



Landshypotek Bank

Annual Report 2017

For a richer life in the countryside

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Reporting calendar

General Meeting	19 April 2018
Interim Report Q1	26 April 2018
Interim Report Q2	20 July 2018
Interim Report Q3	26 October 2018



For a richer life countryside

Landshypotek Bank wants to promote a richer life countryside. While other banks focus on the major cities and their prevailing economic conditions — we lift our gaze beyond Stockholm, Gothenburg and Malmö. We want to give everyone in Sweden opportunities to live a richer life. We want the Swedish countryside to continue to develop. This is our vision today. We have promoted and believed in this vision since 1836.

Landshypotek Bank is owned by 40,000 farmers and foresters across the country and our surplus is reinvested in their operations. Over the years, we have financed

hundreds of thousands of investments in a living and sustainable countryside — in open landscapes, well-kept forests and locally produced food.

But we are not here solely for farmers and foresters. Loans are offered to farmers and foresters, and homeowners across the country. Savings are open to the Swedish general public and companies. Together with our customers, the bank generates growth in Sweden. We are a small bank with a vital mission — to promote a richer life countryside.

2017

MSEK **339.2**

Operating profit amounted to MSEK 339.2.

SEK **68.5** billion

Lending amounted to SEK 68.5 billion.

SEK **12.7** billion

Deposits amounted to SEK 12.7 billion.

76,000

Landshypotek Bank has 76,000 customers who borrow to finance farms and forests, and houses, as well as savers.

MSEK **113**

The members invested MSEK 113 in Landshypotek.

182 employees

182 people work at Landshypotek Bank. 36 new employees started during the year, equally split between men and women.



Landshypotek Bank meets customers and stakeholders at many expos across the country each year.



The bank's mortgage tour at the housing expo in Västerås.

A growing bank increasing in popularity

We have been building the foundations for serving more customers for a number of years now at Landshypotek Bank. By harnessing our strength in financing farming and forestry, we are building the new, from our perspective, broader bank in the market. We offer services to increasing numbers of customers and we are securing capabilities for serving more customers. In the Swedish banking market, there is also considerable interest in meeting a bank with a difference. Through the mortgage market launch during the year, the bank took a historic step and now has a growing customer base.

Households increasingly want more than one bank. In the latest Swedish Quality Index, about half of bank customers stated they had two or more banks. At Landshypotek Bank, we have chosen to focus on being a bank to save with and borrow from, for farming and forest properties or for houses. Based on this focus — we are building a new bank out of the old.

We are building on our strengths in being real, close and genuine — and through the strong combination we at Landshypotek Bank create by leveraging the key values in our traditional niche together with those in the extensive digitalisation.

We apply a countrywide, long-term and sustainable approach that is built around our customers' farming and forestry, and their homes. This provides us all with well-kept forests, open landscapes and a living countryside. We are a different kind of bank and present ourselves as a bank with a difference.

Banking market customers are also seeking new alternatives. The Swedish Quality Index for banks confirms these needs. The survey found that the customers who were most satisfied were with niche banks and challengers. Equally, it is becoming increasingly clear that customer satisfaction can be built on societal engagement and customers want to see banks who take responsibility. Ever fewer see themselves as customers of one bank only and at the same time, consumers are increasingly choosing to add another bank. The one-stop-shop concept applied by some other banks is not of the moment.

For several years, we have strengthened the bank and laid the foundations for growth with more customers. Our development has been made possible by the growth and profitability of our core operations, which

generate healthy profits. Excluding financial transactions, our underlying performance in 2017 is the best ever.

By maintaining continuous focus on growth in a bank increasing in popularity, over the past years, we have consciously changed our organisation, considerably strengthened our credit and risk functions, improved our customer service and made extensive system changes. We have one of the most modern IT platforms in the banking market.

A few years ago, we replaced the old system and its complex connections with a new, modern core system. Based on this new core system, we could go to market with a completely new way for customers to start deposit accounts and start saving. We now have almost SEK 13 billion in deposits, thus demonstrating the potential. Aside from the simplicity and user friendliness of the digital application, it also confirmed the interest in saving with us. In the Swedish banking market, there is a need to meet a bank with a difference.

We have continued to strengthen our bank in 2017. During the year, the bank completed its first issue of a perpetual subordinated loan. Moreover, Finansinspektionen (Sweden's financial supervisory authority) granted permission to use a proprietary foundation IRB approach for risk assessment of corporate business. Standard & Poor's confirmed the bank's credit rating and, due to the changed outlook for Sweden, raised the outlook for the bank from negative to stable. The Swedish National Debt Office decided that Landshypotek Bank is one of ten institutions with operations that are deemed critical to the function of the Swedish financial system. These are just a few of the activities and events in 2017 that boosted our stability and the security of customers and investors. Moreover, loan losses remain



low. The bank's owners, loan customers in the farming and forestry sector, continue to show their confidence in the bank by increasing their member investments.

Customer reactions to our introduction to the mortgage market in 2017 confirmed again that we are on the right track. Following continued internal development in the first six months, we met mortgage market customers in the autumn. The customer response was faster than anticipated. A strong profile and targeted campaigns generated increased interest. Many customers were quick to change to Landshypotek Bank.

We have now met the market with a new way to apply for a mortgage. The digital application is customer-friendly, safe and secure, but also means we do not need to build an organisation to manually process routine data. Customers who have completed the entire application in fifteen minutes confirm its simplicity. We are now advancing these digital lessons further to develop our farming and forestry business.

In the autumn, we noted increasing customer flows of farmers and foresters. We are also broadening the bank in these areas and developing our approach to meeting customers who, for example, run their operations in their leisure time.

Our relevance as the bank for farming and forestry is strengthened by the member dividend. Of the net profit for the year, the bank is paying a group contribution of MSEK 170 to the association. The association's Board proposes to the Association Meeting in April the distribution of a members' dividend of SEK 153 million.

Mortgage lending is up and running. Deposits are rising. Lending to the farming and forestry sectors is continuing to grow. Altogether, we posted a very strong performance.

But above all else: we are now implementing what we said we would do to continue to build a good bank for tomorrow. We will be a bank with increased relevance for more customers in the Swedish banking market. We will continue to become an even better bank to save with and borrow from — for ever more customers.

Catharina Åbjörnsson Lindgren
Acting CEO of Landshypotek Bank
Twitter: @VD_Landshypotek

Catharina Åbjörnsson Lindgren on...

... the announcement of the mortgage initiative and members' reactions...

We presented our mortgage initiative externally in the winter and met with owners at the association's members' meetings, the regional meetings, across the country. For 181 years, our niche has been lending to farming and forestry — so entering a new market feels like a big step. But the initiative sparked considerable curiosity and positive feelings and many were asking *"Why didn't we do this earlier?"*

... the long-term strategic shift...

I took the reins as Acting CEO in the second quarter and we continued to develop and implement the strategy. All of us at the bank and ultimately the management and Board have collaborated on the growth strategy and on becoming a broader bank, which was a noticeable strength during the leadership changes. The strategy continued to be implemented in the autumn with no loss of pace or intensity. We also maintain an ongoing strategy dialogue at the bank. On repeated occasions in the autumn, we met with all the employees as part of taking the next step. This is a strength in being a small bank, namely, that it is possible to meet with everyone at the same time, but then one has to be prepared to do

so. We have been building the formats for doing so over several years.

... moving the bank out to summer Sweden...

We often meet farming and forestry customers on their properties. In the summer, we increase our presence and meet many potential and existing customers at various expos and events. This year we supplemented our activities by attending various food and harvest festivals across the country and by meeting customers as part of our new business. This is a very positive way of presenting a bank with a difference.

... about the positive start for mortgages...

Much as we believed in the venture, the first customer response was faster than anticipated. A good offering, considerable attention and targeted campaigns quickly generated increased interest and many customers were quick to switch to Landshypotek Bank. This demonstrates our potential and the strength in what our bank stands for and the digital application. We are building for the long term, so we know much more will be required of us to continue earning customers' trust. It has also been rewarding to see the inflow of farming and forestry customers at the end of the year.





Per Lindblad — new CEO of Landshypotek Bank

In the spring, Landshypotek Bank's CEO Liza Nyberg announced her departure to another bank and in autumn 2017, Per Lindblad was recruited as the bank's new CEO.

Landshypotek Bank's new CEO has 20 years of experience and a background in agriculture and forestry. He grew up on a farm in Småland and is passionate about forestry and helping customers. Per Lindblad joins us from SEB and is looking forward to leading Landshypotek Bank in the next stage of its development.

"Landshypotek Bank is in the midst of an exciting transition and I look forward to working together with my colleagues to optimise this development. Each pair of hands is important for Landshypotek Bank," says Per Lindblad.

Per was born in Lyckås, the youngest of six brothers. He wanted to study forestry, but instead studied agronomy and business. Hunting has been an interest since childhood.

"The farm is still owned within the family and I enjoy spending my time off at the farm. Forestry and hunting are still major interests. I am still active, particularly with

forestry. This works well despite my living in Stockholm," adds Per Lindblad.

Per is passionate about helping customers, which is what he enjoys about working at the bank.

"It is rewarding to support customers' in their business goals. It is not necessarily what the customer asks for that resolves the need. The essence is meeting customers, listening and understanding the needs and then meeting them in the best way possible."

Per has noted the strong sense of fellowship at the bank based around a core, "We are Landshypotek."

"There is a soul at Landshypotek. You can feel it and everyone is speaking about it. The bank has core values that everyone talks about and a well-developed service culture. I greatly look forward to taking up my role as CEO of Landshypotek Bank," says Per.

Per Lindblad takes up his post in March 2018. Until that date, the bank is being led by Catharina Åbjörnsson Lindgren, Acting CEO and by Fredrik Sandberg, Acting Deputy CEO.

2017 in figures

Overall, we present a continued strengthening in earnings with growth in both lending and saving. We had a fabulous autumn with a successful market launch of our mortgage loans. Landshypotek Bank has attracted considerable attention and been able to welcome numerous new customers — both for farming and forestry and for mortgages.

Catharina Åbjörnsson Lindgren
Acting CEO of Landshypotek Bank

Operating profit amounted to MSEK 339.2 (353.4).

The underlying operating profit, excluding the net result of financial transactions, was MSEK 387.3 (327.3).

Net interest income amounted to MSEK 800.4 (737.2).

Net interest income rose 8.6 percent year-on-year.

Costs totalled MSEK 402.5 (402.4).

Costs were in line with the preceding year. During the year, the number of employees in line with a growing bank investing for the future.

Net loan losses amounted to a recovery of MSEK 12.5 (loss: 14.8).

Both confirmed losses and provisions for probable loan losses declined year-on-year.

Lending amounted to SEK 68.5 billion (66.5).

Lending increased 3.0 percent (3.1). Lending posted a stable trend during the year. The market share in lending against collateral in agricultural properties was 25 percent.

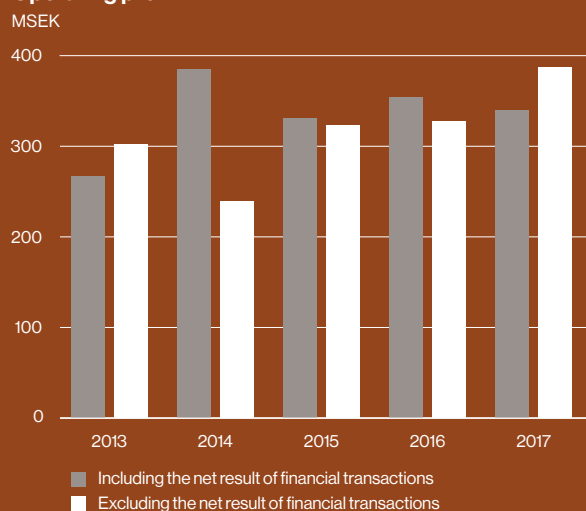
Summary — Landshypotek Bank	2017	2016
Net interest income, MSEK ¹⁾	800.4	737.2
Operating profit, MSEK	339.2	353.4
Profit after tax, MSEK	256.4	275.6
Loans to the public, MSEK	68,488	66,518
Increase in lending, %	3.0	3.1
Interest margin, %	1.2	1.1
Deposits from the public, MSEK	12,675	11,731
Increase in deposits, %	8.0	13.8
C/I ratio including financial transactions	0.53	0.52
C/I ratio excluding financial transactions	0.50	0.54
Loan loss level, %	0.02	0.02
Total capital ratio, %	43.8	39.9
Tier 1 capital ratio (%)	36.1	29.4
Rating, long-term		
Standard & Poor's, Covered bonds	AAA	AAA
Standard & Poor's	A-	A-
Fitch	A	A
Average number of employees	173	162

¹⁾ Other income pertaining to lending has been reclassified from provisions to interest income. The comparative figures for 2016 have been restated.

Development in figures

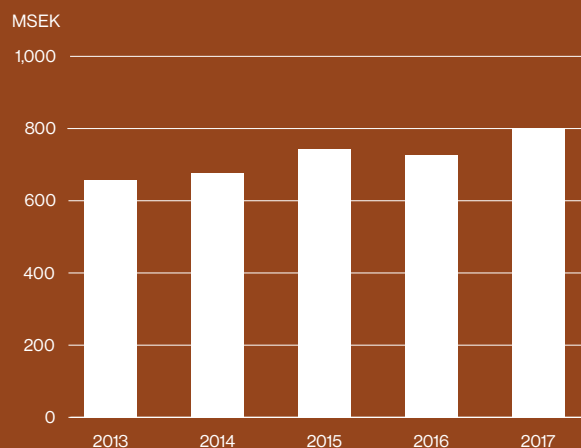
Landshypotek Bank is a growing bank. Net interest income has increased, the bank's cost increases have abated and loan losses remain extremely low. This means the bank could present historically high underlying earnings for 2017.

Operating profit



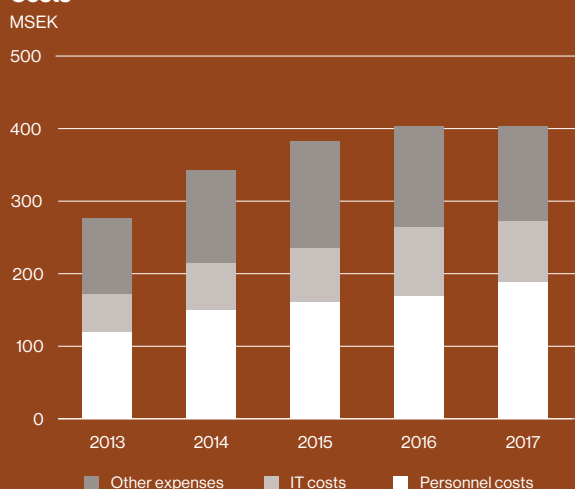
Operating profit for 2017 totalled MSEK 339.2. Operating profit excluding the net result of financial transactions was MSEK 387.3.

Net interest income



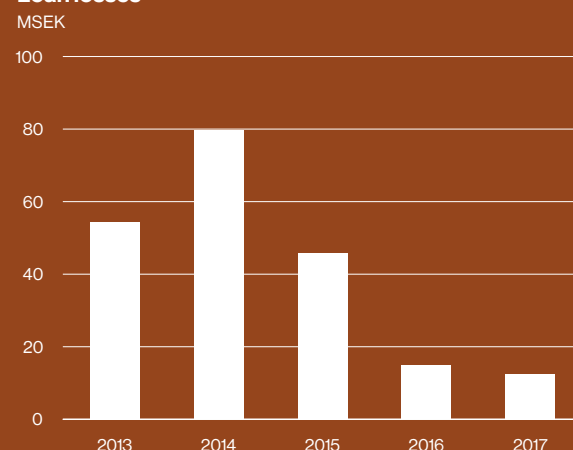
In 2017, net interest income amounted to MSEK 800.4. The amount of net interest income is determined primarily by the volume of loans outstanding and the margin between the interest rates on borrowing and lending.

Costs



Landshypotek Bank is a growing bank and, as planned, costs have increased in pace with the bank's growth. The pace of cost increases has abated and costs are now under good control.

Loan losses



Loan losses amounted to MSEK 12.5, equivalent to 0.02 percent of lending.

Events in 2017

Major progress was made in 2017 in meeting new target groups, when the bank was presented as a new mortgage market participant. Many other initiatives were taken during the year to meet customers and stakeholders in different locations and to become a better bank.

Active presence in Sweden's farming and forestry

In 2017, Landshypotek Bank took several initiatives to highlight key issues for the sector and continued to maintain its strong presence at customer meetings, expos and at events across the country. The expos are important for meeting customers and industry colleagues as well as for keeping informed of industry trends. During the year, the bank completed several surveys that showcased rural entrepreneurship in Sweden and participated in numerous farming and forestry forums. In the autumn, an increasing flow of farming and forestry customers was noted.

Rising member attendance

Some 1,500 people attend the regional meetings of the bank's owner association, Landshypotek Ekonomisk Förening, which are held at ten different locations across Sweden in March. The Annual Association Meeting in April resolved to distribute MSEK 158 to its members. In connection with the member dividend in May, the cooperative association permits new member investments. The members increased their investments in Landshypotek by around MSEK 113 during the year.

Established as a new bank for homeowner mortgages

Landshypotek Bank announced its mortgage initiative at the start of the year, but the market launch was initiated in the autumn. The bank presented itself through activities including a tour around Sweden. Around 580,000 people visited the locations visited by the bank. The bank's background, its ownership by farmers and foresters, a new digital application process, an excellent offering and a focus on the entire country mean Landshypotek Bank stands for something new in the market. Many new customers showed interest in the new bank and by the end of the year, the bank's mortgage lending amounted to over half a billion kronor.

Focus on Swedish produce and living in the countryside

In June, Landshypotek Bank launched "Den underbara smakresan," which showcases Swedish produce and

the foundations for Swedish food. In a series of web films, restaurateur Pontus Frithiof and sommelier Mario E Moroni visit agricultural entrepreneurs at farms that in differing ways contribute to Swedish produce. The farmers offer new insights and enable taste sensations. The series is being presented on the bank's digital channels.

A safer bank for customers and investors

At the end of the year, the Swedish National Debt Office decided that Landshypotek Bank is one of ten institutions with operations in the Swedish market that are critical for the financial system. The bank will therefore be encompassed by the Swedish National Debt Office's separate resolution planning. In the autumn, Landshypotek Bank announced a more positive outlook from Standard & Poor's, which changed the rating from negative to stable. The institution gave the outlook for the Swedish economy and the bank a higher rating. In 2017, Landshypotek Bank received permission from Finansinspektionen to use a proprietary method to calculate risk and capital requirements for larger corporates in farming and forestry.

Growing interest in a bank with a difference

Landshypotek Bank met rising recognition in 2017, both from new customers and other stakeholders. The bank presented several surveys during the year, of which "Choosing with your heart — how Swedes want to live" awoke particular interest. The survey found that the residents of Halland are those who are most satisfied with their homes.

Employee commitment

Active, ongoing efforts are being driven at Landshypotek Bank to develop the bank together with the employees. On a number of occasions in 2017, the employees gathered for discussion of the bank's development. As a small bank with 182 employees, each employee comprises about 0.5 percent of the bank and everyone's input is crucial to the bank's future.



A small bank with a vital mission.

A bank with a difference

Landshypotek Bank is a small bank with a vital mission. By financing investment and living in the countryside, together with our customers, the bank makes Sweden grow. While the bank has a long history dating back to 1836, it is currently undergoing rapid development.

Landshypotek Bank's market strength as a bank with a difference is built on:

- The aim of operations — for a richer life in the countryside
- Competence — close links to farming and forestry
- The strength of the ownership form and member commitment
- Employee commitment
- 181-year-old digital innovator
- Promoting a sustainable countryside

For a richer life in the countryside

The bank's main objective is to ensure the availability of financing for farming and forestry operations. This objective is always present in the bank's operations and in the employees' daily work. A key driver for the bank is to promote open landscapes and well-kept forests, and home ownership that leads to continued development of communities. The distribution of the bank's surplus to farmers and foresters comprises another key principle for the value-driven operation that is Landshypotek Bank.

Close to farming and forestry customers

The bank's strength in terms of financing farming and forestry are its close links to the sectors. Account managers at offices around the country often have backgrounds in agriculture and forestry, and banking and financing expertise. They build networks and work closely with business customer relationships. The business organisation is complemented by the regional member organisation of the cooperative association. The Board of the ten member regions comprises up to eight elected representatives who represent the members and act as active ambassadors for Landshypotek Bank's brand. They are often themselves active farming and forestry entrepreneurs. These elected representatives perform valuations of agricultural properties on behalf of the bank.

Strength of the member organisation

Since borrowers for farming and forestry also become members of Landshypotek Ekonomisk Förening and thereby owners of the bank, this strengthens ties, commitment and the long-term perspective for the bank's operations. The cooperative association is responsible for relations with some 40,000 members and has overriding control of the bank through the owner directive.

The association's annual regional meetings at ten different locations are normally well attended. The association has strongly developed its operations over the last few years to reinforce its roles as an owner and a member organisation.

Force of employee commitment

Intense, active efforts are being driven at Landshypotek Bank to develop the bank together with its employees. Satisfied employees mean satisfied customers. In 2016, the employees lifted four principles that will continue to inspire all work conducted at the bank. As an employee of Landshypotek Bank, you work with:

- A customer-centric approach
- Drive
- Enthusiasm
- Together

In 2017, the employees gathered to discuss the bank's development, in smaller groups and all together. Read more about the employee values in the Corporate governance section.

Acts as a 181-year-old digital innovator

Landshypotek Bank has a long and rich history, but it is also quickly developing to meet customers' needs. Based on a modern platform, a unique digital solution has been built 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 applications for and granting of mortgages. Digitalisation enables more efficient work and improves possibilities for customers. Short decision paths are one of the bank's strengths with its future-orientation.

Promoting a sustainable countryside

A living countryside, where fields and forests are being cultivated and growing, thereby creating 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.



A sustainable bank for ventures nationwide

Landshypotek Bank enables rural living and investments in rural entrepreneurs, which lays the foundation for a future for the cities and the countryside. In this way, the bank contributes to sustainable societal development — socially, environmentally and economically. Just as the bank has done since it started in 1836.

The bank's sustainability perspective is based on where the customers come from and the customers' operations. A living countryside — fields and forests being cultivated and growing, thereby creating growth and jobs — these are the cornerstones for a well-developed business community and Swedish welfare. According to Landshypotek Bank, the country's sustainable development rests on the conditions for living and working throughout Sweden.

Sustainability at Landshypotek Bank is about viewing the bank's operations and role in the greater societal development and, in parallel, showcasing several aspects of

the bank's operations from a long-term and responsible perspective. Therefore, the bank's sustainability efforts permeate operations and affect all of the bank's stakeholders, such as its customers, employees, owners, association members and investors.

Since the bank is owned by its farming and forestry loan customers, the bank's business model contributes to an economically and socially sustainable society.

Read more about Landshypotek Bank's sustainability work in the Sustainability Report on page 33.



About Landshypotek Bank

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 offering homeowner mortgages.

Landshypotek Bank's customers are located across Sweden. The majority of lending has historically been to people against mortgage deeds in immovable property within 75 percent of an internally assessed loan-to-value (LTV) ratio. Local presence is an important success factor for lending to the farming and forestry sector

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. Each member has a vote at the annual regional meetings. The appointed Board members from the respective regions, 43 members, then represent the members at the Association Meeting. All business and licensable activities are conducted within the bank. The bank has about 182 employees nationwide.

Read more about Landshypotek Bank's operations and organisation in the Corporate Governance Report on page 39.

The bank's customers and services

Landshypotek Bank has customers who save, live or run businesses across the country. The bank offers services with a focus on lending and saving.

Customers:

- professional farmers and foresters;
- entrepreneurs who use their farming and forest properties as a platform for other operations than traditional agriculture;
- people who live or have holiday homes on agricultural and forest properties but who are not agricultural entrepreneurs;
- people who own forest, with a home on or at a distance from the forestry property;
- people who live in houses, across Sweden; and
- savers and residents of cities and the countryside.

Landshypotek Bank offers customers competitive financing and products with a focus on loans and savings. The main product being first lien mortgage loans. The bank also has more products that complement and strengthen customers' opportunities to be the bank's customers, often together with business partners, in areas including financing, insurance and payments. Customers, who are also members, also have access to a product that is completely unique in the market, investing in Landshypotek.

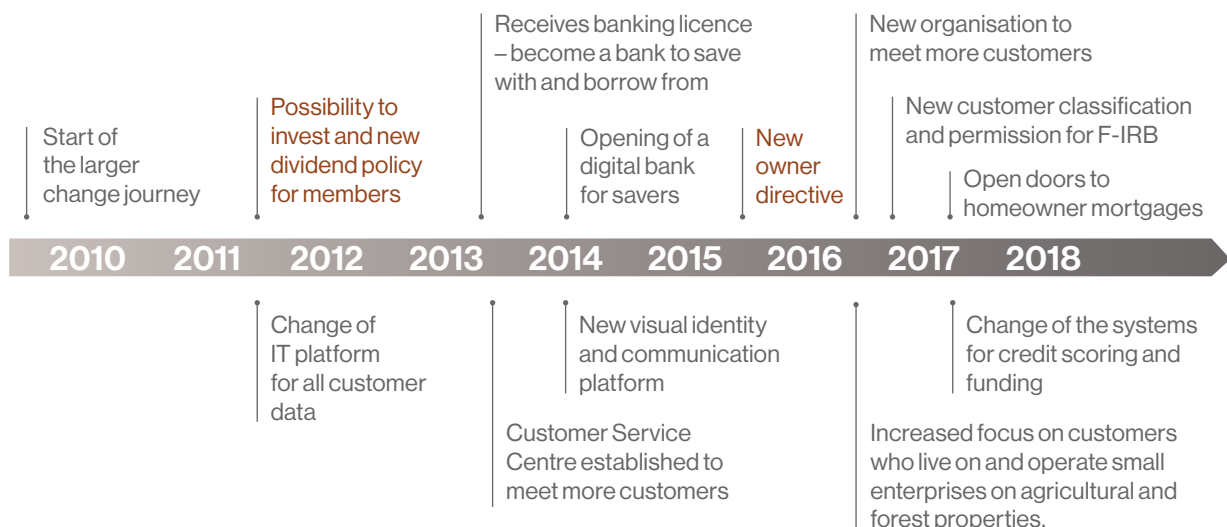
Becoming an increasingly popular and better bank

Landshypotek Bank has long been growing in terms of volume and has consistently generated healthy earnings. The growth has been used to become a stronger and better bank with investments that, inter alia, meet the growing regulatory requirements from agencies and the need to develop the IT system. Steps are now being taken to increase the number of customers. Put simply, the bank is developing to be able to meet more customer groups and to serve more new customer groups for the bank. The aim is to develop to serve more customers while remaining a niched bank to save with and borrow from.

Strategic development is the subject of ongoing dialogue at Landshypotek Bank. Each year, discussion intensifies and the boards of the bank and the association gather for a shared dialogue. The strategic dialogue is made tangible by the bank in the late autumn through various business plans and budgets for the forthcoming year. Dialogue is pursued with all employees and, accordingly, participation is considerable.

Participation significantly empowers change. Over the last few years, the bank has changed considerably and modernised following, among other things:

- The change of IT platform. The bank has gone from a 70s system to a modern system. The initiative was rolled out in 2012. In some areas the bank has started to harvest a return on the investment, on products such as savings solutions and the new home mortgages. From the perspective of our operating environment, there is a strong competitive advantage
- The change of IT platform. The bank has gone from a 70s system to a modern system. The initiative was rolled out in 2012. In some areas the bank has started to harvest a return on the investment, on products such as savings solutions and the new home mortgages. From the perspective of our operating environment, there is a strong competitive advantage
- The meeting of growing and changed regulatory capital requirements. Considerable work has been invested in strengthening these efforts and bank initiatives with issues such as risk, capital and regulatory frameworks. This applies to both strengthening resources in terms of numbers of employees and budget, as well as building competence, processes, the organisation and how to manage questions. The capital base has also been strengthened.
- The new brand platform. Strategic choices have been made to leave our focus on the few to becoming open to many. Without losing our edge, the broadening is ultimately expressed as being a bank for the entire country. The bank's communication has changed considerably and activity has increased.





- The clear definition of roles and divisions between the bank and the association. The dividend policy has changed, which has led to stronger commitment and increased contributed capital. The owner directive has clarified the owners' intentions for the bank. The association is being strengthened as a member organisation and the elected representatives are developing as ambassadors.

An increasingly popular bank

Landshypotek Bank adopted a new strategic direction in 2015. The transition is heading toward growth through increasing the customer base. The bank's indirect and direct focus on professional farmers is now being supplemented with the clear aim of serving more customer groups. The number of services offered by the bank are only marginally impacted. The bank is niched as a bank to save with and borrow from, and these services are being offered, packaged and modified for more customers. The development leverages the strength of the brand with a difference, closeness to customers and the commitment to enabling across the country.

The bank is currently at the implementation stage of this strategy. This pertains to developing in order to present the bank in more locations and to build relevance for increasing numbers of customer groups.

Position: efficient and close to customers

Much of the bank's strategic transition to date has had an internal focus. Even if strengthening the bank can

never be considered finished, the focus and energy is now more clearly external.

Landshypotek Bank has chosen a market position as being competitively priced and being able to quickly resolve customers' financing needs through mortgages. The Bank has had efficient working methods for credits and close relationships with customers. Much is changing in today's banking market. The bank is maintaining its strength by being efficient and customer-centric in the new market environment.

2018 will see investment in a continued strong market presence, increased brand awareness in various customer groups and the start of clearer customer segmentation. The completion of the new processing system for credit granting allows streamlining and increased digitalization of more customer groups. Particular priority has been attached to IT security goals in 2018 to enable the continued safe and secure development into a bigger bank.

The bank's fees and charges for regulatory issues are increasing substantially, but otherwise the aim is to slow down the pace of cost increases. It is a challenge when the bank is growing and is in continued need of development.

The focus moving forward was expressed concisely in the CEO's statement for the third quarter, as follows: "We are strengthening our customer relevance and relationships in all our segments, and striving to increase efficiency in our credit processes. We are working hard to become an even better bank to save with and borrow from — for even more customer groups,"

Employees who make the difference

Landshypotek Bank encompasses all the tasks of a major bank and, at the same time, retains the small bank's sensitivity and closeness to customers.

Colette Li, Financial Analyst and Joel Häggquist, Head of Credit Control, enjoy making a difference at work.

What sets Landshypotek Bank apart from other banks?

"We are a bank that finances enterprise in the farming and forestry sectors, and housing outside the largest cities. In terms of financing farming and forestry, we are a major player, and therefore have particularly extensive knowledge of rural issues," informs Colette Li.

"As an employer, Landshypotek Bank looks after its staff's development, for example, through tailored course

packages to meet your interests. We are encouraged to take responsibility at the same time as we have a strong culture of helping out. There is also an even gender balance among those working here, even at management level," says Joel Häggquist.

What is the best aspect of working here?

"The diversity of tasks! Being a small bank means faster decision processes, as an employee, one feels more involved, closer to customers and everything one does has a significant impact. It also creates a flatter organisation with more dynamics, which makes work fun," says Colette Li.



Colette Li & Joel Häggquist



Linda Semrén & Magnus Larsson

Strong start for mortgages

There has been considerable interest in Landshypotek Bank's new homeowner mortgages. The bank's Homeowner Mortgage Services in Linköping had an intensive start with efforts to meet all the new customers.

In the words of Linda Semrén, Loan Administrator at Homeowner Mortgage Services: "It has just exploded since October. Hundreds of new applications and customers have come in."

"This has been extremely successful. We are getting in many customers and receiving a very positive response. They thank us for doing a good job and they like what we stand for. It is also noticeable that customers are talking about us. I see this when I grant loans for properties on the same street," informs Linda.

"During the autumn, we offered favourable interest rates, but many customers are also saying that a new mortgage provider which is not one of the major banks and which focuses specifically on houses, is a good thing" says Magnus Larsson, Team Leader at Homeowner Mortgage Services.

Customers submit a digital application through the website. Linda says that many customers find it simple and easy to use.



Daniel Wahlström & Merete Salmeling

An entirely new mortgage application

With a long history as an agricultural bank, Landshypotek Bank opened its doors for mortgages to homeowners with a unique digital mortgage application, where customers can prepare their mortgages and get decisions in real time.

"Buying your home is a major decision, but we believe we can make the mortgage process simple. For example, we now automatically collect information about the property being mortgaged and ask customers for supplementary information directly in the application. Customers don't have to wait to be manually processed and for additional information," says Daniel Wahlström, Head of Business Development at Landshypotek Bank.

After removing legacy systems and introducing entirely new IT platforms, new solutions and possibilities opened up for the bank and for customers. Customers expect to be able to have a digital relation with their bank.

Merete Salmeling, Head of Digital and Innovation, says it is important to have understanding for customers' lives and time.

"Typically, applicants will be sitting at the kitchen table at home, they will open the application and their bank-IDs while their co-applicants cook supper. The next stage is to sign, load up their salary details, download data from the tax authorities online and other information received during the process, and after ten minutes it is done. The only thing remaining is for us to grant approval," says Merete Salmeling.



A bank with a distinguished history

Together with the customers, Landshypotek Bank has had a central role in building the Sweden we see today, with Swedish food production, cultivated land, a living countryside and well-kept forests. The bank is built on its commitment to Swedish farming and forestry. A few milestones:

1836 The country's first building society was started in Skåne. Its aim was to provide farmers with loans secured by mortgages in agricultural properties. Thereafter, building societies were started for Östgöta in 1845, Småland and other provinces in 1846, the Mälardalen provinces in 1847, Örebro County in 1849, Värmland County in 1850 and Älvsborg and other counties in 1850, before Norrland, Gotland and Gävle-Dalarna in 1861.

1861 Sveriges Allmänna Hypoteksbank was founded to facilitate borrowing by the Landshypotek's building societies.

1961 Credit market regulations were eased and Sveriges Allmänna Hypoteksbank was able to issue bonds.

1986 The bond markets were deregulated and bonds with shorter tenors were introduced. Deregulation also entailed increased competition.

1995 The ten rural building societies merged into a single cooperative association and Landshypotek AB was formed. Every year, part of the year's profit is paid back to the members.

2013 Landshypotek became a bank and the name Landshypotek Bank AB (publ) was registered. Finansinspektionen granted a banking licence in autumn 2012.

2014 The new Landshypotek Bank presented itself with a new logotype. The bank opened a digital savings bank for the general public in Sweden.

2017 Landshypotek Bank presented the news that it would offer mortgage loans to homeowners outside of the major cities.

Our macro environment

Strong economy and continued low interest rates with no sizable inflationary tendencies. Numerous positive signs and a positive sentiment in farming and forestry. Increased uncertainty in the mortgage market following political decisions. This is notable in the 2017 summary of the macro environment.

Growth in the global economy

The global economy has performed strongly over the year with rising growth across almost all global regions. Production has picked up and employment is rising at a healthy pace. From a historical perspective, a tighter labour market has always led to accelerating wage growth, but this stage has not been reached in this economic cycle, which is why inflation has had difficulty in rising. Central banks have signalled that the time has come to reduce stimulus packages but to date, the steps taken have been small.

In the US, we can look back at eight consecutive years of positive growth. From a historical perspective, this is a long economic boom. Unemployment is down at 4.1 percent, but wage growth has remained at slightly over 2 percent. Growth has stayed at around 3 percent, but inflation continues to struggle to reach the target rate of 2.0 percent. The central bank has continued to slowly raise the interest rate and has indicated further hikes despite the low inflation.

Growth in Europe has become increasingly robust and broad. The countries in southern Europe that were previously in economic difficulty, have picked up speed due to a relaxation in stringent financial policies and increasingly low interest rates. The banks have been cleaned up and can now help with the provision of credit. Companies can once again obtain loans and do so with lower interest rates. The labour market continues to strengthen, but idle resources are plentiful. Inflation posted a weak upward trend, albeit driven mostly by temporary factors and is now at 1.1 percent, but which is below the ECB's goal of 2.0 percent.

Healthy Swedish economy

The economy remains strong in Sweden. Forward-looking indicators, such as the Purchasing Managers Index and the NIER's Economic Tendency Survey have been at record levels for a long time. GDP growth is at 2.9 percent. Despite the strong economic growth, unemployment remains relatively high at 6.6 percent. However, this is not due to weak employment growth but rather to strong growth in the workforce. Just as in the US, strong job growth has not been able to raise the level of pay increases, which remains at a moderate 2.0 percent.

Analyses by the Riksbank, Sweden's central bank, indicate that wage growth has to reach 3.0 percent to create inflation impulses.

Low interest rates combined with the strong Swedish economy have stimulated prices in the housing market. The government's decision to introduce more stringent mortgage amortisation requirements aimed at slowing down the growth in household debt together with a surplus of expensive new builds triggered a weaker market and a downturn in housing prices toward the end of the year. The obfuscatory political decisions have left the mortgage market uncertain.

Positive for farmers and foresters

The healthy economy is also reflected in the operations of farmers and foresters. The interest in Swedish produce, the construction boom and the increased demand for paper products all boost the economies of farmers and foresters.

Total agricultural production is expected to rise 5 percent in 2017 compared with 2016. Year-on-year, results improved overall for agriculture in 2017.

The general increase in profitability is also reflected in the trend for farmers' outlooks. This has led to increasing numbers planning for investments, not least in production facilities. It was primarily livestock farmers that indicated improved profitability and a confident outlook. Prices remained low for arable farmers, who did not post the same level of improved profitability. Historically low interest rates are both a source of improved profitability and increased willingness to invest.

The healthy economy together with extensive investment in housing, commercial property and infrastructure mean that civil engineering contract services, in which many farmers are engaged, continue to comprise an increasingly larger portion of farmers' total income.

Developments in a number of farming and forestry sectors:

Rising prices, both domestic and global, have characterised the dairy industry. This was driven by historically high butterfat prices, while the market for milk powder



has remained weak. Signs indicate that the price trend will not be as positive in 2018. This strengthens the impression that milk production is now an industry where profitability is largely controlled by the global market and where volatility could remain considerable. Dairy farmers are however optimistic about the future.

Meat production in Sweden is increasing for all types of meat. This can essentially be viewed as an effect of increased demand for Swedish meat. Consumers are starting to understand the added value embedded in the Swedish production model. At the same time, total meat consumption is declining. The Swedish trade balance with meat is strengthening. Imports are decreasing and exports are rising. More and more markets are being opened for meat with the qualities offered by the Swedish model, including good animal husbandry and low use of antibiotics.

Arable farming faced a number of challenges in 2017. Unusually heavy precipitation during and after the harvest period hampered the harvest and autumn tillage. Norrland, in particular, was hit hard, but even in other parts of the country, fields were left unharvested. Overall, the cereal harvest was up 9 percent on 2016. However, prices have fallen during the year, partly as a result of large quantities of cereal reaching the global market from Russia in parallel with high levels of global stockpiles.

In forestry, the market remains strong with healthy demand for both timber and pulp wood. The relatively weak krona has improved prospects for the sector in

the global market. Prices continued to rise for forest properties across the country. However, the same trend has not been noted for pulp wood prices. Considerable optimism exists among forest owners who have high expectations of continued good or increased profitability. This means that there is considerable interest in buying more forest. Again, relatively low interest rates play a key role.

Continued low interest rates

In its interest-rate path, the Riksbank has indicated that interest rates will first be raised in the second half of 2018. Despite an extremely strong economy and below-target inflation, the Riksbank has not noticeably changed its intentions. Admittedly, the bond-purchase programme concludes at the end of the year but the Riksbank will still continue to expand its balance sheet in 2018 — through the decision to issue government bonds in 2018 that will replace bonds maturing in 2019.

The government has announced that considerable scope exists for stimulus measures with SEK 40 billion in budget reforms next year. Comments have been made that the timing of the stimulus was poor given the strength of the economy. Forecasts indicate a continued strong economy into 2018 supported by fiscal stimuli. The market has priced in faster tightening than the Riksbank's interest-rate path and it is therefore difficult to see any scope for a larger rise in interest rates in 2018.



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Administration Report

Landshypotek Bank develops its operations to strengthen the bank for expansion. Underlying earnings, excluding the net result of financial transactions, was strong for 2017.

For a richer life countryside

Landshypotek Bank wants to promote a richer life countryside. Landshypotek Bank has been a bank for farmers and foresters for more than 180 years, and now, it is also a bank for homeowners. In the autumn, the mortgage market launch started with a positive response from customers. Targeted campaigns generated increased interest. The digital platform developed in 2017 is a prerequisite for an efficient and customer-friendly loan application.

Landshypotek Bank worked actively to be part of key issues for Sweden's farming and forestry in 2017. The bank completed surveys that showcased rural entrepreneurship in Sweden and participated in numerous farming and forestry forums.

Lending totalled SEK 68.5 billion, up SEK 2 billion for the year. Lending growth was higher in the second half of the year.

Stronger bank

In 2017, the 40,000 borrowers and, accordingly, members of Landshypotek Ekonomisk Förening invested a further MSEK 113 in the operations and equity, which is comprised of member contributions, grew to around SEK 1.7 billion. The bank also raised new capital in the form of a perpetual subordinated loan of SEK 0.7 billion.

The structural change in agriculture has also led to Landshypotek Bank taking the decision to change its customer classifications.

The change will impact the bank's regulatory capital requirement. In 2017, Landshypotek Bank received permission from the Swedish Financial Supervisory Authority to use a proprietary method to calculate risk and capital requirements for larger corporates in farming and forestry. The bank has also applied for permission to change its approach for retail exposures. See Note 3.

Landshypotek Bank uses the capital market as its primary source of funding but deposits have taken an increasingly significant role. The savings offering has attracted many new customers to the bank and deposits grew to SEK 12.7 billion in 2017.

Financial report 2017

The bank's operating profit amounted to MSEK 339.2, up MSEK 14.2 year-on-year (MSEK 353.4). The decline in earnings was primarily attributable to a decrease in the net result of financial transactions.

Excluding the net result of financial transactions, operating profit amounted to MSEK 387.3 (327.3), up MSEK 60.0 year-on-year.

Net interest income and volumes

Net interest income amounted to MSEK 800.4, a year-on-year increase of MSEK 63.2 or 8.6 percent (MSEK 737.2).

Interest income amounted to MSEK 1,295.8 (1,368.4), down MSEK 72.5 year-on-year. Lending in 2017

Profit and profitability

Group key ratios, MSEK	2017	2016
Net interest income ¹⁾	800.4	737.2
Interest margin, %	1.2	1.1
Other operating income	-46.2	33.5
Costs	402.5	402.4
C/I ratio including financial transactions	0.53	0.52
C/I ratio excluding financial transactions	0.50	0.54
Loan losses	12.5	14.8
Loan loss level, %	0.02	0.02
Operating profit	339.2	353.4
Operating profit excluding the net result of financial transactions	387.3	327.3

¹⁾ Loan commissions has been reclassified from Other operating income to Net interest income. The comparative figures for 2016 have been restated.



increased SEK 2.0 billion. Interest income from lending declined however, on the back of loans being renewed at lower market interest rates.

The return on the liquidity portfolio decreased to MSEK 31.6 (89.6) due to reinvestments at lower interest rate levels.

Interest expense amounted to MSEK 495.5 (631.2), down MSEK 135.7 year-on-year. The lower interest expense was attributable to refinancing of maturing borrowings being completed at lower market rates.

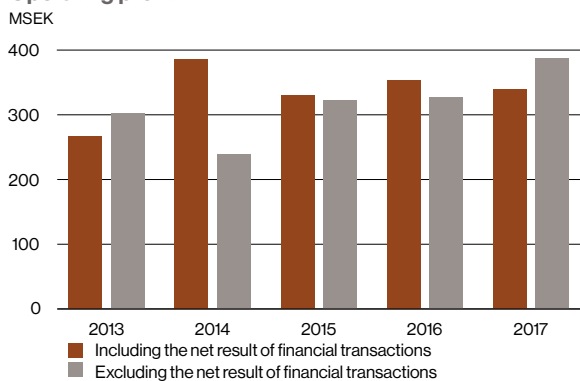
The interest margin improved since interest expense decreased more than interest income.

Interest expense included fees to the Swedish National Debt Office's resolution fund, which amounted to MSEK 56.9 (28.8). This was a year-on-year increase of MSEK 28.1 as a consequence of the fee being raised.

Other operating income

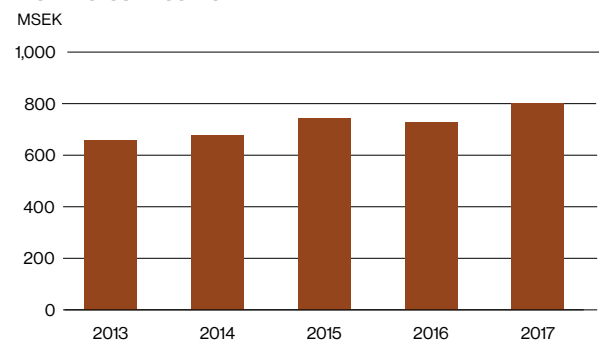
Other operating income amounted to an expense of MSEK 46.2 (income: 33.5). Other operating income includes the net result of financial transactions and

Operating profit



Operating profit for 2017 totalled MSEK 339.2. Operating profit excluding the net result of financial transactions was MSEK 387.3.

Net interest income



In 2017, net interest income amounted to MSEK 800.4. The amount of net interest income is determined primarily by the volume of loans outstanding and the margin between the interest rates on borrowing and lending.

income from property. The year-on-year decline was mainly attributable to a lower net result of financial transactions of an expense of MSEK 48.1 (income: 26.2). The net result of financial transactions includes the revaluation of financial instruments, realised results from the purchase and sale of financial instruments, as well as the result from the buyback of bonds. Of this amount, an expense of MSEK 48.1 comprised an unrealised loss of MSEK 23.0 and a realised loss of MSEK 25.1.

The realised result comprises the redemption of bonds issued and the premature closure of derivatives. Early redemption of own bonds is carried out to extend the duration of Landshypotek Bank's liabilities, whereby bonds with a short remaining time to maturity are redeemed and replaced by bonds with a considerably longer maturity. The early redemption strengthens Landshypotek Bank's balance sheet.

To gain an understanding of the total effect of market valuations, the revaluations recognised directly in equity via other comprehensive income must also be taken into account. Remeasurements of financial instruments in equity amounted to a gain of MSEK 29.5 (73.9) in 2017.

Costs

Costs totalled MSEK 402.5 (402.4). This was in line with the preceding year. Employee numbers grew during the year, in part to administer new mortgage customers and in part to allow the continued strengthening of the bank as a whole. The launch of mortgages entered an intense phase in the fourth quarter of 2017 with the completion of a number of marketing activities.

Loan losses and doubtful credits

Net recognised loan losses amounted to MSEK 12.5 (14.8), corresponding to 0.02 percent (0.02) of Landshypotek Bank's total loans outstanding. Confirmed

loan losses were somewhat lower year-on-year as was the provision for probable loan losses. In 2017, the flow of insolvency cases continued to decline. Collective provisions decreased slightly to MSEK 4.3 (4.7) and were attributable to wind power commitments. The collective provisions were attributable to uncertainty regarding the electricity price, electricity certificates, residual values and the second-hand market, and were not possible to identify at an individual level.

At 31 December 2017, doubtful credits after provisions decreased and amounted to MSEK 147.4 (175.2), corresponding to 0.22 percent (0.26) of total loans outstanding. The decline was due to a lower inflow of doubtful credits.

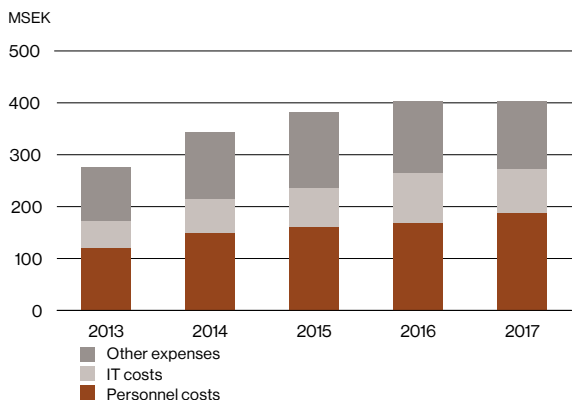
Financial structure

Assets

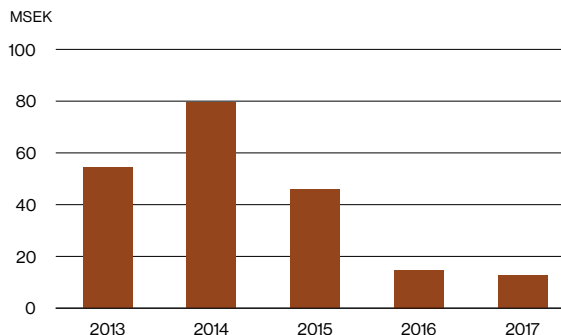
The largest asset item in the balance sheet is loans to the public, which amounted to SEK 68.5 billion (66.5). The largest part of the increase arose in H2 2017 and was attributable to first lien mortgage loans to farmers and foresters and the introduction of home loans. More information about Landshypotek Bank's loans to the public can be found in Note 2 Risks and Note 3 Capital. At the end of 2017, Landshypotek Bank's holding of interest-bearing securities amounted to SEK 13.4 billion (12.6). The portfolio primarily 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.

Landshypotek Bank uses derivatives for the purpose of managing the difference in terms of fixed interest and currency risks between assets and liabilities. At the end of 2017, the Group's holding of derivatives contracts with positive market values amounted to SEK 1.5 billion

Costs



Loan losses



At 31 December 2017, loan losses totalled MSEK 12.5, which corresponded to 0.02 percent of lending.

(1.8). This corresponded to a nominal value of SEK 20.9 billion (24.4). Additional detail about derivative contracts can be found in Note 15.

Non-current assets increased MSEK 30.7 during the year to MSEK 117.2 (86.5). The increase was due to the development of the bank's lending business and more efficient administration of funding.

Liabilities

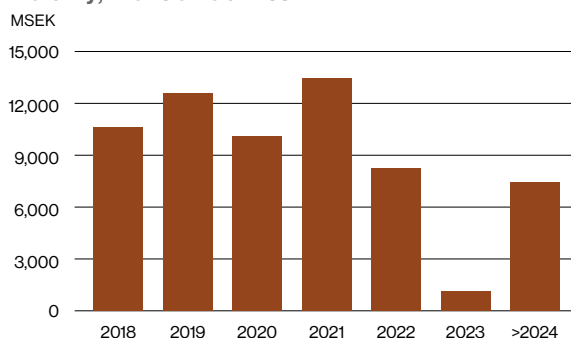
Funding

Landshypotek Bank aims to maintain a low risk profile and borrow funds on the best possible terms. Landshypotek Bank utilises several borrowing programmes, both domestic and international. This allows the bank to meet most investors' needs for investments in interest-bearing securities.

In addition, covered bonds were issued to a value of approximately SEK 13.8 billion and senior bonds to a value of SEK 5.2 billion in 2017. The issue of a SEK 0.7 billion perpetual subordinated loan replaced a time-limited subordinated loan of SEK 0.5 billion that matured in the second quarter of 2017. Bonds have matured or been repurchased to a value of approximately SEK 15.0 billion, of which about SEK 11.7 billion pertained to covered bonds. In general, the financial market for Nordic banks functioned smoothly in 2017. Landshypotek Bank has been very successful in its funding activities and demand for the bank's bonds has been favourable.

Covered bonds are bonds that carry a preferential right in a defined cover pool. At 31 December 2017, Landshypotek Bank had covered bonds in issue at a value of SEK 53.8 billion. Assets in the cover pool corresponding to SEK 71.1 billion are in place as collateral for these bonds.

Maturity, financial liabilities



Cover pool and covered bonds

Cover pool

Loans	SEK 62.9 billion
Supplemental collateral	SEK 9.1 billion
of which Swedish covered bonds	SEK 4.9 billion
of which Swedish municipalities	SEK 4.2 billion
Total cover pool	SEK 72.0 billion

Covered bonds

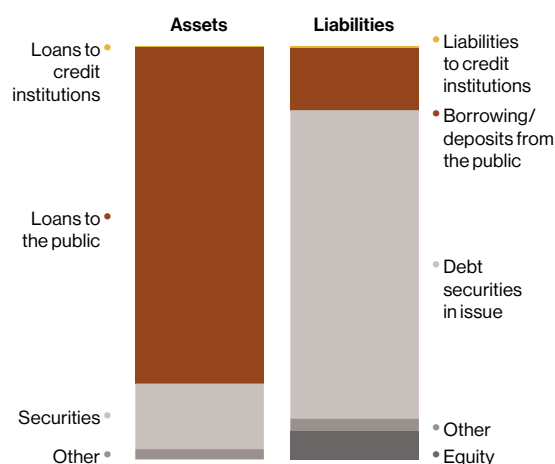
Issued in SEK	SEK 46.4 billion
Issued in foreign currency	SEK 7.4 billion
Total covered bonds	SEK 53.8 billion
Excess collateral	33.7% SEK 18.1 billion

Key ratios, cover pool

LTV — Loan-to-value ratio

Average volume-weighted LTV	41.7%
Number of pledged properties	31,055
Number of borrowers	39,709
Number of loans	97,596

Landshypotek Bank has two programmes for issuing covered bonds, a Swedish MTN programme with a limit of SEK 60.0 billion and an international EMTN programme with a limit corresponding to SEK 34.4 billion. Covered bonds are Landshypotek Bank's most important source of funding. Landshypotek Bank's covered bonds have an AAA credit rating from the rating agency Standard & Poor's.



The cover pool comprises loans with Swedish agricultural and forest properties as collateral, and supplemental collateral. The supplemental collateral comprises covered bonds issued by other credit institutions, and bonds issued by Swedish municipalities.

Landshypotek Bank has an LTV of 41.7 percent. The LTV or loan-to-value ratio shows loan amounts in relation to the value of the collateral. Accordingly, an LTV of 41.7 percent entails that Landshypotek Bank's customers' loans amount to an average value of 41.7 percent of the value of their farms. Landshypotek Bank has around 40,000 borrowers and 31,000 pledged properties. In many cases, the difference is attributable to more than one individual jointly pledging their shared property. The number of loans amounts to about 98,000.

At 31 December 2017, the Group's holdings of derivative contracts with a negative market value totalled MSEK 706 (730). This corresponded to a nominal value of MSEK 33,421 (26,872). Additional detail about derivative contracts can be found in Note 25.

Short-term borrowing in the form of commercial paper was MSEK 0 (2,881). Commercial paper is used as bridging finance when issued bonds mature.

Deposits

Deposits amounted to SEK 12.7 billion (11.6) at 31 December 2017, up 9.6 percent. The Jord & Skog investment account stood for the largest part of that increase.

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.

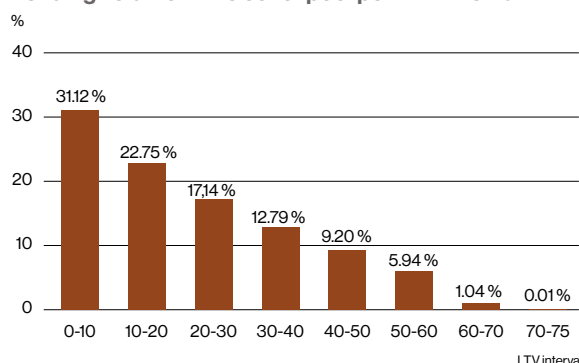
Standard & Poor's changed its outlook for the Swedish economy and thereby Landshypotek Bank from negative to stable.

Rating	Long	Short
Standard & Poor's, Covered bonds	AAA	
Standard & Poor's	A-	A-2, K1
Fitch	A	F1

Capital

The total capital ratio for the consolidated situation amounted to 43.8 percent at 31 December 2017. Own funds was MSEK 6,837 and the capital requirement was MSEK 1,248.

Lending volume in the cover pool per LTV interval



Of Landshypotek Bank's lending, 54 percent takes place against collateral where the loan amount is less than 20 percent of the value of the collateral. Only 1 percent of lending is against collateral where the loan amount is 70 percent of the value of the collateral.

During the year, own funds were strengthened by measures including a perpetual subordinated loan of SEK 0.7 billion and through contributed capital of MSEK 113. The size of contributed capital is affected by the dividends received by members, which is enabled through Group contributions from Landshypotek Bank.

Of the dividend of MSEK 158, MSEK 35 was added through member contributions. The remainder of the year's increase in contributed capital was mainly due to the members choosing to invest in Landshypotek.

Group contributions

A Group contribution will be paid by Landshypotek Bank AB, contingent upon the approval of the General Meeting, in the amount of MSEK 170 (176) to Landshypotek Ekonomisk Förening

Sustainability report pursuant to the Annual Accounts Act

Landshypotek Bank has prepared a sustainability report for the Group pursuant to the Annual Accounts Act. Landshypotek Bank's sustainability reporting contains information about the company's initiatives regarding the environment, social aspects and personnel, respect for human rights and anti-corruption.

The Sustainability report is available on pages 33–38.



Proposed appropriation of profits

Retained earnings	SEK 1,714,278,992
Group contributions	SEK -170,100,000
Tax effect of Group contribution	SEK 37,422,000
Total	SEK 1,581,600,992
Net profit for 2017	SEK 255,308,659
At the disposal of the Annual General Meeting	SEK 1,836,909,651

Conditional on the approval of the Annual General Meeting, a Group contribution has been paid in the amount of SEK 170,100,000, which has reduced unrestricted equity as of the balance sheet date by SEK 132,678,000 after taking the tax effect into account. The proposed transfer of value in the form of a Group contribution reduces the company's capital quotient to 1.56. Unrealised changes in the value of assets and liabilities measured at fair value had a net negative impact on equity of SEK 8,641,181.

The Board of Directors is of the opinion that the proposed dividend, in the form of a Group contribution, does not compromise the company's or the Group's ability to discharge its obligations in the short and long term, nor to make any necessary investments. The proposed transfer of value can therefore be justified considering that stated in Chapter 17, Section 3, paragraphs 2–3 of the Swedish Companies Act. The Board of Directors proposes that the year's funds at the disposal of the Annual General Meeting, SEK 1,836,909,651, be carried forward.

The Board of Directors and the CEO hereby certify 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 annual accounts have been prepared in accordance with generally accepted accounting principles and provide a fair representation of the Parent Company's position and performance.



Sustainability Report

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For sustainable development across Sweden

Since its start in 1836, Landshypotek Bank has promoted living and entrepreneurship in the countryside. Many of the bank's customers operate farming and forestry companies. The bank's sustainability efforts have always focused on customers and their operations. Since the bank is owned by its farming and forestry loan customers, the bank's business model contributes to an economically and socially sustainable society.

The bank's contribution to sustainable development

A living countryside — fields and forests being cultivated and growing, thereby creating 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 enterprises through sound and responsible credit granting, which lays the foundation for a future for the cities and the countryside. In this way, the bank contributes to sustainable societal development — socially, environmentally and economically.

Agriculture and forestry fill many important functions and are of great significance to the country's development. The forest is a key link in the transition to a fossil-free society. Forest raw materials are renewable, recyclable and biodegradable. They can be used for many different products and replace fossil alternatives. Growing forests bind carbon dioxide and thus counter climate changes.

Swedish farms and agriculture maintain high standards for animal husbandry and environmental adjustment, and the food produced is of high quality. The use of forests and cultivated land also contributes to biodiversity and nature management.

Being the bank for all of Sweden, also means offering loans to customers wishing to buy homes outside the major cities. Together, Landshypotek Bank and its customers promote a living countryside where people live and work.

Landshypotek Bank's sustainability efforts also include the bank's other key stakeholders: employees, owners (members) and investors. To be a truly sustainable bank will require that the bank continues to develop all parts of its business and operations.

Sweden's member-owned bank

Farming and forestry borrowers become members of Landshypotek Ekonomisk Förening and, thereby, owners of Landshypotek Bank. With some 40,000 members, the association is one of the country's largest cooperative associations.

The association's sole purpose is to benefit its customers and members. The owner directive sets out that Landshypotek Bank is to promote the members' financial interests by offering competitive financing for farming and forestry.

The ownership form is one of the bank's strengths. As loan customers are also the bank's owners, this creates commitment, shared responsibility and a long-term approach. The bank's profits are redistributed back to the members and to agriculture and forestry, or are used to develop operations at the bank. Landshypotek Bank believes this is part of modern, progressive business practices.

Read more about Landshypotek Ekonomisk Förening in the association's annual report.

Customers and the offering

Landshypotek Bank's customers

Landshypotek Bank targets owners and entrepreneurs in agriculture and forestry, those living on farming and forestry properties, savers and homeowners. The bank's loan customers are mainly located outside of Sweden's major cities and the banks target groups are clearly defined as follows: Landshypotek Bank lends to customers against collateral in agricultural and forest properties or houses in Sweden. The bank's savings customers can be found countrywide.

The bank's customers include a large portion of the country's large-scale production agriculture, many smaller farmers and foresters as well as new mortgage customers since the bank has widened its offering. For natural reasons, the customers' relationships with the

bank are longstanding and often continue across generations — farming and forestry are capital intensive, long-term businesses.

Landshypotek Bank's strength

Landshypotek Bank's strength is its close links to the farming and forestry industries. The bank's account managers at offices around the country often have backgrounds in agriculture and forestry, and banking and financing expertise. Moreover, the organisation is small and decentralised, which enables close customer relationships with short decision paths.

Sound and sustainable lending

Landshypotek Bank offers sound and sustainable loans. This means contributing to customers' financial security, within the framework of the bank's credit regulations. The regulations aim to protect customers' financial positions and, at the same time, to shield the bank and owners from loan losses.

Landshypotek Bank promotes simplicity, clarity and transparency in its credit process. Sales and marketing must be responsible and moderate. Customers are to feel secure with Landshypotek Bank, and to understand the terms being offered when facing critical financial decisions.

Landshypotek Bank's operations are assessed as being critical for Sweden's financial system and are therefore encompassed by the Swedish National Debt Office's resolution planning. The bank thereby also contributes to securing the country's long-term economic stability.

Credit assessment including sustainability analysis

Landshypotek Bank's credit appraisal in conjunction with granting credit is based on repayment capacity with a focus on owner risk, market risk, financial risk and credit risk. A sustainability analysis is always included in the credit appraisal for medium-sized companies and all legal entities. A sustainability analysis is also conducted if separate environmental risks could arise or if it is deemed appropriate in individual cases. The bank's account managers review whether operations are linked to a quality assurance system, if it is checked by a third-party, if self-assessments are conducted as well as the results of any checks performed. If these checks are missing, the bank conducts a more thorough review. Read more about risks and risk management in Note 2.

Impact on key issues

Landshypotek Bank drives issues that are deemed important for customers. The initiatives focus on

protecting customers' financial interests and on promoting clarity, predictability and security. Of late, the bank has endeavoured to have agricultural properties exempted from the statutory repayment requirement and to obtain clarification of the legal position regarding EU credits.

Investments

The bank's liquidity reserve comprises interest-bearing securities, either covered bonds with the highest credit ratings issued by Nordic credit institutions or securities issued by Swedish municipalities or county councils. Therefore, the bank's assessment is that there are no material non-financial risks linked to the bank's investment activities.

Employees working for all of Sweden

Landshypotek Bank comprises around 182 employees at 19 offices in two business areas as well as various staff and support functions. Many of the bank's account managers have backgrounds in agronomy, forestry or agrology in addition to their banking expertise. The bank is also increasingly attracting staff from the banking and finance sector. Together, the bank's staff work to promote a richer life countrywide.

Employeeeeship our way

All of the employees have participated in creating the bank's employeeeeship values. The values are: customer-centric, drive, enthusiasm and together. In a similar manner, the bank has formulated the values that characterise leadership at the bank. Actions by bank management should be values-driven, respectful, brave, inspiring and visible.

The culture should be prevalent in and recreated in the bank's daily behaviour. The bank conducts frequent measurements on different themes to measure conditions at the bank and for employees. The most recent focused on discrimination and found that the majority (91 percent) perceived themselves as having equal rights and opportunities at work. The observations noted will result in an action plan determined by the bank's CEO.

Small bank — Huge commitment

Each employee accounts for around half a percent of the bank, which means that each individual's commitment is highly important. Employees are involved in numerous projects and are part of how the bank is run.

This is notable in the strategy and planning processes. During the year, the bank completed a total of three staff meetings at which everyone participated. Discussions covered how the bank could better interact with customers among other areas and gave valuable input for the 2018 business plan.

Skills and development

The bank thinks widely in terms of personnel skills and development. Beside development in their current roles, this could include participating in different projects, holding courses for colleagues, swapping departments for a period or studying for a formal qualification. The bank has a standing range of courses available, some of which are obligatory, for example, credit training for the bank's account managers as well as annual anti-money laundering training for all. Other training is also provided in areas such as banking law and induction courses for new employees. In 2017, 72 employees completed credit training. 35 have completed advanced credit training. All employees have completed the annual anti-money laundering course and 12 completed the business law course.

Since 2016, the bank has worked with frequent dialogues, known as a "GÅS" dialogues (which, in Swedish, stands for Ongoing, Achieve and Support), which help employees to manage their current tasks, and to build and widen their skills in the long term. The content of the dialogues is controlled by the employees' needs; they are held every six weeks and result in goals and activities with differing time horizons. The dialogues are based on the bank's employee values.

Rights and conditions at work

Landshypotek Bank strives to be a great place to work, both with regard to employment terms and conditions, and to the work environment. The employees are offered good conditions including loans at favourable terms, a benefits portal and subsidised lunches. The bank has a collective agreement with the Financial Sector Union of Sweden and the Swedish Confederation of Professional Associations (SACO). Each of the two unions has a representative on the bank's Board.

Several factors contribute to the bank's shared environment and to everyone's performance and wellbeing. The GÅS dialogues are important, as are the responsibility of each manager and employee, and the initiatives of the Work Environment Committee. The Work Environment Committee comprises employer and union representatives, health and safety representatives, and the bank's Risk Manager. Employees also have access to generous wellness subsidies and health checks.

The bank believes that egalitarian and diverse groups improve work and performance. The bank prioritises creating space for different perspectives, evening out the gender distribution of misaligned working groups and ensuring that no one is discriminated against or mistreated in other ways.

The distribution between women and men is even in most groupings: 49/51 overall and 48/52 among managers. The management consists of three women and seven men, and the Board of Directors of four women and five men.

Business ethics and anti-corruption

Landshypotek Bank strives to achieve high risk awareness and low risk undertaking. This position is demonstrated by the bank's lending being primarily against collateral in immovable property and its focus on first lien mortgage loans for farms, forests and houses. Read more about the bank's credit granting in Note 2.

Acting ethically and correctly

Respect for human rights is essential for the conduct of sound and sustainable enterprise and something that the bank always adheres to in its own operations and in relation to customers, suppliers or other business partners. Given the operations of the bank and the bank's requirements of suppliers and business partners, the bank's assessment is that there are no significant risks linked to human rights.

Acting correctly and objectively is of great importance in all of the bank's business dealings. The bank's and the employees' extensive commitments in agriculture and forestry are a strength but also entail risks. For this reason, a structured process is in place to approve and follow up ancillary activities. Should a risk of a conflict of interest arise, the case must be transferred to another colleague. During the year, extensive efforts were made to manage conflicts of interest, including mapping employees' ancillary activities. Moreover, the Board established a new policy for conflicts of interest.

Prevention of financial crime

The bank works in a pre-emptive manner to minimise the risk of its operations being used for money laundering or financing terrorism. The bank works proactively to minimise the risk of the bank being used for money laundering or financing terrorism by always checking identity, the purpose and the real principal at the customer. Landshypotek Bank offers loans exclusively in Sweden and a current account is not included in the

offering, which minimises the risk of money laundering or financing terrorism. Since the bank operates online, altogether, this means that risk levels are assessed as normal. Read more about Landshypotek Bank's risks and risk management in Note 2.

Policy and administration

Landshypotek Bank's ethics policy states that operations should apply sound values and professionalism; that customers', employees' and the owner's interests at an overall level should be taken into account in all decisions, and that external and internal rules should always be complied with. The ethics policy includes comprehensive rules for conflicts of interest. The policy also governs insider trading as well as gifts, rewards and other benefits. Guidance is provided here for difficult situations.

Business ethics and the ethics policy are included in various employee training courses, including induction training for new employees. Each year, all employees complete training in countermeasures for money laundering and the financing of terrorism.

If employees are unsure about how to apply the ethics policy, the first resort is to contact in their immediate manager. The bank's compliance function can also provide advice and support. Finally, the bank has a whistle-blower process. Anyone who suspects serious misconduct can contact the compliance function anonymously.

Landshypotek Bank also has an incident reporting system for deviations from internal or external requirements and rules.

Suppliers and business partners

The Bank has mainly outsourced activities in terms of IT. In support of the bank's outsourcing, procurement and monitoring, the bank has a number of policy documents that set requirements for the bank's outsourcing agreements. The bank is also subject to Finansinspektionen's liquidity coverage ratio (LCR) requirements as defined in FFFS 2014:1. The bank monitors suppliers on an ongoing basis and for follow-up in 2017 has strengthened this from an ESG perspective. For 2017, 28 vendors have been evaluated based on this enhanced monitoring.

Next step

A new incident reporting system, including reporting of customer complaints, was started in 2018. The bank will also continue to map and to strengthen the management of conflicts of interest and ancillary activities, both on business and individual levels. The bank will also implement the General Data Protection Regulation (GDPR) and the Revised Payment Services Directive (PSD2).

Environment

Landshypotek Bank's main environmental impact is at customer level. The bank's core business is the financing of Sweden's agricultural and forestry sector. Many of the bank's core customers, run operations that affect and are affected by the climate and the environment. Climate change can have a direct and indirect impact on our customers' operations and, thus, also on the bank's credit risk. For 2017, the bank has not analysed any climate scenarios since, in the bank's assessment is important that the market as a whole prepares relevant standards and models that highlight the risks scientifically and adequately for the operations conducted by the bank. The bank participates in working groups as part of, inter alia, the Swedish Bankers' Association where the issues are discussed between the Swedish banks and other industry stakeholders.

Since the bank's core customers operate in farming and forestry, the customers' impact on the environment can be both positive and negative. Farming and forestry reduces carbon dioxide in the atmosphere, and contributes to biodiversity, renewable raw materials and food. This requires inputs that may negatively impact the environment, such as from nitrogen leaching from fields, ammonia from fertilisers and pesticides in food production.

Accordingly, the bank carries out sustainability analyses to identify environmental risks in its customer credit appraisals, see above.

Moreover, Landshypotek Bank focuses on growth through digital channels. From an environmental perspective, this is positive at the same time as it is an effective approach for meeting customers' changing requirements and expectations. The bank's savings offering is digital and, since 2017, the bank also offers homeowner mortgages using a fully digital loan application.

Limited own environmental impact

Landshypotek Bank's direct environmental impact is limited and arises mainly from the bank's premises and business travel. As the bank's customers and its 19 offices are spread across Sweden, a considerable amount of travel is required by operations. Telephone and video are the first choice for meetings and internal communication. The bank's travel guidelines include taking the environment into consideration. Overall, the bank prioritises rail travel, but many of the customers can only be reached by car.

Next step

In 2018, the bank will firstly develop a green loans offering and develop the bank's sustainability analysis in the credit granting process.

Policies and governance documents

The bank's most important sustainability-related policies are:

Overarching

- Sustainability Policy

Employees

- HR Policy
- Remuneration Policy

Environment

- Included in the Sustainability Policy

Anti-corruption

- Ethics Policy
- Policy for Counteracting Money Laundering and Financing of Terrorism
- Insider Policy
- Conflict of Interest Policy
- Compliance Policy

Implementation

Landshypotek Bank's policies have been adopted by the Board. Each manager at the bank is responsible for the implementation and observance of all rules and guidelines in daily activities.

Sustainability-related issues, particularly business ethics and anti-corruption, are included in various in-house training courses and the applicable policy documents are available to all employees. Governance documents are revised annually to ensure that they meet the requirements and expectations of our operating environment.

Landshypotek Bank's Risk and Compliance Forum comprises representatives from the bank's eight districts and, since 2017, of the individuals with process responsibility for money laundering and the financing of terrorism, as well as borrowing and lending. The Forum is an initial contact point for risk and compliance issues. It drives and supports the update and implementation of applicable policy documents.

Organisation

The CEO is responsible for Landshypotek Bank's sustainability initiatives and results. This responsibility has been delegated to the bank's Head of Public Affairs and Sustainability, who is a member of the bank's management. This also includes the HR Manager, who as a key role in the work with sustainability issues.



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Corporate Governance Report

Corporate governance is a key support in Landshypotek Bank's efforts to create value for its stakeholders and for the Board with its effective governance and control of operations.

Foundation for corporate governance at Landshypotek Bank

Landshypotek Bank strives to implement corporate governance that is marked by its focus on structure, processes, and efficient governance and control, and which comprises a value-steered employee culture that reinforces own responsibility and commitment. During the year, the bank has implemented targeted efforts to improve both of these areas. The bank has high ambitions in terms of good corporate governance, risk management and internal control.

Governance is conducted pursuant to external rules for corporate governance that include, inter alia, the Swedish Companies Act, the Swedish Annual Accounts Act and the Swedish Corporate Governance Code (applicable parts thereof). The fundamental internal framework for corporate governance comprises, inter alia, the Articles of Association, the owner directive, formal work plans for the Board and its committees, the CEO's instruction, report plans and policies. Policies, guidelines and instructions that clarify the delegation of responsibility and working methods at the bank comprise key tools for the Board and CEO in their governance and control roles.

Deviations from the Swedish Corporate Governance Code

Given the ownership structure with just one shareholder and the fact that the bank is not a listed company, certain parts of the Code are not appropriate for Landshypotek Bank. The following deviations from the Code are made in this corporate governance report:

General Meeting *Code rule 1.1*

There is no publication on the website of information pertaining to general meetings of shareholders and shareholders' right to propose business at the general meetings. The aim of this rule is to provide shareholders with the opportunity to prepare themselves in a timely fashion ahead of the Annual General Meeting and to have business taken up in the notification thereof as well as enable shareholders to partake of the information. A deviation is made as the bank has only one shareholder.

Election and remuneration of the Board and auditor *Code rules 2.3–2.6*

Instead of following the Code's rules governing Board appointments, nomination issues are prepared pursuant to an instruction for the Election Committee adopted by the General Meeting. The aim of these rules is to provide all shareholders with, among other things, insight into the nomination process and to prevent major shareholders gaining undue influence over nominations. A deviation is made as the bank has only one shareholder.

Board procedures *Code rule 7.3*

This rule means that the Board must ensure that the company's financial reporting meets other requirements of listed companies. A deviation is made as the bank is not a listed company.

Owners' control

Landshypotek Bank is a wholly owned subsidiary of Landshypotek Ekonomisk Förening. The bank is domiciled in Stockholm. The owners' control of the bank is exercised directly and indirectly through the delegation of responsibility contained in the internal and external rules. In the first instance, through the owners' resolutions at the General Meeting, secondly, through the Board appointed by the General Meeting and thirdly through the CEO appointed by the Board.

Articles of Association

The Articles of Association is the fundamental document that defines the framework for the Bank's activities. The Articles of Association contain provisions on the minimum and maximum number of Board members and that the Board members and Chairman of the Board be appointed by the General Meeting. Moreover, no provisions exist governing the appointment or removal of Board members. Any amendment of the Articles of Association requires notification to be issued at the earliest six weeks and at the latest four weeks before the General Meeting that will examine the proposed amendment. Landshypotek Bank has only one shareholder and no limitations apply to the number of votes the shareholder may cast at the General Meeting.

Annual General Meeting 2017

The Annual General Meeting of Landshypotek Bank was held on 27 April 2017. Henrik Toll, Chairman of the bank was the Annual General Meeting's Chairman. The owner was represented by Lars Öhman, Chairman of Landshypotek Ekonomisk Förening. The AGM was attended by the majority of the bank's and the association's Board members, the CEO, auditors and members of the Election Committee. The General Meeting elected the Board, Election Committee and auditors for the period until the next AGM. The General Meeting re-elected the following Board members: Anna-Karin Celsing, Hans Heuman, Nils-Fredrik Nyblæus, Henrik Toll, Johan Trolle-Löwen, Synnöve Trygg and Charlotte Önnestedt. At the AGM, Hans Broberg, with Petra Nilsson as deputy, and Helena Andersson, with Ingrid Nordqvist as deputy, were designated as the employee representatives. Henrik Toll was re-elected Chairman of the Board. Furthermore, the authorised auditing firm Öhrlings PricewaterhouseCoopers AB (PwC) was elected as auditors. Authorised Public Accountant Helena Kaiser de Carolis was elected Auditor in Charge. The AGM resolved to discharge the Board of Directors and the CEO from liability. Furthermore, resolutions were passed on fees, appropriation of profits and adoption of the annual accounts for 2016. The CEO and Board of Directors presented the work performed in the company and on the company's Board during the year. The Election Committee presented its work during the year and its assessment of the eligibility of Board members on an individual basis as well as collectively. The General Meeting did not authorise the Board of Directors to issue new shares or buy back the company's shares.

Election committee

The Election Committee is tasked with preparing election and remuneration issues ahead of the next AGM. The Election Committee follows the instruction established for the Committee and the adopted policy regarding Board diversity and for assessing the eligibility of Board members. The 2017 AGM resolved that the Election Committee should comprise: Lars Öhman, Kjell Hedman, Richard Montgomery, Kerstin Arnemo and Ann-Britt Karlsson. Lars Öhman represents the owner as Chairman of Landshypotek Ekonomisk Förening, while Richard Montgomery and Kjell Hedman contribute with their respective previous experience as a Board member and CEO of the bank.

External auditors

The AGM appoints external auditors to Landshypotek Bank. These auditors must be authorised public

accountants. The mandate period of the auditors appointed by the General Meeting is one year. The auditors are responsible for examining the Annual Report, consolidated financial statements and accounts and also the Board's and CEO's administration of the bank. The auditors report the results of their examination in the audit report, which is submitted at the AGM. Furthermore, the auditors examine one of the bank's interim reports and the year-end report, and submit their findings in their notes to the Audit Committee and the Board. To ensure the independence of the external auditor with regard to the audit of the Bank and the Bank's financial statements, the Board has established a policy governing the independence of the external auditor. Fees to the bank's auditors are reported in Note 7.

Owner directive

Landshypotek Ekonomisk Förening's Board has adopted an owner directive. The aim of the owner directive is to clarify the owner's requirements of the bank and the targets that the bank is expected to achieve. The owner directive sets out a number of overarching principles regarding the bank's independence. Moreover, target metrics are stipulated for market share, profitability and risk appetite, which are followed up by the Association's Board.

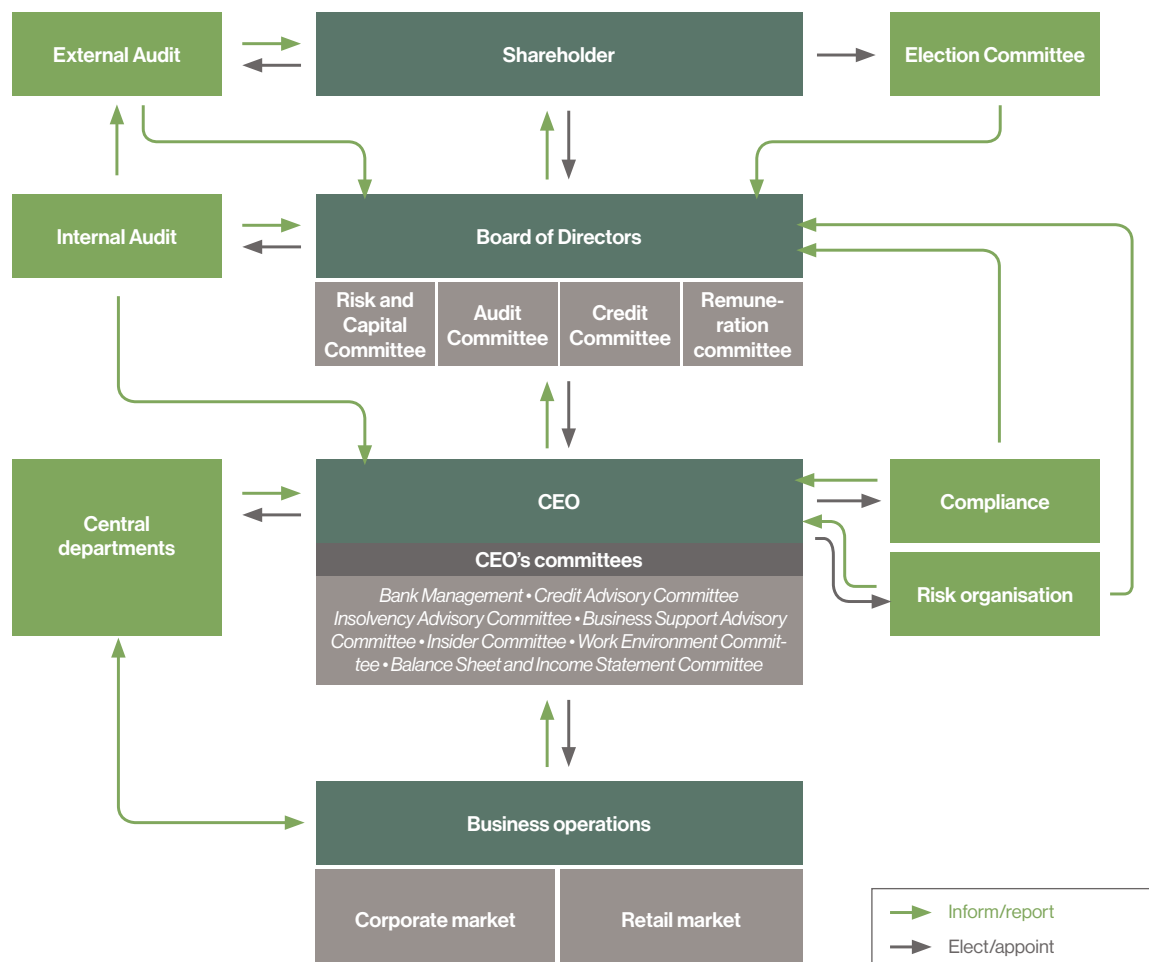
The Board of Directors

The Board's members are elected by the General Meeting from proposals made by the bank's Election Committee. The Board is responsible for the organisation and administration of the bank affairs.

The Board's composition and eligibility

According to the Articles of Association, the Board comprises a minimum of four and a maximum of eight members who are elected each year at the AGM until the AGM the following year. The bank performs an eligibility assessment in parallel with the appointment of Board members, on re-election of Board members and when needed. The eligibility assessment of Board members is performed by the Election Committee in accordance with the bank's eligibility assessment policy and Board diversity policy. The eligibility assessment takes in to consideration the individual's expertise, experience, reputation and other criteria, such as potential conflicts of interest and the member's ability to dedicate sufficient time to the assignment. Among other items, the Board diversity policy states that the background of Board members as well as the Board's gender balance and ages should be considered to obtain sufficient

Corporate governance



diversity on the Board. More detailed descriptions of the eligibility assessment and the diversity policy are published on the bank's website.

The Board comprises nine individuals, of which seven were elected at the AGM and two employee representatives — four women and five men. Six of the Board members are independent in relation to the company and the management of the company. One member is also a Board member of the cooperative association. All of the Board members have extensive experience from trade and industry and/or agriculture and forestry. The composition of the Board ensures that the Board understands the overall picture of the bank's operations and the associated risks. None of the Board members or the CEO hold shares or financial instruments issued by the bank. Through their own or their related parties' membership of Landshypotek Ekonomisk Förening,

four of the Board members and the CEO have member contributions in the cooperative association.

The Board's responsibilities and its procedures

The Board is responsible for the organisation and administration of the bank's affairs. Among other tasks, the Board should also decide issues regarding the bank's overriding goals and strategies, its risk appetite and risk strategy, the internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP), and decide other matters of greater strategic and financial significance. The Board also decides over the bank's business plan and budget, and follows up the bank's performance in relation to these on an ongoing basis. The Board is also tasked with ensuring that internal rules are in place for effective governance and control of the bank, and that a framework for risk management

exists that ensures the bank's management and follow up of risks is satisfactory. The Board is also to perform regular evaluations of whether the bank controls and manages its risks in an efficient and appropriate manner, and ensure the bank complies with the rules applicable for licensable operations. The Board also appoints, evaluates and, if the need arises, dismisses the CEO.

The Chairman of the Board is appointed by the Annual General Meeting. The Chairman leads the Board's work and ensures that the work is performed efficiently and that the Board fulfils its duties. Among other duties, the Chairman is tasked with accepting directives from the association, ensuring that the Board members are provided with satisfactory information and decision data for their work by the CEO on an ongoing basis and that Board members receiving the required training to conduct Board work efficiently and check that the Board's decisions are applied efficiently.

The Board's work follows the formal work plan and annual plan adopted at the statutory Board meeting. In 2017, the Board had 15 scheduled Board meetings.

The Board has established four committees to increase the efficiency of the Board's work. The committees prepare issues for decision by the Board and have also received specific decision mandates in certain issues. All of the committees have a formal work plan that sets out the tasks and the Board's delegated decision mandates as well as how the committee should report to the Board.

The Board's Credit Committee

The Credit Committee's primary task is to make decisions regarding loans and problem commitments pursuant to the established credit policy and to decide the members of the Credit Advisory Committee/Insolvency Committee. In addition, the Committee is tasked with

preparing amendments to and/or annual confirmation of items including credit policy and decision mandates for granting credit prior to the Board's decision. Furthermore, the Committee prepares items regarding the evaluation of portfolio strategies, the transparency of the credit portfolio, the review of valuation and decision models as well as the evaluation of existing or new delegation rights.

Following the statutory meeting in 2017, the members of the Credit Committee were as follows: Henrik Toll (Chairman) and Nils-Fredrik Nyblæus, with Johan Trolle-Löwen and Charlotte Önnestedt as deputies. Credit analysts, the Insolvency Manager or another specially appointed executive presents agenda items. The Credit Committee takes weekly credit decisions and, in addition, held four meetings in 2017 as well as three extra meetings pertaining to IFRS 9.

The Board's Risk and Capital Committee

The principal task of the Risk and Capital Committee is to prepare items for the Board and, through liaison with internal functions to provide the Board with information about and prepare internal rules, and to monitor, analyse and prioritise risk and capital-related issues.

Following the statutory meeting in 2017, the members of the Committee were as follows: Henrik Toll (Chairman), Anna-Karin Celsing, Hans Heuman and Synnöve Trygg. The Chief Risk Officer or another specially appointed executive presents agenda items. The Committee held six meetings in 2017.

The Board's Audit Committee

The Committee's primary tasks are to be responsible for preparing the Board's work with quality assurance of the financial reporting and to receive the reports from

Board attendance

Board member	Board meetings	Credit Committee ¹⁾	Risk and Capital Committee	Audit Committee	Remuneration committee ²⁾
Henrik Toll	15/15	7/7	6/6		3/3
Anna-Karin Celsing	14/15		5/6	6/6	3/3
Hans Heuman	15/15		6/6		3/3
Johan Trolle-Löwen	15/15			6/6	
Nils-Fredrik Nyblæus	14/15	6/7		6/6	
Synnöve Trygg	15/15		6/6		3/3
Charlotte Önnestedt	14/15			6/6	
Helena Andersson	13/15				
Hans Broberg	14/15				

¹⁾ During the year, four scheduled and three extraordinary meetings were held due to the implementation of IFRS 9.

²⁾ The Remuneration Committee was established as of 27 April 2017.

the auditors. In addition, the Committee monitors and reviews the work of internal and external auditors. The Committee meets in conjunction with external financial reports and, otherwise, whenever necessary.

Following the statutory meeting in 2017, the members of the Committee were as follows: Anna-Karin Celsing (Chairman), Nils-Fredrik Nyblæus, Johan Trolle-Löwen and Charlotte Önnestedt. The Chief Financial Officer or another specially appointed executive presents agenda items. The Committee held six meetings in 2017.

The Board's Remuneration Committee

The main task of the Committee is to act in an advisory role to the Board on issues pertaining to remuneration at the bank. The Committee prepares Board issues regarding the remuneration policy and the overall risk analysis for the company pertaining to the remuneration system.

Following the statutory meeting in 2017, the members of the Remuneration Committee were as follows: Henrik Toll (Chairman), Anna-Karin Celsing, Hans Heuman and Synnöve Trygg. The CEO, HR Manager or other party appointed by the Committee presents agenda items and is responsible for preparing an agenda in consultation with the Chairman for each meeting. The Committee held three meetings in 2017.

Evaluation of the Board of Directors

Each year, the work of the Board and its respective committees is evaluated using a systematic and structured process. The evaluation's findings are presented to the full Board and the Election Committee. In conjunction with the Board evaluation, the Board's competence and training needs are reviewed and, based on this review, an annual training plan is prepared for the Board. The members' attendance at the respective committees can be seen on the preceding page.

Internal control and risk management

The Board is also responsible for ensuring that internal rules are in place for effective governance and control of the bank, and that an appropriate framework for risk management exists that is regularly followed up and evaluated.

The basis for the internal governance and control at Landshypotek Bank consists of the bank's control environment in the form of the organisational structure, decision and reporting pathways, authorities and responsibility. The framework for conducting operations

is established through internal policies, guidelines and instructions. Day-to-day operations are tasked with complying with these. The business operations are also responsible for their own risk management and for conducting self-evaluations of their operations. The bank strives to ensure that all operations apply a sound risk culture.

To ensure appropriate risk management — to identify, analyse, rectify, monitor and report risk — and internal control, responsibility is divided between various functions based on the three lines of defence principle. The model differentiates between functions responsible for risk and regulatory compliance (first line of defence), functions for monitoring and control (second line of defence) and functions for independent review (third line of defence).

The first line of defence — business operations

A core principle is that the line organisation forms the first line of defence with responsibility for internal control and risk management. Responsibility for self-assessment is thus located where risk originates. This means that each employee is responsible for managing the risks in their own areas of responsibility. Therefore, internal control and risk management includes all employees.

The second line of defence — independent control functions

The risk organisation and compliance are independent control functions and comprise the second line of defence. These functions monitor the business areas' risk management and regulatory compliance. The second line of defence maintains policies and frameworks for the first line of defence's risk management and validates the first line's methods and models for risk measurement and control.

Risk organisation

The risk organisation is responsible for structured and systematic measurement, control, analysis and continuous reporting on all material risks in the bank. The risk organisation is also tasked with, inter alia, the regular performance of relevant stress tests of material risks for the bank and for performing in-depth risk analyses in one or more risk areas where higher risks may exist. The work is conducted pursuant to a policy decided by the Board that describes its responsibilities and an annual plan. The risk organisation is independent from operations and the Chief Risk Officer is directly subordinate to the CEO and the Board.



Compliance

Compliance is tasked with advising and supporting the CEO and employees with ensuring that the bank's operations are conducted pursuant to the regulatory frameworks that govern licensable activities and to identify and report compliance risks. The work is conducted pursuant to a policy decided by the Board that describes its responsibilities and an annual plan. The Compliance unit is independent from business operations and the Chief Compliance Officer reports directly to the CEO and Board.

Third line of defence — internal audit

The third line of defence, internal audit, evaluates the bank's overall management of risk and regulatory compliance, and reviews the work of the first and second lines of defence.

Internal Audit aims to examine and evaluate internal governance and controls as well as provide an image of how well processes and procedures contribute to the operational goals. This includes, not least, the evaluation of the effectiveness of the risk management efforts and the work of the control function. The internal audit review initiatives are conducted pursuant to a policy decided by the Board that describes its responsibilities and an annual plan. During 2017, the bank's internal audit was carried out by Deloitte AB.

Internal control over financial reporting

The bank's financial department is responsible for managing internal control over financial reporting to ensure that accurate information reaches external stakeholders. This includes work, such as, ongoing financial accounting, the annual accounts, external reporting and income tax returns. Furthermore, the Accounts Department makes a proactive contribution to decision making and corporate governance through financial follow-ups, forecasts and impact analyses. The Board receives monthly financial reports in addition to the reporting submitted at each Board meeting. In addition, the Finance Department's Middle Office has a role in the internal control of financial reporting due to its responsibility for administrating the financial system and measuring financial instruments. Middle Office is tasked with continuously evaluating the bank's valuation methods and ensuring that they comply with established market practices, internal guidelines, internal policy documents and external regulations for reporting and capital adequacy. Furthermore, Internal Audit is tasked with examining and evaluating the reliability of the financial reporting.

The Board's measures to follow up on internal control of financial reporting are executed through the Board's follow-up of the bank's finances and performance. This is carried out through monthly financial reports

and reports at each Board meeting. Moreover, the Board and Audit Committee review and follow-up on the auditor's review reports.

Remuneration system

The Board has set out the principles for the remuneration system that encompasses all employees at the bank in the remuneration policy. The remuneration policy is aimed at ensuring that the bank has a remuneration system that counters any incentive to accept unsound risks or act with a short-term perspective. The remuneration system should apply market terms, be non-discriminatory and reward good performance as well as ensure that the employees' efforts align with the bank's strategies and policies. Special weighting should be given toward a sound level of risk. The base employee remuneration model consists of a fixed basic salary. The bank has no variable remuneration program. The bank does have a profit-sharing foundation to which the bank allocates part of its profits to benefit its employees. Profit sharing is based on long-term company-wide targets in accordance with the guidelines established by the Board. Variable remuneration in the form of a bonus can, in individual cases, be paid in arrears to reward exceptional performances. The bank is restrictive with benefits over and above those offered to all employees. Remuneration to the CEO, Bank Management and the managers of the control functions is set by the Board. The principle applied for other employees is that decisions on remuneration are always made by the manager together with the manager's immediate superior and the HR Manager. Fixed remuneration is reviewed each year as part of the salary review and, each year, the bank conducts an employee salary survey. Information regarding the remuneration to the Board, the CEO and the Bank Management is presented in Note 7.

CEO

The CEO is appointed by the Board and is responsible for the administration of the day-to-day operations. Among other tasks, the CEO must monitor the bank's operational and performance trends, and take ongoing decisions regarding the operations, development and control of the business. The CEO is responsible for operational compliance with the internal policies and strategies established by the Board for the bank. The CEO must review and assess the efficiency of the company's organisational structure, procedures, measures, methods and the like decided by the bank, and take

appropriate measures to correct any inadequacies with the aforementioned. The CEO also evaluates whether the bank controls and manages its risks in an efficient and appropriate manner. The CEO reports to the Board on an ongoing basis liaises closely with the Chairman. The Board has adopted a written instruction governing the role and work of the CEO. The instruction is a complement to the provisions in the Swedish Companies Act and the bank's Articles of Association. To ensure that the CEO has a good knowledge and understanding of the bank's organisation structure and processes, the bank's operations as well as the nature and scope of the bank's risks, the Board conducts an eligibility assessment of the CEO and evaluates the CEO's performance each year.

The Bank Management and committees

The Bank Management supports the CEO in her role with the implementation of the guidelines and instructions decided by the Board and with the day-to-day operations. The Bank Management has no decision mandate and all decisions are taken by the CEO.

The collective expertise of the Bank Management should contribute to the CEO making good and well-balanced decisions. The Bank Management must ensure that the bank's employees are guided toward the shared goals and contribute to the fulfilment of the bank's strategy.

In addition to the CEO, the following positions are included in the Bank Management: Chief Business Development Officer, Chief Legal Officer, Chief Financial Officer, Head of Corporates, Head of Retail, HR Manager, Chief Communications Officer, Chief Operations Officer, Head of Public Affairs and Sustainability, and the Chief Risk Officer.

The CEO has also appointed councils and committees to support operational leadership. The committees that have been established are: the Business Support Advisory Committee, Work Environment Committee, Balance Sheet and Income Statement Committee, Credit Advisory Committee, Insolvency Advisory Committee and the Insider Committee.

To ensure that senior executives included in the Bank Management have a good knowledge and understanding of the bank's organisation structure and processes, the bank's operations as well as the nature and scope of the bank's risks, the CEO conducts an eligibility assessment of the senior executives included in the Bank Management.

Business

Business operations

The bank has divided its business operations into corporate and retail markets. Each business area manager reports directly to the CEO and has full responsibility for all risks and operational performance.

The operations include 14 separately appointed risk and compliance managers. These individuals are all tasked with comprising a link between the bank's control functions and its operations, consulting on the preparation of new policies, assisting with the implementation of new regulatory frameworks and participating in new training initiatives. The bank's process managers for countering money laundering and financing terrorism as well as borrowing and lending also participate in the forum.

The bank has continued to reinforce the bank's risk framework and risk culture, and to implement clearer processes and control frameworks in the business activities. Each new employee receives a regulatory dialogue and information about the bank's policies during induction training. Continuously training the employees comprises another key part of the internal control of operations. The bank has a training programme that is adapted to the respective professional roles. During the year, a number of employees completed the new Swed-Sec licence for mortgage loans.

Central departments

The bank has a number of staff functions with the primary task of supporting the CEO and business activities.

A number of new policies and follow-up methods were added or updated during the year to support business activities. All of the policies are published on the bank's intranet and are revised according to plan, mainly annually.

Several larger projects were conducted during the year to promote control and follow-up, among other projects, the bank initiated the implementation of the new credit scoring system and a new treasury system.

Corporate culture

A small bank with a vital mission.

Landshypotek Bank is a unique bank in the Swedish banking market. The bank has a clear assignment for Sweden's farming and forestry sectors and is owned by its farming and forestry loan customers, the bank's objectives, together with the ownership model, are important reasons behind the bank's values-driven organisation and its strong corporate culture with committed employees who contribute to the bank's sound risk culture.

Active, ongoing efforts are being driven at Landshypotek Bank to develop the bank together with the employees. On a number of occasions in 2017, the employees gathered for discussion of the bank's development, in smaller groups and all together. As a small bank with 182 employees, each employee comprises 0.5 percent of the bank and everyone is crucial to the bank's future.

Close dialogue between employees and managers is important at the bank. Therefore, the bank holds regular, structured dialogues between managers and employees every six weeks. The dialogue aims to check the current status of employees' work situations. Managers follow up set goals and activities regarding what to focus on for the period until the next dialogue. The employee values are also followed up in the dialogue.

Market disclosures

Landshypotek Bank has guidelines for disclosure that ensure the bank meets the external requirements set for the bank in terms of transparency, openness and information disclosure. The guidelines comprise an element of the bank's control framework.



Employee values

Customer-centric

- We take responsibility for understanding our customers and developing our business through openness and curiosity, and through asking questions.
- We reflect on the value and the relevance each task has for the customer and the bank.
- We prioritise our activities and ensure that all our actions deliver the highest possible value and relevance for our customers and the bank.
- We keep our promises and strive to complete our task in the best way possible.

Drive

- We have the courage to drive change.
- We take responsibility for our own work and initiate activities that develop the bank.
- We thereby take responsibility for our own development and the optimal use of our skills.
- We show commitment and inquisitiveness in our actions, by means including suggesting solutions and presenting ideas.
- We act unpretentiously by being open to and leveraging each others' skills.

Enthusiasm

- We meet each other using open body language.
- We stimulate, leverage ideas and build an open-minded working climate that delivers the preconditions for sharing knowledge.
- We think about how we convey messages and differentiate between the person and the action.
- We give praise and constructive feedback.
- We give each other high fives!

Together

- We welcome views regarding daily operations to be able to secure improved results.
- We contribute views by acting as sounding boards and through our focus on results and solutions.
- We work together to strengthen creativity and ensure mutual development, and thereby increase value for customers and the bank.



Leadership values

Values-driven

- We live by and express our values on a daily basis through our actions, choices and communication.
- We are a bank with a difference with a drive to create long-term value for the Swedish countryside. We demonstrate this by securing added value for customers.
- We always show clear commitment to issues affecting the countryside.

Respectful

- We listen actively to each other.
- We leverage each others' opinions, skills and personalities.
- We create a sense of participation that develops individuals and the organisation.

Brave

- We demonstrate drive by taking clear, goal-oriented decisions. When necessary, we dare to change previous decisions.
- We delegate responsibility and authorities through trusting our employees.
- We follow up and provide constructive feedback to help each other develop.

Inspiring

- We clarify the bank's path forward.
- We broaden perspectives by sharing our skills, insights and possibilities.
- We energise, encourage and motivate to leverage employees' inner drive.

Visible

- We are available and prioritise our leadership roles.
- We attend activities at and outside of the bank.
- We inform about events at the bank.
- We step forward in times of trouble and dare to act as leaders.

Board members

As of 12 March 2018



Helena Andersson

Born: 1986, Helsingborg, Director Employee Representative for SACO. Director since 2013. MSc. Agronomy and Economics, and officer of Landshypotek Bank.



Hans Heuman

Born: 1952, Tågarp, Director Director since: 2013 Member of the Risk and Capital Committee, and the Remuneration Committee. Farmer, Reg. Physician, Chairman of AB Marsvinsholms Gods AB and Vice Chairman of Lantmännens Forskningsstiftelse. Director of AB Gårdstunga Nygård and Landshypotek Ekonomisk Förening.



Hans Broberg

Born: 1962, Lund, Director Employee Representative for the Financial Sector Union of Sweden. Director since 2012. MSc. in Business and Economics, officer of Landshypotek Bank.



Nils-Fredrik Nyblæus

Born: 1951, Nyköping, Director Director since: 2011 Member of the Credit Committee and Audit Committee MSc. in Business and Economics, Bank Director, Chairman of Upplysningscentralen (UC) AB, Vice Chairman of Euroclear plc (UK) and of Euroclear SA (Belgium).



Anna-Karin Celsing

Born: 1962, Stockholm, Director Director since 2014 Chairman of the Audit Committee and member of the Risk and Capital Committee, and the Remuneration Committee. MSc. in Business and Economics, Chairman of Sveriges Television AB, Director of Kungliga Operan AB, Lannebo Fonder and OX2 Vind AB.



Henrik Toll

Born: 1954, Sorunda, Chairman Director since: 2003 Chairman of the Credit Committee, Risk and Capital Committee, and the Remuneration Committee. Agrologist, Chairman of Tham Invest AB, Fallda AB, Green Storage AB and Norra Djurgårdsstadens Holding. Board member of Harry Cullbergs Fond.



Johan Trolle-Löwen

Born: 1959, Nyköping, Director
Director since: 2011
Member of the Audit Committee
Graduate engineer, Director of Bergvik Skog AB,
Firefly AB, Hargs Bruk AB, Boo Egendom AB,
Limmersvik AB and Sjösa Förvaltnings AB.
Deputy Director of HäradsSkog i Örebro AB.
Managing Director Sjösa Förvaltnings AB.



Charlotte Önnestedt

Born: 1963, Ödeshög, Director
Director since: 2009
Member of the Audit Committee
Agrologist, owner and manager of Åby
Storgård and Hässleby Gård. Board member
of Sjötorps Vind AB and Elmia Lantbruk
Innovation Award.



Synnöve Trygg

Born: 1959, Stockholm, Director
Director since: 2014
Member of the Risk and Capital Committee,
and the Remuneration Committee.
MSc. in Business and Economics, Director
of Intrum Justitia AB, Volvo Finans Bank AB,
Wrapp AB, Noredax Bank AB and Precise
Biometrics.

Changes in the bank's Board during the year

No changes were made to the Board of Directors after the 2017 AGM.

Senior Management

As of 12 March 2018



Johan Asklund

Commercial Director
Born: 1963
Employed in: 2014
Education: MSc. in Business and Economics
Previous experience: Regional Manager Middle Sweden Landshypotek Bank, Regional Manager in Retail Banking at Nordea.



Martin Kihlberg

Head of Public Affairs and Sustainability
Acting Chief Legal Officer
Born: 1974
Employed in: 2015
Education: Master of Law, LL.M.
Previous experience: Previous experience: Senior Legal Counsel SBAB Bank, Trainee solicitor at the Mannerheim Swartling law firm.



Annelie von Dahn

HR Manager
Born: 1968
Employed in: 2010
Education: BSc. in Behavioural Science
Previous experience: HR Manager at HQ Bank, HR Representative at Accenture.



Jan Lilja

Chief Risk Officer
Born: 1957
Employed in: 2016
Education: MSc. in Business and Economics
Previous experience: Head of Group Treasury at Swedbank, Head of Group Risk Control at Swedbank, CEO Swedbank Hypotek.



Erik Henriksson

Head of Retail
Born: 1983
Employed in: 2012
Education: Law studies
Previous experience: Head of Retail Market and Customer Communication Landshypotek Bank, Head of Fraud and Chargeback at Entercard Sverige AB.



Annika Lindström

Chief Operations Officer
Born: 1977
Employed in: 2013
Education: MSc. in Business and Economics
Previous experience: Head of Saving and Loan Administration at Landshypotek Bank, Department Manager Business Operations at Entercard, Product Specialist at Entercard.



Fredrik Sandberg

Chief Financial Officer and
Acting Deputy CEO
Born: 1977
Employed in: 2015
Education: MSc. in Business and Economics
Previous experience: CFO Swedbank Robur,
Management Consultant at Capgemini
Consulting and KPMG.



Daniel Wahlström

Head of Business Development
Born: 1980
Employed in: 2017
Education: Business Administration (IHM)
Previous experience: Deputy Head of
Business Development Danske Bank, Head
of Channels & Online Danske Bank.



Tomas Uddin

Chief Communications Officer
Born: 1971
Employed in: 2012
Education: BSc. Political Science
Previous experience: Chief of Staff at the
Ministry of the Environment.



Catharina Åbjörnsson Lindgren

Acting CEO
Born: 1971
Employed in: 2010
Education: BSc. in law
Previous experience: Chief Legal Officer at
Landshypotek Bank, Bank Lawyer at
Nordea Bank Group Legal.

Changes in the Bank Management during the year

During the year Margareta Lindahl and Liza Nyberg have left the Bank Management and Johan Askund and Erik Henriksson have joined.
Per Lindblad takes up his post as CEO in March 2018.



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Income Statement

SEK thousand	Note	Group		Parent Company	
		2017	2016	2017	2016
Interest income		1,295,831	1,368,377	1,295,831	1,367,264
Interest expense		-495,459	-631,156	-495,408	-631,134
of which deposit insurance fees		-6,777	-7,121	-6,777	-7,121
of which resolution fund fees		-56,945	-28,821	-56,945	-28,821
Net interest income	4	800,372	737,221	800,423	736,130
Net result of financial transactions	5	-48,093	26,158	-48,093	26,158
Other operating income	6	1,875	7,315	1,875	7,315
Total operating income		754,154	770,694	754,205	769,603
General administrative expenses	7	-388,542	-388,162	-389,948	-391,411
Depreciation, amortisation and impairment of tangible and intangible non-current assets	8	-13,762	-14,050	-13,762	-14,165
Other operating expenses	9	-150	-224	-150	-224
Total expenses before loan losses		-402,455	-402,436	-403,860	-405,800
Profit before loan losses		351,699	368,258	350,344	363,803
Net loan losses	10	-12,488	-14,814	-12,488	-14,814
Operating profit		339,211	353,444	337,856	348,989
Tax on profit for the year	11	-82,846	-77,823	-82,548	-77,341
Net profit for the year		256,366	275,621	255,309	271,647
Earnings per share		113.8	122.3	113.3	120.6
Parent Company's portion of net profit for the year		100%	100%	100%	100%

Statement of Comprehensive Income

SEK thousand	Note	Group		Parent Company	
		2017	2016	2017	2016
Net profit for the period		256,366	275,621	255,309	271,647
Other comprehensive income					
<i>Items to be reclassified to profit or loss</i>					
Cash-flow hedges		8,620	11,812	8,620	11,812
of which change in fair value		1,557	3,857	1,557	3,857
of which transfers to the income statement		7,063	7,954	7,063	7,954
Available-for-sale financial instruments		20,907	62,087	20,907	62,087
of which change in fair value		21,126	61,988	21,126	61,988
of which transfers to the income statement		-219	99	-219	99
Tax on items to be reclassified	11	-6,496	-16,258	-6,496	-16,258
<i>Total, items to be reclassified</i>		<i>23,031</i>	<i>57,641</i>	<i>23,031</i>	<i>57,641</i>
<i>Items that are not reclassified</i>					
Actuarial differences for defined-benefit pensions		-14,881	-38,811		
Tax items that are not reclassified	11	3,274	8,538		
<i>Total, items that are not reclassified</i>		<i>-11,607</i>	<i>-30,273</i>		
Total other comprehensive income		11,424	27,369	23,031	57,641
Comprehensive income for the period		267,790	302,989	278,340	329,289
Parent Company's portion of comprehensive income for the year		100%	100%	100%	100%

Balance Sheet

		Group		Parent Company	
SEK thousand	Note	2017	2016	2017	2016
ASSETS					
Cash and balances with central banks					
Chargeable treasury bills					
Loans to credit institutions	12	393,346	592,071	393,115	591,839
Loans to the public	13	68,488,409	66,518,468	68,488,409	66,518,468
Value changes of interest-rate-risk hedged items in macro hedges		63,621	109,075	63,621	109,075
Bonds and other interest-bearing securities	14	13,421,941	12,614,537	13,421,941	12,614,537
Derivatives	15	1,466,052	1,840,773	1,466,052	1,840,773
Shares in Group companies	16			200	200
Intangible non-current assets	17	99,355	66,748	99,355	66,748
Tangible assets					
Furniture, fixtures and equipment	18	8,300	9,282	8,300	9,282
Buildings and land	18	9,515	10,464	9,515	10,464
Other assets	19	7,099	11,383	7,098	11,383
Current tax assets		-	-	-	-
Deferred tax assets	20	4,087	2,955	365	2,210
Prepaid expenses and accrued income	21	435,825	405,411	435,825	405,411
TOTAL ASSETS		84,397,550	82,181,168	84,393,796	82,180,391
LIABILITIES, PROVISIONS AND EQUITY					
Liabilities					
Liabilities to credit institutions	22	424,038	1,002,399	424,038	1,002,399
Borrowing from the public	23	12,675,325	11,731,390	12,675,325	11,731,390
Debt securities in issue, etc.	24	62,877,705	61,572,138	62,877,705	61,572,138
Derivatives	25	705,737	730,494	705,737	730,494
Other liabilities	26	306,405	276,177	305,882	275,654
Current tax liabilities		3,681	6,190	3,681	6,192
Accrued expenses and deferred income	27	393,505	434,746	393,505	434,746
Provisions	28	17,712	4,193	1,319	1,324
Subordinated liabilities	29	1,200,000	1,699,972	1,200,000	1,699,972
Total liabilities		78,604,108	77,457,699	78,587,192	77,454,309
Equity					
Share capital, number of shares outstanding: 2,253,000 (2,253,000)		2,253,000	2,253,000	2,253,000	2,253,000
Tier 1 capital		700,000		700,000	
Other contributed capital		1,026,254	1,026,254	1,016,694	1,016,694
Reserves		38,022	14,991	38,022	14,991
Actuarial differences		-27,966	-16,359		
Retained earnings		1,424,444	1,306,930	1,420,257	1,306,718
Net profit for the year		256,366	275,621	255,309	271,647
Shareholders' contributions for the year		256,000	-	256,000	-
Group contributions paid		-132,678	-136,968	-132,678	-136,968
Total equity	30	5,793,441	4,723,470	5,806,603	4,726,081
TOTAL LIABILITIES AND EQUITY		84,397,550	82,181,169	84,393,796	82,180,391

Statement of Changes in Equity

GROUP, SEK thousand	Share capital	Other contribut- ed capital	Hedging reserve ¹⁾	Fair value reserve ¹⁾	Actuarial differences ¹⁾	Tier 1 capital	Retained earnings	Total
Equity, 31 December 2015	2,253,000	1,026,254	-15,936	-26,714	13,914		1,306,930	4,557,448
Comprehensive income for the year			9,213	48,428	-30,273		275,621	302,990
Total change before transactions with owners			9,213	48,428	-30,273		275,621	302,990
Group contributions paid							-175,600	-175,600
Tax on Group contributions paid							38,632	38,632
Equity, 31 December 2016	2,253,000	1,026,254	-6,723	21,714	-16,359		1,445,583	4,723,470
Equity, 31 December 2016	2,253,000	1,026,254	-6,723	21,714	-16,358		1,445,583	4,723,469
Comprehensive income for the year			6,723	16,307	-11,607		256,366	267,790
Total change before transactions with owners			6,723	16,307	-11,607		256,366	267,790
Tier 1 capital						700,000	-21,139	678,861
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

¹ See Note 30.

Statement of Changes in Equity

Parent Company, SEK thousand	Share capital	Other contributed capital	Hedging reserve ¹⁾	Fair value reserve ¹⁾	Actuarial differences ¹⁾	Tier 1 capital	Retained earnings	Total
Equity, 31 December 2015	2,253,000	1,016,694	-15,936	-26,714			1,306,718	4,533,761
Comprehensive income for the year			9,213	48,428			271,647	329,289
Total change before transactions with owners			9,213	48,428			271,647	329,289
Group contributions paid							-175,600	-175,600
Tax on Group contributions paid							38,632	38,632
Equity, 31 December 2016	2,253,000	1,016,694	-6,723	21,714			1,441,396	4,726,081
Equity, 31 December 2016	2,253,000	1,016,694	-6,723	21,714			1,441,396	4,726,081
Comprehensive income for the year			6,723	16,307			255,309	278,340
Total change before transactions with owners			6,723	16,307			255,309	278,340
Tier 1 capital						700,000	-21,139	678,861
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

¹⁾ See Note 30.

Cash-flow Statement

SEK thousand		Group		Parent Company	
		2017	2016	2017	2016
Note					
Cash flow from income statement					
Interest received	4	1,265,417	1,459,935	1,265,417	1,459,934
Interest paid	4	-540,399	-781,387	-540,398	-781,387
Net receipts of financial transactions	5	-25,087	-9,138	-25,087	-9,138
Other operating cash receipts		1,875	7,315	1,875	7,315
Administrative expenses paid		-390,104	-393,626	-390,103	-393,498
Recovery of previously confirmed losses		2,754	8,853	2,754	8,853
Income tax paid		-49,778	-29,533	-49,777	-29,493
Total cash flow from income statement		264,678	262,419	264,681	262,586
Cash flow from balance sheet					
Increase (-)/decrease (+) Loans to credit institutions		-	-	-	-
Increase (-)/decrease (+) Loans to the public		-1,985,183	-2,040,873	-1,985,183	-2,040,873
Increase (-)/decrease (+) Bonds and other interest-bearing securities		-700,261	658,779	-700,261	658,779
Increase (+)/decrease (-) Liabilities to credit institutions		-578,361	609,172	-578,361	612,988
Increase (+)/decrease (-) Borrowing from the public		943,935	1,421,672	943,935	1,421,672
Increase (+)/decrease (-) Debt securities in issue, etc.		1,600,363	-1,668,930	1,600,363	-1,668,930
Change in other balance-sheet items					
Increase/decrease Other assets		4,287	-6,178	4,286	-6,433
Increase/decrease Other liabilities		33,219	-26,439	33,218	-26,447
Total cash flow from balance sheet		-682,001	-1,052,797	-682,003	-1,049,244
Cash flow from operating activities					
		-417,323	-790,378	-417,322	-786,658
Change in intangible and tangible non-current assets					
Purchase of intangible non-current assets		-42,995	-56,180	-42,995	-56,180
Purchase of tangible non-current assets		-1,444	7,078	-1,444	7,078
Total cash flow from investment activities		-44,439	-49,102	-44,439	-49,102
Cash flow from financing activities					
Shareholders' contributions received		256,000		256,000	
Included Tier 1 capital		700,000		700,000	
Interest expense classified as Tier 1 capital dividend (AT1)		-21,140		-21,140	
Dividends and Group contributions paid		-175,600	-164,900	-175,600	-164,900
Subordinated liabilities ¹⁾		-496,223	1,200,000	-496,223	1,200,000
Total cash flow from financing activities		263,037	1,035,100	263,037	1,035,100
Cash flow for the period					
		-198,725	195,620	-198,724	199,340
Change in cash and cash equivalents	36	-198,725	195,620	-198,724	199,340
Cash and cash equivalents at beginning of year		592,071	396,451	591,839	392,499
Cash and cash equivalents at year end		393,346	592,071	393,115	591,839
¹⁾ Change in debt instruments attributable to financing activities*					
Opening balance, subordinated liabilities		1,699,972	499,972	1,699,972	499,972
New subordinated loans			1,200,000		1,200,000
Repayment/repurchase		-496,223		-496,223	
Change in amortised cost		-3,749		-3,749	
Closing balance, debt instruments		1,200,000	1,699,972	1,200,000	1,699,972

* The liabilities included in financing activities are subordinated liabilities.

Five-year Summary

Earnings trend Landshypotek Bank AB — Group

MSEK	2017	2016	2015	2014	2013
INCOME STATEMENT					
Net interest income ¹⁾	800.4	737.2	743.4	649.4	622.7
Operating income excl. net interest income	-46.2	33.5	20.3	161.7	-18.4
Operating expenses	-388.7	-388.4	-367.5	-330.0	-272.6
Depreciation and amortisation	-13.8	-14.0	-19.7	-16.5	-10.5
Loan losses	-12.5	-14.8	-45.9	-79.6	-54.4
Operating profit	339.2	353.4	330.6	384.9	266.8
BALANCE SHEET					
Assets					
Loans to the public, net	68,488	66,518	64,501	61,743	60,859
Other assets	15,910	15,663	16,218	20,363	17,114
Total assets	84,398	82,181	80,719	82,106	77,973
Liabilities					
Funding	77,177	76,006	74,216	75,570	71,525
Other liabilities	1,427	1,452	1,946	2,206	2,327
Equity	5,793	4,723	4,557	4,330	4,121
Total liabilities and equity	84,398	82,181	80,719	82,106	77,973
Key financial ratios					
Interest margin	1.2%	1.1%	1.2%	1.1%	1.0%
Return on equity	4.7%	5.8%	5.7%	7.1%	5.1%
Loan loss level	0.02%	0.02%	0.07%	0.13%	0.09%

¹⁾ Loan commissions have been reclassified from Operating income to Net interest income. The comparative figures for 2016 have been restated.

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: Net interest income 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. In the quarterly key financial ratios, the results for the quarter have been restated at full-year outcomes to provide comparable key ratios 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 key ratio includes the net result of financial transactions.
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 key ratio excludes the net result of financial transactions.
Loan loss level, %: Net loan losses in relation to average lending during the period.	The aim is to clarify the scope of loan losses in relation to lending. In the quarterly key financial ratios, the results for the quarter have been restated at full-year outcomes to provide comparable key ratios for the period.
Net doubtful credits after provisions as a percentage of total loans outstanding, %: Net doubtful credits after provisions in relation to loans to the public at the balance sheet date.	This metric aims to show the proportion of loans outstanding that are assessed as doubtful, and for which the bank has not made any provisions.
Earnings per share Net profit for the year divided by the share capital.	The aim is to show the shareholder's participation in earnings.
Return on equity, %: Net profit for the year divided by average equity.	The aim is to show the bank's return on equity, which is a measure of the bank's profitability. In the quarterly key financial ratios, the results for the quarter have been restated at full-year outcomes to provide comparable key ratios for the period.

Alternative performance measures

Summary of APMs MSEK	2017	2016
Change in lending	1,970	2,017
Opening balance, loans outstanding	66,485	64,501
Increase in lending, %	3.0	3.1
Net interest income calculated on a full-year basis	800	737
Average loans outstanding	67,503	65,510
Interest margin, %	1.2	1.1
Change in deposits	944	1,421
Opening balance, deposits	11,731	10,310
Increase in deposits, %	8.0	13.8
Costs before loan losses	402	402
Total operating income	754	771
C/I ratio including financial transactions	0.53	0.52
Costs before loan losses	402	402
Total operating income excluding financial transactions	802	745
C/I ratio excluding financial transactions	0.50	0.54
Net loan losses	12	15
Average loans outstanding	67,503	65,510
Loan loss level, %	0.02	0.02
Doubtful credits, gross	196	235
Less provisions made	-49	-59
Doubtful credits, net	147	175
Loans to the public	68,488	66,518
Net doubtful credits after provisions as a percentage of total loans outstanding, %	0.22	0.26
Profit after tax	256	276
Share capital	2,253	2,253
Earnings per share	113.8	122.3
Profit after tax	256	276
Average equity	5,426	4,727
Return on equity, %	4.7	5.8

Notes

Note 1 Accounting policies

Corporate information

On 12 March 2018, the Board of Directors of Landshypotek Bank AB (publ.), Corporate Registration Number 556500-2762, approved the financial statements. These financial statements will be presented for final adoption by the Annual General Meeting on 19 April 2018.

Landshypotek Bank is owned by Landshypotek Ekonomisk Förening, in which all of the Bank's loan customers in the farming and forestry sector are members. Landshypotek Bank AB is specialised in lending to Swedish farming and forestry and lending for rural living. Landshypotek Bank also offers savings products to the general public. The Group uses the capital market as its primary source of funding but deposits have taken an increasingly significant role. Funding is allocated over a number of loan programmes, adapted to various types of investors. All funding in the Group takes place in Landshypotek Bank.

Basis for preparing the annual accounts

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations of the above as published by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU. Furthermore, the Swedish Financial Supervisory Authority's regulations and general guidelines for annual reports in credit institutions and securities companies (FFFS 2008:25, including amendments), the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) and the recommendations of the Swedish Financial Reporting Board, RFR 1, Supplementary Accounting Rules for Groups are also applied.

The Parent Company, Landshypotek Bank AB, applies statutory IFRS, which means that the legal entity's financial statements must be prepared with application of the IFRSs and state-ments adopted by the EU, in so far as this is possible within the framework of the Swedish Annual Accounts Act, the Swedish Pension Obligations Vesting Act and after taking into account the relationship between accounting and taxation. Permissible exceptions and supplements to IFRS are stated in the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities and the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) as well as the Swedish Financial Supervisory Authority's regulations and general guidelines for annual reports in credit institutions and securities companies (FFFS 2008:25). Differences in accounting policies between the Group and the Parent Company are set out under each heading below.

Definitions and comparative data

The Group includes Landshypotek Bank AB as well as dormant companies. The subsidiary, Landshypotek Jordbrukskredit transferred its operations to Landshypotek Bank in 2015 and

was liquidated in September 2016. In running text in the Annual Report, "Landshypotek Bank" refers to the Group as defined above. The complete corporate names are used for individual Group companies. The Parent Company's functional currency and the Group's presentation currency are SEK. All amounts are reported, unless otherwise specified, in SEK thousands. Comparative figures for the preceding year are stated in parentheses

Standards, amendments and interpretations coming into effect during the year

For Landshypotek Bank, no significant changes took place with respect to the IFRS during the year. Amendments to ÅRKL and FFFS 2008:25 gave rise to certain changes in the disclosure requirements.

New standards, amendments and interpretations as well as annual improvement projects that have not yet come into effect and were not applied in advance by the Group.

• IFRS 9

IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments. The standard has been adopted by the EU and is to be applied from 1 January 2018. See Note 39.

There will be three measurement categories for financial assets: amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). An instrument is classified based on the business model and the nature of the instrument. Using the fair value option, the classification and measurement of financial liabilities has been changed to recognition at FVTPL. In this case, changes in credit risk are presented in other comprehensive income.

Hedge accounting requirements have been changed through the replacement of the 80–125% effectiveness rule with requirements for an economic relationship between the hedged item and underlying instruments and that the hedge ratio is the same as that used in the risk management. Moreover, a possibility is introduced of excluding cross-currency basis spreads in hedging instruments from hedging relationships and, in such cases, recognising the value change in cross-currency basis spreads in other comprehensive income.

A new approach for calculating provisions for credit losses is being implemented and calculations are based on expected loan losses, which comprises the main difference to the existing regulations. Under IAS 39, credit losses are calculated based on incurred credit loss events.

In terms of the application of valuation categories, the standard will not have any impact on profit or loss, the balance sheet, equity (see Note 39, Bridging the gap between IAS 39 and IFRS 9) and capital adequacy. Landshypotek Bank has chosen not to apply the transitional rules in the EU's Capital Requirements Regulation on the introduction of IFRS 9. With regard

to provisions for credit losses, compared with IAS 39, higher volatility is expected as a result of fluctuations in the economy. The effect of the impairment rules and the transition to the new hedge accounting rules are reported in Note 39, which also explains the impact on the accounting policies.

• IFRS 16 Leases

For lessees, IFRS 16 will lead to the inclusion of almost all leases in the balance sheet. The right to utilise the leased asset is recognised as an asset and the present value of leasing fees are recognised as a corresponding liability in the balance sheet for lessees. Exceptions may be made for short-term contracts and low-value contracts. The income statement will be impacted in the form of higher costs at the start of the lease and lower costs toward the end. The standard was adopted by the EU in 2017 and is to be applied for financial years starting 1 January 2019. The bank is in the process of evaluating the effect, but does not expect it to have any significant impact.

Other new standards, amendments and interpretations as well as annual improvement projects that have not yet come into force were not considered to have any material impact on the consolidated financial statements.

Consolidated accounting

The consolidated financial statements encompass the Parent Company and its subsidiaries. All subsidiaries are 100-percent owned by Landshypotek Bank AB. Subsidiaries are consolidated in accordance with the purchase method of accounting. All companies in the Group are Swedish limited liability companies with SEK as their accounting currency. Landshypotek Bank AB has no associated companies, other joint arrangements or unconsolidated structured entities. The subsidiaries are all companies where the Parent Company exercises a controlling influence. Controlling influence means that the Parent Company is exposed to, or has the right to, returns from subsidiaries and the ability to affect those returns through exercising its influence.

Operating segments

An operating segment is a part of a company that generates income and costs through its operations, and its operating profit is regularly reviewed by the company's chief operating decision maker (CODM) as the basis for decisions pertaining to the allocation of resources and assessment of the segment's results. Furthermore, an operating segment has separate financial information. Landshypotek Bank offers loans in Sweden with real property as collateral. Customer deposits are included as an element of Landshypotek Bank's funding. For follow-up and reporting to the CODM, the operations are viewed as one operating segment.

Additional information in line with IFRS 8 is not provided in the Annual Report since customer deposits do not generate any income, the operations are conducted in one geographic area and no single customer of Landshypotek Bank accounts for 10 percent or more of the company's income.

Measurement of receivables and liabilities in foreign currency

Transactions in foreign currency are measured in the functional currency at the rate of exchange prevailing on the transaction date. Monetary assets and liabilities in foreign currency are measured in the functional currency at the rate of exchange prevailing

on the balance sheet date. Exchange-rate differences that arise on translation of balance sheet items in foreign currency are recognised in profit or loss as exchange-rate gains or losses.

Classification and measurement rules for financial assets

Financial assets are divided into the following categories for measurement:

- ① Loans and receivables
- ② Financial assets at FVTPL
- ③ Available-for-sale financial assets

Loans to credit institutions and loans to the public are classified as "Loans and receivables." This means that they are measured at amortised cost through application of the effective-interest method.

Bonds and other interest-bearing securities are classified as "Available-for-sale financial assets" or as "Financial assets at FVTPL." The classification is determined for each specific transaction. These assets are valued at fair value in the balance sheet regardless of classification. Holdings classified as "Available-for-sale financial assets" are initially recognised at fair value plus transaction costs. Gains and losses that arise as a result of changes in value are recognised after taxes via other comprehensive income in the fair-value reserve under equity until the financial asset is sold or impaired. When objective indications exist that a financial asset's recoverable amount is less than the carrying amount, an impairment test is performed. The need for impairment is defined as the difference between cost and actual fair value less any previous impairment recognised in profit or loss. When the asset is sold or impaired, the accumulated gain or loss, previously recognised in equity, is recognised in profit or loss.

Bonds and other interest-bearing securities classified as "Financial assets at FVTPL" are initially recognised at fair value and transaction costs are recognised in profit or loss. The gains and losses arising as a result of changes in value are recognised in profit or loss under the heading "Net result of financial transactions." Interest income from these instruments is recognised through application of the effective-interest method.

Derivative instruments with a positive market value are classified as "Financial assets at FVTPL." Gains and losses that arise as a result of unrealised and realised changes in value are recognised on a current basis in profit or loss under the item "Net result of financial transactions." Accrued and realised interest in derivative instruments is recognised net as an interest expense.

Financial assets are derecognised from the balance sheet when the right to receive cash flows from the instruments expires or is transferred and the Group has transferred virtually all risks and benefits associated with the right of ownership.

Classification and measurement of financial liabilities

For measurement purposes, financial liabilities are divided into two categories:

- ① Other financial liabilities
- ② Financial liabilities at FVTPL

Liabilities to credit institutions, and borrowing from the public, debt securities in issue and subordinated liabilities are classified as "Other financial liabilities." Other financial liabilities are recognised at amortised cost by using the effective-interest

method. Transaction costs directly attributable to a specific liability are added to the cost and consideration is given thereto when calculating amortised cost. Recognition of financial liabilities subject to hedge accounting is dealt with in the section on Hedge accounting.

Derivative instruments with a negative market value are classified as "Financial liabilities at FVTPL." Gains and losses that arise as a result of unrealised and realised changes in value are recognised on a current basis in profit or loss under the item "Net result of financial transactions." Accrued and realised interest in derivative instruments is recognised net as an interest expense.

Financial liabilities are derecognised from the balance sheet when the obligation to pay cash flows from the instruments has expired or been transferred and the Group has largely transferred all risks and obligations associated with the liability.

Transaction-date or settlement-date accounting

Financial assets and liabilities attributable to lending and deposits are recognised on the settlement date. Business transactions in the money, bond or equity markets are recognised on the transaction date when the material rights and risks transfer between the parties.

Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical form. An asset is a resource that is expected to yield future economic benefits over which control is exercised. Expenses associated with intangible assets are capitalised from the point in time when it is probable that the economic benefits that can be calculated in a reliable manner will arise. Amortisation is based on the economic life of the asset and starts when the asset is put to use. Intangible assets are amortised over a period of three to seven years. An impairment test is performed when there is an indication that the asset may have diminished in value. Landshypotek Bank applies straight-line amortisation.

Tangible assets

Tangible assets consist mainly of real property. Properties are valued at cost less accumulated depreciation and any impairment. Each part of a tangible non-current asset with a cost that is significant relative to the aggregate cost of the asset is depreciated separately. The depreciation method used reflects how the future economic benefits of the asset are expected to be used. Straight-line depreciation is used. Landshypotek Bank has produced separate depreciation plans for each significant component.

- PCs are depreciated over three years
- Furniture, fixtures and equipment are depreciated over five years
- Fixed equipment is depreciated over five years

The depreciation periods for the components of properties:

- Frame — 150 years
- Foundation — 100 years
- Rook, copper sheeting 80 — years
- Groundworks, lifts 50 — years
- Facade, internal fittings, pipes, heating 40 — years
- Electricity 30 — years
- Air, ventilation, surfaces 25 — years
- Furniture, fixtures and equipment are depreciated over five years
- Electrical heating in drainpipes — 20 years

Provisions

Provisions consist of recognised expected negative outflows of resources from the Group. Provisions are recognised when the Group has a legal or informal obligation as a result of events that have occurred when it is probable that an outflow of resources will be required to settle the undertaking. Landshypotek Bank has set aside provisions for future pension obligations and deferred taxes. For more information, refer to the section on Pension Costs.

Interest income and interest expense

Interest income and interest expense on financial assets and liabilities are recognised in profit or loss in accordance with the effective-interest method under the heading "Interest income and interest expense." The change in value of financial assets and liabilities at FVTPL is accounted for under the heading "Net result of financial transactions." This is also true for changes in the fair value of financial assets and liabilities included in hedge accounting. From 2016, fees to the resolution fund and deposit insurance fees are recognised as interest expense.

Hedge accounting

Hedge accounting is divided into different types of hedging relationships, depending on the purpose of the hedge.

Fair-value hedges for borrowing

The Group applies hedge accounting for parts of its exposure to interest-rate risk in fixed-interest lending against changes in fair value due to movements in market interest rates. Interest-rate swaps and cross-currency interest-rate swaps are used for this purpose. Changes in the fair value of a derivative formally identified as a hedging instrument, and which fulfil the requirements for hedge accounting, are recognised in profit or loss under the heading "Net result of financial transactions." In addition, changes in fair value, attributable to the hedged risk, of a hedged liability are also recognised under this heading.

Cash-flow hedges

The Group hedges parts of its exposure to interest-rate risk, in floating interest financial liabilities, against changes in future cash flows due to market interest-rate changes. Interest-rate swaps and cross-currency interest-rate swaps are used for this purpose. The effective portion of changes in the fair value of a derivative instrument identified as a hedging instrument, and which fulfils the requirements for hedge accounting is recognised in equity through other comprehensive income. When the hedged transaction occurs, the accumulated reserve in equity is returned to profit or loss. The gain or loss attributable to the ineffective portion is recognised immediately in profit or loss under the heading "Net result of financial transactions." Cash flows are expected to arise on an ongoing basis over the hedged item's remaining time to maturity.

Macro hedging of fair value in the lending portfolio

The Group applies hedge accounting for parts of its exposure to interest-rate risk in fixed-interest lending against changes in fair value due to movements in market interest rates. For this purpose, groups of loans with similar risk exposure are identified as a portfolio, which is then hedged using interest-rate swaps. Changes in the fair value of a derivative formally identified as a hedging instrument, and which fulfil the requirements for hedge accounting, are recognised in profit or loss under the

heading "Net result of financial transactions." Changes in value attributable to the hedged risk for the hedged lending portfolio are recognised in profit or loss under the heading "Net result of financial transactions" and in the balance sheet on a separate line in connection with "Loans to the public."

Fair-value hedges in fixed-interest investments

The Group applies hedge accounting for fixed-interest bonds in the liquidity portfolio. The hedge aims to cover any changes in fair value excluding credit spreads. Interest-rate swaps are used for this purpose. Changes in the fair value of a derivative formally identified as a hedging instrument, and which fulfil the requirements for hedge accounting, are recognised in profit or loss under the heading "Net result of financial transactions." In addition, changes in fair value, attributable to the hedged risk, of a hedged liability are also recognised under this heading. The credit spread is recognised under other comprehensive income.

Discontinuation of hedge accounting

Landshypotek Bank terminates hedge accounting when the hedged item or hedging instrument is sold or expires and when the criteria for hedge accounting are no longer met. Gains or losses, which for cash-flow hedges and fair-value hedges in investments, were previously recognised in other comprehensive income are transferred to profit or loss in conjunction with divestment of the underlying instrument and recognised there under the heading "Net result of financial transactions." If a fair-value hedge is no longer assessed as effective, the hedging instrument is reclassified as a derivative for trading. The accumulated change in fair value for the hedged item at the point in time when the hedging relationship ends is periodised via net interest income over the hedged item's remaining time to maturity.

Commission income

Commission income is attributable to Landshypotek Bank's lending and borrowing. Income attributable to lending is recognised as revenue on notification and income attributable to borrowing is recognised on the transaction date.

Net result of financial transactions

Realised gains and losses attributable to the purchase and sale of bonds and derivative instruments in the liquidity reserve and the buyback of bonds are recognised under the heading "Net result of financial transactions." In addition, unrealised gains and losses attributable to market-value changes of derivative instruments, holdings of financial assets valued at FVTPL and changes in fair value attributable to the hedged risk of the hedged assets or liabilities in a fair-value hedge are also recognised under this heading. When applicable, impairment attributable to available-for-sale financial assets is recognised under this item.

Other income

Income from services sold and external rental income relating to real property owned are reported under "Other income." Results of sales of operating properties are also recognised here.

Personnel costs

All direct personnel costs, including various forms of social security costs and payroll overheads are classified as personnel costs.

Pension costs

Landshypotek Bank's pension obligation under the BTP plan is a defined-benefit pension plan. Landshypotek Bank has funded its obligation via SPK, which manages the assets and administers pension payments on behalf of Landshypotek Bank. The Group recognises primarily the following three items:

- Service costs, i.e. pension entitlement earned for the current and prior periods, as well as gains and losses from settlements.
- Net interest income (expense) is calculated on the net of the defined-benefit pension obligation less plan assets through the use of market rates of return on first-class corporate bonds.
- Actuarial gains and losses are recognised in other comprehensive income as they arise together with the return on plan assets.

The liability recognised in the balance sheet in respect of defined-benefit pension plans is the present value of the defined-benefit obligation on the balance sheet date less the fair value of plan assets. The present value calculation is based on the interest on covered bonds. The defined-benefit pension obligation is calculated annually by independent actuaries using the "projected unit credit method." For more information about pensions, refer to Note 8 and Note 29.

Leasing

The bank is the lessee of premises, computers and video conferencing facilities, for which the contracts are deemed to comprise operational leases.

Other operating expenses

The "Other expenses" item contains operating expenses, including operating costs for own properties and marketing expenses.

Loan losses

Receivables of which any component is more than five days overdue are recognised as overdue receivables regardless of the possibility of recovering the receivable by realising collateral. Receivables are first tested individually and thereafter groups of receivables with similar credit characteristics where a need for impairment has not been identified on an individual basis. A loan receivable is recognised as a doubtful receivable when it is unlikely to be paid in accordance with the terms of the loan agreement and where the value of the collateral is feared to be insufficient to cover the value of the receivable with a sufficient margin. The full amount of a receivable is recognised as doubtful, even if parts of the receivable are covered by collateral. For the purpose of calculating the recoverable amount, estimated future cash flows are discounted using the original contract rate of interest. The difference between the loan receivable and the present value of the estimated recovery is reported as a probable loan loss.

Objective evidence that loan receivables or that a group of loan receivables need impairment comprises observable data that has come to the bank's knowledge regarding the following loss events:

- a) the borrower is suffering from significant financial difficulties,
- b) a breach of contract, such as missing or late payments of interest or principal,

- c) the granting by the lender, for financial or legal reasons related to the borrower's financial difficulties, of a concession that the lender would otherwise not have considered, or
- d) it is likely that the borrower will enter receivership or other financial reconstruction.

Restructuring of loans

Agreements on concessions that entail a restructuring of the loan receivable are only made on an exceptional basis since all lending is against collateral, the value of which is realised in the event of default. When applicable, restructured loan receivables are commented on in the Administration Report.

Tax expenses

Recognised tax expenses include taxes for the current year, adjustments relating to prior years' current taxes and changes in deferred taxes. Deferred taxes are the taxes attributable to all temporary differences that arise between carrying amounts and values for tax purposes of assets and liabilities.

Group contributions

Group contributions are recognised in accordance with RFR 2. Yield-related Group contributions paid by Landshypotek Bank AB to the Parent Association, Landshypotek Ekonomisk Förening, are recognised directly in equity in Landshypotek Bank AB. Landshypotek Ekonomisk Förening recognises Group contributions received as financial income. Group contributions paid to reduce the Group's taxes are recognised directly in equity in each company.

Estimates and critical assessments

The application of the Group's accounting policies means that, in certain instances, recognised amounts are based on estimates and assumptions about the future. The estimates and assumptions made are always based on company management's best and fairest assessment of the future and affect the carrying amounts of assets, liabilities and off-balance sheet exposures, as well as income and expenses presented in the Annual Report. Moreover, they are subject to continual review and validation. Despite this, future outcomes may, to a certain extent, differ from the original assumptions made.

The calculation of Group expenses and obligations for defined-benefit pensions is based on a number of actuarial, demographic and financial assumptions that have a significant impact on recognised amounts. A list of the most critical assumptions used in the calculation of the provision for the year is presented in Note 28.

The value of the Group's loan receivables is subject to continual assessment at both individual and collective levels. If necessary, receivables are impaired to the assessed recoverable amount. In order to estimate the recoverable amount, a number of assessments are carried out, including an assessment of the counterparty's repayment capacity and the realisation value of any collateral. The final outcome may deviate from original provisions for loan losses.

Note 2 Risks

Risk arises in all financial operations. Sound management of these risks is a core focus at Landshypotek Bank. The foundation of sound risk management is a strong, shared risk culture with responsibility and decision making based on solid knowledge of the bank's customers.

Landshypotek Bank strives to achieve a high degree of risk awareness and a low degree of risk undertaking. A high degree of risk awareness means that each employee understands the risks implied for the company by the individual's work duties, the degree of risk undertaking that is acceptable and how the individual needs to behave so as to avoid exceeding the acceptable level of risk.

Low risk undertaking is achieved through a combination of a high degree of risk awareness, a low acceptance level for risk undertaking, a distinct decisionmaking structure, shared definitions and assessment principles, as well as sophisticated tools for risk assessment. The Board specifies the acceptance level for risk undertaking and the CEO ensures that this level of acceptance is implemented in business activities. The main risks to which Landshypotek Bank is exposed are defined below. For further information regarding risks, refer to the Information regarding capital adequacy and risk management, Pillar III.

Credit risk

Definition

Landshypotek Bank defines credit risk as follows:

The risk that Landshypotek Bank does not receive payment as agreed and that the value of the collateral is not adequate and therefore will not cover the outstanding claim.

Credit risk in the lending portfolio

Landshypotek Bank's loans to the public totalled SEK 68.5 billion at 31 December 2017. Lending encompasses lending to entrepreneurs and homeowners primarily against collateral in agricultural and forest properties. All lending takes place in Sweden.

Management of credit risk

Credit process

The credit policy, which is set by the Board, sets out the frameworks and fundamental principles for granting credit at Landshypotek Bank. All granting of credit at the bank is to be based on customers' repayment capacity and loans are only granted if, based on sound reasoning, commitments can be expected to be fulfilled. To further protect the bank against loan losses, accepted collateral primarily comprise real property.

Table 5 Liquidity reserve by rating, measured at fair value

31 Dec 2017, SEK thousand	Covered bonds	Municipal bonds	Bonds issued by Kommuninvest Sverige AB
AAA	7,298,786	2,638,699	625,232
AA+		2,944,099	
Total	7,298,786	5,582,798	625,232

Table 6 Derivative contracts by rating, measured at fair value

31 Dec 2017, SEK thousand	Positive gross market-value incl. premium for potential future exposure ¹⁾	Positive gross market value	Positive gross market-value incl. premium for potential future exposure, adjusted for bilateral netting agreements
AA-	865,641	647,997	459,677
A+	229,495	101,748	101,196
A	700,569	531,780	613,660
BBB+ ²⁾	410,159	374,005	410,159
Total	2,205,864	1,655,530	1,584,691

¹⁾ Exposure value of derivative instruments based on the mark-to-market approach stipulated in the CRR.

²⁾ Landshypotek Bank received SEK 405,295,000 in cash collateral under derivative contracts. This cash collateral has not been taken into account in the above figures.

Credit portfolio monitoring

All commitments are subject to credit monitoring on a scheduled and ongoing basis. Customers with higher risk levels are monitored more frequently. All credit decisions are to be preceded by a careful risk assessment and risk classification. The credit control unit uses portfolio analysis to identify sectors and segments, where risk has risen, for further assessment.

Management of problem loans

Operations at Landshypotek Bank bear full responsibility for customer relationships, profitability and risks in all customer commitments. When needed, operations is assisted by the central departments with in-depth analyses and with managing problem customers and insolvency cases. The unit for Special Issues assists with expertise with regard to problem commitments and confirmed insolvency cases. The bank's insolvency unit works primarily with defaulting commitments with the aim of discontinuing the loans with a minimal loss for the bank.

Counterparty risk, credit risk in treasury operations

Landshypotek Bank's counterparty risks comprise credit risk for counterparties in the liquidity reserve, for counterparties with whom Landshypotek Bank has derivative transactions and for counterparties with whom the bank has deposits. The bank's liquidity reserve comprises interest-bearing securities with high credit ratings and which are all issued by Nordic credit institutions, Swedish municipalities or county councils. The objective of the liquidity reserve is to reduce the bank's liquidity risk. The bank enters into derivative transactions (swap contracts) to reduce interest rate and currency risk.

Counterparties with whom the bank enters into swap contracts are Swedish or international banks with high credit ratings and with whom International Swaps and Derivatives Association (ISDA) agreements and unilateral Credit Support Annexes (CSAs) to Landshypotek Bank's benefit are in place, which

reduce counterparty risk. The bank never pledges collateral since the derivative contracts are in the pool for covered bonds. The Chief Financial Officer has overall responsibility for management of counterparty risk.

Liquidity risk

Landshypotek Bank defines liquidity risk as follows:

The risk of being unable to discharge its payment obligations at the due date.

To a great extent, Landshypotek Bank is dependent on market funding and the inability to discharge payment obligations connected to market funding can have immediate and serious consequences for the bank.

To maintain good payment capacity, the Board has decided that a liquidity buffer should be available that corresponds to the forecast, accumulated net cash outflows for the next 180-day period and the outflows of deposits in a stressed scenario, without any possibility of refinancing. At 31 December 2017, the liquidity reserve was 1.5 times larger than the need for refinancing over the next six months.

Landshypotek Bank's holdings in its liquidity reserve are of the type that may be used as security for loans from the Riksbank. This liquidity reserve gives the bank the opportunity of bridging temporary strains on liquidity, but also provides the opportunity of procuring the necessary funds in times of severe liquidity crisis by borrowing against or selling assets in an orderly fashion to reduce the financing need. The bank also measures the liquidity reserve, based on it covering net outflows over a 30-day significant stress period in accordance with external regulations. At 31 December 2017, the bank's LCR under EU Regulation 575/2013 and Commission Delegated Regulation (EU) 2015/61 was 336 percent for Landshypotek Bank's consolidated situation and 336 percent for Landshypotek Bank.

Landshypotek Bank has started to offer deposits with the aim of diversifying its funding and, thereby, reducing refinancing risk. At year end, the bank's deposits totalled SEK 12.7 billion. Landshypotek Bank performs regular stress tests of liquidity risk. These include a decline in value of the liquidity reserve, reduced capital repayments and interest income, lack of new borrowing and withdrawals of deposits. The results of the stress tests demonstrate that Landshypotek Bank has an extremely healthy payment capacity.

Market risk

The market risks to which Landshypotek Bank is exposed are interest-rate risk, currency risk, credit-spread risk and basis-spread risk, and are defined as follows:

- **Interest-rate risk** — *The risk that the market value of discounted future inflows and outflows will develop negatively as a result of changes in interest rates.*
- **Currency risk** — *The risk of losses on borrowed, lent or invested capital when exchange rates fluctuate.*
- **Credit-spread risk** — *The risk of decreased market values as a consequence of widened spreads for risk-free interest for assets measured at fair value.*
- **Basis-spread risk** — *The risk of decreased market values for derivatives entered into on borrowing in foreign currencies that cannot be compensated with a corresponding change in the market value of the issued debt instrument.*

Interest-rate risk

Interest-rate risk arises when fixed-interest terms for assets and liabilities are mismatched, and as a consequence of utilising equity to finance fixed-term lending. It is measured, inter alia, as the changes in the market values that occur if there is a parallel shift in the interest-rate curve. The bank utilises interest-rate swaps as a tool for managing interest-rate risks. At year end, the total impact of interest-rate risk on the balance sheet's market values for a parallel upward movement of the interest-rate curve of one percentage point amounted to negative MSEK 123.7. Only a marginal portion of the change in the market values of assets and liabilities is recognised and, therefore interest-rate risk in net profit for the year amounted to negative MSEK 13.8.

Currency risk

Landshypotek Bank has parts of its financing in currencies other than SEK. Where financing is conducted in currencies other than SEK, the currency risk is managed by hedging foreign currency cash flows with swap contracts. Marginal differences may arise. At 31 December 2017, all currency risk was hedged with derivatives. For further information; see Note 35.

Basis-spread risk and credit-spread risk

Basis-spread risk arises for Landshypotek Bank when the currency and interest-rate risks that arise in conjunction with borrowing in a foreign currency are reduced by swapping payments in foreign currency for payments in Swedish currency through cross-currency interest-rate swaps. However, if Landshypotek Bank does not terminate the swap agreements ahead of time, the net earnings impact on expiry of the swap agreements would be zero. Due to increased volatility in basis spreads, Landshypotek Bank has chosen not to take up any

funding in foreign currencies since 2011. Credit-spread risk arises from fluctuations in credit spreads in Landshypotek Bank's liquidity reserve and these also impact earnings. An increase in the credit spread of one basis point (1bp) would lead to an MSEK 3.0 decrease in the value of the liquidity portfolio and a 1bp movement in basis spreads would lead to an MSEK 5.0 value change in the swaps.

Operational risk

Definition

Landshypotek Bank defines operational risk as:

The risk of losses as a result of inappropriate or failed internal processes, human error, faulty systems and external events including legal risk.

Operational risk

Landshypotek Bank has a low appetite for operational risk. The bank does not conduct operations in areas that generally generate the largest operating losses for banks. The bank conducts no trading operations or operations related to payment services, and conducts relatively uncomplicated operations for a bank.

However, a certain degree of operational risk exists in all operations and the bank breaks operational risk down into the following areas:

- Business and process risk
- Personnel risk
- IT and information security
- External risk

Management of operational risk

Incident identification and management of operational risks increases awareness and reduces the risk of losses. The bank uses a system for incident management and risk analysis, whereby risks and incidents are linked to processes deemed significant for the bank. Identified risks are assessed based on likelihood and consequence, and the results are reported to the Bank Management and the Board. The main purpose of these efforts is, as far as possible, to identify operational risks in the significant processes and to take actions to ensure these risks do not materialise.

Landshypotek Bank has an established process for significant changes, known as New Product Approval (NPAP). The process aims to ensure the bank is ready to manage new products, services and other significant changes. Key components in this process comprise the involvement of relevant departments at Landshypotek Bank, transparent discussion of the operational risks that could arise and well-documented decisions.

Risk analysis for the significant processes is also complemented through Landshypotek Bank's business continuity efforts. The aim of business continuity management is to identify the critical parts of operations and, thereafter, work to improve the robustness of these parts. Business continuity management should also manage the type of events that cannot be foreseen in the risk analysis, but which could have major consequences for the bank.

Fixed-interest terms for interest-bearing assets and liabilities, 2017

SEK thousand	< 3 months	3–12 months	1–3 years	3–5 years	> 5 years	Total
Assets						
Loans to credit institutions	393,346					393,346
Loans to the public	41,016,253	11,738,835	10,900,451	4,135,696	621,289	68,412,524
Bonds and other interest-bearing securities	7,448,000	500,000	3,350,000	1,750,000		13,048,000
Derivatives	29,646,200	3,679,530	7,185,085	8,087,958	5,676,563	54,275,335
Total assets	78,503,799	15,918,365	21,435,536	13,973,653	6,297,852	136,129,205
Liabilities						
Liabilities to credit institutions	424,038					424,038
Borrowing/deposits from the public	12,675,325					12,675,325
Debt securities in issue	31,875,000	5,234,530	10,235,085	8,287,958	5,776,563	61,409,135
Derivatives	31,300,650	9,835,000	9,369,000	3,650,000	370,000	54,524,650
Subordinated liabilities	1,200,000					1,200,000
Other liabilities	255,330					255,330
Total liabilities	77,730,343	15,069,530	19,604,085	11,937,958	6,146,563	130,488,478
Net	773,455	848,835	1,831,451	2,035,696	151,289	5,640,727
Interest-rate sensitivity, net	-8,606,081	-3,569,477	-51,514,504	-66,853,756	-108,330,128	-238,873,946
Cumulative interest-rate sensitivity	-8,606,081	-12,175,558	-63,690,062	-130,543,818	-238,873,946	

The above table differs from the maturity analysis, which includes all contracted flows, that is, nominal amounts plus contracted interest payments. The table shows nominal amounts for derivatives. Nominal amounts for inflows from derivatives are shown on the asset side and nominal amounts for outflows on the liability side. The amounts have been allocated according to the dates when interest is reset. This differs from the maturity analysis, which includes all contracted flows, that is, nominal amounts plus contracted interest payments.

Fixed-interest terms for interest-bearing assets and liabilities, 2016

SEK thousand	< 3 months	3–12 months	1–3 years	3–5 years	> 5 years	Total
Assets						
Loans to credit institutions	592,071					592,071
Loans to the public	40,921,812	11,075,976	9,279,752	4,199,585	783,402	66,260,527
Bonds and other interest-bearing securities	5,918,000	1,800,000	1,550,000	2,900,000		12,168,000
Derivatives	28,997,168	4,235,823	5,533,050	7,188,800	5,355,133	51,309,973
Total assets	76,429,051	17,111,799	16,362,802	14,288,384	6,138,535	130,330,571
Liabilities						
Liabilities to credit institutions	1,002,399					1,002,399
Borrowing/deposits from the public	11,731,390					11,731,390
Debt securities in issue	32,400,000	6,605,823	7,538,050	7,888,800	5,455,133	59,887,805
Derivatives	30,656,118	9,200,000	6,704,000	4,290,000	570,000	51,420,118
Subordinated liabilities	1,630,000	70,000				1,700,000
Other liabilities	229,599					229,599
Total liabilities	77,649,507	15,875,823	14,242,050	12,178,800	6,025,133	125,971,312
Net	-1,220,455	1,235,976	2,120,752	2,109,585	113,402	4,359,260
Interest-rate sensitivity, net	-3,288,384	-178,540	-49,552,390	-66,574,776	3,701,186	-115,892,905
Cumulative interest-rate sensitivity	-3,288,384	-3,466,925	-53,019,315	-119,594,091	-115,892,905	

The above table differs from the maturity analysis, which includes all contracted flows, that is, nominal amounts plus contracted interest payments. The table shows nominal amounts for derivatives. Nominal amounts for inflows from derivatives are shown on the asset side and nominal amounts for outflows on the liability side. The amounts have been allocated according to the dates when interest is reset. This differs from the maturity analysis, which includes all contracted flows, that is, nominal amounts plus contracted interest payments.

Maturity analysis for financial assets and liabilities, 2017

SEK thousand	< 3 months	4–12 months	1–3 years	3–5 years	> 5 years	Total
Financial assets						
Loans to credit institutions	393,346					393,346
Loans to the public	41,299,868	12,056,909	11,323,435	4,268,603	702,896	69,651,712
Bonds and other interest-bearing securities	547,562	1,047,701	8,332,396	3,596,743		13,524,402
Derivatives	89,574	2,661,219	2,401,029	1,514,830	3,789,254	10,455,905
Total	42,330,350	15,765,829	22,056,860	9,380,176	4,492,150	94,025,365
Financial liabilities						
Liabilities to credit institutions	424,038					424,038
Borrowing/deposits from the public	12,675,325					12,675,325
Granted credit facilities	619,307					619,307
Debt securities in issue	2,627,799	8,767,498	13,504,216	30,823,726	10,131,329	65,854,568
Derivatives	47,595	2,330,618	2,407,998	1,427,947	3,426,605	9,640,763
Subordinated liabilities	12,982	43,129	145,050	1,275,751		1,476,912
Other liabilities	255,330					255,330
Total	16,662,375	11,141,245	16,057,264	33,527,425	13,557,934	90,946,243
Contracted cash flows	25,667,975	4,624,584	5,999,596	-24,147,249	-9,065,784	3,079,122

The above table includes all contracted cash flows. The amounts are not discounted and are recognised during the time slot when Landshypotek is entitled to request payment or has an obligation or right to repay. Future variable rates of interest have been included in the calculation for derivatives and financial liabilities. Loans to the public are reported until the next date for loan renewal, when the customer can redeem the loan if the customer so desires. Interest-rate derivatives are settled on a net basis, while currency interest-rate derivatives are settled on a gross basis, which is reflected in the above table. This entails that contracted amounts on maturity are only included for currency interest-rate derivatives. All flows are stated net for interest-rate derivatives.

Maturity analysis for financial assets and liabilities, 2016

SEK thousand	< 3 months	4–12 months	1–3 years	3–5 years	> 5 years	Total
Financial assets						
Loans to credit institutions	592,071					592,071
Loans to the public	41,186,493	11,401,482	9,708,502	4,336,739	881,571	67,514,788
Bonds and other interest-bearing securities	1,021,805	2,460,136	4,988,356	4,247,475		12,717,772
Derivatives	95,542	586,072	4,463,601	1,706,286	4,121,613	10,973,114
Total	42,895,910	14,447,690	19,160,459	10,290,500	5,003,185	91,797,745
Financial liabilities						
Liabilities to credit institutions	1,002,399					1,002,399
Borrowing/deposits from the public	11,731,390					11,731,390
Granted credit facilities	711,321					711,321
Debt securities in issue	5,061,366	11,949,519	19,303,495	20,974,798	7,000,139	64,289,317
Derivatives	63,403	445,088	4,052,693	1,597,522	3,792,388	9,951,094
Subordinated liabilities	10,089	528,586	73,110	1,276,152		1,887,937
Other liabilities	229,599					229,599
Total	18,809,568	12,923,194	23,429,297	23,848,472	10,792,527	89,803,058
Contracted cash flows	24,086,342	1,524,496	-4,268,838	-13,557,971	-5,789,343	1,994,686

The above table includes all contracted cash flows. The amounts are not discounted and are recognised during the time slot when Landshypotek is entitled to request payment or has an obligation or right to repay. Future variable rates of interest have been included in the calculation for derivatives and financial liabilities. Loans to the public are reported until the next date for loan renewal, when the customer can redeem the loan if the customer so desires. Interest-rate derivatives are settled on a net basis, while currency interest-rate derivatives are settled on a gross basis, which is reflected in the above table. This entails that contracted amounts on maturity are only included for currency interest-rate derivatives. All flows are stated net for interest-rate derivatives.

Note 3 Capital and capital adequacy

The total capital ratio amounted to 43.8 percent compared with 39.9 percent at 31 December 2016 and the CET1 capital ratio was 31.7 percent (29.4). Own funds increased MSEK 382 during the year to MSEK 6,837, primarily due to the issue of Tier 1 capital instruments and profits. The minimum capital requirement decreased MSEK 48 to MSEK 1,248, mainly due to reduced risk weights for exposures where the capital requirement is calculated with the IRB approach for credit risk and due to a reduced capital requirement for credit valuation adjustment risk.

In addition to the minimum capital requirement of 8 percent of the total risk-weighted amount, the capital conservation buffer requirement is 2.5 percent and, since 19 March 2017, the countercyclical buffer requirement is 2 percent. These two buffers make up the combined buffer requirement that must be covered by CET1 capital. The Bank's remaining CET1 capital to cover the combined buffer requirement and Pillar II requirements corresponded to 27.2 percent of the total risk exposure amount at 31 December 2017.

The capital quotient in accordance with Basel I floor 1 amounted to 1.56 percent. The Bank's leverage ratio amounted to 6.7 percent, up on the preceding year (5.8).

The bank aims to change its exposure classes to better reflect the market trends for farming and forestry, and to adapt to new regulatory changes. As a consequence of the above, the bank applied to Finansinspektionen for permission to use the IRB approach, excluding our own estimates of LGD values and

conversion factors, for corporate exposures. The bank has also applied for permission to change its approach for retail exposures. In November 2017, the bank received permission to use the IRB approach for corporate exposures and intends to start applying this approach within the Pillar I framework after the bank received permission to change the IRB approach for retail exposures. The bank has prepared under the Pillar II framework for the increased capital requirement the bank expects to arise as a consequence of the above change.

The internally assessed capital requirement on 31 December 2017 was SEK 5.3 billion, given the aforementioned changes applied for by the bank to Finansinspektionen. The capital requirement should be compared with estimated own funds of SEK 6.8 billion. The capital adequacy assessment takes into account the minimum capital requirement, the combined buffer requirement and the Pillar II capital requirement. The capital requirement under the transitional rules related to Basel I is also included in the assessment of the bank's capital requirements, but did not impact the amount of the capital requirements.

¹ Basel I floor entails a requirement that own funds under Basel I comprise not less than 80 percent of the total amount of own funds the bank must hold under Basel I rules. Own funds under Basel I are calculated based on own funds under the CRR, but neutralise the impact of negative amounts resulting from the calculation of expected loss amounts (IRB) on the size of own funds under the CRR.

Regulatory capital requirement by risk, method and exposure class

SEK thousand	Consolidated situation 31 December 2017 ¹⁾			
	Exposure value ²⁾	Risk exposure amount ³⁾	Regulatory capital requirement ⁴⁾	Average risk weight ⁵⁾
Credit risk — IRB approach	66,469,693	8,473,583	677,887	13%
Retail – real estate collateral	66,315,621	8,319,511	665,561	13%
Other non-credit-obligation assets	154,072	154,072	12,326	100%
Credit risk — Standardised approach	19,124,928	4,468,139	357,451	23%
Central governments or central banks	1,381			0%
Regional governments or local authorities or agencies	6,208,245			0%
Institutions	1,646,043	552,418	44,193	34%
Corporates	170,421	169,353	13,548	99%
Retail	57,695	40,573	3,246	70%
Secured by mortgages on immovable property	3,734,441	2,964,661	237,173	79%
Exposures in default	7,916	11,255	900	142%
Covered bonds	7,298,786	729,879	58,390	10%
Operational risk – Basic indicator approach		1,366,604	109,328	
Credit valuation adjustment risk – Standardised approach	1,393,580	1,286,858	102,949	92%
Total	86,988,201	15,595,184	1,247,615	

SEK thousand	Consolidated situation 31 December 2016			
	Exposure value	Risk exposure amount	Regulatory capital requirement	Average risk weight
Credit risk — IRB approach	65,219,975	8,799,420	703,954	13%
Retail – real estate collateral	65,101,874	8,681,320	694,506	13%
Other non-credit-obligation assets	118,100	118,100	9,448	100%
Credit risk — Standardised approach	18,169,531	4,454,257	356,341	25%
Central governments or central banks	1,313			0%
Regional governments or local authorities or agencies	5,473,685			0%
Institutions	2,022,530	676,236	54,099	33%
Corporates	295,273	293,037	23,443	99%
Retail	116,781	81,293	6,503	70%
Secured by mortgages on immovable property	3,019,193	2,661,034	212,883	88%
Exposures in default	15,889	20,170	1,614	127%
Covered bonds	7,224,867	722,487	57,799	10%
Operational risk – Basic indicator approach		1,423,728	113,898	
Credit valuation adjustment risk – Standardised approach	1,543,530	1,513,029	121,042	98%
Total	84,933,035	16,190,434	1,295,235	

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

²⁾ 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.

³⁾ After application of the appropriate 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.

⁴⁾ Calculated by multiplying the risk exposure amount by 8 percent. No buffer requirements are included.

⁵⁾ Calculated by dividing the risk exposure amount by the exposure value for the respective risk/exposure class.

Capital adequacy analysis

SEK thousand	Consolidated situation ¹⁾ 31 Dec 2017	Consolidated situation ¹⁾ 31 Dec 2016
CET1 capital instruments: Instruments and reserves		
Member contributions	1,698,189	1,585,080
Other contributed capital	1,797,796	1,797,796
Tier 1 capital instruments	700,000	0
Reserves	38,022	14,991
Actuarial differences	-27,966	-16,359
Retained earnings	1,542,054	1,424,584
Net profit for the year ²⁾	276,047	296,926
Equity in the balance sheet	6,024,142	5,103,018
Deductions related to the consolidated situation and other foreseeable costs	-120,962	-123,806
Deductions for Tier 1 capital instruments classified as equity	-700,000	0
CET1 capital before regulatory adjustments³⁾	5,203,180	4,979,212
CET1 capital: regulatory adjustments		
Further value adjustments	-55,765	-52,404
Intangible assets	-99,356	-66,748
Deferred tax assets that rely on future profitability	-4,087	-2,955
Fair value reserves related to gains or losses on cash-flow hedges	0	6,723
Negative amounts resulting from the calculation of expected loss amounts (IRB)	-107,327	-126,324
Defined-benefit pension plans	0	16,359
Total regulatory adjustments to CET1 capital	-266,535	-225,349
CET1 capital	4,936,645	4,753,863
Additional Tier 1 capital: instruments		
Tier 1 capital instruments classified as equity under applicable accounting standards	700,000	0
Tier 1 capital (CET1 capital + Tier 1 capital)	5,636,645	4,753,863
Tier 2 capital: instruments and provisions		
Capital instruments and subordinated loans eligible as Tier 2 capital	1,200,000	1,699,972
Positive amounts resulting from the calculation of expected loss amounts (IRB)	0	1,059
Tier 2 capital before regulatory adjustments	1,200,000	1,701,031
Tier 2 capital: regulatory adjustments		
Total regulatory adjustments to Tier 2 capital		
Tier 2 capital	1,200,000	1,701,031
Own funds (Tier 1 capital + Tier 2 capital)	6,836,645	6,454,894
Total risk-weighted exposure amount	15,595,184	16,190,434
Capital ratios and buffers		
Regulatory capital requirement	1,247,615	1,295,235
CET1 capital ratio (%)	31.7	29.4
Tier 1 capital ratio (%)	36.1	29.4
Total capital ratio (%)	43.8	39.9
Institution-specific CET1 capital requirement including buffer requirements (%)	9.0	8.5
of which capital conservation buffer requirement (%)	2.5	2.5
of which countercyclical buffer requirement (%)	2.0	1.5
CET1 capital available to meet buffers (%) ⁴⁾	27.2	23.4
Capital adequacy according to Basel I floor		
Own funds	6,943,972	6,580,159
Regulatory capital requirement	4,464,875	4,345,588
Capital quotient	1.56	1.51

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

²⁾ A decision by Finansinspektionen in February 2017 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 CET1 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 exposure amount.

Regulatory capital requirement by risk, method and exposure class

SEK thousand	Landshypotek Bank AB 31 December 2017			
	Exposure value ¹⁾	Risk exposure amount ²⁾	Regulatory capital requirement ³⁾	Average risk weight ⁴⁾
Credit risk — IRB approach	66,491,392	8,495,282	679,623	13%
Retail – real estate collateral	66,315,621	8,319,511	665,561	13%
Other non-credit-obligation assets	175,771	175,771	14,062	100%
Credit risk — Standardised approach	19,171,983	4,467,812	357,425	23%
Central governments or central banks	46,205			0%
Regional governments or local authorities or agencies	6,211,320			0%
Institutions	1,645,395	552,289	44,183	34%
Corporates	170,224	169,156	13,532	99%
Retail	57,695	40,573	3,246	70%
Secured by mortgages on immovable property	3,734,441	2,964,661	237,173	79%
Exposures in default	7,916	11,255	900	142%
Covered bonds	7,298,786	729,879	58,390	10%
Operational risk – Basic indicator approach		1,366,604	109,328	
Credit valuation adjustment risk – Standardised approach	1,393,580	1,286,858	102,949	92%
Total	87,056,955	15,616,557	1,249,325	

SEK thousand	Landshypotek Bank AB 31 December 2016			
	Exposure value	Risk exposure amount	Regulatory capital requirement	Average risk weight
Credit risk — IRB approach	65,236,386	8,815,831	705,267	14%
Retail – real estate collateral	65,101,874	8,681,320	694,506	13%
Other non-credit-obligation assets	134,512	134,512	10,761	100%
Credit risk — Standardised approach	18,218,570	4,454,610	356,369	24%
Central governments or central banks	46,140			0%
Regional governments or local authorities or agencies	5,476,209			0%
Institutions	2,024,199	676,570	54,126	33%
Corporates	295,292	293,056	23,445	99%
Retail	116,781	81,293	6,503	70%
Secured by mortgages on immovable property	3,019,193	2,661,034	212,883	88%
Exposures in default	15,889	20,170	1,614	127%
Covered bonds	7,224,867	722,487	57,799	10%
Operational risk – Basic indicator approach		1,423,728	113,898	
Credit valuation adjustment risk – Standardised approach	1,543,530	1,513,029	121,042	98%
Total	84,998,486	16,207,198	1,296,576	

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 appropriate 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 exposure amount by 8 percent. No buffer requirements are included.

⁴⁾ Calculated by dividing the risk exposure amount by the exposure value for the respective risk/exposure class.

Capital adequacy analysis

SEK thousand	Landshypotek Bank AB 31 Dec 2017	Landshypotek Bank AB 31 Dec 2016
CET1 capital instruments: Instruments and reserves		
Share capital	2,253,000	2,253,000
Other contributed capital	1,016,694	1,016,694
Tier 1 capital instruments	700,000	0
Reserves	38,022	14,991
Actuarial differences	-	-
Retained earnings	1,543,579	1,169,750
Net profit for the year ¹⁾	255,309	271,647
Equity in the balance sheet	5,806,604	4,726,081
Deductions related to the consolidated situation and other foreseeable costs	0	0
Deductions for Tier 1 capital instruments classified as equity	-700,000	0
CET1 capital before regulatory adjustments	5,106,604	4,726,081
CET1 capital: regulatory adjustments		
Further value adjustments	-55,765	-52,404
Intangible assets	-99,356	-66,748
Deferred tax assets that rely on future profitability	-365	-2,210
Fair value reserves related to gains or losses on cash-flow hedges	0	6,723
Negative amounts resulting from the calculation of expected loss amounts	-107,327	-126,324
Defined-benefit pension plans	0	0
Total regulatory adjustments to CET1 capital	-262,813	-240,963
CET1 capital	4,843,790	4,485,118
Additional Tier 1 capital: instruments		
Tier 1 capital instruments classified as equity under applicable accounting standards	700,000	0
Tier 1 capital (CET1 capital + Tier 1 capital)	5,543,790	4,485,118
Tier 2 capital: instruments and provisions		
Capital instruments and subordinated loans eligible as Tier 2 capital	1,200,000	1,699,972
Positive amounts resulting from the calculation of expected loss amounts (IRB)	0	1,059
Tier 2 capital before regulatory adjustments	1,200,000	1,701,031
Tier 2 capital: regulatory adjustments		
Total regulatory adjustments to Tier 2 capital		
Tier 2 capital	1,200,000	1,701,031
Own funds (Tier 1 capital + Tier 2 capital)	6,743,790	6,186,149
Total risk-weighted exposure amount	15,616,557	16,207,198
Capital ratios and buffers		
Own funds requirement	1,249,325	1,296,576
CET1 capital ratio (%)	31.0	27.7
Tier 1 capital ratio (%)	35.5	27.7
Total capital ratio (%)	43.2	38.2
Institution-specific CET1 capital requirement including buffer requirements (%)	9.0	8.5
of which capital conservation buffer requirement (%)	2.5	2.5
of which countercyclical buffer requirement (%)	2.0	1.5
CET1 capital available to meet buffers (%) ²⁾	26.5	21.7
Capital adequacy according to Basel I floor		
Own funds	6,851,117	6,311,415
Regulatory capital requirement	4,466,434	4,346,835
Capital quotient	1.53	1.45

¹⁾ A decision by Finansinspektionen in February 2017 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.

²⁾ 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."

Note 4 Net interest income

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Interest income				
Interest income on loans to credit institutions	-1,699	-173	-1,699	-173
Interest income on loans to the public	1,254,083	1,266,978	1,254,083	1,266,978
Less interest losses	-949	-1,168	-949	-1,168
Interest income on interest-bearing securities	31,592	89,598	31,592	89,598
of which interest income for financial assets in fair-value hedges	17,338	12,006	17,338	12,006
of which interest income on financial assets at FVTPL	25,452	81,516	25,452	81,516
of which interest income on available-for-sale financial assets	-11,199	-3,924	-11,199	-3,924
Other interest income	12	1,271	12	158
Other lending income	12,792	11,872	12,793	11,872
Total	1,295,831	1,368,377	1,295,831	1,367,264
Average interest on loans to the public	1.86%	1.93%	1.86%	1.93%
All interest income is attributable to the Swedish market				
Interest expense				
Interest expense for liabilities to credit institutions – other	5,109	7,105	5,109	7,105
Interest expense for borrowing/deposits from the public	-87,551	-86,582	-87,551	-86,582
of which deposit insurance fees	-6,777	-7,121	-6,777	-7,121
Interest expense for interest-bearing securities	-553,193	-691,341	-553,193	-691,341
of which interest expense for financial liabilities in fair value hedges adjusted for the fair value of hedged risk	-548,935	-492,165	-548,935	-492,165
of which interest expense on interest-bearing securities at amortised cost	-85,588	-355,188	-85,588	-355,188
of which periodisation of the market value created from terminated hedging commitments ¹⁾	81,330	156,013	81,330	156,013
Interest expense for subordinated liabilities	-34,458	-34,641	-34,458	-34,641
Interest expense for derivative instruments	249,755	218,913	249,755	218,913
of which interest expense on derivatives at FVTPL	-37,356	41,291	-37,356	41,291
of which interest expense on derivatives identified as hedging instruments	375,731	326,071	375,731	326,071
of which reclassification of terminated hedging relationships ¹⁾	-88,619	-148,449	-88,619	-148,449
Other interest expense	-75,122	-44,611	-75,070	-44,589
of which government stabilisation fund fees	-56,945	-28,821	-56,945	-28,821
Total	-495,459	-631,156	-495,408	-631,134
Total net interest income	800,372	737,221	800,423	736,130

¹⁾ The item pertains to a reduction in recognised interest expenses from the periodisation of the market value created from hedged risk attributable to fair-value hedging relationships that were terminated in 2013 and 2014. A corresponding amount with a negative impact on earnings, attributable to the decrease in value of hedging instruments (derivatives) in the terminated hedging relationships, has been recognised under Derivatives in Net interest income. The remaining amount to be periodised is MSEK 258.4, which will continue until August 2029.

Deposit insurance fees and fees to the stabilisation fund have been reclassified from Other operating income to Net interest income in 2016.

Other lending income was reclassified from commission to interest income. The comparative figures for 2016 have been restated.

Note 5 Net result of financial transactions

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Financial assets at FVTPL				
Realised result of sales of bonds and other interest-bearing securities	10,756	389	10,756	389
Available-for-sale financial assets				
Realised result of sales of bonds and other interest-bearing securities	433	2,263	433	2,263
Other financial liabilities				
Realised result on early redemption of own bonds issued	-21,613	-49,121	-21,613	-49,121
Financial liabilities at FVTPL				
Realised result from purchase/sale of derivative contracts	-14,663	37,331	-14,663	37,331
Total realised result	-25,087	-9,138	-25,087	-9,138
Financial assets at FVTPL				
Change in value of bonds and other interest-bearing securities	-32,445	-50,876	-32,445	-50,876
Change in value of derivatives with positive market values not included in any hedging relationship	-4,072	-19,724	-4,072	-19,724
Financial liabilities at FVTPL				
Change in value of derivatives with negative market values not included in any hedging relationship	42,672	83,876	42,672	83,876
Of which reclassification of terminated hedging relationships	89,273	2,893	89,273	2,893
Items included in hedging relationships and subject to hedge accounting				
Change in value of bonds in issue included in fair-value hedges	294,697	-227,360	294,697	-227,360
Value changes of interest-rate-risk hedged items in macro hedges	-45,454	21,233	-45,454	21,233
Change in value of derivatives included in fair-value hedges	-10,545	21,481	-10,545	21,481
Change in value of derivatives included in fair-value hedges of which reclassification of terminated hedging relationships ¹⁾	83,619	106,718	83,619	106,718
Total unrealised result	-23,006	35,295	-23,006	35,295
Net result of financial transactions	-48,093	26,158	-48,093	26,158

¹⁾ The item pertains to a reduction in recognised interest expenses from the periodisation of the market value created from hedged risk attributable to fair-value hedging relationships that were terminated in 2013 and 2014. The remaining amount to be periodised is MSEK 258.4, which will continue until August 2029.

Realised result is defined as changes in value that were realised, that is, received/paid from/to a counterparty, for transactions that were closed during the year. Unrealised result is defined as changes in the market values of open positions.

Note 6 Other operating income

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Income from property	1,447	3,532	1,447	3,532
Other	427	3,783	427	3,783
Total	1,875	7,315	1,875	7,315

Note 7 General administrative expenses

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Personnel costs				
Salaries, etc. to CEO, senior executives and Board of Directors	-17,926	-19,016	-17,926	-19,016
Salaries, etc., to other personnel	-93,235	-90,049	-93,235	-90,049
Provision to profit-sharing foundation	-5,346	-4,461	-5,346	-4,461
Pension costs	-20,219	-18,857	-21,625	-22,202
Social insurance charges	-35,121	-34,515	-35,121	-34,515
Other personnel costs	-16,436	-10,299	-16,436	-10,299
Total	-188,283	-177,197	-189,689	-180,543
Specification of pension costs				
Change in provision for pensions	5	37	5	37
Pension premiums	-16,437	-16,966	-16,437	-16,966
of which to senior executives	-2,321	-2,726	-2,321	-2,726
Directly paid pensions	-961	-967	-961	-967
Payroll and yield taxes attributable to pension costs	-4,232	-4,306	-4,232	-4,306
Defined-benefit pension plans	1,406	3,345		
Total	-20,219	-18,857	-21,625	-22,202

Pension costs in the Group are recognised in accordance with IAS 19, Employee Benefits. Pension costs in Landshypotek Bank AB have been calculated in accordance with the regulations of the Swedish Financial Supervisory Authority.

The company's pension obligations are covered by insurance in Sparinstitutens Pensionskassa and by provisions for pensions covered by credit insurance from FPG (Försäkringsbolaget Pensionsgaranti, mutual). Further information about the pension liability is reported in Note 28.

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Number of male employees	91	82	91	82
Number of female employees	91	81	91	81
Total	182	163	182	163
Average number of salaried employees, including substitutes	174	164	174	164
Directors and senior executives				
Number of directors	9	9	9	9
of whom, men	5	5	5	5
of whom, women	4	4	4	4
Number of senior executives	10	10	10	10
of whom, men	7	5	7	5
of whom, women	3	5	3	5

Refer to Note 38 for information on loans to directors and senior executives.

Cont. **Note 7** General administrative expenses

SEK thousand

Remuneration and other benefits, 2017	Basic salary/ Board fees	Other benefits	Pension costs	Other com- pensation	Total
Chairman of the Board Henrik Toll	678				678
Board member Hans Heuman	355			32	387
Board member Johan Trolle Löwen	379			7	386
Board member Nils-Fredrik Nyblaeus	478			17	495
Board member Charlotte Önnestedt	357				357
Board member Anna-Karin Eliasson Celsing	465				4465
Board member Synnöve Trygg	364				364
CEO Liza Nyberg	1,263	70	435		1,768
Acting CEO Catharina Åbjörnsson Lindgren	1,629	31	350		2,010
Other senior executives (10 persons)	11,556	201	2,321	43	14,120
	17,525	302	3,106	99	21,032

Remuneration and other benefits, 2016	Basic salary/ Board fees	Other benefits	Pension costs	Other com- pensation	Total
Chairman of the Board Henrik Toll	647				647
Board member Hans Heuman	355			34	389
Board member Johan Trolle Löwen	373			6	379
Board member Nils-Fredrik Nyblaeus	478			17	495
Board member Charlotte Önnestedt	355				355
Board member Anna-Karin Eliasson Celsing	599			14	613
Board member Synnöve Trygg	355			2	357
CEO Liza Nyberg	3,225	119	614		3,958
Other senior executives (10 persons)	12,066	316	2,726	55	15,163
	18,453	435	3,339	128	22,356

No variable remuneration or share-based remuneration has been paid.

A mutual notice period of six months applies for the CEO and Landshypotek Bank. In case of termination by the company, compensation is payable of up to 12-months' remuneration excluding the notice period. In the case of a sale of the business, whereby Landshypotek Bank and the CEO are not in agreement regarding continued employment, compensation of up to 24-months' remuneration is payable excluding the notice period.

For other senior executives and Landshypotek Bank, contractual notice periods of six months apply.

Cont. Note 7 General administrative expenses

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Other administrative expenses				
Travel expenses	-3,858	-3,277	-3,858	-3,277
Telephone and data expenses	-2,221	-2,197	-2,221	-2,197
Office expenses	-2,159	-2,251	-2,159	-2,251
Cost of premises	-17,319	-16,177	-17,319	-16,177
IT expenses	-84,442	-95,785	-84,442	-95,785
Postage	-3,871	-4,941	-3,871	-4,941
Consultants	-46,493	-35,864	-46,493	-35,864
Information expenses	-8,199	-9,139	-8,199	-9,139
Purchased services	-586	-579	-586	-482
Marketing expenses	-21,647	-28,968	-21,647	-28,968
Agencies and associations	-3,483	-3,941	-3,483	-3,941
Fees and expenses to appointed auditors				
Audit assignment	-2,763	-2,937	-2,763	-2,937
Audit activities other than audit assignment	-1,398	-1,376	-1,398	-1,376
Tax consultancy	-102	-107	-102	-107
Other services	-1,719	-3,427	-1,719	-3,427
Total	-200,259	-210,966	-200,259	-210,869
Total general administrative expenses	-388,542	-388,162	-389,948	-391,411

Note 8 Depreciation, amortisation and impairment of intangible and tangible non-current assets

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Tangible non-current assets				
Depreciation of furniture, fixtures and equipment	-2,826	-3,365	-2,826	-3,365
Depreciation of real property	-521	-572	-521	-572
Depreciation of land improvements	-28	-28	-28	-28
Intangible non-current assets	0			
Amortisation of IT system	-10,387	-10,086	-10,387	-10,086
Impairment of shares				
Impairment of shares in subsidiaries				-115
Total	-13,762	-14,050	-13,762	-14,165

Note 9 Other operating expenses

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Other	-150	-224	-150	-224
Total	-150	-224	-150	-224

Note 10 Net loan losses

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Loan losses				
Write-off for the period for confirmed losses	-22,802	-37,671	-22,802	-37,671
Reversal of prior specific provisions for probable loan losses, recognised as confirmed losses in this period's accounts	20,114	37,315	20,114	37,315
Specific provision for probable loan losses	-24,670	-51,614	-24,670	-51,614
Collective provisions for probable loan losses	-4,320	-4,696	-4,320	-4,696
Recovery of previously confirmed losses	2,754	8,852	2,754	8,852
Reversal of prior specific provisions no longer necessary for probable loan losses	16,436	33,000	16,436	33,000
Total	-12,488	-14,814	-12,488	-14,814

All loan losses are attributable to loans to the public. Properties taken over in foreclosure to protect claims, MSEK 0 (0.4).

Note 11 Income tax on comprehensive income

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Profit before tax	339,211	353,444	337,856	348,988
Income tax calculated at national tax rates	-74,626	-77,758	-74,328	-76,777
Tax effects of:				
Non-taxable income	3	35	3	35
Non-deductible expenses	-8,055	-426	-8,055	-426
Adjustment of preceding year's tax expense	-167	327	-167	-172
Total income tax related to profit or loss	-82,846	-77,823	-82,548	-77,341
Weighted-average tax rate	24.4%	22.0%	24.4%	22.2%
of which current tax	-82,600	-77,393	-82,600	-77,393
of which deferred tax	-246	-430	52	52
Specification of deferred tax				
Deferred tax relating to pension costs	-298	-482		
Deferred tax relating to depreciation of real property	52	52	52	52
Deferred tax relating to loss carry-forwards				
Total change in deferred tax	-246	-430	52	52
The actual tax rate for the year was 22 percent (22) for the Group and the Parent Company. Deferred tax amounted to 22 percent.				
Income tax related to other comprehensive income				
Cash-flow hedges				
Profit before tax	8,620	11,812	8,620	11,812
Deferred tax	-1,896	-2,599	-1,896	-2,599
Profit after tax	6,723	9,213	6,723	9,213
Available-for-sale financial instruments				
Profit before tax	20,907	62,087	20,907	62,087
Current tax	-4,600	-13,659	-4,600	-13,659
Profit after tax	16,307	48,428	16,307	48,428
Actuarial differences				
Profit before tax	-14,881	-38,811		
Deferred tax	3,274	8,538		
Profit after tax	-11,607	-30,273		
Other comprehensive income	11,424	27,369	23,031	57,641
Tax	-4,600	-13,659	-4,600	-13,659
Deferred tax	1,378	5,940	-1,896	-2,599
Total income tax related to other comprehensive income	-3,222	-7,719	-6,496	-16,258

Note 12 Loans to credit institutions

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Loans to banks	393,346	592,071	393,115	591,839
Total	393,346	592,071	393,115	591,839

Note 13 Loans to the public

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Loan receivables	68,537,095	66,577,900	68,537,095	66,577,900
Less specific provisions for individually valued loan receivables	-44,366	-54,736	-44,366	-54,736
Less collective provisions for collectively valued loan receivables	-4,320	-4,696	-4,320	-4,696
Net loan receivables	68,488,409	66,518,468	68,488,409	66,518,468
Disclosures on overdue unimpaired loan receivables				
Loan receivables overdue 5–90 days	4,227	77,079	4,227	77,079
Loan receivables overdue more than 90 days	226,354	230,696	226,354	230,696
Total overdue unimpaired loan receivables	230,581	307,775	230,581	307,775
Disclosures on doubtful credits				
Doubtful credits that are not overdue	113,947	103,767	113,947	103,767
Overdue doubtful credits	82,186	130,859	82,186	130,859
Total doubtful credits, gross	196,133	234,626	196,133	234,626
Less capital provisions made	-48,686	-59,432	-48,686	-59,432
Total doubtful credits, net	147,447	175,194	147,447	175,194
Doubtful credits at beginning of year	234,626	418,281	234,626	418,281
New doubtful credits during year	47,097	53,191	47,097	53,191
Doubtful credits settled during year	-85,590	-236,845	-85,590	-236,845
Doubtful credits at year end	196,133	234,626	196,133	234,626
Capital provisions at beginning of year	-59,432	-73,249	-59,432	-73,249
Additional provisions during the year	-16,972	-27,429	-16,972	-27,429
Deducted provisions during the year	27,718	41,246	27,718	41,246
Capital provisions at year end	-48,686	-59,432	-48,686	-59,432

Refer to page 26 for details regarding collateral for loans outstanding.
Collateral exists in the form of immovable property for lending.

Note 14 Bonds and other interest-bearing securities

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Listed bonds				
Issued by Swedish municipalities	6,183,861	5,478,389	6,183,861	5,478,389
Issued by housing finance institutions	7,238,080	7,136,148	7,238,080	7,136,148
of which covered bonds	7,238,080	7,136,148	7,238,080	7,136,148
Total	13,421,941	12,614,537	13,421,941	12,614,537
Valuation of listed bonds and other interest-bearing securities				
Nominal amount	13,048,000	12,168,000	13,048,000	12,168,000
Amortised cost	13,346,463	12,516,976	13,346,463	12,516,976
Fair value	13,421,941	12,614,537	13,421,941	12,614,537
<i>Bonds and other interest-bearing securities are classified as available-for-sale financial assets or as a trading portfolio.</i>				
Listed bonds and other interest-bearing securities by category				
Financial assets at FVTPL	322,455	2,613,652	322,455	2,613,652
Available-for-sale financial assets	13,099,486	10,000,885	13,099,486	10,000,885
Total	13,421,941	12,614,537	13,421,941	12,614,537

Note 15 Derivatives

SEK thousand	Group and Parent Company			
	2017		2016	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Derivatives not included in hedge accounting				
Positive closing value of interest-rate swaps	800,000	624	-	-
Positive closing value of cross-currency interest-rate swaps	1,375,668	58,493	833,660	38,796
Total	2,175,668	59,117	833,660	38,796
Derivatives included in hedge accounting				
Positive closing value of interest-rate swaps	15,230,192	865,582	20,091,168	1,081,659
Positive closing value of cross-currency interest-rate swaps	3,448,036	541,353	3,512,834	720,318
Total	18,678,228	1,406,935	23,604,002	1,801,977
Total	20,853,896	1,466,052	24,437,662	1,840,773

Carrying amounts pertain to market values excluding accrued interest on derivative contracts. Accrued interest is included under prepaid expenses and accrued income.

Note 16 Shares and participations in Group companies

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Other holdings				
Hypoteksbanken AB, 1,000 shares with a quotient value of SEK 100			100	100
Sveriges Allmänna Hypoteksbank AB 1,000 shares with a quotient value of SEK 100			100	100
Total			200	200

All subsidiaries are wholly owned.

Hypoteksbanken, 556370-1100 domiciled in Stockholm.

Sveriges Allmänna Hypoteksbank AB, 556373-4432 domiciled in Stockholm.

Note 17 Intangible assets

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Other intangible non-current assets				
Cost at beginning of year	115,226	59,047	115,226	59,047
Purchases during the year	42,996	56,179	42,996	56,179
Closing cost	158,222	115,226	158,222	115,226
Accumulated amortisation at beginning of year	-48,479	-38,393	-48,479	-38,393
Amortisation for the year	-10,388	-10,086	-10,388	-10,086
Closing accumulated amortisation and impairment	-58,867	-48,479	-58,867	-48,479
Carrying amount	99,355	66,748	99,355	66,748

Intangible non-current assets consist of investments in software.

Note 18 Tangible assets

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Furniture, fixtures and equipment				
Non-current assets				
Cost at beginning of year	29,259	27,234	29,259	27,234
Purchases during the year	1,844	2,025	1,844	2,025
Closing cost	31,103	29,259	31,103	29,259
Accumulated depreciation at beginning of year	-19,978	-16,613	-19,978	-16,613
Depreciation and impairment for the year	-2,825	-3,365	-2,825	-3,365
Closing accumulated depreciation	-22,803	-19,978	-22,803	-19,978
Total furniture, fixtures and equipment	8,300	9,282	8,300	9,282
Buildings and land				
Non-current assets				
Operating properties				
Number of properties	1	1	1	1
Estimated fair value	28,000	28,000	28,000	28,000
Properties taken over in foreclosure to protect claims				
Number of properties	1	1	1	1
Estimated fair value	400	400	400	400
Cost at beginning of year	15,429	24,947	15,429	24,947
Foreclosure properties		400		400
Sales	-400	-9,918	-400	-9,918
Closing cost	15,029	15,429	15,029	15,429
Depreciation for the year				
Accumulated depreciation at beginning of year	-4,965	-4,779	-4,965	-4,779
Depreciation for the year	-549	-186	-549	-186
Closing accumulated depreciation	-5,514	-4,965	-5,514	-4,965
Total buildings and land	9,515	10,464	9,515	10,464

Note 19 Other assets

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Announced interest and repayments	263	89	263	89
Receivables from Group companies	3,873	8,924	3,873	8,924
Other receivables	2,963	2,370	2,961	2,370
Total other assets	7,099	11,383	7,098	11,383

Note 20 Deferred tax

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Deferred tax assets (+)/ liabilities (-)	4,087	2,955	365	2,210
Total	4,087	2,955	365	2,210
Opening deferred tax receivables on hedging reserve	1,896	4,495	1,896	4,495
Change in deferred tax on hedging reserve	-1,896	-2,599	-1,896	-2,599
Closing deferred tax receivables on hedging reserve	-	1,896	-	1,896
Opening deferred tax on actuarial differences	-1,118	-9,657		
Change in deferred tax on actuarial differences	3,274	8,538		
Closing deferred tax receivables on actuarial differences	2,156	-1,118		
Opening deferred tax receivables on pensions under IAS 19	1,863	2,345		
Less deferred tax on pensions under IAS 19	-298	-482		
Closing deferred tax receivables on pensions under IAS 19	1,565	1,863	-	-
Opening deferred tax on depreciation of real property	313	261	313	261
Add deferred tax on depreciation of real property	52	52	52	52
Closing deferred tax on depreciation of real property	365	313	365	313
Total deferred tax assets (+)/liabilities (-)	4,087	2,955	365	2,210

Deferred tax was calculated using a tax rate of 22 percent.
All items are expected to be settled later than within 12 months.

Note 21 Prepaid expenses and accrued income

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Prepaid expenses	24,091	17,225	24,091	17,225
Accrued interest on loans to the public	74,143	49,044	74,143	49,044
Accrued interest on interest-bearing instruments	64,394	90,590	64,394	90,590
Accrued interest on derivatives	269,839	244,005	269,839	244,005
Other accrued income	3,358	4,547	3,358	4,547
Total	435,825	405,411	435,825	405,411

Note 22 Liabilities to credit institutions

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Swedish banks	23,906	558,444	23,906	558,444
Non-Swedish banks	400,132	443,955	400,133	443,955
Total	424,038	1,002,399	424,038	1,002,399

Note 23 Borrowing from the public

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Deposits from the public	12,675,325	11,566,390	12,675,325	11,566,390
Other notes payable		165,000		165,000
Total	12,675,325	11,731,390	12,675,325	11,731,390

Note 24 Debt securities in issue, etc.

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Commercial paper	-	2,881,206	-	2,881,206
Bond loans	62,877,705	58,690,932	62,877,705	58,690,932
Total	62,877,705	61,572,138	62,877,705	61,572,138
Debt securities in issue — hedged items in fair-value hedges				
Amortised cost	25,394,210	24,388,599	25,394,210	24,388,599
Fair value adjusted for the change in the fair value of hedged risk	26,368,664	25,411,672	26,368,664	25,411,672

Fair-value hedges

The Group hedges part of its exposure to interest-rate risk, in fixed-interest financial liabilities, against changes in fair value due to movements in interest rates. Interest-rate swaps and cross-currency interest-rate swaps are used for this purpose.

Cash-flow hedges

The Group hedges parts of its exposure to interest-rate risk, in floating interest financial liabilities, against changes in future cash flows due to interest-rate changes. Interest-rate swaps and cross-currency interest-rate swaps are used for this purpose.

All cash-flow hedges were settled in 2017.

Note 25 Derivatives

SEK thousand	Group and Parent Company			
	2017		2016	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Derivatives not included in hedge accounting				
Negative closing value of interest-rate swaps	785,000	34,929	3,575,000	145,251
Negative closing value of cross-currency interest-rate swaps	196,524	4,997	699,508	10,557
Total	981,524	39,926	4,274,508	155,808
Derivatives included in hedge accounting				
Negative closing value of interest-rate swaps	30,239,000	331,324	20,179,000	423,878
Negative closing value of cross-currency interest-rate swaps	2,200,880	334,487	2,418,803	150,808
Total	32,439,880	665,811	22,597,803	574,686
Total	33,421,404	705,737	26,872,310	730,494

Carrying amounts pertain to market values excluding accrued interest on derivative contracts.

Accrued interest is included under prepaid expenses and accrued income.

Note 26 Other liabilities

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Liabilities to Group companies	231,245	217,790	231,245	217,790
Accounts payable	24,085	11,809	24,085	11,809
Other liabilities	51,075	46,578	50,552	46,056
Total	306,405	276,177	305,882	275,654

Note 27 Accrued expenses and deferred income

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Accrued interest on debt securities in issue	278,239	277,694	278,239	277,694
Accrued interest on derivatives	93,091	126,265	93,091	126,265
Other accrued expenses	20,638	29,274	20,638	29,274
Deferred income	1,537	1,513	1,537	1,513
Total	393,505	434,746	393,505	434,746

Note 28 Provisions

SEK thousand

Defined-benefit pension plans are recognised in the balance sheet as a provision and are recognised in profit or loss as pension costs under personnel costs. Remeasurement of defined-benefit pension plans is recognised in other comprehensive income. The balance-sheet provision is the net of liabilities for pension obligations and the fair value of assets set aside to secure those pension obligations, known as plan assets.

A defined-benefit pension plan means that the employee is guaranteed a lifelong pension corresponding to a specified percentage of the employee's final salary and mainly comprises retirement pension, disability pension and survivors' pension. The Group's provision is affected by employees' life expectancy, anticipated final salary and the expected income base amount.

The plan is secured through the purchase of occupational pension insurance with the insurance company SPK (Sparinstitutens PensionsKassa). SPK administers pensions and manages assets for pension purposes both for Landshypotek Bank and other employers. Therefore, the Group must establish its share of the plan assets held at SPK. Landshypotek Bank's share of SPK is 1.4 percent. The share is calculated

using the ratio SPK would probably have used at the balance sheet date to distribute the assets if the plan were to be immediately phased out or if a situation had arisen whereby an extra payment would have been needed from employers because of insufficient assets. The employers are responsible for ensuring that SPK has sufficient assets to meet obligations under the pension plan pursuant to the legislation governing SPK. Therein lies Landshypotek Bank's risk. No such deficit exists at present. SPK's management of the assets is carried out in compliance with the regulations governing SPK. Accordingly, the Group's provision and pension cost is impacted by the result of SPK's asset management.

The scope of the saving and risk premiums that SPK will invoice for are determined by the premium assumptions applied by SPK. These include assumptions pertaining to mortality, interest rates, operating and safety supplements, etc. Landshypotek does not itself apply any matching strategy between the assets and liabilities since its ownership of the assets is indirect through its share in the collective investment assets in SPK.

The table shows where in the financial statements the Group's post-employment benefits are recognised.

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Balance-sheet obligations pertaining to:				
Defined-benefit pension plans	17,712	4,193	1,319	1,324
Liability (+) /surplus (-) in the balance sheet ¹⁾	17,712	4,193	1,319	1,324
Recognitions in operating profit pertaining to: ²⁾				
Defined-benefit pension plans	1,356	4,457		
Total	1,356	4,457		
Remeasurement of actuarial gain/loss in other comprehensive income pertaining to:				
Defined-benefit pension plans	14,881	38,811		
Total	14,881	38,811		

¹⁾ Surpluses are recognised under other assets; refer to Note 19.

²⁾ Recognitions in operating profit include service costs for the current year, interest expense, fees/premiums and payroll tax.

The amounts recognised in the balance sheet were calculated as follows:

	2017	2016
Present value of funded obligations	363,176	353,168
Fair value of plan assets	-345,464	-348,975
Shortfall in funded plans	17,712	4,193
Present value of unfunded obligations		
Total shortfall in defined-benefit pension plans	17,712	4,193
Effect of minimum funding requirement/asset ceiling		-
Liability (+)/surplus (-) in the balance sheet ¹⁾	17,712	4,193

¹⁾ Surpluses are recognised under other assets; refer to Note 19.

Cont. **Note 28** Provisions

SEK thousand

The change in the defined-benefit obligation during the year was as follows:

	Present value of the obligation	Fair value of plan assets	Total
Opening balance, 1 January 2016	361,726	-391,841	-30,115
Service costs for 2016	4,916	0	4,916
Interest expense/(income)	11,221	-12,333	-1,112
Service costs for previous years and gains and losses from settlements			0
Total Costs	377,863	-404,174	-26,311
Remeasurements:			
- Return on plan assets	-2,766	41,577	38,811
Total remeasurements	-2,766	41,577	38,811
Fees:			
- Employer		-6,685	-6,685
- Employees covered by the plan			
Payments from the plan:			
- Benefits paid	-21,929	20,307	-1,622
Closing balance, 31 December 2016	353,168	-348,975	4,193

Opening balance, 1 January 2017	353,168	-348,975	4,193
Service costs for 2017	4,320		4,320
Interest expense/(income)	9,118	-9,068	50
Service costs for previous years and gains and losses from settlements	1,662		1,662
Total Costs	368,268	-358,043	10,225
Remeasurements:			
- Return on plan assets	14,985	-104	14,881
Total remeasurements	14,985	-104	14,881
Fees:			
- Employer		-5,760	-5,760
- Employees covered by the plan			
Payments from the plan:			
- Benefits paid	-20,077	18,443	-1,634
Closing balance, 31 December 2017	363,176	-345,464	17,712

Budgeted fees under the plan for 2018 amount to MSEK 5,904.

	2017	2016
Actuarial gain/loss (+/-) during the period	-14,881	-38,811
Total gain/loss (+/-), obligation	-14,985	2,766
of which; gain/loss (+/-), experience-based effects, obligation	-4,271	39,259
of which; gain/loss (+/-), changed financial assumptions, obligation	-3,647	-4,447
of which; gain/loss (+/-), changed demographic assumptions, obligation	-7,067	-32,046
Gain/loss (+/-), plan assets	104	-41,577

The key actuarial assumptions were as follows:

	2017	2016
Discount rate	2.5%	2.7%
Salary increases	3.6%	3.2%
Pension increases	1.8%	1.7%

Cont. Note 28 Provisions

SEK thousand

Mortality assumptions are based on official statistics and experience from mortality studies, and are set in consultation with actuarial expertise. These assumptions mean the following average remaining life expectancies for individuals retiring at 65.

	2017	2016
Retirement at the end of the reporting period:		
Men	22	22
Women	24	24
Retirement 20 years after the end of the reporting period:		
Men	22	22
Women	24	24

The sensitivity of the defined-benefit obligation to changes in significant weighted assumptions is:

A change of one percentage point assuming all other factors are unchanged.

Assumptions	Present value of the obligation, 2017	Increase
Baseline scenario	363,176	
A 0.5-percentage point decrease in the discount rate	392,700	8.1%
A 0.5-percentage point increase in expected indexing of benefits	391,951	7.9%
A 0.5-percentage point increase in expected future salary increases	370,426	2.0%
A 20-percent decrease in mortality intensity	389,446	7.2%
Increase in the expected utilization rate for early retirement under the pension agreement from 20 to 40 percent.	365,030	0.5%

Distribution of the present value of the obligation, SEK thousand

	2017	2016
Active members	72,537	64,158
Deferred members	64,531	65,797
Retired plan members	226,108	223,213
Total	363,176	353,168

Number of individuals included in the valuation

	2017	2016
Active members	40	45
Deferred members	138	139
Retired plan members	126	120
Total	304	304

Maturity analysis undiscounted cash flows

Pension payments and payment of special payroll tax pertaining to the latent payroll tax liability, SEK thousand.

Pertaining to pension entitlement earned as per the balance sheet date under IAS 19.

	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Later than 5 years	Total
At 31 December 2017					
Pension payments	16,670	15,421	45,850	472,240	550,181
Special payroll tax (only pertaining to the latent payroll tax liability)	716	684	1,873	6,019	9,292
Total	17,386	16,105	47,723	478,259	559,473

	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Later than 5 years	Total
At 31 December 2016					
Pension payments	18,443	16,350	45,048	474,200	554,041
Special payroll tax (only pertaining to the latent payroll tax liability)	1,186	766	1,022	377	3,351
Total	19,629	17,116	46,070	474,577	557,392

Weighted average duration of pension obligations, years

	31 Dec 2017	31 Dec 2016
Weighted average duration of pension obligations	17.7	17.6

Cont. Note 28 Provisions

SEK thousand

The plan assets are comprised solely of the value of the insurance taken out with the SPK benevolent society to fund the defined-benefit BTP plan. Pension payments are made from this insurance.

Allocation of plan assets

Note that Landshypotek owns the assets in SPK indirectly through insurance agreements. The allocation of investment assets in SPK follow, below.

Share by asset class	31 Dec 2017	31 Dec 2016
Shares	19.5%	14.6%
Interest-bearing, incl. cash funds	63.3%	58.5%
Alternative investments, real assets and derivatives	17.2%	26.9%

Note 29 Subordinated liabilities

SEK thousand			Group		Parent Company	
			2017	2016	2017	2016
Due date	Nominal amount	Interest				
2017/2022	70,000,000	Fixed interest 5.82%	-	69,972	-	69,972
2017/2022	430,000,000	3M STIBOR + 3.85%	-	430,000	-	430,000
2021/2026	1,200,000,000	3M STIBOR + 2.70%	1,200,000	1,200,000	1,200,000	1,200,000
Total			1,200,000	1,699,972	1,200,000	1,699,972

Note 30 Changes in Equity

SEK thousand			Group		Parent Company	
			2017	2016	2017	2016
Change in hedging reserve						
Hedging reserve, opening balance			-6,723	-15,936	-6,723	-15,936
Change in fair value over the year			1,557	3,857	1,557	3,857
Transfer to profit or loss			7,063	7,954	7,063	7,954
Change in deferred tax			-1,896	-2,599	-1,896	-2,599
Hedging reserve, closing balance			-	-6,723	-	-6,723
Change in fair-value reserve						
Fair-value reserve, opening balance			21,714	-26,714	21,714	-26,714
Change in fair value over the year			21,126	61,988	21,126	61,988
Transfer to profit or loss			-219	99	-219	99
Tax on change in value for the year			-4,600	-13,659	-4,600	-13,659
Fair-value reserve, closing balance			38,022	21,714	38,022	21,714
Actuarial differences						
Actuarial differences at beginning of year			-16,358	13,914		
Change for the year			-14,881	-38,811		
Tax on change for the year			3,274	8,538		
Actuarial differences at year end			-27,966	-16,358	-	-
Total reserves at year end			10,057	-1,367	38,022	14,990

Note 31 Pledged assets, contingent liabilities and obligations

SEK thousand			Group		Parent Company	
			2017	2016	2017	2016
Pledged assets						
Contingent liabilities						
Försäkringsbolaget Pensionsgaranti, FPG			26	26	26	26
Bank guarantees			65,981	108,131	65,981	108,131
Total			66,007	108,157	66,007	108,157
Obligations						
Flexible first lien mortgage loans, granted unutilised amount			553,326	597,830	553,326	597,830
Total			553,326	597,830	553,326	597,830

Note 32 Financial assets and liabilities by category

Group

SEK thousand						
2017	Measured at FVTPL	Available-for-sale financial assets	Loans and receivables	Other financial liabilities	Liabilities in fair-value hedges adjusted for the fair value of hedged risk	Derivatives identified as hedging instruments
Assets						
Cash and balances with central banks						
Treasury bills and other eligible bills						
Loans to credit institutions			393,346			
Loans to the public			68,488,409			
Bonds and other interest-bearing securities	322,455	13,099,486				
Derivatives	59,117					1,406,935
Total financial assets	381,572	13,099,486	68,881,755	-	-	1,406,935
Financial liabilities						
Liabilities to credit institutions				424,038		
Borrowing from the public				12,675,325		
Debt securities in issue, etc.				36,509,041	26,368,664	
Derivatives	39,926					665,811
Subordinated liabilities				1,200,000		
Other liabilities				255,330		
Total financial liabilities	39,926	-	-	51,063,734	26,368,664	665,811
2016						
Assets						
Cash and balances with central banks						
Treasury bills and other eligible bills						
Loans to credit institutions			592,071			
Loans to the public			66,518,468			
Bonds and other interest-bearing securities	2,613,652	10,000,885				
Derivatives	38,796					2,521,977
Total financial assets	2,652,448	10,000,885	67,110,539	-	-	2,521,977
Financial liabilities						
Liabilities to credit institutions				1,002,399		
Borrowing from the public				11,731,390		
Debt securities in issue, etc.				36,148,939	25,411,672	
Derivatives	155,807					574,686
Subordinated liabilities				1,699,972		
Other liabilities				229,599		
Total financial liabilities	155,807	-	-	50,812,300	25,411,672	574,686

SEK thousand						
	Measured at FVTPL	Available- for-sale financial assets	Loans and receivables	Other financial liabilities	Liabilities in fair- value hedges adjusted for the fair value of hedged risk	Derivatives identified as hedging instruments
2017						
Assets						
Cash and balances with central banks						
Treasury bills and other eligible bills						
Loans to credit institutions			393,115			
Loans to the public			68,488,409			
Bonds and other interest- bearing securities	322,455	13,099,486				
Derivatives	59,117					1,406,935
Total financial assets	381,572	13,099,486	68,881,524	-	-	1,406,935
Financial liabilities						
Liabilities to credit institutions				424,038		
Borrowing from the public				12,675,325		
Debt securities in issue, etc.				36,509,041	26,368,664	
Derivatives	39,926					665,811
Subordinated liabilities				1,200,000		
Other liabilities				255,330		
Total financial liabilities	39,926	-	-	51,063,734	26,368,664	665,811
2016						
Assets						
Cash and balances with central banks						
Treasury bills and other eligible bills						
Loans to credit institutions			591,839			
Loans to the public			66,518,468			
Bonds and other interest- bearing securities	2,613,652	10,000,885				
Derivatives	38,796					1,801,977
Total financial assets	2,652,448	10,000,885	67,110,307	-	-	1,801,977
Financial liabilities						
Liabilities to credit institutions				1,002,399		
Borrowing from the public				11,731,390		
Debt securities in issue, etc.				36,148,939	25,423,199	
Derivatives	155,807					574,686
Subordinated liabilities				1,699,972		
Other liabilities				229,599		
Total financial liabilities	155,807	-	-	50,812,300	25,423,199	574,686

Note 33 Fair Value Disclosures

Group

SEK thousand	2017		2016	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Loans to credit institutions	393,346	393,346	592,071	592,071
Loans to the public	68,488,409	69,520,140	66,518,468	67,409,231
Bonds and other interest-bearing securities	13,421,941	13,421,941	12,614,537	12,614,537
Derivatives	1,466,052	1,466,052	1,840,773	1,840,773
Total assets	83,769,748	84,801,479	81,565,849	82,456,612
Liabilities and provisions				
Liabilities to credit institutions	424,038	424,038	1,002,399	1,002,399
Borrowing from the public	12,675,325	12,675,325	11,731,390	11,731,390
Debt securities in issue, etc.	62,877,705	63,933,290	61,572,138	62,632,533
Derivatives	705,737	705,737	730,494	730,494
Subordinated liabilities	1,200,000	1,271,340	1,699,972	1,745,157
Other liabilities	255,330	255,330	229,599	229,599
Total liabilities	78,138,135	79,265,060	76,965,993	78,071,572

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

Parent Company

SEK thousand	2017		2016	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Loans to credit institutions	393,115	393,115	591,839	591,839
Loans to the public	68,488,409	69,520,140	66,518,468	67,409,231
Bonds and other interest-bearing securities	13,421,941	13,421,941	12,614,537	12,614,537
Derivatives	1,466,052	1,466,052	1,840,773	1,840,773
Total assets	83,769,517	84,801,248	81,565,617	82,456,380
Liabilities and provisions				
Liabilities to credit institutions	424,038	424,038	1,002,399	1,002,399
Borrowing from the public	12,675,325	12,675,325	11,731,390	11,731,390
Debt securities in issue, etc.	62,877,705	63,933,290	61,572,138	62,632,533
Derivatives	705,737	705,737	730,494	730,494
Subordinated liabilities	1,200,000	1,271,340	1,699,972	1,745,157
Other liabilities	255,330	255,330	229,599	229,599
Total liabilities	78,138,135	79,265,060	76,965,993	78,071,572

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

Note 34 Fair-value hierarchy for financial instruments

Group

SEK thousand	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans and receivables								
Loans to credit institutions		393,346		393,346		592,071		592,071
Loans to the public			69,520,140	69,520,140			67,409,231	67,409,231
Financial assets at FVTPL								
Bonds and other interest-bearing securities	322,455			322,455	2,613,652			2,613,652
Interest-rate swaps		624		624				
Cross-currency interest-rate swaps		58,493		58,493		38,796		38,796
Derivatives identified as hedging instruments								
Interest-rate swaps		865,582		865,582		1,081,659		1,081,659
Cross-currency interest-rate swaps		541,353		541,353		720,318		720,318
Available-for-sale financial assets								
Bonds and other interest-bearing securities	13,099,486			13,099,486	10,000,885			10,000,885
Total assets — fair value	13,421,941	1,859,398	69,520,140	84,801,479	12,614,537	2,432,844	67,409,231	82,456,612
Financial liabilities at FVTPL								
Interest-rate swaps		34,929		34,929		145,251		145,251
Cross-currency interest-rate swaps		4,997		4,997		10,557		10,557
Derivatives identified as hedging instruments								
Interest-rate swaps		331,324		331,324		423,878		423,878
Cross-currency interest-rate swaps		334,487		334,487		150,809		150,809
Other financial liabilities								
Liabilities to credit institutions		424,038		424,038		1,002,399		1,002,399
Borrowing from the public		12,675,325		12,675,325		11,731,390		11,731,390
Debt securities in issue, etc.		63,933,290		63,933,290		62,632,533		62,632,533
Subordinated liabilities		1,271,340		1,271,340		1,745,157		1,745,157
Total liabilities — fair value		79,009,730		79,009,730		77,841,973		77,841,973

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

Inputs for assets/liabilities that are not based on observable market data. This level includes loans to the public, where the fair value comprises the sum of all future cash flows discounted at the bank's internal interest expense.

Cont. **Note 34** Fair-value hierarchy for financial instruments

Parent Company

SEK thousand	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans and receivables								
Loans to credit institutions		393,115		393,115		591,839		591,839
Loans to the public			69,520,140	69,520,140			67,409,231	67,409,231
Financial assets at FVTPL								
Bonds and other interest-bearing securities	322,455			322,455	2,613,652			2,613,652
Interest-rate swaps		624		624				
Cross-currency interest-rate swaps		58,493		58,493		38,796		38,796
Derivatives identified as hedging instruments								
Interest-rate swaps		865,582		865,582		1,081,659		1,081,659
Cross-currency interest-rate swaps		541,353		541,353		720,318		720,318
Available-for-sale financial assets								
Bonds and other interest-bearing securities	13,099,486			13,099,486	10,000,885			10,000,885
Total assets — fair value	13,421,941	1,859,167	69,520,140	84,801,248	12,614,537	2,432,612	67,409,231	82,456,380
Financial liabilities at FVTPL								
Interest-rate swaps		34,929		34,929		145,251		145,251
Cross-currency interest-rate swaps		4,997		4,997		10,557		10,557
Derivatives identified as hedging instruments								
Interest-rate swaps		331,324		331,324		423,878		423,878
Cross-currency interest-rate swaps		334,487		334,487		150,809		150,809
Other financial liabilities								
Liabilities to credit institutions		424,038		424,038		1,002,399		1,002,399
Borrowing from the public		12,675,325		12,675,325		11,731,390		11,731,390
Debt securities in issue, etc.		63,933,290		63,933,290		62,632,533		62,632,533
Subordinated liabilities		1,271,340		1,271,340		1,745,157		1,745,157
Total liabilities — fair value		79,009,730		79,009,730		77,841,973		77,841,973

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

Inputs for assets/liabilities that are not based on observable market data. This level includes loans to the public, where the fair value comprises the sum of all future cash flows discounted at the bank's internal interest expense.

Note 35 Assets and liabilities by significant currencies

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Assets				
EUR	400,133	443,955	400,133	443,955
Loans to credit institutions	400,133	443,955	400,133	443,955
Total assets	400,133	443,955	400,133	443,955
Liabilities				
EUR	400,133	443,955	400,133	443,955
Liabilities to credit institutions	400,133	443,955	400,133	443,955
CHF	1,689,677	1,828,545	1,689,677	1,828,545
EUR	3,639,883	3,703,975	3,639,883	3,703,975
NOK	2,340,693	2,532,195	2,340,693	2,532,195
Debt securities in issue	7,670,253	8,064,716	7,670,253	8,064,716
Total liabilities	8,070,386	8,508,671	8,070,386	8,508,671

Other assets and liabilities arise in SEK.

Most assets and liabilities in foreign currency are hedged against exchange-rate fluctuations using derivative contracts and the majority are reported using hedge accounting.

Note 36 Change in cash and cash equivalents

SEK thousand	Group		Parent Company	
	2017	2016	2017	2016
Cash and balances at beginning of year	0	237	0	237
Loans to credit institutions at beginning of year	592,071	396,214	591,839	392,262
Cash and balances at year end	0	0	0	0
Loans to credit institutions at year end	393,346	592,071	393,115	591,839
Total change in cash and cash equivalents	-198,725	195,620	-198,724	199,340

Note 37 Offsetting disclosures

Group and Parent Company

SEK thousand

Financial assets and liabilities covered by a contractual master netting agreement or similar, but not offset in the balance sheet.

	Amount recognised in the balance sheet 31 Dec 2017	Related amounts not offset in the balance sheet			Net amounts 31 Dec 2017
		Financial instruments subject to ISDA agreements	Paid (+) Received (-) collateral — securities	Paid (+) Received (-) collateral — securities	
Assets					
Derivatives, fair value	1,466,052	-401,405			
Derivatives, accrued interest	269,839	-93,088			
Derivatives, total value including accrued interest	1,735,891	-494,493		-379,760	861,638
Reverse repos					
Liabilities					
Derivatives, fair value	-705,737	401,405			
Derivatives, accrued interest	-93,088	93,088			
Derivatives, total value including accrued interest	-798,825	494,493			-304,332
Reverse repos					

	Amount recognised in the balance sheet 31 Dec 2016	Related amounts not offset in the balance sheet			Net amounts 31 Dec 2016
		Financial instruments subject to ISDA agreements	Paid (+) Received (-) collateral — securities	Paid (+) Received (-) collateral — securities	
Assets					
Derivatives, fair value	1,840,773	-581,547			
Derivatives, accrued interest	244,006	-120,157			
Derivatives, total value including accrued interest	2,084,779	-701,705		-421,237	961,838
Reverse repos					
Liabilities					
Derivatives, fair value	-730,494	581,547			
Derivatives, accrued interest	-126,265	120,157			
Derivatives, total value including accrued interest	-856,758	701,705			-155,054
Reverse repos	-558,444				-558,444

Amount 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 risk for 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. Moreover, Landshypotek is obliged to collect cash collateral from all counterparties for positive market values on derivative contracts entered into after 1 March 2017. 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. 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.

Note 38 Related-party disclosures

Group

SEK thousand	2017		2016	
Lending to key personnel	Lending	Interest income	Lending	Interest income
CEO and senior executives	6,171	12	4,188	16
Board of Directors	115,015	2,019	115,606	2,659
Total	121,186	2,031	119,794	2,675

Permanent employees

Permanent employees of Landshypotek are able to borrow money at advantageous terms. The types of loans include both secured and unsecured loans. All lending is subject to customary credit approval processes and the highest amount for which advantageous terms are available is MSEK 4. Credit information is obtained from Upplysningscentralen (UC). These loans may be subject to taxation as benefits. Since June 2017, unsecured loans have not been available. Loans taken prior to that date will expire at the end of the loan term. The interest rate is 0.23% for 2017. Loans of up to 75% of the LTV ratio are granted against collateral in agricultural properties, houses, tenant-owned apartments and holiday homes. Capital repayment plans apply for these loans over a maximum period of 40 years. The fixed-rate periods are one, two, three, four, five and eight years. The applicable interest rates are:

- 1 year 0.29%
- 2 years 0.37%
- 3 years 0.51%
- 4 years 0.66%
- 5 years 0.82%
- 8 years 1.42%

Loans to key personnel are managed under the conflict of interest rules.

Group

SEK thousand	2017		2016	
Deposits from key personnel	Deposits	Interest expense	Deposits	Interest expense
CEO and senior executives	2,592	16	2,505	26
Board of Directors	12,705	58	11,602	40
Total	15,297	74	14,107	66

Parent Company

SEK thousand	2017		2016	
Lending to key personnel	Lending	Interest income	Lending	Interest income
CEO and senior executives	6,171	12	4,188	16
Board of Directors	115,015	2,019	115,606	2,659
Total	121,186	2,031	119,794	2,675

Permanent employees

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- 1 year 0.29%
- 2 years 0.37%
- 3 years 0.51%
- 4 years 0.66%
- 5 years 0.82%
- 8 years 1.42%

Loans to key personnel are managed under the conflict of interest rules.

Parent Company

SEK thousand	2017		2016	
Deposits from key personnel	Deposits	Interest expense	Deposits	Interest expense
CEO and senior executives	2,592	16	2,505	26
Board of Directors	12,705	58	11,602	40
Total	15,297	74	14,107	66

Deposits from key personnel are subject to the same terms and conditions as other equivalent deposits with the company.

Note 39 Transition to IFRS 9

Accounting policies regarding IFRS 9

From 1 January 2018, financial instruments are recognised in accordance with IFRS 9 Financial Instruments. A summary of the accounting policies changed in conjunction with the transition follows below. Otherwise, the policies set out in Note 1 Accounting Policies apply.

Classification and measurement rules for financial assets

Financial assets are divided into the following categories for measurement:

- Financial assets at amortised cost
- Financial assets at FVTOCI
- Financial assets at FVTPL

The company's business model for administration of financial assets is used as the basis for the classification together with whether the contractual cash flows solely comprise capital and interest.

Financial assets at amortised cost

At specified times, the contractual terms for financial assets in this category must give rise to cash flows that only comprise repayments of capital and interest payments on the capital outstanding. The aim of the business model is to collect contractual cash flows on the holdings. Amortised cost is calculated using the effective-interest method.

Loans to credit institutions and loans to the public are classified as financial assets at amortised cost.

Financial assets that are not equity instruments at FVTOCI

At specified times, the contractual terms for financial assets in this category must give rise to cash flows that only comprise repayments of capital and interest payments on the capital outstanding. The aim of the business model is to collect contractual cash flows on the holdings and to sell the financial assets.

The business model for bonds and other interest-bearing securities included in the liquidity portfolio encompasses both the collection of contractual cash flows and selling. The liquidity portfolio will therefore be recognised at FVTOCI except in those cases where this would lead to inconsistencies in accounting.

Gains and losses that arise as a result of changes in value, which are not attributable to effective interest and impairment, are recognised after taxes via other comprehensive income in the fair-value reserve under equity until the financial asset is sold or derecognised from the balance sheet. The loss allowance for assets is also recognised in other comprehensive income.

When the financial asset is derecognised from the balance sheet, the accumulated gain or loss, previously recognised in equity, is recognised in profit or loss.

Financial assets at FVTPL

If a financial asset cannot be classified in one of the above categories, it must be recognised at fair value in profit or loss. The company also has the possibility on initial recognition, to irrevocably identify a financial asset as measured at fair value through profit or loss to eliminate or reduce accounting inconsistencies.

The category includes:

- derivatives
- bonds and interest-bearing securities in the liquidity portfolio that on initial recognition were measured at fair value in profit or loss to avoid mismatch in the income statement. This applies for holdings in the liquidity portfolio that comprise hedged items in an economic hedge, that is are not formally included in a hedging relationship, and where the hedging instrument is recognised at fair value in profit or loss.

Classification of financial liabilities

Under the main rule, all financial liabilities are classified as measured at amortised cost with certain exceptions, such as derivatives with negative values. The company also has the possibility on initial recognition, to irrevocably identify a financial liability as measured at fair value through profit or loss to eliminate or reduce accounting inconsistencies.

Aside from derivatives, Landshypotek recognises all liabilities at amortised cost. Derivatives with negative market values are recognised as financial liabilities at FVTPL.

Hedge accounting

Hedge accounting is divided into different types of hedging relationships, depending on the purpose of the hedge, which is described in Note 1 Accounting policies.

The application of hedge accounting requires an economic relationship between the hedging instrument and the underlying instrument. It also requires that the hedge ratio, that is the relationship between the volume in the underlying instrument and the hedging instrument, have the same relationship in risk management.

Cross-currency basis spreads from instruments identified as hedging instruments in a hedging relationship are excluded in certain cases from the hedging relationship. Value changes attributable to cross-currency basis spreads are recognised in other comprehensive income until such time as the hedged transaction has taken place. Thereafter, the value changes are returned to profit or loss.

Macro hedging of fair value in the lending portfolio will continue to be reported pursuant to IAS39.

Recognition of loss allowance

The bank recognises expected credit losses for the credit portfolio and the parts of the liquidity portfolio that is classified as financial assets at fair value through other comprehensive income. Each asset is categorised to one of three stages:

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

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

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

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

The ECLs for performing assets (stages 1 and 2) are initially measured according to the bank's calculation model. The calculation model weighs together the ECL outcomes based on three macro-economic scenarios (base, improved and deteriorated) for annual expected credit losses over the assets' lifetimes. ECLs for Stage 3 assets are estimated mainly through manual valuation of expected losses based on three scenarios.

For the credit portfolio, one of the scenarios comprises a forecast of the parameters for interest, GDP and the real estate price index. Forecasts are made of parameters for the first five years and, thereafter, the scenario returns to a long-term expected trend of up till 30 years. To ensure consistency, the risk estimate for the credit portfolio is based on the same calculations as for capital adequacy. ECLs for the bank's liquidity portfolio are calculated based on, inter alia, default

rates according to Standard & Poor's rating matrix and on internal historic LGD data from the bank's credits secured by mortgages on immovable property.

For the credit portfolio, changes in risk of default and property prices have the greatest impact on the size of the bank's expected credit losses.

Estimates and critical assessments

The bank's expected credit losses are subject to continual assessment at both individual and collective levels. Among other items, estimates are based on:

- risk estimates for default and LGD;
- forecasts of future interest-rate, GDP and property price trends; and
- parameters such as; established threshold values for determining if the risk has increased significantly and weighting shares for various scenarios.

The bank's ECL estimates are based on internal historical data, forecasts for macro parameters from well-reputed external sources and assessments by internal experts. Confirmed losses may deviate from the original loss allowances.

Classification and measurement	IAS 39		IFRS 9	
	Measurement category	Carrying amount	Measurement category	Carrying amount
Financial assets				
Loans to credit institutions	Loans and receivables	393,346	Amortised cost	393,346
Loans to the public	Loans and receivables	68,488,409	Amortised cost	68,520,205
Prepaid expenses and accrued income ¹⁾	Loans and receivables	435,825	Amortised cost	362,387
Bonds and other interest-bearing securities	Financial assets at FVTPL	322,455	Financial assets at FVTPL	322,455
	Available-for-sale financial assets	13,099,486	Financial assets at FVTOCI	13,099,486
Deferred tax assets		4,087		13,248
Derivatives	Financial assets at FVTPL	59,117	Financial assets at FVTPL	59,117
Derivatives	Financial assets included in hedge accounting	1,406,935	Financial assets included in hedge accounting	1,406,935

¹⁾ Provisions for credit losses pertaining to interest, IAS 39.

Classification of Landshypotek's financial assets under IAS 39, which essentially leads to the same results as under IFRS 9. As apparent from the above table, this means that:

- Assets classified under IAS 39 as Loans and receivables will continue to be classified as financial assets at amortised cost.
- Assets classified under IAS 39 as Available-for-sale financial assets will continue to be classified under IFRS as financial assets at fair value through other comprehensive income.
- Assets classified under IAS 39 as Assets at FVTPL will continue to be classified in this manner.

The implementation of IFRS 9 entails no change with regard to the recognition of financial liabilities.

Cont. **Note 39** Transition to IFRS 9

Summary of balance-sheet items	Carrying amount IAS 39 31 Dec 2017	Reclassi- fication	Remeasure- ment	Carrying amount under IFRS 9 1 Jan 2018
Amortised cost				
<i>Loans to the public</i>				
Closing balance IAS 39	68 488 409			
Provisions for credit losses		-20 357 ¹⁾	-41 642	
Interest-bearing receivables overdue		93 795		
Opening balance IFRS 9				68 520 205
<i>Deferred tax assets</i>				
Closing balance IAS 39	4 087			
Tax effect of provisions for credit losses			9 161	
Opening balance IFRS 9				13 248
<i>Prepaid expenses and accrued income</i>				
Closing balance IAS 39	435 825			
Provisions for credit losses		20 357		
Interest-bearing receivables overdue		-93 795		
Opening balance IFRS 9				362 387
Total, financial assets at amortised cost	68 928 321	0	-32 481	68 895 840

¹⁾ Provisions for credit losses pertaining to interest, IAS 39.

Summary provisions for credit losses	Carrying amount IAS 39 31 Dec 2017	Reclassi- fication	Remeasure- ments	Carrying amount IFRS 9 1 January 2018
Amortised cost				
Loans to the public	-48,686	-20,357	-41,642	-110,685
Prepaid expenses and accrued income	-20,357	20,357		0
Total, financial assets at amortised cost	-69,043	0	-41,642	-110,685
Financial assets at FVTOCI				
Bonds and other interest-bearing securities	0		-82	-82
Financial assets at FVTOCI	0		-82	-82

Statement of changes in equity, SEK thousand	Contributed capital	Other contributed capital	Hedging reserve	Fair value reserve		Actuarial differences	Tier 1 capital	Retained earnings	Total
				Change in fair-value	Provision for credit losses				
Equity, 31 December 2017	2,253,000	1,026,254	0	38,022	0	-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	0	38,086	-64	-27,966	700,000	1,771,651	5,760,961

Note 40 Appropriation of earnings

SEK

Retained earnings	SEK 1,714,278,992
Group contributions	SEK -170,100,000
Tax effect of Group contribution	SEK 37,422,000
Total	SEK 1,581,600,992

Net profit for 2017	SEK 255,308,659
At the disposal of the Annual General Meeting	SEK 1,836,909,651

Conditional on the approval of the Annual General Meeting, a Group contribution has been paid in the amount of SEK 170,100,000, which has reduced unrestricted equity as of the balance sheet date by SEK 132,678,000 after taking the tax effect into account. The proposed transfer of value in the form of a Group contribution reduces the company's capital quotient to 1.56. Unrealised changes in the value of assets and liabilities measured at fair value had a net negative impact on equity of SEK 8,641,181.

The Board of Directors is of the opinion that the proposed dividend, in the form of a Group contribution, does not compromise the company's or the Group's ability to discharge its obligations in the short and long term, nor to make any necessary investments. The proposed transfer of value can therefore be justified considering that stated in Chapter 17, Section 3, paragraphs 2–3 of the Swedish Companies Act. The Board of Directors proposes that the year's funds at the disposal of the Annual General Meeting, SEK 1,836,909,651, be carried forward.

The Board of Directors and CEO hereby certify 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 annual accounts have been prepared in accordance with generally accepted accounting principles and provide a fair representation of the Parent Company's position and performance.

Stockholm, 12 March 2018

Henrik Toll
Chairman

Anna-Karin Eliasson Celsing
Member

Hans Heuman
Member

Nils-Fredrik Nyblæus
Member

Johan Trolle-Löwen
Member

Synnöve Trygg
Member

Charlotte Önnestedt
Member

Helena Andersson
Member/Employee Representative

Hans Broberg
Member/Employee Representative

Catharina Åbjörnsson Lindgren
Acting CEO

Our audit report was submitted on 12 March 2018'
Öhrlings PricewaterhouseCoopers AB

Helena Kaiser de Carolis
Authorized Public Accountant
Auditor-in-charge

Sofie Nordenborg
Authorized Public Accountant

Auditor's report (unofficial translation)

To the Annual general meeting of the shareholders of Landshypotek Bank AB (publ),
corporate identity number 556500-2762

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Landshypotek Bank AB (publ) for the year 2017 except for the corporate governance statement and the statutory sustainability report on pages 39-53 and 33-38 respectively. The annual accounts and consolidated accounts of the company are included on pages 25-109 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not cover the corporate governance statement and the statutory sustainability report on pages 39-53 and 33-38 respectively. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of my (our) knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Audit scope

Our audit approach

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Provision for loan losses

The value of Landshypotek Bank's loan receivables are tested on an on-going basis at individual and collective levels. If necessary, receivables are impaired to the assessed recoverable amount.

In order to estimate the recoverable amount, a number of assessments are carried out, including an assessment of the counterparty's repayment capacity and the realisation value of any collateral. In order to estimate the recoverable value, Landshypotek Bank makes a number of judgments on, amongst other things, the borrowers' financial repayment capacity and the realisation value of the security. These judgments and assumptions always contain a degree of subjectivity and the actual outcome can deviate from these judgments and assumptions.

As per 31 December 2017, the reported value of Lending to the public amounted to MSEK 68,488 of which specific provisions amounted to MSEK -44 and collective provisions amounted to MSEK -4.

Landshypotek applies IFRS 9 Financial Instruments from 1 January 2018. To estimate the recoverable amount of loan receivables under IFRS 9 requires further judgments in comparison to IAS 39 such as how a significant increase in credit risk should be measured and assessments of forward looking information impacting the the recoverable amount.

The impact on equity of transition to IFRS 9 amounted to MSEK -32.

Refer to the Annual Report, Note 1 Accounting principles, Note 2 regarding Credit risks, Note 10 Net loan losses and Note 13 Loans to the public and Note 39 Transition to IFRS 9.

Our audit included both tests of internal controls of the loan loss provisioning process and substantive procedures regarding the loan loss provisions.

In our examination of internal controls in the credit provision process the following key controls implemented by the company have been tested:

- Identification of loan receivables where an impairment test is to be undertaken
- Execution and documentation of the impairment test
- Calculation of the write-downs based on the discounted expected future cash flows
- Recording of the provisions in the general ledger

In our substantive procedures performed on specific loan loss provisions we have selected a sample of loan receivables where a so called loss event was identified. For these loan receivables, we have obtained Landshypotek's documented impairment test, assessed the position taken by Landshypotek regarding the realisation value of the collateral based on available information, checked the calculation of the write-down amount and reconciled this amount with the accounting records.

We have examined and assessed the collective impairment tests executed by Landshypotek and, as applicable, reconciled the calculated provisions with the accounting records.

Our audit of the the impact from the transition to IFRS 9 has included evaluation of Landshypotek's documentation of critical judgment in applying IFRS 9, validating that these critical judgments have been applied in the system calculating loan loss provisions, sample based recalculation of provision amounts and analytical review of the outcome of the calculation of expected credit losses.

Valuation of financial instruments – derivatives

Landshypotek Bank's derivative portfolio comprises interest and cross currency interest rate swaps traded on the OTC market.

The derivatives are valued based on established valuation models based on observable market data. The valuation includes a certain degree of subjectivity regarding, primarily, the valuation of the credit risk component and the interpolation of market data with longer tenors.

As per 31 December 2017, the reported value of Derivatives amounted to MSEK 1 466 Assets and MSEK 706 Liabilities.

Refer to the Annual Report, Note 1 Accounting principles, Note 15 and 25 Derivatives, Note 34 Fair value disclosures and Note 2 regarding Market Risk.

Our audit has included both tests of the internal control of the valuation process regarding derivatives and substantive procedures regarding the valuation.

In our audit of internal controls in the valuation process, the following key controls applied by the company have been tested:

- Price validation against counterparty prices
- Validation of market data
- Model validation
- General IT controls in the finance system

In our substantive procedures, we have verified a sample of valuations against valuations obtained directly from the counterparty. We have also examined the valuation of the credit risk component.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-25 and in the sustainability report on pages 33-38. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal

control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Landshypotek Bank AB (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

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

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

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

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

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 39-53 has been prepared in accordance with the Annual Accounts Act.

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

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

The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on pages 33-38, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR:s auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared. Öhrlings PricewaterhouseCoopers AB, 113 97 Stockholm, was appointed auditor of Landshypotek Bank AB (publ) by the general meeting of the shareholders 27 April 2017. We have been the company's auditor since the company obtained its license to operate. According to the transition rules in the Audit Regulation (537/2014) Öhrlings PricewaterhouseCoopers AB cannot be re-elected after the annual general meeting 2024.

Stockholm 12 March 2018
Öhrlings PricewaterhouseCoopers AB

Helena Kaiser de Carolis
Authorized Public Accountant
Auditor-in-charge

Sofie Nordenborg
Authorized Public Accountant

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Images from Landshypotek Bank's archive.



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