



Landshypotek Bank

Landshypotek Bank AB Interim report 2017 #3

January – September 2017 (compared with year-earlier period)

Catharina Åbjörnsson Lindgren, Acting CEO of Landshypotek Bank, comments on Q3 2017:

We continue to strengthen profitability in our existing operations with growth in both lending and deposits. However, the quarter was marked chiefly by our market launch as a mortgage bank. Over the summer, we have run numerous activities to strengthen our market presence in farming and forestry, but we have also taken the first step in presenting ourselves as a bank for homeowner mortgages.

January – September 2017

compared with January – September 2016

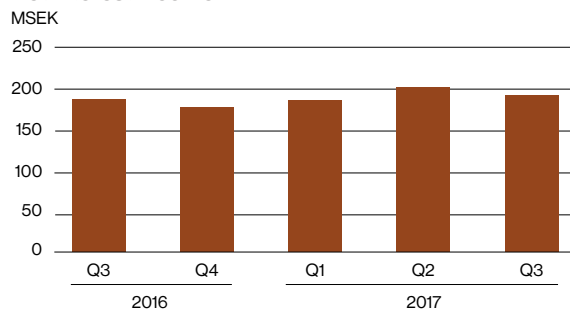
- Operating profit amounted to MSEK 233.9 (349.1).
- The underlying operating profit, excluding the net result of financial transactions, was MSEK 277.2 (279.8).
- Net interest income amounted to MSEK 577.8 (561.1).
- Costs totalled MSEK 293.7 (279.4).
- Net loan losses were MSEK 7.9 (6.8).
- Lending amounted to SEK 67.6 billion (66.2).
- Deposits and borrowing amounted to SEK 12.5 billion (11.7).

July – September 2017

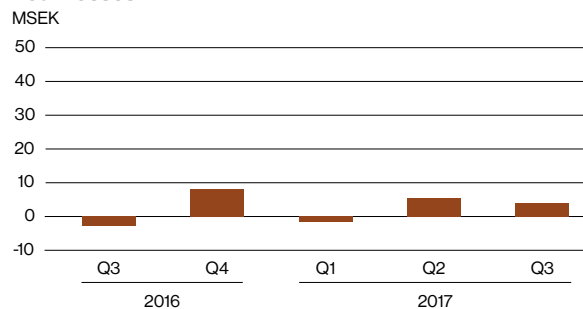
compared with April – June 2017

- Operating profit amounted to MSEK 86.2 (83.2).
- The underlying operating profit, excluding the net result of financial transactions, was MSEK 86.5 (93.1).
- Net interest income amounted to MSEK 190.8 (201.4).
- Costs totalled MSEK 100.4 (103.3).
- Net loan losses were MSEK 4.1 (5.5).
- Lending amounted to SEK 67.6 billion (67.2).
- Deposits and borrowing amounted to SEK 12.5 billion (12.4).

Net interest income



Loan losses



Landshypotek Bank

Landshypotek Bank is one of the ten largest banks in Sweden and comprises a unique bank in the Swedish banking market. By financing investment in the countryside, the bank and its customers generate growth in Sweden. Operations focus primarily on lending for farming and forestry. In 2017, the bank started offering mortgages and broadened operations to reach more customers.

Landshypotek Bank is a wholly owned subsidiary of Landshypotek Ekonomisk Förening. Lending is primarily against collateral in the form of farming and forestry real estate. In 2017, the bank started offering homeowner mortgages outside the major cities. Landshypotek Bank also offers savings accounts to companies and the general public in Sweden.

The bank's borrowers in farming and forestry become members of the association, unlike savers and mortgage customers. Together, these more than 40,000 members own the bank and share in its profits. All business and licensable activities are conducted within the bank. The bank has some 170 employees working from 19 offices nationwide.

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

- For a richer life in the countryside: The bank's brand promise: "*For a richer life in the countryside*" is interwoven throughout the bank's and its employees working days. The distribution of the bank's surplus to farmers and foresters comprises another key principle for the value-driven operation that is Landshypotek Bank.
- Being close to customers with both larger and smaller farming and forestry operations: The bank's strength in financing farming and forestry are its close links to the sectors. Account managers at offices around the country often have backgrounds in agriculture and forestry, and banking and financing expertise. The bank's close relationships with customers are complemented by the regional member organisation of the cooperative association.
- Strength of the member organisation: 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 the members.
- The 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 to inspire all work conducted at the bank. Employees of Landshypotek Bank apply the following values: Customer-centric focus, drive, enthusiasm and together.
- Modern system platform: Landshypotek Bank has history extending more than 180 years, 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. This year, a new platform has been launched that facilitates convenient online applications for and granting of loans. Digitalisation enables more efficient work and improves possibilities for customers.

Events in Q3 2017:

- The bank held a mortgage tour and travelled around the country presenting the new mortgage offering to the general public. Over 21 days, the bank visited eight venues, including housing fairs and harvest festivals. Many new contacts were made and there was substantial interest in finding out more about the bank.
- The introduction to the market started of Landshypotek Bank as a mortgage provider. The mortgage tour was combined with a marketing campaign and a separate introductory offer. The activities comprised the first step in introducing the bank to a broader public.
- The bank continued to drive the "*Den underbara smakresan*" initiative through which Landshypotek Bank raises awareness of the skills and work behind Swedish produce. Interest in Swedish food and Swedish produce is considerable and is growing.
- The bank's work with blockchain technology was nominated for the 2017 Digital Project of the Year award. The project aimed to increase the efficiency of property transactions by using blockchain technology. The work is being driven together with Swedish Land Registry (Lantmäteriet), Chroma Way, Kairos Future, SBAB and Telia. Lantmäteriet and the project were nominated for the 2017 Digital Project of the Year award.
- Summer and autumn are the time for outdoor expos. Landshypotek Bank participates at these expos and meets customers and stakeholders in the agroforestry industries and a number of fairs and meetings, both large and small, around the country.

Landshypotek Bank – in brief

- Founded in 1836
- Customers in the farming and forestry sector, as well as mortgage borrowers and savers
- Loans outstanding of SEK 67.6 billion
- Savings deposits of SEK 12.5 billion
- Owned by its farming and forestry loan customers
- The surplus from operations returns to farming and forestry. SEK 158 million of the earnings for 2016 went back to the members
- Has some 170 employees working from 19 offices.

Becoming a broader bank

After 181 years as the bank lending to farmers and foresters, this summer, we started our market introduction as a mortgage bank. Homeowner mortgages will make us a broader bank for increasing numbers of customers across the country.

However, we are not the only new entry to the mortgage market, many different types of competitors are also presenting their mortgage offering. Many of the established banks are using alternative and new faces, such as loan brokers, to meet customers. Unlike these new competitors however, we have almost two centuries of experience of credit granting and thus a completely different grade of safety. A long-term responsibility mindset pervades the entire bank. Our new step comprises a long-term commitment to customers.

But we do share customer insights with the new competitors: The Swedish mortgage market need more banks and mortgages require new approaches.

The latest Swedish Quality Index for banks confirms these customer 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 need for a new, but safe and different bank in the mortgage market was confirmed at the onset of autumn when we met our new customer group. With our mortgage trailer, we have visited harvest festivals, city festivals and housing fairs across the country. The meetings confirmed the findings of Swedish Quality Index. Substantial interest exists for an established bank that stands for safety but which has also built societal responsibility into its business model. And done this through almost two centuries of enabling Swedish food production, open landscapes and well-kept forests.

The introduction of mortgages opens another level of visibility. Over the summer, we presented the "*Den underbara smakresan*" initiative — through which we showcase Swedish agricultural entrepreneurs, the primary producers. As part of this initiative we are showcasing the skills and work behind the food on our tables. We meet our fantastic entrepreneurs on a daily basis, but through the "*Den underbara smakresan*" initiative we provide more opportunities to learn from their know-how and experiences.



During our mortgage introduction, we strengthened our offering with an extremely competitive interest rate as part of a separate, time-limited initiative. The increased presence means more customers are finding our new digital mortgage application. We thus receive numerous testimonials regarding the speed and ease of becoming one of our customers, as well as feedback together with opportunities to adapt to become an even better bank.

We are still at the outset of our transition into a broader bank and each new step entails a long-term approach.

It would be nice if such an approach also applied to public policies. Previous measures to meet growing indebtedness, including the statutory repayment requirement, appear to have had the intended dampening effect on the mortgage market. The new, even tougher requirements announced by the politicians will be implemented in record time and, in current conditions, risk having a major and unexpected market impact. Short-termism and dramatic change do not benefit Swedish mortgage customers.

The summer months are also the time when agroforestry expos are organised. Landshypotek Bank has attended many of these through its business organisation but also through our elected representatives in the cooperative association. Together with the association, we have a strong agroforestry network. The elected representatives complement and strengthen our market presence through activities and in a separate, exciting initiative for the future, ambassadors in this network are being developed and complemented.

Mortgages are up and running, albeit on a limited scale. We continue to grow our deposits faster than most others in the market. We continue to grow our lending to the farming and forestry sectors. Growth strengthens profitability.

We are strengthening our customer relevance and relationships in all our segments, and striving to increase efficiency in our credit processes. We have worked hard to open the possibility of becoming an even better bank to save with and borrow from — for even more customer groups.

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

Our operating environment

Landshypotek Bank's operations and customers are impacted by financial market trends, the economy and the openings for farmers and foresters to market their products in domestic and international markets.

In several markets around the world, economic growth is strong and the forward-looking indicators are positive. However, the central banks continue to keep interest rates low. Even the Swedish economy has continued to trend robustly, which is beneficial for all of Landshypotek Bank's customer groups.

Financial markets

The eurozone economic indicators are increasingly pointing up with falling unemployment, increased employment and gradually rising capacity utilisation. GDP growth is generally stable and more evenly distributed between the member states than previously. Despite this, the inflation upturn is slow and underlying inflation remains low. At its most recent monetary policy meeting, the ECB left all key rates unchanged and bond purchases continue with unabated strength. The lack of wage-driven inflation and a stronger euro imply that the ECB will continue its monetary easing policy for a while yet, and this is reflected in continued low, long-term interest rates in the European market.

The US economic data over the summer indicated a continued positive economic trend. Q2 growth had the highest increase rate for two years. The sustained strength of the labour market continued to boost private consumption and private investment. However, the impact on growth from the severe storms that hit the US in September is difficult to forecast. The August inflation figures were slightly higher than expected, which fuelled market expectations of a rate rise in December. The U.S. central bank also confirmed that it will start to reduce its balance sheet in October.

Summary Landshypotek Bank

	Q3 2017	Q3 2016	Q2 2017	Jan-Sep 2017	Jan-Sep 2016	Full-year 2016
Net interest income, MSEK ¹⁾	190.8	186.8	201.4	577.8	561.1	737.2
Operating profit, MSEK	86.2	146.3	83.2	233.9	349.1	353.4
Profit after tax, MSEK	64.3	114.1	61.1	173.3	272.8	275.6
Loans to the public, MSEK	67,619	66,240	67,219	67,619	66,240	66,518
Increase in lending, %	0.6	0.9	1.0	1.7	2.7	3.1
Interest margin, % ²⁾	1.1	1.1	1.2	1.1	1.1	1.1
Borrowing/deposits from the public balance, MSEK	12,543	11,704	12,396	12,543	11,704	11,731
Increase in borrowing/deposits, %	1.2	4.0	2.9	6.9	13.5	13.8
C/I ratio including financial transactions ³⁾	0.53	0.37	0.54	0.55	0.44	0.52
C/I ratio excluding financial transactions ⁴⁾	0.53	0.44	0.51	0.51	0.49	0.54
Loan loss level, % ⁵⁾	0.03	-0.02	0.03	0.02	0.01	0.02
Total capital ratio, %	42.3	36.5	42.2	42.3	36.5	39.9
Rating, long-term						
Standard & Poor's, Covered bonds	AAA	AAA	AAA	AAA	AAA	AAA
Standard & Poor's	A-	A-	A-	A-	A-	A-
Fitch	A	A	A	A	A	A
Average number of employees	171	162	169	171	162	162

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

²⁾ Net interest income on an annualised basis in relation to average lending during the period.

³⁾ Costs in relation to income including the net result of financial transactions.

⁴⁾ Costs in relation to income excluding the net result of financial transactions.

⁵⁾ Net loan losses on an annualised basis in relation to average lending during the period.

The Swedish economy continues to perform well. Second quarter GDP was however revised slightly downward but remains significantly better than at the start of the year. The labour market appears to remain strong with falling unemployment and high employment growth. Inflation for August exceeded the Riksbank's forecast and outcomes for the past five months have averaged above the Riksbank's 2.0 percent target. The market now questions how long the Riksbank can maintain its current expansionary monetary policy, given the strong growth, continued increase in household debt and the government's expansive budget proposal presented in September.

Housing market

Low interest rates combined with the strong Swedish economy continue to stimulate prices in the housing market. However, with less than one year to the general election, activity levels pertaining to housing policy are rising. The increased supply of mainly new tenant-owner apartments, repayment requirements and the inclusion of tax relief in the political agenda could impact the housing market. A slight slowdown has already been noted in the market towards the end of the third quarter. However, there is still a considerable shortage of apartments in large parts of the country, not least for the elderly and young people.

Market for forestry products

A buoyant construction sector and the increased demand for paper products, both domestic and abroad, means that industry is utilising its full capacity. This boosts both the individual forester's economy and the country as a whole. In 2016, forestry already accounted for around SEK 90 billion in net exports of forest products. Net exports are expected to increase further in 2017.

The outlook for forest owners who want to harvest is positive over a 3–5 year perspective. Interest remains high in buying forest, which means that property prices are rising in all regions. The concerns that arose in response to the proposed harvesting restrictions at EU level have declined since the proposals were reviewed.

Market for dairy products

Milk prices are increasing worldwide and EU exports to mainly China and Southeast Asia is rising. New trade agreements with, for example Canada, are expanding export opportunities for primarily cheese, which has benefited the price trend. A particularly strong trend has been recorded by butter prices, which reached record levels. To date, milk powder has not really followed the same trend. Dairy companies with an international market can utilise this, while more domestic-market oriented

companies could have more difficulty raising milk prices to producers. Overall, increased milk prices together with relatively low feed prices significantly improved dairy companies' finances.

Market for meat products

Higher prices are still being paid for Swedish beef relative to the EU average. The continued strong demand for Swedish beef is one reason and the intense competition between slaughterhouses another. A large number of new facilities for beef production are being built, which will increase efficiency. At present, however, there is a healthy balance between supply and demand.

Consumption of poultry, particularly chicken, continues to increase. Swedish prices are in line with the EU average.

Pigmeat prices have risen across the EU during the summer and have now closed the price gap with Swedish pigmeat, which remains high.

Conditions for arable farming

The digitalisation wave washing over arable farming increases the possibilities for detailed control and monitoring. This increases possibilities for operating larger units more efficiently. Due to rising arable land prices, demand is also increasing for leasing land.

Thus far, cereal prices for harvests in Sweden have been disappointing. The market is under pressure from reports of good harvests and rising stocks. Not least, Russia has appeared as a major exporter and price cutter in the international market. The harvest was very protracted in parts of Sweden, which negatively affected quality, quantity and costs. The rapid pace of change in the cereals market has vitalised discussions about risk management tools such as hedging and futures.

Landshypotek Bank's interest rates

At these low interest-rate levels, Landshypotek Bank has maintained competitive and stable interest rates. Only marginal adjustments have been made to interest rates during the quarter.

Landshypotek Bank AB

Landshypotek Bank mainly specialises in the financing of farming and forestry. The bank also finances businesses and housing across Sweden. With loans outstanding of SEK 67.6 billion, the bank accounts for slightly more than a quarter of total lending with farming and forest properties as collateral. The bank is owned by its loan customers in the farming and forestry sector, organised as members of Landshypotek Ekonomisk Förening. Landshypotek Bank now focuses on more customer groups, such as savers and homeowners.

Financial report for the first three quarters of 2017

Consolidated operating profit for the first three quarters of 2017 amounted to MSEK 233.9, up MSEK 115.1 year-on-year (MSEK 349.1). The decline in earnings was primarily attributable to a year-on-year decrease in the net result of financial transactions of MSEK 112.5. Excluding the net result of financial transactions, operating profit amounted to MSEK 277.2 (279.8), down MSEK 2.6.

Net interest income and volumes

Net interest income totalled MSEK 577.8 (561.1), up 3.0 percent year-on-year.

Interest income amounted to MSEK 981.2 (1,060.5), down MSEK 79.3 year-on-year.

Lending increased SEK 1.1 billion (1.7). Interest income from lending declined on the back of loan renewals being carried out at lower market interest rates.

The return on the liquidity portfolio decreased to MSEK 25.7 (78.7) due to reinvestments at lower interest rate levels.

Interest expense amounted to MSEK 403.5 (499.4), down MSEK 95.9 compared with the first three quarters of 2016. The lower interest expense was mainly attributable to the continued decline of market rates. Interest

expenses decreased more than interest income and led to improved interest margins.

Interest expense included fees to the Swedish National Debt Office's resolution fund, which amounted to MSEK 42.8 (21.7) for the first nine months of 2017. This was a year-on-year increase of MSEK 21.1 as a consequence of the fee being raised.

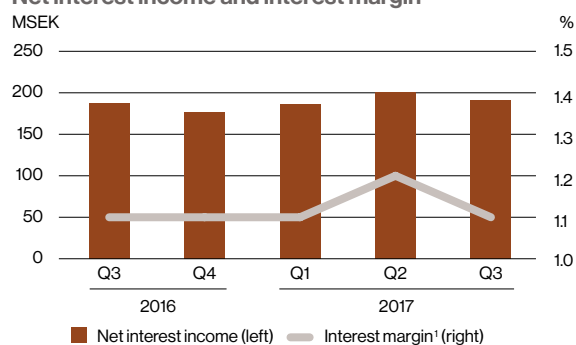
Other operating income

Other operating income amounted to an expense of MSEK 42.2 (income: 74.2). Compared with the same period in 2016, this was a decline of MSEK 116.4 and was due to a decline of MSEK 112.5 in the net result of financial transactions to an expense of MSEK 43.3 (income: 69.3). This amount, comprised an unrealised loss of MSEK 24.6 and a realised loss of MSEK 18.7. The primary cause for the fall was lower market values for the basis-rate swaps used by the bank to protect against exchange-rate movements in international financing.

Costs

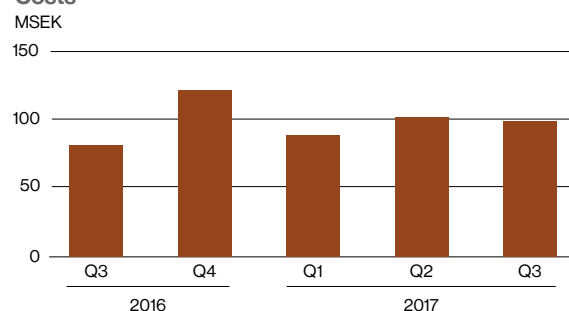
Costs amounted to MSEK 293.7 (279.4), which was slightly higher year-on-year. The bank conducted several marketing activities in the spring, such as the "Den underbara smakresan", initiative to increase public awareness of the bank and the brand. The bank started its campaign to launch its mortgage service after the summer.

Net interest income and interest margin



¹⁾ Net interest income on an annualised basis in relation to average lending during the period.

Costs



Operating profit

	Jan–Sep 2017	Jan–Sep 2016
Net interest income, MSEK ¹⁾	577.8	561.1
Other operating income, MSEK ¹⁾	-42.2	74.2
Of which net result of financial transactions	-43.3	69.3
Costs, MSEK	293.7	279.4
C/I ratio, including the net result of financial transactions	0.55	0.44
C/I ratio, excluding the net result of financial transactions	0.51	0.49
Net recognised loan losses, MSEK	7.9	6.8
Loan loss level, %	0.02	0.01
Operating profit, MSEK	233.9	349.1
Operating profit excluding the net result of financial transactions	277.2	279.8

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

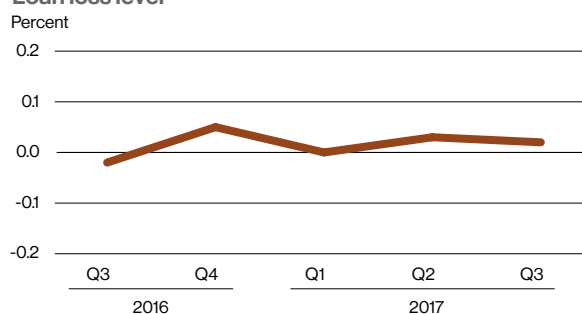
Loan losses and doubtful credits

Net loan losses in 2017 amounted to MSEK 7.9 (6.8). Both confirmed losses and provisions for probable loan losses declined year-on-year. However, recoveries were also slightly lower. The provisions pertained to individual commitments within varying types of farming and geographic locations.

At the end of the third quarter, collective provisions totalled MSEK 4.8 (0.0) and were attributable to wind power commitments.

Net doubtful credits after provisions amounted to MSEK 134.9, corresponding to 0.20 percent of loans outstanding. In the corresponding year-earlier period, doubtful credits amounted to MSEK 207.2, corresponding to 0.31 percent of loans outstanding. The continued decrease in doubtful credits was due to a lower inflow of doubtful credits and a number of commitments ending during the period. The quality of the credit portfolio improved year-on-year.

Loan loss level



Comparison with the second quarter of 2017

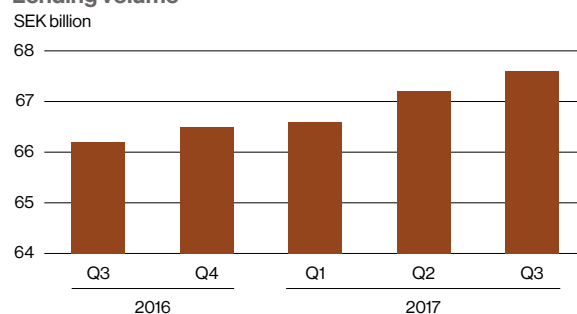
Operating profit for Q3 2017 amounted to MSEK 86.2 (83.2). Excluding the net result of financial transactions, operating profit for Q3 amounted to MSEK 86.5, down MSEK 6.6 compared with the second quarter this year.

Assets

The largest asset item in the balance sheet is Loans to the public, which increased SEK 1.1 billion in the first nine months of 2017 to SEK 67.6 billion. The increase corresponded to lending growth of 1.7 percent, compared with 2.7 percent in the corresponding period in 2016. The geographic distribution of lending is stable over time.

At 30 September 2017, Landshypotek Bank's liquidity portfolio totalled SEK 15.1 billion (13.2). The portfolio comprises Swedish covered bonds with the highest credit rating and bonds issued by Swedish municipalities.

Lending volume



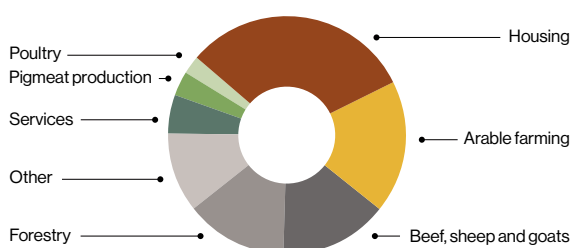
Balance Sheet

Assets, MSEK	30 Sep 2017
Chargeable treasury bills	1,200
Loans to credit institutions	569
Loans to the public	67,619
Bonds and other interest-bearing securities	15,125
Derivatives	1,435
Non-current assets	108
Prepaid expenses, etc.	644
Total assets	86,701

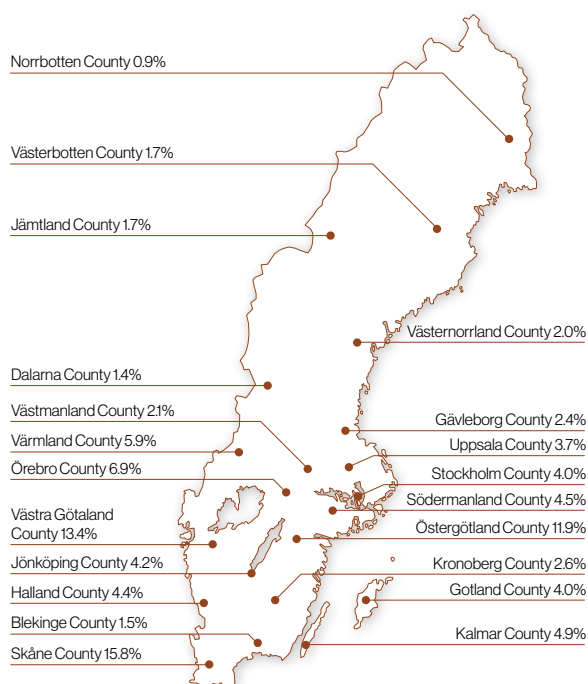
Liabilities, MSEK	30 Sep 2017
Liabilities to credit institutions	393
Borrowing/deposits from the public	12,543
Debt securities in issue	65,552
Derivatives	733
Other liabilities	1,865
Equity	5,615
Total liabilities	86,701

The holding of interest-bearing securities functions as a liquidity reserve. At 30 September, the liquidity portfolio was 2.4 (1.4) times larger than refinancing requirements for the next six months. The ratio is affected by the allocation of maturing debt for longer than six months and can, therefore, change between measurement periods.

Breakdown of first lien mortgage lending



Geographic distribution of Landshypotek Banks lending



Liabilities Funding

Landshypotek Bank actively raises funds via bond markets, and always strives to meet investors' wishes regarding tenors and interest-rate structures.

Investor relations are of major importance as part of ensuring that investors' levels of awareness and interest are maintained in Landshypotek Bank. In the first nine months, covered bonds to a value of SEK 12.4 billion were issued. In addition, senior bonds were issued to a value of approximately SEK 5.7 billion and subordinated loans to a value of SEK 0.7 billion. During the same period, bonds have matured or been repurchased to a value of approximately SEK 11.1 billion, of which about SEK 8.0 billion pertained to covered bonds.

In general, the finance market for Nordic banks functioned smoothly in the first three quarters of 2017. Landshypotek Bank was very successful in its funding activities and demand for Landshypotek Bank's bonds was favourable.

Funding

MSEK	Issued 30 Sep 2017	Limit	Issued 31 Dec 2016
Swedish commercial paper	0	10,000	2,880
MTN programme	48,549	60,000	44,123
EMTN programme	12,263	33,665 ¹⁾	9,931
Registered Covered Bonds	3,280		3,354
Subordinated loans	1,900		1,700

¹⁾ MEUR 3,500

At the end of the first quarter, Landshypotek Bank issued a new perpetual subordinated loan for MSEK 700. The aim was to strengthen and to optimise the bank's own funds and enable lending growth. The issue replaced a time-limited subordinated loan of MSEK 500 that matured in the second quarter of 2017.

Borrowing/deposits

Borrowing/deposits amounted to SEK 12.5 billion (11.7) at the end of September 2017. Deposits increased 6.9 percent (13.5). Inflows of deposits remained stable and Landshypotek Bank's market share was unchanged.

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.

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

Group structure

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

All operations are conducted exclusively in Landshypotek Bank.

Events after the end of the period

The Board of Directors of Landshypotek Bank decided on 18 October to appoint Per Lindblad as CEO of Landshypotek Bank. He will assume his post not later than 1 February 2018.

Stockholm, 27 October 2017

Catharina Åbjörnsson Lindgren
Acting CEO of Landshypotek Bank

This year-end report has been subject to review by the company's auditors, see page 23.

Accounting policies

This Report encompasses the Group comprising Landshypotek Bank AB and two dormant subsidiaries. In addition, Landshypotek Bank AB is reported separately. The main difference between the separate company Landshypotek Bank and the Group is the reporting of defined-benefit

pensions, according to IAS 19. Amounts in parentheses refer to the corresponding period in the preceding year.

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting. From 2017, net commission income has been reclassified from Other operating income to Net interest income. Accounting policies, calculation methods and risk management are unchanged compared to those applied in the most recent Annual Report (see www.landshypotek.se, Financial info).

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments will be introduced on 1 January 2018.

The classification of Landshypotek's assets pursuant to IFRS 9 will, in all material aspects, correspond with IAS39, which means that:

- Assets classified under IAS 39 as Loans and receivables will continue to be classified as financial assets measured at amortised cost.
- Assets classified under IAS 39 as Available-for-sale financial assets will continue to be classified under IFRS 9 as financial assets measured 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 classification of assets pursuant to the above will have no material impact on the financial reporting.

A new model for calculating provisions for credit losses has been prepared in accordance with IFRS 9, however, some work with testing remains to be done. The model applies a forward-looking approach, whereby expected loan losses are estimated and categorised to one of three stages:

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

The value of loan losses is measured at both individual and collective levels. Valuations will be based on forecasts covering interest rates, GDP and property price trends.

On the transition at 1 January 2018, the bank's assessment is that provisions will increase, which will be recognised in equity. The change is not expected to have any significant impact on capital adequacy.

In terms of the accounting for existing hedging relationships, the bank foresees limited impact compared with how accounting is performed under IAS 39. IFRS 9 is not expected to have any material impact on the income statement, balance sheet and total equity with regard to the application of hedge accounting. Macro hedging of fair value in the lending portfolio will continue to be reported pursuant to IAS 39.

Income Statement

Landshypotek Bank AB Group, SEK thousand	Note	Q3 2017	Q3 2016	Q2 2017	Jan–Sep 2017	Jan–Sep 2016	Full-year 2016
Interest income		321,213	341,167	337,217	981,242	1,060,510	1,368,377
Interest expense		-130,385	-154,415	-135,784	-403,479	-499,413	-631,156
- of which: deposit insurance fees		-1,695	-1,860	-2,222	-6,138	-5,170	-7,121
- of which: resolution fund fee		-14,169	-7,114	-14,523	-42,776	-21,707	-28,821
Net interest income	Note 1	190,829	186,752	201,433	577,763	561,098	737,222
Net result of financial transactions		-289	39,065	-9,874	-43,285	69,254	26,158
Other operating income		91	440	415	1,037	4,909	7,315
Total operating income		190,631	226,258	191,973	535,515	635,261	770,694
General administrative expenses		-96,620	-79,920	-99,489	-283,558	-268,154	-388,162
Depreciation, amortisation and impairment of tangible and intangible non-current assets		-3,737	-2,942	-3,736	-10,048	-11,099	-14,050
Other operating expenses		-1	-67	-26	-106	-152	-224
Total expenses before loan losses		-100,358	-82,928	-103,250	-293,712	-279,405	-402,436
Profit before loan losses		90,274	143,329	88,723	241,804	355,856	368,258
Net loan losses	Note 2	-4,077	2,939	-5,484	-7,856	-6,794	-14,814
Operating profit		86,197	146,268	83,239	233,948	349,062	353,444
Income tax for the period		-21,871	-32,161	-22,119	-60,607	-76,256	-77,823
Net profit for the period		64,326	114,107	61,120	173,341	272,806	275,621

Statement of Comprehensive Income

Landshypotek Bank AB Group, SEK thousand	Q3 2017	Q3 2016	Q2 2017	Jan–Sep 2017	Jan–Sep 2016	Full-year 2016
Net profit for the period	64,326	114,107	61,120	173,341	272,806	275,621
Other comprehensive income						
<i>Items to be reclassified to profit or loss</i>						
Cash-flow hedges	831	951	865	2,639	10,445	11,812
Available-for-sale financial assets	-4,244	28,358	36,726	27,327	56,870	62,087
Tax on items to be reclassified	751	-6,448	-8,270	-6,592	-14,809	-16,258
<i>Total, items to be reclassified</i>	<i>-2,662</i>	<i>22,861</i>	<i>29,322</i>	<i>23,373</i>	<i>52,506</i>	<i>57,641</i>
<i>Items that are not reclassified</i>						
Actuarial differences for defined-benefit pensions ¹⁾	-4,626	-2,144	-12,194	-6,464	-57,417	-38,811
Tax items that are not reclassified	1,018	472	2,682	1,422	12,632	8,538
<i>Total, items that are not reclassified</i>	<i>-3,608</i>	<i>-1,672</i>	<i>-9,512</i>	<i>-5,042</i>	<i>-44,785</i>	<i>-30,273</i>
Total other comprehensive income	-6,270	21,188	19,810	18,331	7,720	27,369
Comprehensive income for the period	58,056	135,295	80,930	191,672	280,527	302,990

¹⁾ Compared with the January – September 2016 period, defined-benefit pensions increased to MSEK -6.5 (-57.4) in the January – September 2017 period. These were the revaluation effects from defined-benefit pensions that were recognised under Other comprehensive income and represent the difference that arose between the actual outcome and budget. Therefore, the outcome for each period should be compared against the budget for the respective period.

The revaluation effect on the commitment in the January – September 2017 period was a loss of MSEK 5.0, which was largely attributable to a change in the discount rate to 2.55 percent (budgeted discount rate 2.65 percent).

In addition, a revaluation effect on plan assets amounting to a loss of MSEK 1.5 arose during the period. Accordingly, a total revaluation loss of MSEK 6.5 arose on net pension commitments.

In January – September 2016, a loss of MSEK 57.4 arose and was attributable to a change in the discount rate to 2.65 percent (budgeted discount rate 3.2 percent). The revaluation effect on the commitment in the 2016 period was a loss of MSEK 14.8. As in 2017, a revaluation effect on plan assets of a loss of MSEK 42.6 arose in the comparative period. Total revaluation effects in January – September amounted to a loss of MSEK 57.4.

Income Statement

Landshypotek Bank AB Parent Company, SEK thousand	Note	Q3 2017	Q3 2016	Q2 2017	Jan-Sep 2017	Jan-Sep 2016	Full-year 2016
Interest income		321,197	340,889	337,225	981,242	1,059,675	1,367,264
Interest expense		-130,352	-154,415	-135,784	-403,445	-499,390	-631,134
- of which: deposit insurance fees		-1,695	-1,860	-2,222	-6,138	-5,170	-7,121
- of which: resolution fund fee		-14,169	-7,114	-14,523	-42,776	-21,707	-28,821
Net interest income	Note 1	190,845	186,474	201,441	577,797	560,286	736,130
Net result of financial transactions		-289	39,065	-9,874	-43,285	69,254	26,158
Other operating income		91	440	415	1,037	4,909	7,315
Total operating income		190,647	225,979	191,981	535,549	634,449	769,603
General administrative expenses		-97,284	-79,439	-98,367	-283,645	-270,871	-391,411
Depreciation, amortisation and impairment of tangible and intangible non-current assets		-3,737	-3,057	-3,736	-10,048	-11,214	-14,050
Other operating expenses		-1	-67	-26	-106	-152	-224
Total expenses before loan losses		-101,022	-82,563	-102,128	-293,799	-282,237	-405,685
Profit before loan losses		89,625	143,416	89,853	241,750	352,212	363,918
Net loan losses	Note 2	-4,077	2,939	-5,484	-7,856	-6,794	-14,814
Operating profit		85,549	146,355	84,369	233,894	345,418	349,104
Income tax for the period		-21,859	-32,185	-22,249	-60,607	-75,953	-77,341
Net profit for the period		63,690	114,170	62,120	173,287	269,465	271,762

Statement of comprehensive income

Landshypotek Bank AB Parent Company, SEK thousand		Q3 2017	Q3 2016	Q2 2017	Jan-Sep 2017	Jan-Sep 2016	Full-year 2016
Net profit for the period		63,690	114,170	62,120	173,287	269,465	271,762
Other comprehensive income							
<i>Items to be reclassified to profit or loss</i>							
Cash-flow hedges		831	951	865	2,639	10,445	11,812
Available-for-sale financial assets		-4,244	28,358	36,726	27,327	56,870	62,087
Income tax related to other comprehensive income		751	-6,448	-8,270	-6,592	-14,809	-16,258
<i>Total, items to be reclassified</i>		<i>-2,662</i>	<i>22,861</i>	<i>29,322</i>	<i>23,373</i>	<i>52,506</i>	<i>57,641</i>
Total other comprehensive income		-2,662	22,861	29,322	23,373	52,506	57,641
Comprehensive income for the period		61,028	137,031	91,441	196,660	321,970	329,404

Balance Sheet

Landshypotek Bank AB SEK thousand	Group				Parent Company			
	30 Sep 2017	30 Jun 2017	31 Dec 2016	30 Sep 2016	30 Sep 2017	30 Jun 2017	31 Dec 2016	30 Sep 2016
ASSETS								
Cash and balances with central banks								
Chargeable treasury bills	1,200,063				1,200,063			
Loans to credit institutions	569,351	573,140	592,071	833,259	569,120	572,909	591,839	833,027
Loans to the public Note 3	67,619,454	67,219,077	66,518,468	66,239,834	67,619,454	67,219,077	66,518,468	66,239,834
Value changes of interest-rate-risk hedged items in macro hedges	68,467	76,857	109,075	168,133	68,467	76,857	109,075	168,133
Bonds and other interest-bearing securities	15,124,980	14,866,808	12,614,537	13,112,792	15,124,980	14,866,808	12,614,537	13,112,792
Derivatives	1,435,456	1,558,227	1,840,773	2,670,541	1,435,456	1,558,227	1,840,773	2,670,541
Shares in Group companies	0	0	0	0	200	200	200	200
Intangible non-current assets	89,250	83,467	66,748	45,162	89,250	83,467	66,748	45,162
Tangible assets								
Furniture, fixtures and equipment	8,979	9,661	9,282	8,942	8,979	9,661	9,282	8,942
Buildings and land	9,653	9,790	10,464	11,436	9,653	9,790	10,464	11,436
Other assets	7,165	38,586	11,383	6,806	7,164	38,586	11,383	6,806
Current tax assets	0	1,174	0	0	0	1,173	0	0
Deferred tax assets	3,836	3,000	2,955	7,515	1,668	1,838	2,210	2,497
Prepaid expenses and accrued income	564,113	460,527	405,411	631,475	564,113	460,527	405,411	631,475
TOTAL ASSETS Notes 4, 5, 6	86,700,767	84,900,314	82,181,168	83,735,893	86,698,567	84,899,121	82,180,391	83,730,844
LIABILITIES, PROVISIONS AND EQUITY								
Liabilities to credit institutions	393,089	958,269	1,002,399	1,215,094	393,089	958,269	1,002,399	1,215,094
Borrowing/deposits from the public	12,543,118	12,396,256	11,731,390	11,703,545	12,543,118	12,396,256	11,731,390	11,703,545
Debt securities in issue, etc.	65,551,872	63,380,046	61,572,138	62,634,626	65,551,872	63,380,046	61,572,138	62,634,626
Derivatives	732,555	835,303	730,494	792,239	732,555	835,303	730,494	792,239
Other liabilities	62,391	93,612	276,177	36,671	61,869	93,089	275,654	36,158
Tax liabilities	34,051	27,123	6,190	27,517	34,051	27,123	6,192	27,517
Accrued expenses and deferred income	557,947	445,997	434,746	764,597	557,947	445,997	434,746	764,597
Provisions	10,603	6,624	4,193	23,656	1,324	1,324	1,324	1,361
Subordinated liabilities	1,200,000	1,200,000	1,699,972	1,699,975	1,200,000	1,200,000	1,699,972	1,699,975
Total liabilities	81,085,626	79,343,228	77,457,699	78,897,919	81,075,825	79,337,408	77,454,309	78,875,111
Equity	5,615,141	5,557,086	4,723,470	4,837,974	5,622,742	5,561,713	4,726,081	4,855,732
TOTAL LIABILITIES, PROVISIONS AND EQUITY Notes 4, 5, 6	86,700,767	84,900,314	82,181,168	83,735,893	86,698,567	84,899,121	82,180,391	83,730,844

Cash-flow Statement

Landshypotek Bank AB, SEK thousand	Group			Parent Company		
	Jan-Sep 2017	Jan-Sep 2016	Full-year 2016	Jan-Sep 2017	Jan-Sep 2016	Full-year 2016
Opening cash and cash equivalents	592,071	396,451	396,451	591,839	392,499	392,499
Cash flow from operating activities	-19,435	-601,256	-790,378	-19,434	-597,536	-786,658
Cash flow from investing activities	-31,435	2,963	-49,102	-31,435	2,963	-49,102
Cash flow from financing activities	28,150	1,035,100	1,035,100	28,150	1,035,100	1,035,100
Cash flow for the period	-22,720	436,807	195,620	-22,719	440,527	199,340
Closing cash and cash equivalents	569,351	833,258	592,071	569,120	833,026	591,839

Statement of Changes in Equity

Landshypotek Bank AB Group SEK thousand	Share capital	Other con- tributed capital	Hedging reserve	Fair value reserve	Actuarial differ- ences	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 period			8,147	44,359	-44,785		272,806	280,527
Total change before transactions with owners	-	-	8,147	44,359	-44,785		272,806	280,527
Equity, 30 September 2016	2,253,000	1,026,254	-7,790	17,646	-30,871		1,579,736	4,837,974
Equity, 31 December 2016	2,253,000	1,026,254	-6,724	21,715	-16,359		1,445,583	4,723,469
Comprehensive income for the period			2,058	21,315	-5,042		173,341	191,672
Total change before transactions with owners	-	-	2,058	21,315	-5,042		173,341	191,672
Tier 1 capital						700,000		700,000
Equity, 30 September 2017	2,253,000	1,026,254	-4,666	43,030	-21,401	700,000	1,618,924	5,615,142

Landshypotek Bank AB Parent Company SEK thousand	Share capital	Other con- tributed capital	Hedging reserve	Fair value reserve		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 period			8,147	44,359			269,465	321,970
Total change before transactions with owners	-	-	8,147	44,359			269,465	321,971
Equity, 30 September 2016	2,253,000	1,016,694	-7,790	17,644			1,576,181	4,855,733
Equity, 31 December 2016	2,253,000	1,016,694	-6,724	21,715			1,441,397	4,726,081
Comprehensive income for the period			2,058	21,315			173,287	196,660
Total change before transactions with owners	-	-	2,058	21,315			173,287	196,660
Tier 1 capital						700,000		700,000
Equity, 30 September 2017	2,253,000	1,016,694	-4,665	43,030		700,000	1,614,684	5,622,742

Notes

Note 1 Capital and capital adequacy

The total capital ratio amounted to 42.3 percent compared with 42.2 percent at 30 June 2017 and the CET1 capital ratio was 30.4 percent (30.2). Own funds increased MSEK 34 during the quarter to MSEK 6,749, primarily due to higher profits. The minimum capital requirement rose MSEK 3 to MSEK 1,277.

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 25.9 percent of the total risk-weighted exposure amount at 30 September 2017.

The capital quotient in accordance with Basel I floor¹ amounted to 1.55 percent. The Bank's leverage ratio amounted to 6.4 percent, down on the preceding quarter (6.5). 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 in autumn 2016 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. 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 changes.

The internally assessed capital requirement on 30 September 2017 was SEK 5.4 billion, given the aforementioned changes applied for by the bank to Finansinspektionen. The capital requirement should be compared with estimated own funds of SEK 6.7 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.*

continued Note 1 Capital adequacy analysis

SEK thousand	Consolidated situation ¹⁾ 30 September 2017
CET1 capital: Instruments and reserves	
Member contributions	1,613,106
Other contributed capital	1,797,796
Tier 1 capital instruments	700,000
Reserves	38,364
Actuarial differences	-21,401
Retained earnings	1,563,194
Net profit for the year ²⁾	164,473
Equity in the balance sheet	5,855,532
Deductions related to the consolidated situation and other foreseeable costs ³⁾	-53,297
Deductions for Tier 1 capital instruments classified as equity	-700,000
CET1 capital before regulatory adjustments	5,102,235
CET1 capital: regulatory adjustments	
Further value adjustments	-57,232
Intangible assets	-89,250
Deferred tax assets that rely on future profitability	-3,836
Fair value reserves related to gains or losses on cash-flow hedges	4,665
Negative amounts resulting from the calculation of expected loss amounts (IRB)	-107,100
Defined-benefit pension plans	0
Total regulatory adjustments to CET1 capital	-252,753
CET1 capital	4,849,482
Additional Tier 1 capital: instruments	
Tier 1 capital instruments	700,000
<i>of which: classified as equity under applicable accounting standards</i>	700,000
Tier 1 capital (CET1 capital + Tier 1 capital instruments)	5,549,482
Tier 2 capital: instruments and provisions	
Capital instruments and subordinated loans eligible as Tier 2 capital	1,200,000
Positive amounts resulting from the calculation of expected loss amounts (IRB)	0
Tier 2 capital before regulatory adjustments	1,200,000
Tier 2 capital: regulatory adjustments	
Total regulatory adjustments to Tier 2 capital	0
Tier 2 capital	1,200,000
Own funds (Tier 1 capital + Tier 2 capital)	6,749,482
Total risk-weighted exposure amount	15,962,051
Capital ratios and buffers	
Own funds requirement	1,276,964
CET1 capital ratio (%)	30.4
Tier 1 capital ratio (%)	34.8
Total capital ratio (%)	42.3
Institution-specific CET1 capital requirement including buffer requirements (%)	9.0
<i>of which: capital conservation buffer requirement (%)</i>	2.5
<i>of which: countercyclical buffer requirement (%)</i>	2.0
CET1 capital available to meet buffers (%) ⁴⁾	25.9
Capital adequacy according to Basel I floor	
Own funds	6,856,582
Own funds requirement	4,437,638
Capital quotient	1.55

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 proposed dividend's contribution to equity.

⁴⁾ Calculated as "the bank's CET1 capital less CET 1 used to cover the CET1 capital requirement and less any other CET1 items used to cover the tier 1 capital requirement and/or total own funds requirements divided by the total risk-weighted exposure amount."

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

Consolidated situation ¹⁾ 30 September 2017				
SEK thousand	Exposure value ²⁾	Risk-weighted exposure amount ³⁾	Own funds requirement ⁴⁾	Average risk weight ⁵⁾
Credit risk – IRB approach	66,571,612	8,637,123	690,970	13%
Retail – real estate collateral	66,417,250	8,482,761	678,621	13%
Other non-credit-obligation assets	154,362	154,362	12,349	100%
Credit risk – Standardised Approach	21,781,480	4,615,903	369,272	21%
Central governments or central banks	1,204,116	-	-	0%
Regional governments or local authorities	6,312,812	-	-	0%
Institutions	1,810,101	590,443	47,235	33%
Corporates	247,196	246,410	19,713	100%
Retail	109,319	79,322	6,346	73%
Secured by mortgages on immovable property	3,201,890	2,808,331	224,666	88%
Exposures in default	9,435	12,963	1,037	137%
Covered bonds	8,784,339	878,434	70,275	10%
Operational risk – Basic indicator approach		1,423,728	113,898	
Credit valuation adjustment risk – Standardised approach	1,372,724	1,285,298	102,824	94%
Total	89,725,816	15,962,051	1,276,964	-

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

⁴⁾ Calculated by multiplying the risk-weighted exposure amount by 8 percent. Does not include any buffer requirements.

⁵⁾ Calculated by dividing the risk-weighted exposure amounts by exposure value for the respective risk/exposure class.

Note 2 Net interest income

Landshypotek Bank AB – Group SEK thousand	Q3 2017	Q3 2016	Q2 2017	Jan–Sep 2017	Jan–Sep 2016	Full-year 2016
Interest income						
Interest income on loans to credit institutions	-274	-3	-55	-436	-9	-173
Interest income on loans to the public	311,850	318,804	326,430	946,728	973,743	1,266,978
Less interest losses	-106	-233	-534	-743	-933	-1,168
Interest income on interest-bearing securities	6,733	19,536	8,208	25,676	78,734	89,598
<i>of which: interest income for financial assets in fair-value hedges</i>	4,763	3,807	4,067	12,525	8,739	12,006
<i>of which: interest income on financial assets at FVTPL</i>	5,111	16,869	6,508	20,110	72,586	81,516
<i>of which: interest income on available-for-sale financial assets</i>	-3,140	-1,140	-2,367	-6,959	-2,591	-3,924
Other interest income	16	279	3	12	840	1,271
Other lending income	2,993	2,784	3,164	10,006	8,135	11,872
Total	321,213	341,167	337,217	981,242	1,060,510	1,368,377
<i>All interest income is attributable to the Swedish market.</i>						
Interest expense						
Interest expense for liabilities to Group companies	0	0	0	0	0	0
Interest expense for liabilities to credit institutions – other	1,219	1,814	1,717	4,173	5,776	7,105
Interest expense for borrowing/deposits from the public	-21,987	-22,484	-22,239	-65,903	-65,341	-86,582
<i>of which: deposit insurance fees</i>	-1,695	-1,859	-2,221	-6,138	-5,170	-7,121
Interest expense for interest-bearing securities	-142,942	-160,776	-142,106	-421,317	-546,511	-691,341
<i>of which: interest expense for financial liabilities in fair value hedges adjusted for the fair value of hedged risk</i>	-135,244	-66,754	-148,707	-423,669	-404,503	-492,165
<i>of which: interest expense on interest-bearing securities at amortised cost</i>	-24,664	-144,893	-13,759	-58,695	-249,263	-355,188
<i>of which: periodisation of the market value created from terminated hedging commitments¹⁾</i>	16,966	50,871	20,360	61,047	107,255	156,013
Interest expense for subordinated liabilities	-13,796	-11,412	-16,823	-41,771	-23,476	-34,641
Interest expense for derivative instruments	64,131	47,903	63,180	178,480	162,550	218,913
<i>of which: interest expense on derivatives at FVTPL</i>	8,436	51,346	-20,734	-29,863	24,724	41,291
<i>of which: interest expense on derivatives identified as hedging instruments</i>	82,122	46,757	100,983	275,558	244,409	326,071
<i>of which: reclassification of terminated hedging relationships¹⁾</i>	-26,427	-50,200	-17,068	-67,216	-106,584	-148,449
Other interest expense	-17,011	-9,460	-19,512	-57,142	-32,411	-44,611
<i>of which: government resolution fund fees</i>	-14,169	-7,114	-14,523	-42,776	-21,707	-28,821
Total	-130,385	-154,415	-135,784	-403,479	-499,412	-631,156
Total net interest income	190,828	186,752	201,433	577,763	561,098	737,222

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 the item Derivatives in Net interest income. The remaining amount to be periodised is MSEK 279.5, 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. The comparative figures for 2016 have been restated.

continued Note 2 Net interest income

Landshypotek Bank AB – Parent Company SEK thousand	Q3 2017	Q3 2016	Q2 2017	Jan–Sep 2017	Jan–Sep 2016	Full-year 2016
Interest income						
Interest income on loans to credit institutions	-274	-3	-55	-436	-9	-173
Interest income on loans to the public	311,850	318,804	326,430	946,728	973,743	1,266,978
Less interest losses	-106	-233	-534	-743	-933	-1,168
Interest income on interest-bearing securities	6,733	19,536	8,208	25,676	78,734	89,598
<i>of which: interest income for financial assets in fair-value hedges</i>	4,763	3,807	4,067	12,525	8,739	12,006
<i>of which: interest income on financial assets at FVTPL</i>	5,111	16,869	6,508	20,110	72,586	81,516
<i>of which: interest income on available-for-sale financial assets</i>	-3,140	-1,140	-2,367	-6,959	-2,591	-3,924
Other interest income	0	0	12	12	5	158
Other lending income	2,994	2,785	3,164	10,006	8,135	11,872
Total	321,197	340,889	337,225	981,242	1,059,675	1,367,264
<i>All interest income is attributable to the Swedish market.</i>						
Interest expense						
Interest expense for liabilities to Group companies	0	0	0	0	0	0
Interest expense for liabilities to credit institutions – other	1,219	1,814	1,717	4,173	5,776	7,105
Interest expense for borrowing/deposits from the public	-21,988	-22,484	-22,239	-65,903	-65,341	-86,582
<i>of which: deposit insurance fees</i>	-1,695	-1,859	-2,221	-6,138	-5,170	-7,121
Interest expense for debt securities in issue	-142,942	-160,776	-142,106	-421,317	-546,511	-691,341
<i>of which: interest expense for financial liabilities in fair value hedges adjusted for the fair value of hedged risk</i>	-135,244	-66,754	-148,707	-423,669	-404,503	-492,165
<i>of which: interest expense on interest-bearing securities at amortised cost</i>	-24,664	-144,893	-13,759	-58,695	-249,263	-355,188
<i>of which: periodisation of the market value created from terminated hedging commitments¹⁾</i>	16,966	50,871	20,360	61,047	107,255	156,013
Interest expense for subordinated liabilities	-13,796	-11,412	-16,824	-41,771	-23,476	-34,641
Interest expense for derivative instruments	64,131	47,903	63,180	178,480	162,550	218,913
<i>of which: interest expense on derivatives at FVTPL</i>	8,436	51,346	-20,734	-29,863	24,724	41,291
<i>of which: interest expense on derivatives identified as hedging instruments</i>	82,122	46,757	100,983	275,558	244,409	326,071
<i>of which: reclassification of terminated hedging relationships¹⁾</i>	-26,427	-50,200	-17,068	-67,216	-106,584	-148,449
Other interest expense	-16,979	-9,459	-19,512	-57,109	-32,388	-44,589
<i>of which: government resolution fund fees</i>	-14,169	-7,114	-14,523	-42,776	-21,707	-28,821
Total	-130,352	-154,415	-135,784	-403,445	-499,390	-631,135
Total net interest income	190,845	186,474	201,441	577,797	560,286	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 the item Derivatives in Net interest income. The remaining amount to be periodised is MSEK 279.5, 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. The comparative figures for 2016 have been restated.

Note 3 Net loan losses

Landshypotek Bank AB – Group and Parent Company SEK thousand	Q3 2017	Q3 2016	Q2 2017	Jan–Sep 2017	Jan–Sep 2016	Full-year 2016
Write-off for the period for confirmed losses	-1,359	-1,817	-3,410	-13,296	-18,609	-37,671
Reversal of prior specific provisions for probable loan losses, recognised as confirmed losses in this period's accounts	1,395	1,812	3,720	13,798	19,241	37,315
Specific provision for probable loan losses	-10,241	-10,831	-7,726	-20,387	-42,577	-51,614
Collective provisions for probable loan losses	-165		921	-83		-4,696
Recovery of previously confirmed losses	1,595	454	152	2,030	6,227	8,852
Reversal of prior specific provisions no longer necessary for probable loan losses	4,699	13,321	861	10,082	28,924	33,000
Total loan losses	-4,077	2,939	-5,484	-7,856	-6,794	-14,814

All loan losses are attributable to loans to the public.
Properties taken over in foreclosure to protect claims, MSEK 0.0 (13.7).

Note 4 Loans to the public

Landshypotek Bank AB SEK thousand	Group				Parent Company			
	30 Sep 2017	30 Jun 2017	31 Dec 2016	30 Sep 2016	30 Sep 2017	30 Jun 2017	31 Dec 2016	30 Sep 2016
Loan receivables	67,675,700	67,274,172	66,577,900	66,303,964	67,675,700	67,274,172	66,577,900	66,303,964
Less specific provisions for individually valued loan receivables	-51,467	-50,481	-54,736	-64,130	-51,467	-50,481	-54,736	-64,130
Less collective provisions for collectively valued loan receivables	-4,779	-4,614	-4,696		-4,779	-4,614	-4,696	
Net loan receivables	67,619,454	67,219,077	66,518,468	66,239,834	67,619,454	67,219,077	66,518,468	66,239,834
Disclosures on overdue unimpaired loan receivables								
Loan receivables overdue 5–90 days	0	1,102	77,079	2,500	0	1,102	77,079	2,500
Loan receivables overdue more than 90 days	239,996	279,322	230,696	364,854	239,996	279,322	230,696	364,854
Total overdue unimpaired loan receivables	239,996	280,424	307,775	367,354	239,996	280,424	307,775	367,354
Disclosures on doubtful credits								
Doubtful credits that are not overdue	118,790	119,947	103,767	104,263	118,790	119,947	103,767	104,263
Overdue doubtful credits	72,361	88,736	130,859	167,111	72,361	88,736	130,859	167,111
Total doubtful credits, gross	191,151	208,683	234,626	271,374	191,151	208,683	234,626	271,374
Less capital provisions made	-56,246	-55,095	-59,432	-64,130	-56,246	-55,095	-59,432	-64,130
Total doubtful credits, net	134,905	153,588	175,194	207,244	134,905	153,588	175,194	207,244

Collateral exists in the form of real property for lending.

Note 5 Fair-value hierarchy for financial instruments

Landshypotek Bank AB – Group and Parent Company, SEK thousand	30 September 2017				30 September 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL								
Bonds and other interest-bearing securities	1,265,172			1,265,172	2,641,898			2,641,898
Interest-rate swaps		2,407		2,407		14,511		14,511
Cross-currency interest-rate swaps		38,583		38,583		430,170		430,170
Derivatives identified as hedging instruments								
Interest-rate swaps		874,159		874,159		1,401,909		1,401,909
Cross-currency interest-rate swaps		520,307		520,307		823,952		823,952
Available-for-sale financial assets								
Chargeable treasury bills, etc.	1,200,063			1,200,063				
Bonds and other interest-bearing securities	13,859,808			13,859,808	10,470,893			10,470,893
Total assets measured at fair value	16,325,043	1,435,456	-	17,760,499	13,112,792	2,670,541	-	15,783,333
Financial liabilities at FVTPL								
Interest-rate swaps		79,710		79,710		184,755		184,755
Cross-currency interest-rate swaps		16,831		16,831		2,984		2,984
Derivatives identified as hedging instruments								
Interest-rate swaps		376,079		376,079		521,067		521,067
Cross-currency interest-rate swaps		259,935		259,935		83,433		83,433
Total liabilities measured at fair value	-	732,555	-	732,555	-	792,238	-	792,238

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, bonds issued by municipalities and county councils, and treasury bills. Level 2 comprises derivative instruments 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 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.

The interest-rate and cross-currency basis swap curves are used for measurement of interest-rate and cross-currency interest-rate swaps, respectively.

Accrued interest is not included in the calculation of fair value.

Level 3

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

Note 6 Fair Value Disclosures

Landshypotek Bank AB – Group SEK thousand	30 Sep 2017 Carrying amount	30 Sep 2017 Fair value	30 Sep 2016 Carrying amount	30 Sep 2016 Fair value
Assets				
Chargeable treasury bills	1,200,063	1,200,063		
Loans to credit institutions	569,351	569,351	833,259	833,259
Loans to the public	67,619,454	68,793,645	66,239,834	66,213,912
Bonds and other interest-bearing securities	15,124,980	15,124,980	13,112,792	13,112,792
Derivatives	1,435,456	1,435,456	2,670,541	2,670,541
Total assets	85,949,304	87,123,495	82,856,426	82,830,504
Liabilities and provisions				
Liabilities to credit institutions	393,089	393,089	1,215,094	1,215,094
Borrowing from the public	12,543,118	12,543,118	11,703,545	11,703,545
Debt securities in issue, etc.	65,551,872	66,604,742	62,634,626	63,728,599
Derivatives	732,555	732,555	792,239	792,239
Subordinated liabilities	1,200,000	1,272,288	1,699,975	1,866,659
Total liabilities	80,420,634	81,545,792	78,045,478	79,306,135

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

Landshypotek Bank AB – Parent Company SEK thousand	30 Sep 2017 Carrying amount	30 Sep 2017 Fair value	30 Sep 2016 Carrying amount	30 Sep 2016 Fair value
Assets				
Cash and balances with central banks	0		0	0
Chargeable treasury bills	1,200,063	1,200,063		
Loans to credit institutions	569,120	569,120	833,027	833,027
Loans to the public	67,619,454	68,793,645	66,239,834	66,213,912
Bonds and other interest-bearing securities	15,124,980	15,124,980	13,112,792	13,112,792
Derivatives	1,435,456	1,435,456	2,670,541	2,670,541
Total assets	85,949,073	87,123,264	82,856,193	82,830,272
Liabilities and provisions				
Liabilities to credit institutions	393,089	393,089	1,215,094	1,215,094
Borrowing from the public	12,543,118	12,543,118	11,703,545	11,703,545
Debt securities in issue, etc.	65,551,872	66,604,742	62,634,626	63,728,599
Derivatives	732,555	732,555	792,239	792,239
Subordinated liabilities	1,200,000	1,272,288	1,699,975	1,866,659
Total liabilities	80,420,634	81,545,792	78,045,478	79,306,135

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

Alternative performance measures

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

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

Definitions of APMs	Aim
Increase in lending: The percentage increase in loans to the public during the period.	The aim is to illustrate the growth in the lending portfolio, which comprises a key parameter for future income.
Interest margin: 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.
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.

Summary of APMs	Q3 2017	Q3 2016	Q2 2017	Jan-Sep 2017	Jan-Sep 2016	Full-year 2016
Change in lending	400	563	634	1,101	1,739	2,017
Opening balance, loans outstanding	67,219	65,663	66,585	66,518	64,501	64,501
Increase in lending, %	0.6	0.9	1.0	1.7	2.7	3.1
Net interest income calculated on a full-year basis	766	747	806	771	748	737
Average loans outstanding	67,419	65,952	66,902	67,069	65,371	65,510
Interest margin, %	1.1	1.1	1.2	1.1	1.1	1.1
Change in borrowing/deposits	147	448	350	812	1,394	1,421
Opening balance borrowing/deposits	12,396	11,255	12,046	11,731	10,310	10,310
Increase in borrowing/deposits, %	1.2	4.0	2.9	6.9	13.5	13.8
Costs before loan losses	100	83	103	294	279	402
Total operating income	191	227	192	536	635	771
C/I ratio including financial transactions	0.53	0.37	0.54	0.55	0.44	0.52
Costs before loan losses	100	83	103	294	279	402
Total operating income excluding financial transactions	191	187	202	579	566	745
C/I ratio excluding financial transactions	0.53	0.44	0.51	0.51	0.49	0.54
Net loan losses calculated on a full-year basis	16	-12	22	10	9	15
Average loans outstanding	67,419	65,952	66,902	67,069	65,371	65,510
Loan loss level, %	0.02	-0.02	0.03	0.02	0.01	0.02
Doubtful credits, gross	191	271	209	191	271	235
Less provisions made	-56	-64	-55	-56	-64	-59
Doubtful credits, net	135	207	154	135	207	175
Loans to the public	67,619	66,240	67,219	67,619	66,240	66,518
Net doubtful credits after provisions as a percentage of total loans outstanding, %	0.20	0.31	0.23	0.20	0.31	0.26
Profit after tax						276
Average equity						4,727
Return on equity, %						5.8

Auditor's report (unofficial translation)

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

Introduction

We have reviewed the interim report of Landshypotek Bank AB (publ) as of 30 September 2017 and the nine-month period then ended. The board of directors and the CEO are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, *Review of Interim Report Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act for Credit Institutions and Securities Companies, regarding the Group, and with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies, regarding the Parent Company.

Stockholm, 27 October 2017

Öhrlings PricewaterhouseCoopers AB

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

Sofie Nordenborg
Authorized Public Accountant

Reporting calendar 2018

Landshypotek Bank's reports are available at:

www.landshypotek.se/en/about-landshypotek/investor-relations/financial-reports

Year-end report 2017	26 January 2018
Annual Report 2017	16 March 2018
Association Meeting	19 April 2018
General Meeting	19 April 2018
Interim Report Q1	26 April 2018

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