter, the USD has strengthened against the Euro by slightly more than 7 percent as a consequence of the economic trend.

In the eurozone the hope of a recovery has withered away and the forecast growth does not look like it will materialise. Southern Europe is in the grip of deflation and the German engine is spluttering. Therefore, the ECB has decided to continue to lower the interest rate to the

current level of 0.5 percent. However, the ECB's low-interest-rate stimulant has not reached those in most dire need. Weak domestic banks with a shortage of capital are unable to meet capital requirements without applying substantial margins. Accordingly, real interest rates for small and medium-sized companies are well above historical averages. Therefore, the ECB has decided to expand its balance sheet through the purchase of covered bonds and, thereafter, will probably be forced to buy government bonds – in an effort to avoid deflation gaining a stronger hold on the eurozone.

Households in Sweden are in a strong position due to rising asset prices, higher employment and a favourable trend in real incomes. Private consumption continues to provide good support to growth and a healthy future outlook. One area of uncertainty comprises the measures being discussed at a political level to slow down the pace of growth in household debt. Measures such as increased requirements for amortisation, reduced tax relief on interest or requirements for longer interest-rate fixing periods for mortgages will lead to lower consumption. The aim of the measures is not to slow down growth but, rather, to slow down the increase in indebtedness. The tightrope is a political challenge.

## Summary Landshypotek Bank

	2014 Q3	2013 Q3	2014 Q2	2014 Jan-Sep	2013 Jan-Sep	2013 Full year
Net interest income, MSEK	198.0	162.0	183.8	550.8	482.0	656.5
Operating profit, MSEK	136.4	82.8	89.6	300.9	251.8	266.8
Profit after tax, MSEK	106.4	70.5	69.9	234.6	202.3	208.0
Loans to the public, MSEK	61,795	60,617	61,631	61,795	60,617	60,859
Increase in lending, %	0.3 %	1.0 %	1.1 %	1.5 %	2.6 %	3.0 %
Interest margin, %	1.3 %	1.1 %	1.2 %	1.2 %	1.1 %	1.1 %
Deposits from the public	4,824	1,751	3,976	4,824	1,751	2,147
Increase in deposits, %	21.3 %	5.1 %	38.3 %	124.7 %	10.9 %	36.0 %
C/I ratio	0.37	0.43	0.49	0.46	0.43	0.44
Loan loss level, %	0.11 %	0.12 %	0.29 %	0.14 %	0.08 %	0.09 %
Capital adequacy, %	24.6 %	29.8 %	25.5 %	24.6 %	29.8 %	32.0 %
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	144.5	121.0	140.5	142.0	118.0	122.0



The Riksbank, Sweden's central bank, lowered interest rates in July. However, inflation remains low and the ECB lowered interest rates further thereafter. More liquidity from the ECB and the long time remaining before the austerity measures in the US and the UK provide support for the credit market, in the form of lower credit margins. However, the major portion of the downward journey has been accomplished and any further reductions are difficult to foresee.

Through lowered borrowing costs, Landshypotek Bank has had scope to continue lowering lending interest rates and, also, to strengthen the Bank's earnings, thereby, enabling continued development for customers and strengthening to meet new regulatory requirements.

## Trend in agriculture and forestry

The past months' international developments have not favoured European agriculture. The embargo by Russia is a marginal issue – on paper. However, the effect has been significant. The combination of the embargo and weak economic growth in Europe, together with good harvests and increasing global production, generate a surplus and price pressure in several product areas. This is noticeable for products including grain, milk and pork. Other products, such as potatoes and fruit, could also be hit by the surplus and price pressure.

Profitability is under pressure in several areas of agricultural production. The individual area facing the greatest challenges at present is milk production. Declining international demand, primarily from China, the Russian embargo and the removal of milk quotas in the EU in 2015 all comprise factors that will pose major challenges for milk production. However, in the short-term, declining feed prices could mitigate the fall in profitability.

For dairy producers, their own efficiency and productivity combined with favourable financing are decisive to be able to manage cash flow and profitability. Their own analysis together with advice from production, accounting and financing advisors could prove crucial for implementing necessary measures in time. In Sweden, conditions are favourable for milk production and there are many entrepreneurs who can take advantage of these conditions. A long-term sustainable approach is what is needed.

Food safety issues remain current. The issue for the Swedish production is to penetrate past negative images, for example for meat, which were the consequences of alarms about salmonella and MRSA from countries where a large portion of imports originate. The Swedish model with high animal care, low infection pressure, freedom from salmonella and low antibiotic use comprises an important starting point to be able to offer consumers a high degree of food safety.

The trend for the forestry sector is dependent on economic growth. Despite the difficult economic conditions, Swedish export values have grown thus far in 2014. Exports of forest products have continued to trend stronger than other goods. Both production and exports have increased for pulp this year. The industry has announced investments of about SEK 7 billion during the 2014 to 2017 period. This can be seen as sign of confidence in the future.

Property prices indicate diversified development. Continued low interest rates provide steady demand for smaller properties without buildings or with smaller numbers of buildings. The time taken to sell larger properties and properties with many buildings is increasing. For properties with a high proportion of production buildings, we have noted that prices are declining. There are also major differences in regional price structure.

Landshypotek Bank is intensifying its efforts to meet customers based on their individual situations. We are increasing dialogues and discussions with entrepreneurs in the agriculture and forestry sectors. The right financing is crucial in both upturns and downturns. Fluctuations in the weather and markets are nothing new for entrepreneurs and owners in the agriculture and forestry sectors. However, the large spread in profitability between different companies, even those in the same industry, shows that entrepreneurship is increasingly important for the perseverance of individual farmers and foresters.

The competitiveness of Swedish agriculture and forestry does not depend solely on politicians. It is the numerous talented entrepreneurs and their families, who, given the right conditions, can continue to develop their companies that lay the foundation for a vital Swedish agriculture and forestry sector and, thus, a living countryside.

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# Landshypotek Bank AB

Landshypotek Bank AB (publ) (Corp. Reg. No.: 556500-2762)

Interim report for the period 1 January – 30 September 2014

Landshypotek Bank AB is owned by Landshypotek ekonomisk förening, in which all of the Bank's loan customers are members. The Bank's assignment is to provide competitive financing to Sweden's farmers and foresters. With loans outstanding of SEK 61.8 billion, Landshypotek Bank accounts for 27.4 percent of total lending to farmers and foresters in Sweden and is thus the market leader. Lending is characterised by adequate property collateral which, historically, has resulted in extremely low loan losses. Landshypotek has 148 employees at 19 offices throughout Sweden.

## Operating profit 2014

Consolidated operating profit for the first three quarters of 2014 amounted to MSEK 300.9, up MSEK 49.1 compared with the year-earlier period (MSEK 251.8). The increase in earnings was primarily attributable to a year-on-year improvement of MSEK 68.7 in net interest income and an increase in the net result of financial transactions and other income of MSEK 58.4. The improvement was offset by an increase in costs of MSEK 46.4 and a rise in loan

losses of MSEK 31.6. Excluding the net result of financial transactions, operating profit amounted to MSEK 224.3 (237.2), down MSEK 12.9 year-on-year.

### Net interest income

Net interest income for the first three quarters of 2014 amounted to MSEK 550.8. This was an increase of 14.3 percent compared with the year-earlier period (MSEK 482.0). The amount of net interest income is determined by the volume of loans outstanding, the margin between the interest rates on borrowing and lending and the return obtained on equity.

The increase in net interest income was due to higher lending and lower borrowing costs. Net interest income was also positively impacted by the periodization of terminated hedging commitments.

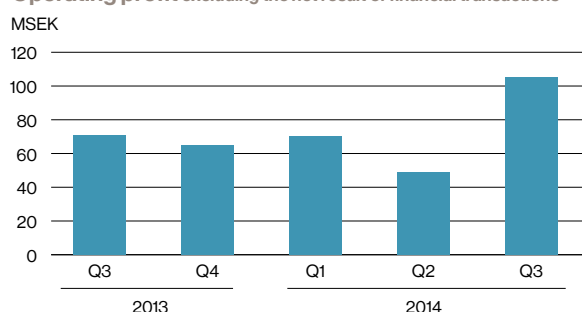
### Other operating income

Other operating income amounted to MSEK 65.9 for the period. Other operating income includes the fee of MSEK 21.0 for the stabilisation fund and deposit insurance, the profit of MSEK 76.6 from the net result of financial

## Operating profit

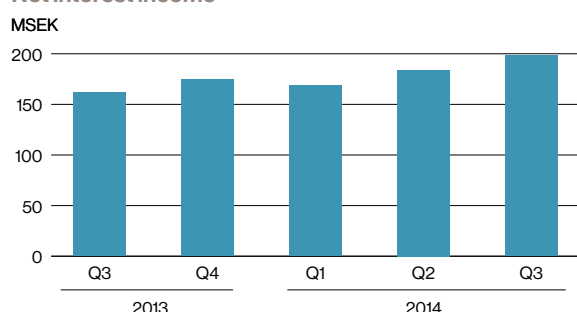
	Jan-Sep 2014	Jan-Sep 2013
Net interest income, MSEK	550.8	482.0
Other operating income, MSEK	65.9	7.5
Of which net result of financial transactions	76.6	14.7
Costs, MSEK	-249.3	-202.8
C/I ratio adjusted for net result of financial transactions	0.46	0.43
Net recognised loan losses, MSEK	-66.5	-34.9
Loan loss level, %	0.14 %	0.08 %
Operating profit, MSEK	300.9	251.8
Operating profit excluding the net result of financial transactions	224.3	237.2

### Operating profit excluding the net result of financial transactions



Operating profit for the third quarter of 2014, excluding the net result of financial transactions, amounted to MSEK 105.0.

### Net interest income



Total net interest income is determined by the volume of loans outstanding, the margin between the interest rates on borrowing and lending and the return obtained on the equity invested in lending operations.

transactions, net commission income (excluding the stabilisation fund and deposit insurance) of MSEK 9.0 and income from property of MSEK 1.3.

Other operating income was up MSEK 58.4 compared with the first three quarters of 2013 (7.5). The increase was primarily due to an improvement of MSEK 61.9 in the net result of financial transactions to MSEK 76.6 (14.7). The profit of MSEK 76.6 comprised an unrealised profit of MSEK 89.0 and a realised loss of MSEK 12.4. The net result of financial transactions includes realised results from the purchase and sale of financial instruments, as well as the result from the buyback of bonds. In addition, this item includes the result from the revaluation of financial instruments. To gain an understanding of the total effect of market valuations, the remeasurements recognised directly in equity via other comprehensive income must also be taken into account. Remeasurements in equity amounted to MSEK 2.1 (43.6) in 2014.

#### Costs

Costs in 2014 amounted to MSEK 249.3 (202.8). The increase in costs of MSEK 46.4 was as planned and was primarily linked to the opening of the digital savings bank. Continued strengthening of personnel in the customer support and sales organisations meant increased personnel costs.

#### Loan losses and doubtful credits

Net loan losses for the first three quarters of the year amounted to MSEK 66.5 (34.9). Confirmed losses totalled MSEK 25.0 (26.3). Provisions for probable loan losses amounted to MSEK 81.9 (46.5). Reversals of previous provisions for realised losses in the annual accounts totalled MSEK 22.3 (21.3). Recoveries of previously realised losses and reversals of previous provisions for probable loan losses that are no longer required, amounted to MSEK 18.1 (16.9).

At 30 September 2014, net doubtful credits after provisions amounted to MSEK 235.9, corresponding to 0.38 percent of loans outstanding. At 30 September 2013,

doubtful credits totalled MSEK 203.6, corresponding to 0.34 percent of loans outstanding.

Realised loan losses were somewhat lower year-on-year, but the provision for probable loan losses increased. Landshypotek Bank has developed its work on the credit portfolio, which has resulted in earlier identification of companies with weak profitability and low liquidity. The provision for probable loan losses may be attributable to a limited number of individual commitments. Customers with financial difficulties cannot be connected to specific industries or sectors but largely pertain to the prerequisites of the individual entrepreneur.

## Comparison with the second quarter of 2014

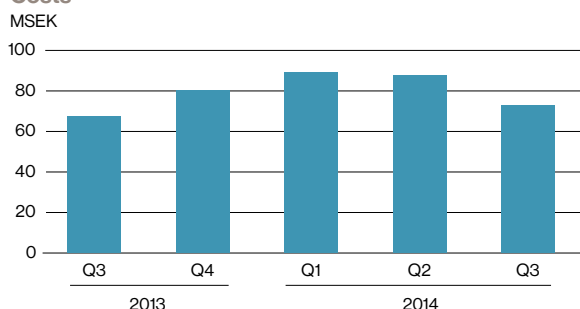
Compared with the second quarter, operating profit for the third quarter rose MSEK 46.8. Excluding the net result of financial transactions, operating profit for the third quarter was MSEK 105.0, up MSEK 55.9 compared with the second quarter. The improvement was primarily attributable to an increase of MSEK 14.5 in net interest income and other income, and to a decrease of MSEK 14.6 and MSEK 26.8 in costs and loan losses, respectively.

## Landshypotek Bank's development

In the first three quarters of 2014, lending increased SEK 0.9 billion. The increase corresponded to lending growth of 1.5 percent, compared with 2.6 percent in the corresponding year-earlier period.

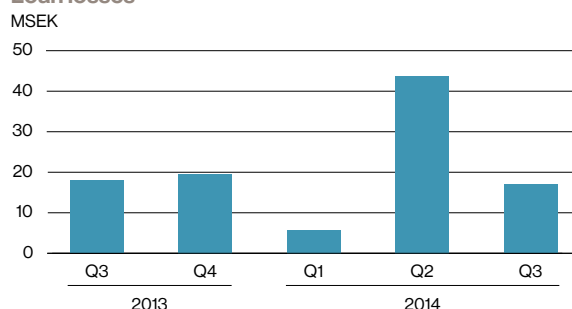
Demand for credit from Sweden's farmers and foresters eased off noticeably from record levels. The annualised market growth for 2014 is estimated at about 5 percent, considerably lower than the record levels until 2010. Amortisation requirements also increased and the rate of amortisation rose. The primary driver for demand in the market is property transactions occurring in the agriculture and forestry sectors.

#### Costs



Costs for the third quarter of 2014 amounted to MSEK 72.9, down MSEK 14.6 or approximately 17 percent compared with the preceding quarter.

#### Loan losses



Loan losses totalled MSEK 17.0 for the third quarter of 2014, which corresponded to 0.11 percent of lending on an annualised basis.

At 30 September 2014, deposits amounted to MSEK 4,824 (1,751), entailing an increase of 125 percent during 2014. The increase can be attributed to the new digital savings bank that Landshypotek Bank opened in February.

With an expanded market presence and broader product offering, Landshypotek Bank aims to grow in pace with the market.

## Funding

### Borrowing

Landshypotek Bank's ambition is to borrow funds on the best possible terms given a low risk profile. The following also applies:

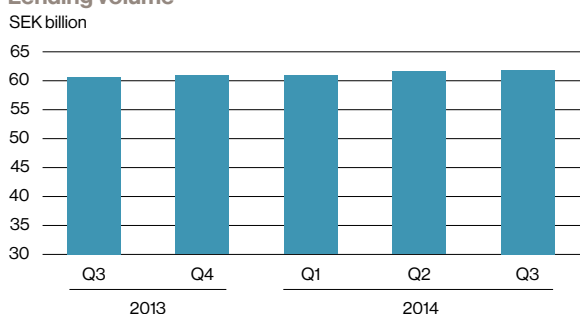
- borrowing is well diversified as regards programmes, currencies and investors
- borrowing has a tenor that corresponds well to the tenor of assets
- substantial concentrations of borrowings maturing during a short duration are avoided.

Landshypotek Bank operates with considerable flexibility and actively raises funds via national and international bond markets, as well as strives to always respond to investors' concerns 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. During the year, the Bank issued covered bonds to a value of approximately SEK 5.0 billion. In addition, senior bonds were issued to a value of approximately SEK 4.8 billion. During the same period, bonds have matured and been repurchased to a value of approximately SEK 11.4 billion, of which SEK 6.8 billion pertained to covered bonds.

In general, the financial market for Nordic banks functioned smoothly in 2014. Landshypotek Bank has been very successful in its funding activities and demand for Landshypotek Bank's bonds has been favourable.

### Lending volume



During the quarter, Landshypotek Bank's lending increased 0.3 percent to SEK 61.8 billion.

### Liquidity

Landshypotek Bank has a substantial liquidity portfolio of interest-bearing securities, valued at SEK 17.0 billion at 30 September 2014. The portfolio primarily comprises Swedish covered bonds with the highest credit rating and, to some extent, bonds issued by Swedish municipalities. Securities can be sold or borrowed against, as required, to manage the financing of maturing debt. At 30 September, the liquidity portfolio was 2.0 (1.4) times larger than refinancing requirements for the next six months.

## Rating

Landshypotek Bank has credit ratings from two different rating agencies, Standard & Poor's and Fitch. Standard & Poor's confirmed the AAA rating for covered bonds in 2014 and A, A-1 with negative outlook for the company during 2013. In 2013, Fitch confirmed the company's credit rating of A+, F1 with a stable outlook for the company.

### Rating

	Long	Short
S&P covered bonds	AAA	
S&P	A	A-1, K1
Fitch	A+	F1

## Risk management

The risks on which Landshypotek Bank actively focuses its efforts are classified in the risk categories of credit risk, liquidity risk, market risk and operational risk. On an overall level, the Board of Directors establishes how Landshypotek Bank's risks are to be measured, reported and limited.

Credit risk is defined as the risk that Landshypotek Bank does not receive payment as agreed in combination with the risk that the value of the collateral is not adequate and thus will not cover the outstanding claim. The risk encompasses all Landshypotek Bank's retail receivables and can also arise as a consequence of the management of liquidity, interest and currency risk. Landshypotek Bank's methods for limiting credit risk, including collateral requirements, result in a low credit risk in the portfolio.

Landshypotek Bank's operations are naturally exposed to liquidity risk. As part of managing this exposure, among other measures, Landshypotek Bank maintains a substantial liquidity reserve and strives to diversify funding through deposits.

Landshypotek Bank is exposed to market risk in the form of interest-rate, currency, basis-spread and credit-spread



## Programme

MSEK	Issued 30 Sept. 2014	Limit	Issued 31 Dec. 2013
Swedish commercial paper	3,470	10,000	3,020
MTN programme	44,955	60,000	45,872
EMTN programme	15,781	31,893*	15,244
RCB**	3,189		3,306
Subordinated loans	700		700

\* MEUR 3,500. \*\* Registered Covered Bonds.

risk. Limits have been set for all of these risks. Interest-rate and currency risk are mainly managed through swap agreements and are therefore low. Basis-spread risk arises from entering into interest-rate and currency swap agreements and is moderated through limited borrowing in foreign currency. Credit-spread risk arises in Landshypotek Bank's liquidity portfolio and is limited through requirements for high credit ratings for securities in the liquidity portfolio. Landshypotek Bank monitors the limited market and liquidity risks on a daily basis.

Operational risk is defined as the risk of losses as a result of inappropriate or failed internal processes, human error, faulty systems and external events including legal risks. Landshypotek Bank's risk organisation reports incidents that occur to the Bank Management and the Board of Directors, and follows up the implementation of relevant measures. This is one of several measures to reduce operational risk.

## Capital adequacy

At 30 September 2014, the capital adequacy amounted to 24.6 percent without taking into account the transitional rules linked to Basel 1 (Basel 3). The capital base was MSEK 4,714 and the capital requirement was MSEK 1,533. Capital adequacy amounted to 9.5 percent according to the transitional rules linked to Basel 1.

On 1 January 2014, the EU's Capital Requirements Regulation (new European capital adequacy rules) entered force in Sweden. On 2 August 2014, the EU's Capital Requirements Directive (CRD IV) was implemented in Sweden through new laws and provisions. The latter contains rules pertaining to capital buffers and, with regard to Landshypotek Bank an additional requirement for a capital conservation buffer of 2.5 percentage points of the total risk-weighted exposure amount, over and above previous Basel 3 capital requirements. The capital conservation buffer must be covered by Common Equity Tier 1 capital. The Bank's remaining Common Equity Tier 1 capital to cover the buffer requirements, corresponds to 14.95 percent of the total risk-weighted exposure amount

at 30 September 2014. From 13 September 2015, an additional requirement will be introduced of a countercyclical capital buffer of 1.0 percent of the total risk-weighted exposure amount. If an institute has insufficient capital to cover the buffer requirements, it must submit a plan to the Swedish Financial Supervisory Authority disclosing how it will meet the buffer requirements within a reasonable period of time. In addition, the institute will be subject to restrictions in the form of bans proscribing actions, such as, the payment of dividends and certain types of variable remuneration<sup>1</sup>. However, the buffer requirements differ from other capital requirements, since not meeting them is allowed on a temporary basis. Accordingly, the buffer requirements are not included under the capital requirement recognised under the Basel 3 rules (tables 10-11).

However, the actual capital requirement for the Bank has not changed because of the new buffer requirements. Due to the high risk weighting under the Basel 1 rules for loans with collateral in agricultural and forest properties, the transitional rule under Basel 1 continues to set the highest capital requirement for Landshypotek Bank.

## Group structure

All borrowers of Landshypotek Bank AB are also members of Landshypotek ekonomisk förening. Landshypotek ekonomisk förening owns 100 percent of the shares in Landshypotek Bank AB.

Landshypotek Bank AB is the Parent Company of the sub-group. More than 90 percent of business activities in the sub-group are conducted in Landshypotek Bank AB. Other companies in the sub-group are Landshypotek Jordbrukskredit AB, which is 100-percent owned by Landshypotek Bank AB.

## Events after the end of the period

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

<sup>1</sup> Provided that the institute does not meet the requirement for the maximum distributable amount either.

## Own funds requirement by risk, approach and exposure class

			Consolidated situation <sup>1)</sup> 30 Sept. 2014	
SEK thousand	Exposure value	Own funds requirements <sup>2)</sup>	Risk weighted exposure amounts	Average risk weight
<b>Credit risk – IRB approach</b>	<b>59,380,338</b>	<b>894,155</b>	<b>11,176,939</b>	<b>19 %</b>
Retail – real estate collateral	59,307,401	888,320	11,104,002	19 %
Other non-credit-obligation assets	72,937	5,835	72,937	100 %
<b>Credit risk – Standardised Approach</b>	<b>23,436,365</b>	<b>460,298</b>	<b>5,753,722</b>	<b>25 %</b>
National governments or central banks	9,380	-	-	0 %
Regional governments or local authorities or agencies	3,942,815	-	-	0 %
Institutions	3,174,074	93,281	1,166,010	37 %
Corporates	319,000	24,739	309,241	97 %
Retail	208,869	10,035	125,437	60 %
Secured through liens on real property	3,122,359	227,456	2,843,204	91 %
Non-performing exposures	34,628	3,784	47,305	137 %
Covered bonds	12,625,240	101,002	1,262,524	10 %
Other items	-	-	-	-
<b>Operational risk – Base method</b>		<b>93,035</b>	<b>1,162,931</b>	<b>-</b>
<b>Credit valuation adjustment risk – standardised approach</b>	<b>1,049,963</b>	<b>85,485</b>	<b>1,068,561</b>	<b>102 %</b>
<b>Total</b>	<b>83,866,666</b>	<b>1,532,972</b>	<b>19,162,153</b>	<b>-</b>

<sup>1)</sup> Consolidated situation includes Landshypotek ekonomisk förening and the Landshypotek Bank AB Group.

<sup>2)</sup> Does not include any buffert requirements.

## Capital adequacy analysis

SEK thousand	Consolidated situation* 30 Sept. 2014
<b>Own funds</b>	<b>4,714,071</b>
Tier 1 capital	4,014,140
Common equity tier 1 (CET1) capital	4,014,140
Capital instruments eligible as CET1 Capital	1,304,006
Retained earnings	2,930,783
Accumulated other comprehensive income	-25,791
Adjustments to CET1 due to prudential filters	44,656
(-) Other intangible assets	-37,220
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-17,472
(-) IRB shortfall of credit risk adjustments to expected losses	-170,687
(-) Defined benefit pension fund assets	-14,134
Tier 2 capital	699,930
Capital instruments and subordinated loans eligible as T2 Capital	699,930
<b>Own funds requirements, Basel 3</b>	<b>1,532,972</b>
<b>Risk weighted exposure amounts, Basel 3</b>	<b>19,162,153</b>
CET1 capital ratio (%)	20.95
Tier 1 capital ratio (%)	20.95
Capital adequacy ratio (%)	24.60
Institution specific CET1-requirement including buffer requirements (%)	7.00
of which: capital conservation buffer requirement (%)	2.50
CET1 capital available to meet buffers (as a share of risk exposure amounts, %)	14.95
Capital quotient	3.08
<b>Capital adequacy according to transitional rules Basel 1</b>	
Own funds	4,884,758
Own funds requirement	4,098,672
Capital adequacy ratio (%)	9.53
Capital quotient	1.19

\* Consolidated situation includes Landshypotek ekonomisk förening and the Landshypotek Bank AB Group.

The Managing Director hereby certifies that the consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and provide a fair representation of the Group's position and performance. The interim report has been prepared in accordance with generally accepted accounting principles and provides a fair representation of the Parent Company's position and performance. This interim report provides a fair view of operations in the Parent Company and the Group and describes the significant risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, 23 October 2014

Kjell Hedman,  
Managing Director

## Accounting policies

This Report encompasses the Group comprising Landshypotek Bank AB and the subsidiary Landshypotek Jordbrukskredit AB. In addition, Landshypotek Bank AB is reported separately. Amounts in parentheses refer to the corresponding period in the preceding year.

This Interim Report has been prepared in accordance with IAS 34 Interim Financial Reporting. Accounting policies, calculation methods and risk management are unchanged compared to those applied in the most recent Annual Report (see [www.landshypotek.se](http://www.landshypotek.se), Financial info).

# Income statement

Landshypotek Bank AB Group, SEK Thousand	Note	2014 Q3	2013 Q3	2014 Q2	2014 Jan-Sep	2013 Jan-Sep	2013 Full year
Interest income		497,909	566,622	526,851	1,556,107	1,722,681	2,293,800
Interest expense		-299,889	-404,617	-343,017	-1,005,339	-1,240,654	-1,637,336
<b>Net interest income</b>	Note 1	<b>198,020</b>	<b>162,004</b>	<b>183,834</b>	<b>550,768</b>	<b>482,027</b>	<b>656,464</b>
Commission income		3,404	2,741	2,886	9,415	11,773	14,708
Commission expense		-7,063	-8,768	-6,825	-21,451	-21,282	-34,533
Net result of financial transactions		31,437	11,716	40,583	76,598	14,663	-35,186
Other operating income		520	444	409	1,384	2,355	2,901
<b>Total operating income</b>		<b>226,318</b>	<b>168,136</b>	<b>220,887</b>	<b>616,714</b>	<b>489,536</b>	<b>604,355</b>
General administrative expenses		-63,324	-57,626	-77,474	-219,385	-179,460	-251,599
Depreciation, amortisation and impairment of tangible and intangible non-current assets		-4,192	-3,342	-4,182	-12,051	-7,122	-10,531
Other operating expenses		-5,371	-6,433	-5,793	-17,878	-16,255	-21,009
<b>Total expenses before loan losses</b>		<b>-72,887</b>	<b>-67,401</b>	<b>-87,449</b>	<b>-249,314</b>	<b>-202,837</b>	<b>-283,138</b>
<b>Profit before loan losses</b>		<b>153,431</b>	<b>100,735</b>	<b>133,438</b>	<b>367,400</b>	<b>286,699</b>	<b>321,216</b>
Loan losses, net	Note 2	-17,009	-17,940	-43,807	-66,516	-34,852	-54,378
<b>Operating profit</b>		<b>136,422</b>	<b>82,795</b>	<b>89,631</b>	<b>300,884</b>	<b>251,847</b>	<b>266,839</b>
Income tax for the period		-30,031	-12,307	-19,749	-66,277	-49,534	-58,802
<b>Net profit for the period</b>		<b>106,391</b>	<b>70,488</b>	<b>69,882</b>	<b>234,607</b>	<b>202,313</b>	<b>208,037</b>

# Statement of comprehensive income

Landshypotek Bank AB Group, SEK Thousand	2014 Q3	2013 Q3	2014 Q2	2014 Jan-Sep	2013 Jan-Sep	2013 Full year
<b>Net profit for the period</b>	<b>106,391</b>	<b>70,488</b>	<b>69,882</b>	<b>234,607</b>	<b>202,313</b>	<b>208,037</b>
<b>Other comprehensive income</b>						
<i>Items to be reclassified to profit or loss</i>						
Cash-flow hedges	-1,107	8,270	-7,369	-16,563	65,861	47,783
Available-for-sale financial assets	4,522	-6,382	5,738	18,702	-22,269	-23,675
Tax on items to be reclassified	-751	-415	359	-470	-9,590	-5,304
<i>Total, items to be reclassified</i>	<i>2,663</i>	<i>1,473</i>	<i>-1,272</i>	<i>1,668</i>	<i>34,002</i>	<i>18,804</i>
<i>Items that are not reclassified</i>						
Actuarial differences for defined- benefit pensions	-9,626	10,467	1,378	-15,644	24,569	24,550
Tax on items that are not reclassified	2,118	-2,303	-303	3,442	-5,405	-5,401
<i>Total, items that are not reclassified</i>	<i>-7,508</i>	<i>8,164</i>	<i>1,075</i>	<i>-12,202</i>	<i>19,164</i>	<i>19,149</i>
<b>Total other comprehensive income</b>	<b>-4,845</b>	<b>9,638</b>	<b>-197</b>	<b>-10,534</b>	<b>53,166</b>	<b>37,953</b>
<b>Comprehensive income for the period</b>	<b>101,546</b>	<b>80,126</b>	<b>69,684</b>	<b>224,073</b>	<b>255,479</b>	<b>245,990</b>



# Income statement

Landshypotek Bank AB Parent Company, SEK Thousand	Note	2014 Q3	2013 Q3	2014 Q2	2014 Jan-Sep	2013 Jan-Sep	2013 Full year
Interest income		492,593	561,060	522,016	1,542,011	1,708,674	2,274,821
Interest expense		-299,815	-404,660	-342,952	-1,005,133	-1,240,824	-1,636,725
<b>Net interest income</b>	Note 1	<b>192,778</b>	<b>156,401</b>	<b>179,064</b>	<b>536,878</b>	<b>467,850</b>	<b>638,096</b>
Commission income		3,307	2,223	2,745	8,606	10,422	12,841
Commission expense		-7,062	-8,768	-6,826	-21,451	-21,282	-34,533
Net result of financial transactions		31,437	11,716	40,583	76,598	14,663	-35,186
Other operating income		520	444	409	1,376	2,352	2,897
<b>Total operating income</b>		<b>220,980</b>	<b>162,016</b>	<b>215,975</b>	<b>602,007</b>	<b>474,005</b>	<b>584,115</b>
General administrative expenses		-64,071	-59,154	-78,664	-222,400	-183,878	-260,839
Depreciation, amortisation and impairment of tangible and intangible non-current assets		-4,192	-3,342	-4,182	-12,051	-7,122	-10,531
Other operating expenses		-5,369	-6,430	-5,793	-17,873	-16,245	-20,997
<b>Total expenses before loan losses</b>		<b>-73,632</b>	<b>-68,927</b>	<b>-88,639</b>	<b>-252,324</b>	<b>-207,245</b>	<b>-292,366</b>
<b>Profit before loan losses</b>		<b>147,348</b>	<b>93,089</b>	<b>127,336</b>	<b>349,683</b>	<b>266,760</b>	<b>291,749</b>
Loan losses, net	Note 2	-17,327	-15,667	-31,606	-53,537	-33,293	-40,136
<b>Operating profit</b>		<b>130,021</b>	<b>77,422</b>	<b>95,730</b>	<b>296,146</b>	<b>233,467</b>	<b>251,612</b>
Income tax for the period		-28,623	-17,505	-21,091	-65,235	-51,871	-55,458
<b>Net profit for the period</b>		<b>101,398</b>	<b>59,917</b>	<b>74,639</b>	<b>230,911</b>	<b>181,596</b>	<b>196,154</b>

# Statement of comprehensive income

Landshypotek Bank AB Parent Company, SEK Thousand	2014 Q3	2013 Q3	2014 Q2	2014 Jan-Sep	2013 Jan-Sep	2013 Full year
<b>Net profit for the period</b>	<b>101,398</b>	<b>59,917</b>	<b>74,639</b>	<b>230,911</b>	<b>181,596</b>	<b>196,154</b>
<b>Other comprehensive income</b>						
<i>Items to be reclassified to profit or loss</i>						
Cash-flow hedges	-1,107	8,270	-7,369	-16,563	65,861	47,783
Available-for-sale financial assets	4,522	-6,382	5,738	18,702	-22,269	-23,675
Income tax related to other comprehensive income	-751	-415	359	-470	-9,590	-5,304
<i>Total, items to be reclassified</i>	<i>2,663</i>	<i>1,473</i>	<i>-1,272</i>	<i>1,668</i>	<i>34,002</i>	<i>18,805</i>
<b>Total other comprehensive income</b>	<b>2,663</b>	<b>1,473</b>	<b>-1,272</b>	<b>1,668</b>	<b>34,002</b>	<b>18,805</b>
<b>Comprehensive income for the period</b>	<b>104,061</b>	<b>61,391</b>	<b>73,367</b>	<b>232,579</b>	<b>215,598</b>	<b>214,958</b>

# Balance Sheet

Landshypotek Bank AB TSEK	Group				Parent Company			
	2014 30 Sep	2014 30 Jun	2013 31 Dec	2013 30 Sep	2014 30 Sep	2014 30 Jun	2013 31 Dec	2013 30 Sep
<b>ASSETS</b>								
Cash and balances with central banks	3	524,794	431,893	29,415	3	524,794	431,893	29,415
Loans to credit institutions	449,471	69,109	261,877	491,465	597,572	188,291	300,960	485,517
Loans to the public Note 3	61,795,426	61,631,108	60,858,912	60,617,215	61,388,670	61,253,045	60,556,555	60,196,201
Value changes of interest-rate-risk hedged items in macro hedges	59,829	56,809	23,535	2,801	59,829	56,809	23,535	2,801
Bonds and other interest-bearing securities	16,848,521	16,693,873	15,071,982	15,292,485	16,848,521	16,693,873	15,071,982	15,292,485
Derivatives	1,530,001	1,207,937	581,226	544,596	1,530,001	1,207,937	581,226	544,596
Shares and participations	-	-	-	1	-	-	-	1
Shares in Group companies	-	-	-	-	280,753	280,753	280,753	280,753
Intangible non-current assets	37,220	40,856	44,590	40,426	37,220	40,856	44,590	40,426
Tangible assets	-	-	-	-	-	-	-	-
Furniture, fixtures and equipment	5,559	5,734	6,124	5,581	5,559	5,734	6,124	5,581
Buildings and land	12,531	12,670	12,949	13,088	12,531	12,670	12,949	13,088
Other assets	37,191	1,233	8,928	553,306	36,987	3,607	8,717	740,053
Current tax assets	4,781	20,019	32,145	38,741	-	14,924	29,605	34,463
Deferred tax assets	17,472	15,099	10,351	13,582	12,792	12,537	9,112	5,123
Prepaid expenses and accrued income	802,665	795,024	628,517	893,009	797,521	791,087	625,273	887,443
<b>TOTAL ASSETS</b> Note 4,5,6	<b>81,600,670</b>	<b>81,074,265</b>	<b>77,973,028</b>	<b>78,535,711</b>	<b>81,607,959</b>	<b>81,086,916</b>	<b>77,983,273</b>	<b>78,557,946</b>
<b>LIABILITIES, PROVISIONS AND EQUITY</b>								
Liabilities to credit institutions	430,746	364,921	256,890	605,034	431,906	364,996	256,890	625,034
Borrowing from the public	4,824,409	3,975,705	2,147,007	1,751,008	4,824,409	3,975,705	2,147,007	1,751,008
Debt securities in issue, etc.	69,068,901	69,667,122	68,421,543	68,878,065	69,068,901	69,667,122	68,421,543	68,878,065
Derivatives	1,060,142	1,177,157	1,222,034	1,181,730	1,060,142	1,177,157	1,222,034	1,181,730
Other liabilities	96,582	39,740	193,002	32,626	96,283	39,459	192,641	37,185
Accrued expenses and deferred income	998,917	839,089	904,347	1,122,889	998,917	839,089	904,346	1,122,889
Provisions	20,442	11,496	7,755	12,926	2,389	2,389	2,389	3,477
Subordinated liabilities	699,930	699,980	699,921	699,931	699,930	699,980	699,921	699,931
<b>Total liabilities</b>	<b>77,200,069</b>	<b>76,775,210</b>	<b>73,852,499</b>	<b>74,284,209</b>	<b>77,182,877</b>	<b>76,765,897</b>	<b>73,846,771</b>	<b>74,299,319</b>
<b>Equity</b>	<b>4,400,601</b>	<b>4,299,054</b>	<b>4,120,529</b>	<b>4,251,502</b>	<b>4,425,082</b>	<b>4,321,019</b>	<b>4,136,502</b>	<b>4,258,627</b>
<b>TOTAL LIABILITIES, PROVISIONS AND EQUITY</b> Note 4,5,6	<b>81,600,670</b>	<b>81,074,265</b>	<b>77,973,028</b>	<b>78,535,711</b>	<b>81,607,959</b>	<b>81,086,916</b>	<b>77,983,273</b>	<b>78,557,946</b>

# Cash-flow statement

Landshypotek Bank AB, TSEK	Koncernen			Moderbolaget		
	2014 Jan-Sep	2013 Jan-Sep	2013 Full year	2014 Jan-Sep	2013 Jan-Sep	2013 Full year
<b>Opening cash and cash equivalents</b>	<b>693,766</b>	<b>125,130</b>	<b>125,130</b>	<b>732,853</b>	<b>117,268</b>	<b>117,268</b>
Cash flow from operating activities	-140,845	364,479	545,343	-138,831	366,393	592,292
Cash flow from investing activities	-3,698	-9,447	-17,424	-3,698	-9,447	-17,424
Cash flow from financing activities	-99,750	40,718	40,718	-99,750	40,718	40,718
<b>Cash flow for the period</b>	<b>-244,293</b>	<b>395,750</b>	<b>568,636</b>	<b>-242,279</b>	<b>397,664</b>	<b>615,585</b>
<b>Closing cash and cash equivalents</b>	<b>449,473</b>	<b>520,880</b>	<b>693,766</b>	<b>490,574</b>	<b>514,932</b>	<b>732,853</b>

# Statement of Changes in Equity

Landshypotek Bank AB Group SEK Thousand	Share capital	Other contributed capital	Hedging reserve	Fair value reserve	Actuarial differences	Retained earnings	Total
<b>Equity 31 December 2012</b>	<b>1,927,000</b>	<b>1,026,254</b>	<b>-69,008</b>	<b>22,745</b>	<b>-29,310</b>	<b>928,342</b>	<b>3,806,024</b>
Comprehensive income for the period			51,372	-17,370	19,164	202,313	255,479
<b>Total change before transactions with owners</b>	<b>-</b>	<b>-</b>	<b>51,372</b>	<b>-17,370</b>	<b>19,164</b>	<b>202,313</b>	<b>255,479</b>
New share issue	190,000						190,000
<b>Equity 30 September 2013</b>	<b>2,117,000</b>	<b>1,026,254</b>	<b>-17,636</b>	<b>5,375</b>	<b>-10,146</b>	<b>1,130,655</b>	<b>4,251,502</b>
<b>Equity 31 December 2013</b>	<b>2,117,000</b>	<b>1,026,254</b>	<b>-31,737</b>	<b>4,278</b>	<b>-10,161</b>	<b>1,014,894</b>	<b>4,120,529</b>
Comprehensive income for the period			-12,919	14,587	-12,202	234,607	224,073
<b>Total change before transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-12,919</b>	<b>14,587</b>	<b>-12,202</b>	<b>234,607</b>	<b>224,073</b>
New share issue	56,000						56,000
<b>Equity 30 September 2014</b>	<b>2,173,000</b>	<b>1,026,254</b>	<b>-44,656</b>	<b>18,866</b>	<b>-22,363</b>	<b>1,249,501</b>	<b>4,400,601</b>

Landshypotek Bank AB Parent Company SEK Thousand	Share capital	Other contributed capital	Hedging reserve	Fair value reserve		Retained earnings	Total
<b>Equity 31 December 2012</b>	<b>1,927,000</b>	<b>1,016,694</b>	<b>-69,008</b>	<b>22,745</b>		<b>955,599</b>	<b>3,853,029</b>
Comprehensive income for the period			51,372	-17,370		181,596	215,598
<b>Total change before transactions with owners</b>	<b>-</b>	<b>-</b>	<b>51,372</b>	<b>-17,370</b>		<b>181,596</b>	<b>215,598</b>
New share issue	190,000						190,000
<b>Equity 30 September 2013</b>	<b>2,117,000</b>	<b>1,016,694</b>	<b>-17,636</b>	<b>5,375</b>		<b>1,137,196</b>	<b>4,258,627</b>
<b>Equity 31 December 2013</b>	<b>2,117,000</b>	<b>1,016,694</b>	<b>-31,737</b>	<b>4,278</b>		<b>1,030,269</b>	<b>4,136,502</b>
Comprehensive income for the period			-12,919	14,587		230,911	232,579
<b>Total change before transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-12,919</b>	<b>14,587</b>		<b>230,911</b>	<b>232,579</b>
New share issue	56,000						56,000
<b>Equity 30 September 2014</b>	<b>2,173,000</b>	<b>1,016,694</b>	<b>-44,656</b>	<b>18,865</b>		<b>1,261,180</b>	<b>4,425,082</b>

# Notes

## Note 1 Net interest income

Landshypotek Bank AB - Group SEK Thousand	2014 Q3	2013 Q3	2014 Q2	2014 Jan-Sep	2013 Jan-Sep	2013 Full year
<b>Interest income</b>						
Interest income on loans to credit institutions	1,673	2,394	2,669	6,718	4,499	6,999
Interest income on loans to the public	436,559	500,428	456,265	1,355,002	1,512,640	2,005,595
Less interest losses	-457	-3,335	-149	-822	-3,884	-798
Interest income on interest-bearing securities	60,132	67,129	68,064	195,204	209,433	281,660
of which interest income on financial assets at fair value through profit or loss	44,222	43,375	47,288	136,979	138,077	183,489
of which interest income on available-for-sale financial assets	15,911	23,754	20,776	58,225	71,356	98,171
Other interest income	2	5	1	5	-7	344
<b>Total</b>	<b>497,909</b>	<b>566,622</b>	<b>526,851</b>	<b>1,556,107</b>	<b>1,722,681</b>	<b>2,293,800</b>
<i>All interest income is attributable to the Swedish market.</i>						
<b>Interest expense</b>						
Interest expense for liabilities to Group companies	-4	-	-68	-162	-338	-338
Interest expense for liabilities to credit institutions – other	-1,587	-4,069	-2,479	-5,740	-14,121	-16,130
Interest expense for borrowing/deposits from the public	-19,446	-10,006	-18,109	-50,427	-27,198	-38,087
Interest expense for interest-bearing securities	-316,273	-394,232	-350,625	-1,029,298	-1,204,680	-1,600,600
of which interest expense for other financial liabilities in fair value hedges adjusted for the fair value of hedged risk	-154,254	-156,880	-108,681	-392,570	-437,549	-485,249
of which interest expense on interest-bearing securities at amortised cost	-162,020	-237,351	-241,944	-636,728	-767,130	-1,115,351
Interest expense for subordinated liabilities	-8,362	-8,826	-8,534	-25,498	-26,636	-35,470
Interest expense for derivative instruments	46,815	13,547	36,870	107,066	33,370	55,474
of which interest expense on derivatives at fair value through profit or loss	-39,515	-108,449	-42,605	-60,488	-124,574	-135,247
of which interest expense on derivatives identified as hedging instruments	86,330	121,996	79,475	167,554	157,944	190,721
Other interest expense	-1,032	-1,031	-73	-1,280	-1,051	-2,185
<b>Total</b>	<b>-299,889</b>	<b>-404,617</b>	<b>-343,017</b>	<b>-1,005,339</b>	<b>-1,240,654</b>	<b>-1,637,336</b>
<b>Total net interest income</b>	<b>198,020</b>	<b>162,004</b>	<b>183,834</b>	<b>550,768</b>	<b>482,027</b>	<b>656,464</b>

Landshypotek Bank AB - Parent Company SEK Thousand	2014 Q3	2013 Q3	2014 Q2	2014 Jan-Sep	2013 Jan-Sep	2013 Full year
<b>Interest income</b>						
Interest income on loans to credit institutions	1,671	2,388	2,665	6,706	4,472	6,963
Interest income on loans to Group companies	154	-	31	276	207	207
Interest income on loans to the public	431,091	494,874	451,403	1,340,642	1,498,440	1,986,463
Less interest losses	-457	-3,335	-148	-821	-3,870	-783
Interest income on interest-bearing securities	60,132	67,129	68,064	195,204	209,433	281,660
of which interest income on financial assets at fair value through profit or loss	44,222	43,375	47,288	136,979	138,077	183,489
of which interest income on available-for-sale financial assets	15,911	23,754	20,776	58,225	71,356	98,171
Other interest income	1	5	2	4	-8	311
<b>Total</b>	<b>492,593</b>	<b>561,060</b>	<b>522,016</b>	<b>1,542,011</b>	<b>1,708,674</b>	<b>2,274,821</b>
<i>All interest income is attributable to the Swedish market.</i>						
<b>Interest expense</b>						
Interest expense for liabilities to Group companies	-4	-42	-76	-177	-508	-750
Interest expense for liabilities to credit institutions – other	-1,587	-4,069	-2,479	-5,740	-14,121	-16,130
Interest expense for borrowing/deposits from the public	-19,446	-10,006	-18,109	-50,427	-27,198	-38,087
Interest expense for interest-bearing securities	-316,273	-394,232	-350,625	-1,029,298	-1,204,680	-1,600,600
of which interest expense for other financial liabilities in fair value hedges adjusted for the fair value of hedged risk	-154,254	-156,880	-108,681	-392,570	-437,549	-485,249
of which interest expense on interest-bearing securities at amortised cost	-162,020	-237,351	-241,944	-636,728	-767,130	-1,115,351
Interest expense for subordinated liabilities	-8,362	-8,826	-8,534	-25,498	-26,636	-35,470
Interest expense for derivative instruments	46,815	13,547	36,870	107,066	33,370	55,474
of which interest expense on derivatives at fair value through profit or loss	-39,515	-108,449	-42,605	-60,488	-124,574	-135,247
of which interest expense on derivatives identified as hedging instruments	86,330	121,996	79,475	167,554	157,944	190,721
Other interest expense	-958	-1,031	-	-1,059	-1,051	-1,162
<b>Total</b>	<b>-299,815</b>	<b>-404,660</b>	<b>-342,952</b>	<b>-1,005,133</b>	<b>-1,240,824</b>	<b>-1,636,725</b>
<b>Total net interest income</b>	<b>192,778</b>	<b>156,401</b>	<b>179,064</b>	<b>536,878</b>	<b>467,850</b>	<b>638,096</b>



## Note 2 Loan losses net

Landshypotek Bank AB - Group SEK Thousand	2014 Q3	2013 Q3	2014 Q2	2014 Jan-Sep	2013 Jan-Sep	2013 Full year
Write-off for the period for realised losses	-16,212	-14,593	-3,788	-24,960	-26,299	-27,362
Reversal of prior provisions for probable loan losses, recognised as realised losses in this period's accounts	13,880	12,780	4,063	22,295	21,279	23,948
Provision for probable loan losses	-22,517	-17,655	-46,924	-81,952	-46,502	-82,356
Recovery of previously realised losses	85	447	150	615	1,103	1,382
Reversal of prior provisions no longer necessary for probable loan losses	7,755	1,283	2,691	17,486	15,768	30,515
Guarantees	-	-202	-	-	-202	-505
<b>Total loan losses</b>	<b>-17,009</b>	<b>-17,940</b>	<b>-43,807</b>	<b>-66,516</b>	<b>-34,852</b>	<b>-54,378</b>

All loan losses are attributable to loans to the public.  
There are no properties taken over in foreclosure.

Landshypotek Bank AB - Parent Company SEK Thousand	2014 Q3	2013 Q3	2014 Q2	2014 Jan-Sep	2013 Jan-Sep	2013 Full year
Write-off for the period for realised losses	-12,479	-13,626	-3,787	-20,112	-22,306	-23,341
Reversal of prior provisions for probable loan losses, recognised as realised losses in this period's accounts	10,948	12,780	4,063	18,425	18,490	20,323
Provision for probable loan losses	-20,367	-15,713	-34,659	-65,237	-43,615	-67,118
Recovery of previously realised losses	85	446	99	563	1,100	1,378
Reversal of prior provisions no longer necessary for probable loan losses	4,486	447	2,678	12,824	13,038	28,621
<b>Total loan losses</b>	<b>-17,327</b>	<b>-15,667</b>	<b>-31,606</b>	<b>-53,537</b>	<b>-33,293</b>	<b>-40,136</b>

All loan losses are attributable to loans to the public.  
There are no properties taken over in foreclosure.

## Note 3 Loans to the public

Landshypotek Bank AB SEK thousand	Group			Parent Company		
	2014 30 Sep	2013 31 Dec	2013 30 Sep	2014 30 Sep	2013 31 Dec	2013 30 Sep
Loan receivables	61,890,387	60,921,843	60,654,402	61,457,083	60,601,122	60,227,376
Less specific provisions for individually valued loan receivables	-94,961	-62,931	-37,187	-68,413	-44,567	-31,175
<b>Net loan receivables</b>	<b>61,795,426</b>	<b>60,858,912</b>	<b>60,617,215</b>	<b>61,388,670</b>	<b>60,556,555</b>	<b>60,196,201</b>
<b>Disclosures on overdue loan receivables without provisions</b>						
Loan receivables overdue more than 90 days*	957,948	1,019,515	1,105,445	952,511	1,006,621	1,078,336
<b>Total overdue loan receivables</b>	<b>1,043,368</b>	<b>1,019,515</b>	<b>903,946</b>	<b>1,020,924</b>	<b>1,006,621</b>	<b>887,421</b>
* Customers receive quarterly notification which is why loan receivables overdue are more than 90 days.						
<b>Disclosures on doubtful credits</b>						
Doubtful credits that are not overdue	112,538	45,882	13,096	102,725	44,858	12,727
Overdue doubtful credits	218,317	191,371	227,669	204,006	170,216	222,090
<b>Total doubtful credits, gross</b>	<b>330,855</b>	<b>237,253</b>	<b>240,765</b>	<b>306,730</b>	<b>215,074</b>	<b>234,817</b>
Less capital provisions made	-94,961	-62,931	-37,187	-68,413	-44,567	-31,175
<b>Total doubtful credits, net</b>	<b>235,894</b>	<b>174,322</b>	<b>203,578</b>	<b>238,317</b>	<b>170,507</b>	<b>203,642</b>

Collateral exists in the form of real property for all loans.

## Note 4 Fair-value hierarchy for financial instruments

Landshypotek Bank AB Group, SEK Thousand	30 September 2014				31 December 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Loans and receivables</b>								
Loans to credit institutions		449,471		449,471		261,877		261,877
Loans to the public		61,414,337		61,414,337		59,939,674		59,939,674
<b>Financial assets at fair value through profit or loss.</b>								
Bonds and other interest-bearing securities	10,291,141			10,291,141	8,721,971			8,721,971
Interest-rate swaps		12,249		12,249		12,758		12,758
Cross-currency interest-rate swaps		134,580		134,580		117,838		117,838
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		1,007,777		1,007,777		411,338		411,338
Cross-currency interest-rate swaps		375,395		375,395		39,292		39,292
<b>Available-for-sale financial assets</b>								
Bonds and other interest-bearing securities	6,557,380	-		6,557,380	1,872,404	4,477,607		6,350,011
<b>Total assets measured at fair value</b>	<b>16,848,521</b>	<b>63,393,809</b>	<b>-</b>	<b>80,242,330</b>	<b>10,594,375</b>	<b>65,260,384</b>	<b>-</b>	<b>75,854,759</b>
<b>Financial liabilities at fair value through profit or loss</b>								
Interest-rate swaps		614,337		614,337		329,901		329,901
Cross-currency interest-rate swaps		227,137		227,137		489,356		489,356
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		208,542		208,542		186,574		186,574
Cross-currency interest-rate swaps		10,126		10,126		216,203		216,203
<b>Other financial liabilities</b>								
Liabilities to credit institutions		430,746		430,746		256,890		256,890
Borrowing from the public		4,824,409		4,824,409		2,147,007		2,147,007
Debt securities in issue, etc.		70,636,492		70,636,492		68,668,866		68,668,866
Subordinated liabilities		759,740		759,740		775,054		775,054
<b>Total liabilities measured at fair value</b>	<b>-</b>	<b>77,711,529</b>	<b>-</b>	<b>77,711,529</b>	<b>-</b>	<b>73,069,851</b>	<b>-</b>	<b>73,069,851</b>

Fair value is recognised excluding accrued interest. Accrued interest is recognised under prepaid expenses and accrued income, and accrued expenses and deferred income. Quarterly comparative figures cannot be given for all items and, therefore, comparison is made with the full year 2013.

In 2013, certain bonds were measured using measuring models based on market data and, accordingly, were included in Level 2. From 2014, all bonds are measured at their bid prices and classified as Level 1. No other transfers were made between the levels. Level 1 only comprises quoted mortgage bonds and listed 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 were 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 swap curve and FX-basis swap curve were used for measurement of interest-rate and cross-currency interest-rate swaps respectively. Debt securities in issue are measured on the interest-rate swap curve with the addition of market-based credit spreads. 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.

*continued* Note 4 Fair-value hierarchy for financial instruments

Landshypotek Bank AB Parent Company, SEK Thousand	30 September 2014				31 December 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Loans and receivables</b>								
Loans to credit institutions		597,572		597,572		300,960		300,960
Loans to the public		61,008,306		61,008,306		59,623,777		59,623,777
<b>Financial assets at fair value through profit or loss</b>								
Bonds and other interest-bearing securities	10,291,141			10,291,141	8,721,971			8,721,971
Interest-rate swaps		12,249		12,249		12,758		12,758
Cross-currency interest-rate swaps		134,580		134,580		117,838		117,838
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		1,007,777		1,007,777		411,338		411,338
Cross-currency interest-rate swaps		375,395		375,395		39,292		39,292
<b>Available-for-sale financial assets</b>								
Bonds and other interest-bearing securities	6,557,380			6,557,380	1,872,404	4,477,607		6,350,011
<b>Total assets measured at fair value</b>	<b>16,848,521</b>	<b>63,135,878</b>	<b>-</b>	<b>79,984,399</b>	<b>10,594,375</b>	<b>64,983,570</b>	<b>-</b>	<b>75,577,945</b>
<b>Financial liabilities at fair value through profit or loss</b>								
Interest-rate swaps		614,337		614,337		329,901		329,901
Cross-currency interest-rate swaps		227,137		227,137		489,356		489,356
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		208,542		208,542		186,574		186,574
Cross-currency interest-rate swaps		10,126		10,126		216,203		216,203
<b>Other financial liabilities</b>								
Liabilities to credit institutions		431,906		431,906		256,890		256,890
Borrowing from the public		4,824,409		4,824,409		2,147,007		2,147,007
Debt securities in issue, etc.		70,636,492		70,636,492		68,668,866		68,668,866
Subordinated liabilities		759,740		759,740		775,054		775,054
<b>Total liabilities measured at fair value</b>	<b>-</b>	<b>77,712,689</b>	<b>-</b>	<b>77,712,689</b>	<b>-</b>	<b>73,069,851</b>	<b>-</b>	<b>73,069,851</b>

Fair value is recognised excluding accrued interest. Accrued interest is recognised under prepaid expenses and accrued income, and accrued expenses and deferred income. Quarterly comparative figures cannot be given for all items and, therefore, comparison is made with the full year 2013.

In 2013, certain bonds were measured using measuring models based on market data and, accordingly, were included in Level 2. From 2014, all bonds are measured at their bid prices and classified as Level 1. No other transfers were made between the levels. Level 1 only comprises quoted mortgage bonds and listed 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 were 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 swap curve and FX-basis swap curve were used for measurement of interest-rate and cross-currency interest-rate swaps respectively. Debt securities in issue are measured on the interest-rate swap curve with the addition of market-based credit spreads. 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 5 Fair value disclosures

Landshypotek Bank AB - Group SEK Thousand	30 Sep 2014 Carrying amount	30 Sep 2014 Fair value	31 Dec 2013 Carrying amount	31 Dec 2013 Fair value
<b>Assets</b>				
Cash and balances with central banks	3	3	431,893	431,893
Loans to credit institutions	449,471	449,471	261,877	261,877
Loans to the public	61,795,426	61,414,337	60,858,912	59,939,674
Bonds and other interest-bearing securities	16,848,521	16,848,521	15,071,982	15,071,982
Derivatives	1,530,001	1,530,001	581,226	581,226
<b>Total assets</b>	<b>80,623,422</b>	<b>80,242,333</b>	<b>77,205,890</b>	<b>76,286,652</b>
<b>Liabilities and provisions</b>				
Liabilities to credit institutions	430,746	430,746	256,890	256,890
Borrowing from the public	4,824,409	4,824,409	2,147,007	2,147,007
Debt securities in issue, etc.	69,068,901	70,636,492	68,421,543	68,668,866
Derivatives	1,060,142	1,060,142	1,222,034	1,222,034
Subordinated liabilities	699,930	759,740	699,921	775,054
<b>Total liabilities</b>	<b>76,084,128</b>	<b>77,711,529</b>	<b>72,747,395</b>	<b>73,069,851</b>

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

Quarterly comparative figures cannot be given for all items and, therefore, comparison is made with the full year 2013.

Landshypotek Bank AB - Parent Company SEK Thousand	30 Sep 2014 Carrying amount	30 Sep 2014 Fair value	31 Dec 2013 Carrying amount	31 Dec 2013 Fair value
<b>Assets</b>				
Cash and balances with central banks	3	3	431,893	431,893
Loans to credit institutions	597,572	597,572	300,960	300,960
Loans to the public	61,388,670	61,008,306	60,556,555	59,623,777
Bonds and other interest-bearing securities	16,848,521	16,848,521	15,071,982	15,071,982
Derivatives	1,530,001	1,530,001	581,226	581,226
<b>Total assets</b>	<b>80,364,767</b>	<b>79,984,403</b>	<b>76,942,616</b>	<b>76,009,838</b>
<b>Liabilities and provisions</b>				
Liabilities to credit institutions	431,906	431,906	256,890	256,890
Borrowing from the public	4,824,409	4,824,409	2,147,007	2,147,007
Debt securities in issue, etc.	69,068,901	70,636,492	68,421,543	68,668,866
Derivatives	1,060,142	1,060,142	1,222,034	1,222,034
Subordinated liabilities	699,930	759,740	699,921	775,054
<b>Total liabilities</b>	<b>76,085,288</b>	<b>77,712,689</b>	<b>72,747,395</b>	<b>73,069,851</b>

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

Quarterly comparative figures cannot be given for all items and, therefore, comparison is made with the full year 2013.



## Note 6 Disclosures about offsetting

Landshypotek Bank AB Group and Parent Company SEK Thousand	Amount recognised in the balance sheet 30 Sep 2014	Related amounts not offset in the balance sheet			Net amount 30 Sep 2014
		Financial instruments	Paid (+) Received (–) collateral – securities	Paid (+) Received (–) cash collateral	
<b>Assets</b>					
Derivatives, fair value	1,530,001	–907,944			
Derivatives, accrued interest	466,837	–269,452			
<i>Derivatives, total value including accrued interest</i>	1,996,837	–1,177,396		–346,853	472,588
Repurchase agreements, reverse repos	-				-
<b>Liabilities</b>					
Derivatives, fair value	–1,060,142	907,944			
Derivatives, accrued interest	–282,173	269,452			
<i>Derivatives, total value including accrued interest</i>	–1,342,315	1,177,396			–164,918
Repurchase agreements, reverse repos	-				-

### Amounts recognised in the balance sheet

All assets and liabilities are recognised as gross amounts in the balance sheet, calculated on the basis of each individual instrument.

### Financial instruments

Based on contracted master netting agreements, Landshypotek Bank can offset cash flows with the same counterparty and value date. The procedure lowers the risk of open exposures.

### Cash collateral received

Under contracted International Swaps and Derivatives Association (ISDA) agreements, Landshypotek has the right to receive cash collateral for positive market values from counterparties whose ratings fall below a minimum agreed level. Such collateral is paid in cash to Landshypotek Bank's bank account and is recognised as a liability to the respective counterparty in the balance sheet. Paid-in collateral eliminates risk in positive exposures to counterparties with low ratings. If the counterparty defaults, Landshypotek Bank will utilise the paid-in cash collateral.

### Net amounts

Net amounts show the remaining market value of contracted swap agreements that can be neither offset nor covered by received collateral.



**Landshypotek Bank**