



Landshypotek Bank

Landshypotek Bank AB Year-end report 2018

January – December 2018 (compared with 2017)

Per Lindblad, CEO of Landshypotek Bank, comments on the full-year 2018:

2018 can be summed up as a year of healthy results and growth, and a year when considerable progress was made with preparing for the future. Our earnings capacity and ability to generate results is stronger than in previous years. We continue to grow as the farmers and foresters' own bank. Our mortgage venture is for the long term, and it is already starting to positively impact results. We are developing based on what we have and what we represent. Step by step, we are becoming a better bank for more customers – and are continuing to grow as a challenger and a bank with a difference in the Swedish banking market.

January – December 2018

compared with January – December 2017

- Operating profit amounted to SEK 387.6 million (339.2).
- The underlying operating profit, excluding the net result of financial transactions, was SEK 370.4 million (387.3).
- Net interest income amounted to SEK 799.0 million (800.4).
- Costs totalled SEK 425.8 million (402.5).
- Net credit losses resulted in a recovery of SEK 8.0 million (12.5).
- Lending amounted to SEK 72.5 billion (68.5).
- Deposits amounted to SEK 14.1 billion (12.7).

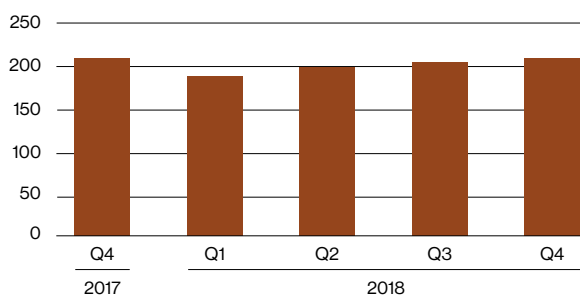
October – December 2018

compared with July – September 2018

- Operating profit amounted to SEK 89.0 million (100.7).
- The underlying operating profit, excluding the net result of financial transactions, was SEK 88.9 million (102.8).
- Net interest income amounted to SEK 208.5 million (204.5).
- Costs totalled SEK 105.3 million (101.5).
- Net credit losses resulted in a recovery of SEK 15.4 million (1.4).
- Lending amounted to SEK 72.5 billion (71.5).
- Deposits amounted to SEK 14.1 billion (13.7).

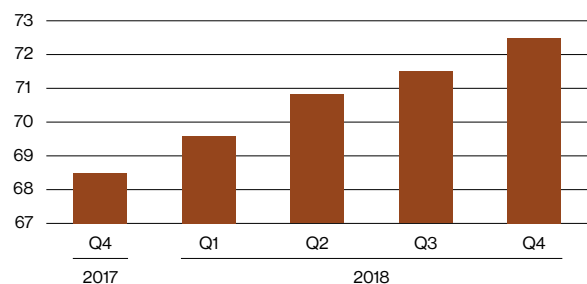
Net interest income

SEK million



Lending volume

SEK billion



Landshypotek Bank

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

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

The 40,000 farming and forestry borrowers own the bank through the cooperative association and are responsible for its capital, and share in its earnings. All business and licensable activities are conducted within the bank, which has about 190 employees nationwide.

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

- *For a richer life in the countryside:* The bank's brand promise: "For a richer life in the countryside" is interwoven throughout the bank's and its employees working days. The distribution of the bank's surplus to farmers and foresters comprises another key principle for the value-driven operation that is Landshypotek Bank.
- *Close to farming and forestry customers:* The bank's strength in financing farming and forestry are its close links to farming and forestry. Account managers at offices around the country often have backgrounds in agriculture and forestry, and banking and financing expertise. The bank's customer operations are complemented by the cooperative association's elected representatives organised in regions across the country.
- *Strength of the member organisation:* The bank is owned by its loan customers in the farming and forestry sector. The cooperative association strengthens ties, commitment and the long-term perspective for the bank's operations, and it is also responsible for relations with the members.
- *The force of employee commitment:* The bank is developing together with its employees. Satisfied employees mean satisfied customers. The four employee values — Customer-centric focus, Drive, Enthusiasm and Together — were drawn up by the employees and inspire all work at Landshypotek Bank.

- *Digital development:* Landshypotek Bank's history extends more than 180 years, but it is developing continuously to meet customers' needs. A unique digital solution has been built on a modern platform, to allow people to quickly and simply become customers, open accounts and start saving at Landshypotek Bank. In 2017, a new platform was launched that facilitates convenient online mortgage applications. In 2018, a new credit management system laid the foundation for more efficient customer administration. Digitalisation enables more efficient work and improves possibilities for customers.
- *A challenger as a mortgage bank:* Though relatively recent, the mortgage venture is for the long term. Landshypotek Bank wants to help more people discover a bank with a difference that offers considerable security and extensive experience, and with an eye for opportunities nationwide. The bank applies competitive interest rates and transparent pricing without any requirements for upselling or full customer offers.
- *Promoting a sustainable countryside:* A living countryside, where fields and forests are cultivated, and thereby create growth and jobs. The country's sustainable development rests on the conditions for living and working throughout Sweden. Landshypotek Bank enables rural living and investments in rural enterprise. This lays the foundation for a future for the cities and the countryside.

In brief:

- Landshypotek Bank was founded in 1836.
- Has 80,000 customers in the farming and forestry sector, as well as mortgage borrowers and savers.
- Has lending of SEK 68.8 billion to farming and forestry in Sweden and SEK 3.7 billion in homeowner mortgages.
- Has savings customers with total savings of SEK 14.1 billion.
- Owned by the 40,000 farming and forestry loan customers. SEK 153 million of the earnings for 2017 was distributed back to farming and forestry customers.
- Has about 190 employees. The bank's employees meet farming and forestry locally across the country. Relationships with savers and homeowner mortgage customers are managed online and by telephone.

CEO's Statement

With focus on becoming a better bank

2018 can be summed up as a year with strong results and growth, but it was also a year when considerable progress was made with preparing for the future. Step by step, we are becoming a better bank for more customers. We are developing based on what we have and what we represent – and are continuing to grow as a challenger and a bank with a difference in the Swedish banking market.



A few significant events during the year:

- Our green bond, which we have based entirely on Swedish forestry and the efforts made daily by our customers, the foresters, to promote sustainable development. The bond leveraged our unique expertise and experience in forestry lending and the financial markets. At its listing ceremony at the world's largest green exchange in Luxembourg, it was described as pioneering. With this bond, we demonstrated exactly what a green bank is.
- Our introduction to the mortgage market. In the first quarter of the year, we passed the 1 billion krona mark for residential mortgages and we now fast approaching the 4 billion krona mark. Throughout the year, we have maintained a competitive edge and met customers with a mix of a good offering, new technology, proven know-how, genuine values and engendered a feeling of security. We act as challenger and mortgages have progressed from a start-up to a more established business with healthy growth.
- Our actions when our farming and forestry customers were hit by the summer's drought. We were active, customer-centric and encouraged early dialogue with customers. The close dialogue created the preconditions for individual assessments and the necessary actions and solutions for each individual entrepreneur. Our actions confirmed the importance of a bank for farming and forestry that has the know-how together with a long-term perspective. This is the foundation for a stable and secure bank.

We continue to develop based on what we have and what we represent. We are focusing our efforts on becoming a better bank to save with and borrow from. This is where we are best and will be the best for more customers. As a bank, we have a different background and different values compared with other banks. We are now entering 2019 with an ambitious plan for growth and investments focused on continuing this trend.

We aim to continue growing our mortgage operations and to become increasingly important in the agroforestry market and for our farming and forestry customers.

We will be even more active, for both new and old customers, at the same time as we take care of and improve our bank on every level. We are continuing to grow our customer base and thereby increasingly leverage the

structure that we have worked hard for and built to meet today's banking requirements. The digital solutions that we were at the forefront of when we entered the savings and the mortgage market, also generate opportunities for us in more and new ways when we meet farming and forestry customers moving forward.

We will also continue to work with our culture, leadership and employeeship. Landshypotek has a soul — it shows in everyone who works here and who is involved with the bank. Our values, closeness to each other and to customers, and focus on customers are great strengths. And while this culture needs to be nurtured — it also needs to continuously develop.

We are improving our performance. We have noted growth in all our services. We are providing excellent service to our farming and forestry customers. All of which give us a strong foundation for earnings and generating results. Our mortgage initiative is long term and we are consciously growing with a low level of risk. But we have already noted that the volume increases are starting to impact positively, which has further boosted our results. The results fuel our continued development and investments to become a better bank.

The results also make possible a dividend to the owners. This year, the bank is paying a Group contribution of SEK 158 million to the cooperative association, whose members encompass our loan customers in the farming and forestry sector. In turn, the Group contribution funds the association's operations and a dividend to its members — in other words, Sweden's farmers and foresters.

This has been my first year as CEO of Landshypotek Bank. Every day, I am struck by the potential that exists in the bank. It is inspiring to have the opportunity to work in an environment with such extensive competence represented by colleagues, the Board and the management. We will now leverage the possibilities inherent in being a secure bank with extensive experience and which is financial sound — and at the same time maintaining strong focus on development and on basing development on doing things differently, innovatively and truly beneficially for customers.

In 2019, we will become an even better bank for new and existing customers.

Per Lindblad
Chief Executive Officer

Events at Landshypotek Bank in 2018

Close dialogues with customers about the effects of the summer's drought, attracted attention as the new mortgage bank and the bank's pioneering launch of the world's first ever forest-backed, green covered bond. These were some of the events that happened at and marked Landshypotek Bank during 2018. During the year, the bank has grown in terms of both lending and deposits. In parallel, ongoing development activities were conducted to become a better and broader bank for more customer groups.

Strong start as a new mortgage bank

Customers' interest in Landshypotek Bank as a new mortgage market entrant has been very substantial. Many new customers have discovered Landshypotek Bank since the autumn 2017 market launch of mortgage loans, and growth continues. The bank now has more than SEK 3.7 billion in homeowner mortgages. This underlines the need for a challenger — a bank with a difference in the Swedish banking market that offers competitive and highly transparent interest rates.

Close customer dialogue regarding the effects of the summer's drought

With its extreme heat and lack of rain, 2018 was a difficult year for many farmers. The full effects have yet to show, but impacted harvests and animal husbandry for many farmers around the country. Landshypotek Bank was quick to encourage customers to open a dialog with the bank and has therefore kept close contact with customers as well as public agencies and other agricultural organisations. The objective has always been to participate in solutions that are designed to promote sustainable and healthy entrepreneurship.

Pioneering launch of forest-backed green bond

In May, Landshypotek Bank became the first bank in the world to issue a covered bond fully backed by sustainable forestry's contribution to biodiversity and to reducing carbon dioxide in Earth's atmosphere. This is also Sweden's first and largest ever green covered bond. Market interest was extremely high and the bond was oversubscribed within half an hour. The bond was listed and listing ceremonies were held at Nasdaq Stockholm and the Luxembourg Green Exchange. Interest in the pioneering bond was considerable among the media, the financial sector and forestry stakeholders.

Stronger bank

In November 2017, Finansinspektionen (the Swedish FSA) gave the bank permission to use a fundamental IRB approach to calculate capital requirements for corporate exposures. In April 2018, the bank was also granted permission to change the IRB approach for retail exposures.

These permissions were implemented by the bank as of 30 June 2018. The changes in the bank's IRB approach aim to better reflect the current structure of lending to Swedish farming and forestry, and to adapt to applicable and forthcoming regulatory changes.

Intensified dialogue about the future of agriculture and forestry

During the spring, Landshypotek Bank participated in dialogue evenings known as, *Lokalsamtal*, across the country, which addressed key countryside issues. The bank initiated a separate initiative to strengthen its position in forestry finance. During the autumn, Landshypotek Bank presented *Lantbrukspanelen*, a new and recurring panel with answers provided by driven and engaged agricultural entrepreneurs across the country. The panel comprises around 100 people and answers issues that affect entrepreneurs in agriculture and forestry.

A knowledge bank with surveys that arouse attention

On several occasions during the year, the bank presented the Boendebarmetern, which indicates consumer sentiment in terms of housing and financing. Here, the bank contributes a perspective that showcases the entire country, as opposed to the usual public focus on the major cities. Over the year, Landshypotek Bank also completed and presented several surveys that reflect current issues, attitudes and know-how relating to agriculture and forestry.

Activities and expos with new partners

The bank has maintained a strong presence over the year, with customer meetings, expos and general meetings, and participated at various events across the country. While important for meeting new and existing customers, expos allow us to meet industry colleagues and keep informed of developments in agriculture and forestry. The bank also tested a number of new meeting places over the year and developed its marketing as a broader bank for more customer groups. Interest in meeting and finding out more about a bank with a difference has been considerable.

Group, SEK million	Q4 2018	Q4 2017	Q3 2018	Full-year 2018	Full-year 2017
Net interest income	208.5	208.6	204.5	799.0	800.4
Operating profit	89.0	91.2	100.7	387.6	339.2
Profit after tax	67.0	69.0	72.0	295.5	256.4
Loans to the public	72,511	68,488	71,532	72,511	68,488
Increase in lending, %	1.4	1.3	1.0	1.4	3.0
Interest margin, LTM, %	1.13	1.19	1.14	1.13	1.19
Deposits from the public	14,150	12,675	13,702	14,150	12,675
Increase in deposits from the public, %	3.3	1.1	1.2	11.6	8.0
C/I ratio including financial transactions	0.50	0.53	0.50	0.52	0.53
C/I ratio excluding financial transactions	0.50	0.52	0.49	0.53	0.50
Credit loss level, % ¹⁾	0.09	0.03	0.01	0.01	0.02
Total capital ratio, % ²⁾	19.4	43.8	21.1	19.4	43.8
Rating, long-term					
Standard & Poor's, Covered bonds	AAA	AAA	AAA	AAA	AAA
Standard & Poor's	A-	A-	A-	A-	A-
Fitch	A	A	A	A	A
Average number of employees, LTM	190	176	188	190	176

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

²⁾ As of 30 June 2018, Landshypotek Bank has implemented new IRB approaches for calculating the capital requirements for corporate and retail exposures, which impact the total capital ratio.



Our operating environment 2018:

Drought and continued low interest rates

Extreme weather and drought conditions interfered with production and harvests in several regions around the world as well as in Sweden during 2018. However, the economy remains strong even if it has slowed slightly. The reduction in monetary policy stimuli has had a notable impact on the financial markets with interest rate hikes and reduced bond purchases by the central banks. However, interest rates have continued to remain low and inflation weak.

A year dominated by drought for farmers and foresters

The majority of Landshypotek Bank's business is linked to lending to farming and forestry. To one extent or another, this summer's drought affected most of the country's agricultural entrepreneurs. Geographical differences were considerable with some northern regions reporting harvests that were close to normal and others, particularly in the south, total harvests more than 50 percent below normal.

The short term effects of the drought are lower liquidity and reduced margins for many agricultural entrepreneurs. Several companies will have to review their buffers and exercise greater restraint in terms of investment for a period. But the variation is great. Many of the country's agricultural entrepreneurs have additional income from activities other than agriculture and therefore several legs to stand on. It was also noted that entrepreneurs are well prepared and identified various solutions to manage the situation and mitigate the negative effects. The year's drought clearly demonstrated that the country's farmers and foresters have strong innovation and collaboration skills.

Developments in a number of farming and forestry sectors:

In 2018, the numbers of *beef livestock* sent to slaughter increased in Sweden. The trend was a knock-on effect of the drought, but was also due to reduced milk production with fewer dairy cows. Slaughter volumes are expected to remain high in the coming months, as shortages of silage and more expensive purchased fodder have led to long slaughter queues.

Higher slaughter volumes, increased imports and lower exports have induced beef prices to trend downward in the EU. Price levels in Sweden are higher than in the rest of the EU, but large supplies have pushed prices down slightly. The increase in supply is expected to continue for the coming months as are lower prices.

Prices for *fattening pigs and piglets* have declined over

the last few months in the EU. Prices in Sweden have also trended downward, albeit from higher levels and not to the same extent as the rest of the EU. Higher costs due to the summer's weather and lower settlement prices have exerted pressure on entrepreneur's profitability. However, the added value represented by the Swedish model for beef and pork production remains in demand with consumers. In Sweden, animals are healthy and have the lowest levels of antibiotic use in the EU. For a long time, awareness of and interest in Swedish production has been considerable and interest increased further in conjunction with the drought. Surveys conducted by, inter alia, Landshypotek Bank have shown that willingness to pay for Swedish production increased in conjunction with the drought.

The summer's heat and the feed situation have also affected *milk production*, both in the form of lower milk yields and fewer cows. The settlement price for milk fell in the spring and the summer before rising toward the end of the year. Overall, the settlement price for Swedish dairy farmers has been higher than the average for the preceding five-year period. The organic market continues to be more stable. Conventional dairy farmers are more sensitive to global market movements. Increased milk production in the major export regions, relatively large stockpiles and a moderate increase in demand resulted in higher milk volumes in 2018 than in 2017.

As for pig farmers, feed comprises a major production cost for *poultry farmers and egg producers*. Higher feed prices have therefore put pressure margins. After having risen for a number of years, poultry production declined in 2018. Price levels for eggs and chicken remain higher in Sweden than in the rest of the EU. Demand for poultry and eggs is expected to remain stable, but margins will continue to be under pressure from relatively high feed prices over the next few years.

Forestry was also affected by the summer's drought. There were more forest fires. In some cases, new plantings have been damaged or not taken place due to the drought. The drought has also resulted in greater

infestations of eight-dentated bark beetle, which is expected to continue in 2019.

A healthy economy with good demand in Europe and Sweden has resulted in increased prices for *pulp wood and timber*. It has prompted forest owners to increase harvesting notifications. This summer's fires also led to an increase in those planning harvests.

Both the forest industry and forest owners were optimistic about short-term market trends.

Financial market with reduced monetary policy stimuli

In 2018, the reduction in monetary policy stimuli had a notable impact on the financial markets with interest rate hikes and reduced bond purchases by the central banks. Increasing market fear of a recession in the wake of trade conflicts and interest rate hikes has also been a clear trend. Furthermore, in a number of European countries, political conditions have also been a cause of some concern in the financial markets.

Strong US economy

The US economy has remained strong with the support of tax cuts and an extremely robust labour market. Initially, the trade conflict positively affected demand for domestically produced goods as imported goods became more expensive, which has also benefited growth. Unemployment is down at 1960s levels, but this was only noticed in the pay envelopes toward the end of the year. Salary increases reached 3.4 percent, and are therefore at levels historically considered as inflationary.

The US central bank raised its interest rate by 25 basis points on four occasions during the year. Moreover, the central bank also started reducing its balance sheet, thereby further tightening monetary policy during the year. Despite the above, long-term interest rates closed the year lower than they started. This is a clear sign of how concerns about the economy have characterised the market. Another sign was provided by stock indices in the fourth quarter. The Dow Jones index noted its all time high on 3 October, only to decline 13 percent by the end of the year.

Economic boom slows down in Europe

The year started optimistically in Europe with strong forward-looking indicators that pointed toward continued strength in the economy. However, this optimism did not deliver and growth slowed gradually during the year. Political developments likely had some impact. The difficulties experienced with forming governments in Germany and Italy, which were followed by budget problems in Italy and France, have dampened optimism. Moreover, the Brexit negotiations have acted as a wet blanket on the market throughout the year.

Despite the clear slowdown, the ECB has stood by its decision to reduce the monetary policy stimuli. From year end, it has stopped its net purchases of bonds and held firm with the forecast of an initial rate hike after

summer 2019. Inflation dropped back to 1.6 percent in December, from 2.2% as recently as October.

High activity in the Swedish economy despite dampening effects

In Sweden, the economy remained strong in the first half of the year before slowing down in the second half of the year. Third quarter GDP recorded negative growth of 0.2 percent. A clear downturn in housing construction, following concerns in autumn 2017 and weaker private consumption, have been the main reasons behind the slowdown. The house price trend followed two different directions. Prices fell in Stockholm and Gothenburg and the surrounding municipalities; moreover, a weak downward price trend was recorded for the counties adjacent to Stockholm.

In the rest of the country, the trend differed and house prices remained unchanged or rose. Over the last 12 months, house prices were unchanged for the country as a whole due to 50 percent of the total sales value being attributable to one of the three major metropolitan areas. Sales reached a peak in 2018 with nearly 54,000 houses sold. However, this can be related to the total number of villas of about 2 million. Average mortgage interest rates declined during the year as a result of increased competition for customers. New entrants have established themselves and are applying pressure on the margins of traditional providers. While the major banks still dominate with about three quarters of the mortgage market, they currently only account for 50 percent of new lending.

In December, high employment levels alongside increased cost pressure led the Riksbank to announce the first repo rate hike in seven years. At the same time, the Riksbank's forecast indicates a slower rate of increase than previously signalled. Inflation forecasts have been revised downwards slightly for the next few years. The Riksbank's announcement prompted short-term market rates to rise, while long-term rates fell slightly. The delay in forming a government following the autumn elections has had no major impact on the financial markets. Swedish budgetary discipline is firmly rooted and a large majority in the Riksdag backs the goal of keeping a balanced budget over an economic cycle.

Our financial performance

Landshypotek Bank's earnings remained strong in 2018. Earnings improved due to such factors as a year-on-year higher net result of financial transactions. Net interest income continued to strengthen due to a steadily increasing lending volume while costs remained up slightly year-on-year. Credit losses continued to be low.

Financial report 2018

The Group's operating profit amounted to SEK 387.6 million (339.2), up SEK 48.4 million compared with last year. The improvement in earnings was primarily attributable to an increase in the net result of financial transactions.

Excluding the net result of financial transactions, operating profit amounted to SEK 370.4 million (387.3), down SEK 16.9 million. However, higher net interest income in 2017 was mainly attributable to a change in the accounting treatment of doubtful interest payments, which resulted in a nonrecurring item of SEK 27.0 million. Excluding this nonrecurring item, operating profit excluding the net result of financial transactions increased SEK 10.1 million.

Net interest income and volumes

Net interest income totalled SEK 799.0 million (800.4) and interest income amounted to SEK 1,229.4 million (1,295.8).

Interest expenses amounted to SEK 430.4 million (495.5), down SEK 65.1 million year-on-year. The new financing was conducted at lower interest rates than the previous financing that matured.

Interest expenses included fees to the Swedish National Debt Office's resolution fund of SEK 74.8 million (56.9), up SEK 17.9 million. After excluding the resolution fee and the above nonrecurring item from 2017, underlying net interest income actually improved SEK 43.5 million.

Other operating income

Other operating income amounted to SEK 22.5 million (loss: 46.2), up SEK 68.7 million compared with the year-earlier period. The improvement was due to an increase of SEK 65.4 million in the net result of financial transactions to SEK 17.3 million (loss: 48.1). This amount, comprised an unrealised gain of SEK 9.5 million and a realised gain of SEK 7.8 million.

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

Costs

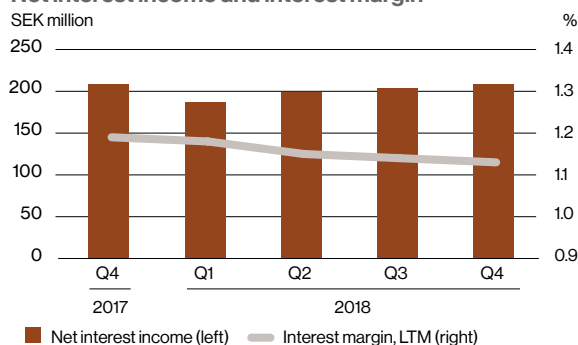
Costs amounted to SEK 425.8 million (402.5), up SEK 23.3 million year-on-year, but still in line with the bank's plans. Employee numbers grew during 2017 and early 2018, in part to administer new mortgage customers and in part to allow the continued strengthening of the bank as a whole.

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

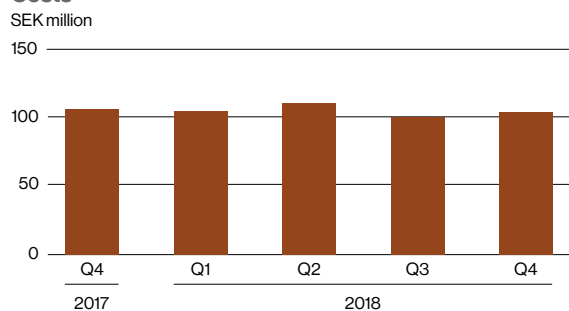
Credit losses and credit-impaired assets

Landshypotek Bank has applied IFRS 9 from 1 January 2018, which means credit losses are recognised for both non-credit-impaired assets (stages 1 and 2) and

Net interest income and interest margin



Costs



Operating profit

Group, SEK million	Full-year 2018	Full-year 2017
Net interest income	799.0	800.4
Other operating income	22.5	-46.2
Of which net result of financial transactions	17.3	-48.1
Costs	-425.8	-402.5
C/I ratio including financial transactions	0.52	0.53
C/I ratio excluding financial transactions	0.53	0.50
Net recognised credit losses	-8.0	-12.5
Credit loss level, % ¹⁾	0.01	0.02
Operating profit	387.6	339.2
Operating profit excluding the net result of financial transactions	370.4	387.3

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

credit-impaired assets (stage 3). See notes 3 and 4 for further information.

Net credit losses amounted to recoveries of SEK 8.0 million (12.5), of which net credit losses for non-credit-impaired assets had a positive earnings impact of SEK 13.0 million and credit-impaired assets had a negative earnings impact of SEK 21.0 million that was attributable to a few individual commitments. Credit losses arising from credit-impaired assets comprised the net change in the credit loss allowance and confirmed losses during the period with a negative earnings impact of SEK 26.8 million, together with recoveries of previously confirmed losses with a positive earnings impact of SEK 5.8 million (2.0).

The total credit loss allowance for non-credit-impaired assets amounted to SEK 27.0 million.

Gross credit-impaired assets amounted to SEK 525.8 million and the credit loss allowance to SEK 56.1 million. The provisions for credit-impaired assets pertained to individual commitments within varying types of farming and geographic locations.

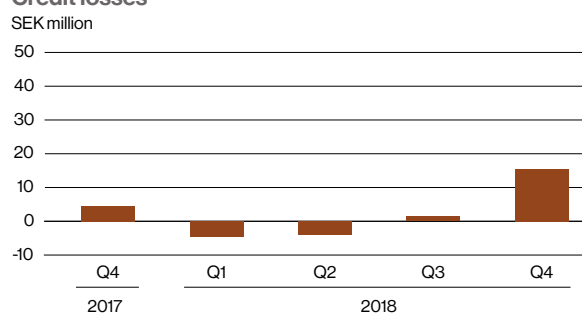
Other comprehensive income

Other comprehensive income amounted to an expense of SEK 39.6 million (income: 11.4). Financial assets at fair value and cross-currency basis spreads in fair value hedges had a net negative impact of SEK 43.6 million on other comprehensive income. Actuarial gains and losses in defined-benefit pensions amounted to a net gain of SEK 4.0 million (loss: 11.6).

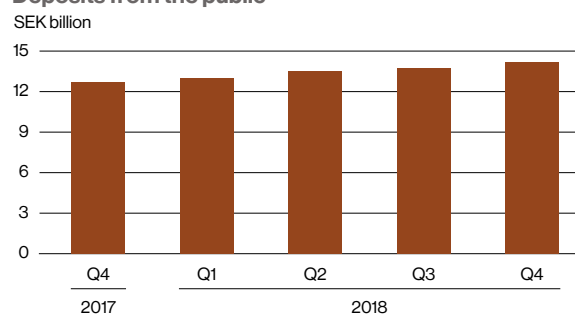
Capital and capital adequacy

The total capital ratio for the consolidated situation amounted to 18.4 percent (20.2 percent at 30 September 2018) and the CET1 capital ratio was 13.9 percent (15.1 percent at 30 September 2018). The internally assessed capital requirement for the consolidated situation was SEK 4.8 billion at 31 December 2018. The capital requirement should be compared with estimated own funds of SEK 6.2 billion. The change arose from Finansinspektionen's decision to move the risk weight floor for the Retail exposure class to Pillar I from 31 December 2018. Refer to Note 1 for further information.

Credit losses



Deposits from the public



Balance Sheet

Assets, SEK million	31 Dec 2018
Loans to credit institutions	540
Loans to the public	72,511
Liquidity portfolio	11,038
Derivatives	1,304
Tangible and intangible assets	158
Prepaid expenses, etc.	378
Total assets	85,930

Liabilities and equity, SEK million	31 Dec 2018
Liabilities to credit institutions	954
Deposits from the public	14,150
Debt securities issued	62,641
Derivatives	461
Other liabilities	1,808
Equity	5,916
Total liabilities and equity	85,930

Comparison with the third quarter of 2018

Operating profit for the quarter totalled SEK 89.0 million (100.7). Excluding the net result of financial transactions, operating profit for the fourth quarter amounted to SEK 88.9 million (102.8), down SEK 13.9 million. This decline was mainly attributable to higher costs and credit losses. The credit losses pertained to a few individual commitments within varying types of farming and geographic locations. The underlying interest margin remained favourable.

Assets

The largest asset item in the balance sheet is Loans to the public, which increased SEK 1.0 billion in the quarter to SEK 72.5 billion and where the largest part of the increase was attributable to mortgage operations. The increase corresponded to lending growth of 1.4 percent for the quarter, compared with 1.3 percent in the corresponding period in 2017. The geographic distribution of lending is stable over time.

At 31 December 2018, Landshypotek Bank's liquidity portfolio totalled SEK 11.0 billion (13.4). The portfolio comprises Swedish covered bonds with the highest credit rating and bonds issued by Swedish municipalities. The holding of interest-bearing securities functions

as a liquidity reserve. At 31 December 2018, the liquidity portfolio was 2.9 times (1.5) larger than refinancing requirements for the next six months. The ratio is affected by the allocation of maturing debt for longer than six months and can, therefore, change between measurement periods.

Liabilities

Funding

Landshypotek Bank actively raises funds via the capital markets, and as far as possible always strives to meet investors' wishes regarding tenors and interest-rate structures. During the year, Landshypotek Bank issued a SEK 5.25 billion green covered bond. Investor relations are of major importance as part of ensuring that investors' levels of awareness and interest are maintained in Landshypotek Bank. In Q4 2018, covered bonds to a value of SEK 0.9 billion were issued. In Q4 2018, covered bonds matured or were repurchased to a value of SEK 1.6 billion. The funding market for Nordic banks functioned smoothly in the fourth quarter and demand for Landshypotek's bonds has been favourable.

Deposits from the public

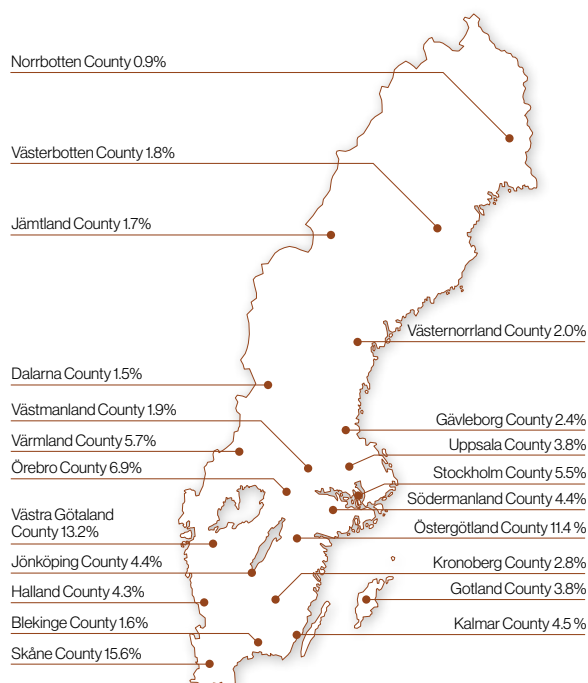
At 31 December 2018, deposits from the public totalled SEK 14.1 billion (12.7). Deposits increased SEK 0.4 billion for the quarter.

Funding

SEK million	Issued 31 Dec 2018	Limit	Issued 31 Dec 2017
Swedish commercial paper	–	10,000	–
MTN programme	41,002	60,000	46,368
EMTN programme	16,788	35,476 ¹⁾	11,700
Registered covered bonds	3,446		3,341
Subordinated loans	1,900		1,900

¹⁾ MEUR 3,500

Geographic distribution of Landshypotek Bank's lending



Rating

Landshypotek Bank has credit ratings from two different rating agencies, Standard & Poor's and Fitch. In 2018, 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
Fitch	A	F1

Group structure

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

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

Events after the end of the period

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

Stockholm, 25 January 2019

Per Lindblad
Chief Executive Officer

Accounting policies

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

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

Income Statement

Group SEK thousand	Note	Q4 2018	Q4 2017	Q3 2018	Full-year 2018	Full-year 2017
Interest income		307,966	314,589	312,534	1,229,383	1,295,831
Interest expenses		-99,491	-106,020	-108,070	-430,406	-495,459
- of which fees for deposit insurance		-3,291	-639	-2,407	-9,627	-6,777
- of which fees for resolution fund		-17,472	-14,169	-17,472	-74,791	-56,945
Net interest income	2	208,474	208,569	204,464	798,977	800,372
Net result of financial transactions		114	-4,808	-2,022	17,255	-48,093
Other operating income		1,079	838	1,190	5,209	1,875
Total operating income		209,667	204,599	203,632	821,441	754,154
General administrative expenses		-98,029	-104,984	-97,201	-405,687	-388,542
Depreciation, amortisation and impairment of tangible and intangible assets		-4,283	-3,714	-4,327	-16,966	-13,762
Other operating expenses		-3,022	-44	-	-3,120	-150
Total expenses before credit losses		-105,334	-108,743	-101,528	-425,773	-402,455
Profit before credit losses		104,332	95,856	102,103	395,668	351,699
Net credit losses	3	-15,363	-4,632	-1,373	-8,032	-12,488
Operating profit		88,969	91,224	100,731	387,636	339,211
Tax expense for the period		-22,009	-22,239	-28,777	-92,128	-82,846
Net profit for the period		66,960	68,986	71,954	295,508	256,366

Statement of Comprehensive Income

Group SEK thousand	Q4 2018	Q4 2017	Q3 2018	Full-year 2018	Full-year 2017
Net profit for the period	66,960	68,986	71,954	295,508	256,366
Other comprehensive income					
Items to be reclassified to income statement					
Cash-flow hedges	-	5,981	-	-	8,620
Available-for-sale financial assets	-	-6,420	-	-	20,907
Financial assets at FVTOCI	-24,006	-	-7,671	-26,924	-
- of which change in credit risk	-	-	-	-	-
Change in cross-currency basis spreads in fair value hedges	3,870	-	1,798	-28,987	-
Tax on items that will be reclassified	4,430	96	1,292	12,300	-6,496
Total items that will be reclassified	-15,706	-342	-4,581	-43,611	23,031
Items that will not be reclassified					
Actuarial changes, defined benefit pensions	-4,108	-8,417	12,103	5,104	-14,881
Tax items that are not reclassified	904	1,852	-2,663	-1,123	3,274
Total items that will not be reclassified	-3,204	-6,565	9,440	3,981	-11,607
Total other comprehensive income	-18,910	-6,907	4,859	-39,629	11,424
Comprehensive income for the period	48,050	62,079	76,813	255,879	267,790

Income Statement

Parent Company SEK thousand	Note	Q4 2018	Q4 2017	Q3 2018	Full-year 2018	Full-year 2017
Interest income		307,966	314,589	312,534	1,229,383	1,295,831
Interest expenses		-99,404	-106,003	-107,983	-430,057	-495,408
- of which fees for deposit insurance		-3,291	-639	-2,407	-9,627	-6,777
- of which fees for resolution fund		-17,472	-14,169	-17,472	-74,791	-56,945
Net interest income	2	208,561	208,586	204,551	799,326	800,423
Net result of financial transactions		114	-4,808	-2,022	17,255	-48,093
Other operating income		1,079	838	1,190	5,209	1,875
Total operating income		209,754	204,616	203,719	821,790	754,205
General administrative expenses		-98,554	-106,304	-97,529	-407,734	-389,949
Depreciation, amortisation and impairment of tangible and intangible assets		-4,283	-3,714	-4,327	-16,966	-13,762
Other operating expenses		-3,022	-44	-	-3,120	-150
Total expenses before credit losses		-105,859	-110,062	-101,856	-427,819	-403,861
Profit before credit losses		103,894	94,554	101,862	393,971	350,344
Net credit losses	3	-15,363	-4,632	-1,373	-8,032	-12,488
Operating profit		88,531	89,922	100,490	385,938	337,856
Tax expense for the period		-21,923	-21,941	-28,883	-91,763	-82,548
Net profit for the period		66,608	67,981	71,606	294,175	255,308

Statement of Comprehensive Income

Parent Company SEK thousand	Q4 2018	Q4 2017	Q3 2018	Full-year 2018	Full-year 2017
Net profit for the period	66,608	67,981	71,606	294,175	255,308
Other comprehensive income					
Items to be reclassified to income statement					
Cash-flow hedges	-	5,981	-	-	8,620
Available-for-sale financial assets	-	-6,420	-	-	20,907
Financial assets at FVTOCI	-24,006	-	-7,671	-26,924	-
- of which change in credit risk	-	-	-	-	-
Change in cross-currency basis spreads in fair value hedges	3,870	-	1,798	-28,987	-
Income tax related to other comprehensive income	4,430	96	1,292	12,300	-6,496
Total items that will be reclassified	-15,706	-342	-4,581	-43,611	23,031
Total other comprehensive income	-15,706	-342	-4,581	-43,611	23,031
Comprehensive income for the period	50,902	67,639	67,025	250,564	278,339

Balance Sheet

SEK	thousand	Note	Group			Parent Company		
			31 Dec 2018	30 Sep 2018	31 Dec 2017	31 Dec 2018	30 Sep 2018	31 Dec 2017
ASSETS								
Eligible treasury bills ¹⁾			4,962,394	4,975,674	5,559,234	4,962,394	4,975,674	5,559,234
Loans to credit institutions			539,948	410,872	393,346	539,722	410,646	393,115
Loans to the public, net		4	72,511,211	71,532,032	68,488,409	72,511,211	71,532,032	68,488,409
Value change of interest-hedged items in portfolio hedges			41,008	52,012	63,621	41,008	52,012	63,621
Bonds and other interest-bearing securities			6,076,015	7,222,955	7,862,707	6,076,015	7,222,955	7,862,707
Derivatives			1,303,977	1,635,797	1,466,052	1,303,977	1,635,797	1,466,052
Shares in Group entities			–	–	–	200	200	200
Intangible assets			143,497	131,703	99,355	143,497	131,703	99,355
Tangible assets								
Equipment			5,757	6,401	8,300	5,757	6,401	8,300
Buildings and land			8,994	9,104	9,515	8,994	9,104	9,515
Other assets			14,495	7,183	7,099	14,494	7,181	7,098
Current tax assets			13,262	–	–	13,262	–	–
Deferred tax assets			2,635	1,810	4,087	400	394	365
Prepaid expenses and accrued income			306,843	400,817	435,825	306,843	400,817	435,825
TOTAL ASSETS		5, 6	85,930,037	86,386,362	84,397,550	85,927,774	86,384,916	84,393,796
LIABILITIES, PROVISIONS AND EQUITY								
Liabilities to credit institutions			954,103	765,206	424,038	954,103	765,206	424,038
Deposits from the public			14,149,539	13,701,964	12,675,325	14,149,539	13,701,964	12,675,325
Debt securities issued			62,641,102	63,771,634	62,877,705	62,641,102	63,771,634	62,877,705
Derivatives			460,591	395,437	705,737	460,591	395,437	705,737
Other liabilities			251,607	102,766	306,405	251,083	102,241	305,883
Tax liabilities			–	9,488	3,681	–	9,488	3,681
Accrued expenses and prepaid income			344,452	483,070	393,505	344,452	483,070	393,505
Provisions			12,159	9,086	17,712	2,572	3,169	1,319
Subordinated liabilities			1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Total liabilities			80,013,553	80,438,653	78,604,109	80,003,442	80,432,211	78,587,193
Equity			5,916,484	5,947,709	5,793,441	5,924,332	5,952,705	5,806,603
TOTAL LIABILITIES, PROVISIONS AND EQUITY		5, 6	85,930,037	86,386,362	84,397,550	85,927,774	86,384,916	84,393,796

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

Statement of cash flow

SEK thousand	Group		Parent Company	
	Full-year 2018	Full-year 2017	Full-year 2018	Full-year 2017
Opening cash and cash equivalents	393,346	592,071	393,115	591,839
Cash flow from operating activities	351,939	-417,323	351,944	-417,322
Cash flow from investment activities	-58,044	-44,439	-58,044	-44,439
Cash flow from financing activities	-147,293	263,037	-147,293	263,037
Cash flow for the period	146,602	-198,725	146,607	-198,724
Closing cash and cash equivalents	539,948	393,346	539,722	393,115

Statement of changes in equity

Group SEK thousand	Share capital	Other con- tributed equity	Hedge reserve	Fair value reserve	Credit loss allowance	Actuarial gains and losses	Tier 1 capital	Retained earnings	Total
Equity, 31 December 2016	2,253,000	1,026,254	-6,724	21,715		-16,359		1,445,583	4,723,470
Comprehensive income for the period			6,724	16,307		-11,607		256,366	267,789
Total change before transactions with owners	-	-	6,724	16,307	-	-11,607	-	256,366	267,789
Tier 1 capital instruments issued							700,000		700,000
Dividend on Tier 1 capital instruments								-21,139	-21,139
Shareholders' contributions								256,000	256,000
Group contributions paid								-170,100	-170,100
Tax on Group contributions paid								37,422	37,422
Equity, 31 December 2017	2,253,000	1,026,254	-	38,022	-	-27,966	700,000	1,804,132	5,793,442
Change on initial transition to IFRS 9				64	-64			-32,481	-32,481
Restated opening balance 1 January 2018	2,253,000	1,026,254	-	38,086	-64	-27,966	700,000	1,771,651	5,760,961

Group SEK thousand	Share capital	Other con- tributed equity	Cross-currency basis spreads in fair value hedges	Fair value reserve	Credit loss allowance	Actuarial gains and losses	Tier 1 capital	Retained earnings	Total
Restated opening balance 1 January 2018	2,253,000	1,026,254	-	38,086	-64	-27,966	700,000	1,771,651	5,760,961
Comprehensive income for the period			-22,610	-21,001	-	3,981		295,508	255,879
Total change before transactions with owners and holders of Tier 1 capital instruments	-	-	-22,610	-21,001	-	3,981	-	295,508	255,879
Dividend on Tier 1 capital instruments								-28,193	-28,193
Shareholders' contributions								51,000	51,000
Group contributions paid								-157,900	-157,900
Tax on Group contributions paid								34,738	34,738
Equity, 31 December 2018	2,253,000	1,026,254	-22,610	17,085	-64	-23,985	700,000	1,966,804	5,916,484

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

Parent Company SEK thousand	Share capital	Other con- tributed equity	Cross-currency basis spreads in fair value hedges	Fair value reserve	Credit loss allowance	Actuarial gains and losses	Tier 1 capital	Retained earnings	Total
Restated opening balance 1 January 2018	2,253,000	1,016,694	-	38,086	-64	-	700,000	1,766,407	5,774,122
Comprehensive income for the period			-22,610	-21,000	-			294,175	250,565
Total change before transactions with owners and holders of Tier 1 capital instruments	-	-	-22,610	-21,000	-	-	-	294,175	250,565
Dividend on Tier 1 capital instruments								-28,193	-28,193
Shareholders' contributions								51,000	51,000
Group contributions paid								-157,900	-157,900
Tax on Group contributions paid								34,738	34,738
Equity, 31 December 2018	2,253,000	1,016,694	-22,610	17,086	-64	-	700,000	1,960,227	5,924,332

Notes

Note 1 Capital and capital adequacy

The total capital ratio for the consolidated situation amounted to 18.4 percent at 31 December 2018. At 30 September 2018, the total capital ratio was 20.2 percent. The change arose from Finansinspektionen's decision to move the risk weight floor for the Retail exposure class to Pillar I from 31 December 2018. Previously, this risk weight floor had impacted the capital requirement within the Pillar II framework. The move affects the bank's capital ratios but not the total capital requirement. If the effects of moving the risk weight floor are excluded, the total capital ratio would have improved slightly compared with the previous quarter and amounted to 21.5 percent. The bank's risk weight for retail exposures, excluding the risk weight floor, is 14 percent and is materially lower than the floor level of 25 percent. The total capital ratio at Landshypotek Bank AB at year end amounted to 19.4 percent (22.7 percent excluding the risk weight floor in Pillar I) compared with 21.1 percent at 30 September 2018.

At year end, the CET1 capital ratio in the consolidated situation was 13.9 percent (16.3 percent excluding the risk weight floor in Pillar I) compared with 15.1 percent at 30 September 2018. The CET1 capital ratio at Landshypotek Bank AB amounted to 13.8 percent (16.1 percent excluding the risk weight floor in Pillar I) compared with 14.9 percent at 30 September 2018.

Own funds for the consolidated situation increased SEK 57 million to SEK 6,198 million during the quarter. The increase derives mainly from member contributions and earnings during the quarter. The minimum capital requirement rose SEK 266 million to SEK 2,693 million. If the Pillar I risk weight floor was excluded, the minimum capital requirement would have decreased SEK 125 million. The reduction arose, inter alia, from lowered capital requirements for IRB approach exposures as a result of the reduced default rate for the bank's IRB exposures and thus lowered the portfolio PD. Moreover the capital requirement for CVA risk has also been reduced, mainly as a result of the expiry of derivative contracts that had previously generated high risk exposures.

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

The leverage ratio for the consolidated situation amounted to 6.2 percent (6.0).

The internally assessed capital requirement for the consolidated situation was SEK 4.8 billion (5.0) at 31 December 2018. The capital requirement should be compared with own funds of SEK 6.2 billion (6.1). The capital adequacy assessment takes into account the minimum capital requirement, the combined buffer requirement and the Pillar II capital requirement.

continued Note 1 Capital adequacy analysis

SEK thousand	Consolidated situation ¹⁾ 31 December 2018	Landshypotek Bank AB 31 December 2018
CET1 capital: Instruments and reserves		
Member contributions	1,729,349	–
Share capital	–	2,253,000
Other contributed equity	1,797,796	1,016,694
Tier 1 capital instruments	700,000	700,000
Reserves	-5,589	-5,589
Actuarial changes	-23,985	–
Retained earnings	1,604,633	1,666,052
Net profit for the year ²⁾	310,086	294,175
Equity in the balance sheet	6,112,290	5,924,332
Deductions related to the consolidated situation and other foreseeable costs	-118,787	–
Deductions for Tier 1 capital instruments classified as equity	-700,000	-700,000
CET1 capital before regulatory adjustments³⁾	5,293,503	5,224,332
CET1 capital: regulatory adjustments		
Further value adjustments	-11,038	-11,038
Intangible assets	-143,497	-143,497
Deferred tax assets that rely on future profitability	-2,635	-400
Fair value reserves related to gains or losses on cash-flow hedges	–	–
Negative amounts resulting from the calculation of expected loss amounts (IRB)	-440,272	-440,272
Defined-benefit pension plans	–	–
Total regulatory adjustments to CET1 capital	-597,442	-595,207
CET1 capital	4,696,062	4,629,125
Additional Tier 1 capital: instruments		
Tier 1 capital instruments	–	700,000
<i>of which classified as equity under applicable accounting standards</i>	–	700,000
Qualifying Tier 1 capital included in consolidated additional Tier 1 capital issued by subsidiaries and held by third parties	567,186	–
Tier 1 capital (CET1 capital + Tier 1 capital)	5,263,248	5,329,125
Tier 2 capital: instruments and provisions		
Capital instruments and subordinated loans eligible as Tier 2 capital	–	1,200,000
Positive amounts resulting from the calculation of expected loss amounts (IRB)	–	–
Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third parties	934,598	–
Tier 2 capital before regulatory adjustments	934,598	1,200,000
Tier 2 capital: regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	–	–
Tier 2 capital	934,598	1,200,000
Own funds (Tier 1 capital + Tier 2 capital)	6,197,846	6,529,125
Total risk-weighted exposure amount	33,664,443	33,662,773
Capital ratios and buffers		
Own funds requirement	2,693,155	2,693,022
CET1 capital ratio (%)	13.9	13.8
Tier 1 capital ratio (%)	15.6	15.8
Total capital ratio (%)	18.4	19.4
Institution-specific CET1 capital requirement including buffer requirements (%)	9.0	9.0
<i>of which capital conservation buffer requirement (%)</i>	2.5	2.5
<i>of which countercyclical buffer requirement (%)</i>	2.0	2.0
CET1 capital available to meet buffers (%) ⁴⁾	9.4	9.3

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

²⁾ A decision by Finansinspektionen in February 2018 gave Landshypotek Bank approval, subject to specific terms and conditions in the decision, for using the interim or full-year surplus in own-funds calculations for the institute and also for its consolidated situation.

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

⁴⁾ Calculated as "the bank's CET1 capital less 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-weighted exposure amount."

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

Consolidated situation 31 December 2018				
SEK thousand	Exposure value ¹⁾	Risk-weighted exposure amount ²⁾	Own funds requirement ³⁾	Average risk weight ⁴⁾
Credit risk – IRB approach	74,231,219	25,317,610	2,025,409	34%
Retail – real estate collateral	45,165,912	6,409,183	512,735	14%
Corporates	29,005,804	18,848,924	1,507,914	65%
Other non-credit-obligation assets	59,504	59,504	4,760	100%
Credit risk – Standardised approach	13,109,929	1,259,684	100,775	10%
Central governments or central banks	16,678	–	–	0%
Regional governments or local authorities	5,267,855	–	–	0%
Institutions	1,756,180	546,061	43,685	31%
Corporates	12,009	12,009	961	100%
Retail	39,937	27,798	2,224	70%
Secured by mortgage liens on immovable property	205,154	91,447	7,316	45%
Exposures in default	843	1,243	99	147%
Covered bonds	5,811,272	581,127	46,490	10%
Operational risk – Basic indicator approach		1,447,606	115,808	
Credit valuation adjustment risk – Standardised approach	1,057,527	754,092	60,327	71%
Additional risk exposure amounts under Article 3 CRR		3,154	252	
Additional stricter prudential requirements based on Article 458 CRR		4,882,295	390,584	
Total	88,398,675	33,664,443	2,693,155	–

Landshypotek Bank AB, 31 December 2018				
SEK thousand	Exposure value ¹⁾	Risk-weighted exposure amount ²⁾	Own funds requirement ³⁾	Average risk weight ⁴⁾
Credit risk – IRB approach	74,229,655	25,316,046	2,025,284	34%
Retail – real estate collateral	45,165,912	6,409,183	512,735	14%
Corporates	29,005,804	18,848,924	1,507,914	65%
Other non-credit-obligation assets	57,940	57,940	4,635	100%
Credit risk – Standardised approach	13,112,561	1,259,579	100,766	10%
Central governments or central banks	16,438	–	–	0%
Regional governments or local authorities	5,271,254	–	–	0%
Institutions	1,755,654	545,955	43,676	31%
Corporates	12,009	12,009	961	100%
Retail	39,937	27,798	2,224	70%
Secured by mortgage liens on immovable property	205,154	91,447	7,316	45%
Exposures in default	843	1,243	99	147%
Covered bonds	5,811,272	581,127	46,490	10%
Operational risk – Basic indicator approach		1,447,606	115,808	
Credit valuation adjustment risk – Standardised approach	1,057,527	754,092	60,327	71%
Additional risk exposure amounts under Article 3 CRR		3,154	252	
Additional stricter prudential requirements based on Article 458 CRR		4,882,295	390,584	
Total	88,399,743	33,662,773	2,693,022	–

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

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

³⁾ Calculated by multiplying the risk-weighted exposure amount by 8 percent. Does not include any buffer requirements.

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

Note 2 Net interest income

Group	Q4	Q4	Q3	Full-year	Full-year
SEK thousand	2018	2017	2018	2018	2017
Interest income					
Interest income on loans to credit institutions	-	-1,263	-	-44	-1,699
Interest income on loans to the public	300,529	307,355	304,713	1,207,400	1,254,083
Interest income on interest-bearing securities	4,664	5,916	5,341	11,445	31,592
Other interest income	2,773	2,581	2,481	10,582	11,856
Total interest income²⁾	307,966	314,589	312,534	1,229,383	1,295,831
Interest expenses					
Interest expenses for liabilities to credit institutions	1,766	936	1,361	7,455	5,109
Interest expenses for deposits from the public	-27,054	-21,648	-24,983	-99,206	-87,551
- of which fees for deposit insurance	-3,360	-639	-2,407	-9,697	-6,777
Interest expenses for interest-bearing securities	-96,733	-131,876	-108,034	-427,784	-553,193
Interest expenses for subordinated liabilities	-7,082	-6,727	-7,095	-27,258	-34,458
Interest expenses for derivative instruments	52,020	71,276	53,586	212,428	249,755
Other interest expenses	-22,408	-17,980	-22,906	-96,041	-75,122
- of which fees for resolution fund	-17,471	-14,169	-17,472	-74,791	-56,945
Total interest expenses	-99,491	-106,020	-108,070	-430,406	-495,459
Total net interest income	208,474	208,569	204,464	798,977	800,372

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

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

Note 3 Net credit losses

Group and Parent Company, SEK thousand	Q4 2018	Q4 2017	Q3 2018	Full-year 2018	Full-year 2017
Change in credit loss allowance, Stage 1	333	–	-309	1,092	–
Change in credit loss allowance, Stage 2	4,813	–	-2,287	11,839	–
- of which change in collective credit loss allowance, Stage 2	-220	–	128	–	–
Collective allowances under IAS39	–	459	–	–	376
Net credit losses, non-credit-impaired lending	5,146	459	-2,596	12,931	376
Change in credit loss allowance, Stage 3	-19,571	–	3,572	14,666	–
Write-off for the period for confirmed losses	-1,843	-9,506	-4,122	-41,447	-22,802
Recoveries of previously confirmed losses	905	724	1,773	5,818	2,754
Specific provisions under IAS39	–	3,691	–	–	7,184
Net credit losses, credit-impaired lending	-20,509	-5,091	1,223	-20,963	-12,864
Total net credit losses	-15,363	-4,632	-1,373	-8,032	-12,488

No properties were taken over in foreclosure to protect claims.

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. Parameter projections are made for the first five years and, thereafter, the scenario returns to a long-term expected trend of up till 30 years. 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 ECLs.

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.

Note 4 Loans to the public

Group and Parent Company, SEK thousand	31 Dec 2018	30 Sep 2018	31 Dec 2017
Loan receivables, stage 1	63,070,945	60,679,572	-
Loan receivables, stage 2	8,995,948	10,294,730	-
Loan receivables, stage 3	525,821	624,543	-
Gross loan receivables	72,592,714	71,598,845	68,537,095
Less credit loss allowance under IFRS 9	-81,503	-66,813	-
- of which change in collectively measured credit loss allowance	-1	-3,408	-
Less provisions under IAS 39	-	-	-48,686
Net loan receivables	72,511,211	71,532,032	68,488,409
Disclosures on overdue loan receivables, gross			
Loan receivables overdue 5–90 days	22,067	-	4,227
Loan receivables overdue more than 90 days	190,692	304,212	308,540
Total overdue loan receivables, gross	212,759	304,212	312,767

Credit loss allowance SEK thousand	Transition to IFRS 9	Non-credit-impaired lending		Credit- impaired lending	Total credit loss allowance lending	Of which credit loss allowance for balance-sheet assets	Of which provisions for off-balance- sheet exposures
		Stage 1	Stage 2	Stage 3			
Closing provision at 31 December 2017 under IAS 39	-48,686						
Reclassification from accrued interest	-20,357						
Remeasurement under IFRS 9	-41,642						
Reclassification under IFRS 9	110,685	-6,917	-33,005	-70,763		-107,134	-3,551
Opening balance at 1 January 2018 under IAS 9		-6,917	-33,005	-70,763	-110,685	-107,134	-3,551
Increases due to origination and acquisition		-1,207	-2,868	-573	-4,648	-3,701	-947
Decreases due to derecognition		760	6,439	7,689	14,888	12,002	2,887
Decrease in allowance due to write-offs				41,447	41,447	41,447	-
Changes due to change in credit risk		1,539	8,268	-33,896	-24,090	-24,116	26
Closing balance, 31 December 2018		-5,825	-21,166	-56,097	-83,088	-81,503	-1,586

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

Note 5 Fair-value hierarchy for financial instruments

Group and Parent Company, SEK thousand	30 December 2018				30 December 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL								
Bonds and other interest-bearing securities				-	322,455			322,455
Interest-rate swaps				-		624		624
Cross-currency interest-rate swaps				-		58,493		58,493
Financial assets at FVTOCI								
Eligible treasury bills, etc.	4,962,394			4,962,394				-
Bonds and other interest-bearing securities	6,076,015			6,076,015				-
Derivatives identified as hedging instruments								
Interest-rate swaps		833,104		833,104		865,582		865,582
Cross-currency interest-rate swaps		470,872		470,872		541,353		541,353
Available-for-sale financial assets								
Eligible treasury bills, etc.				-	5,559,234			5,559,234
Bonds and other interest-bearing securities				-	7,540,252			7,540,252
Total assets measured at fair value	11,038,409	1,303,976	-	12,342,385	13,421,941	1,466,052	-	14,887,993
Financial liabilities at FVTPL								
Interest-rate swaps				-		34,929		34,929
Cross-currency interest-rate swaps				-		4,997		4,997
Derivatives identified as hedging instruments								
Interest-rate swaps		182,723		182,723		331,324		331,324
Cross-currency interest-rate swaps		277,868		277,868		334,487		334,487
Total liabilities measured at fair value	-	460,591	-	460,591	-	705,737	-	705,737

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

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

Level 1

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

Level 2

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

Level 3

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

Note 6 Fair Value Disclosures

Group ¹⁾ SEK thousand	31 Dec 2018 Carrying amount	31 Dec 2018 Fair value	31 Dec 2017 Carrying amount	31 Dec 2017 Fair value
Assets				
Eligible treasury bills	4,962,394	4,962,394	5,559,234	5,559,234
Loans to credit institutions	539,948	539,948	393,346	393,346
Loans to the public	72,511,211	73,879,725	68,488,409	69,520,140
Bonds and other interest-bearing securities	6,076,015	6,076,015	7,862,707	7,862,707
Derivatives	1,303,977	1,303,977	1,466,052	1,466,052
Total assets	85,393,546	86,762,059	83,769,748	84,801,479
Liabilities and provisions				
Liabilities to credit institutions	954,103	954,103	424,038	424,038
Deposits from the public	14,149,539	14,149,539	12,675,325	12,675,325
Debt securities issued	62,641,102	63,293,652	62,877,705	63,933,290
Derivatives	460,591	460,591	705,737	705,737
Subordinated liabilities	1,200,000	1,241,088	1,200,000	1,271,340
Total liabilities	79,405,335	80,098,973	77,882,805	79,009,730

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

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

Alternative performance measures

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

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

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

Group, SEK million	Q4 2018	Q4 2017	Q3 2018	Full-year 2018	Full-year 2017
Change in lending	979	869	710	4,023	1,971
Opening balance, loans outstanding	71,532	67,619	70,822	68,488	66,518
Change in lending, %	1.4	1.3	1.0	5.9	3.0
Net interest income, accumulated LTM	799	800	799	799	800
Average loans outstanding, LTM	70,792	67,351	69,798	70,792	67,351
Interest margin, LTM, %	1.13	1.19	1.14	1.13	1.19
Change in borrowing/deposits	448	132	168	1,474	944
Opening balance borrowing/deposits	13,702	12,543	13,533	12,675	11,731
Change in borrowing/deposits, %	3.3	1.1	1.2	11.6	8.0
Costs before credit losses	-105	-109	-102	-426	-402
Total operating income	210	205	204	821	754
C/I ratio including financial transactions	0.50	0.53	0.50	0.52	0.53
Costs before credit losses	-105	-109	-102	-426	-402
Total operating income excluding financial transactions	210	209	206	804	802
C/I ratio excluding financial transactions	0.50	0.52	0.49	0.53	0.50
Net loan losses calculated on a full-year basis	-61	-19	-5	-8	-12
Average loans outstanding, LTM	70,792	67,351	69,798	70,792	67,351
Credit loss level, %¹⁾	0.09	0.03	0.01	0.01	0.02
Credit-impaired assets, gross	526	708 ²⁾	625	526	708 ²⁾
Less provisions made	-56	-71 ²⁾	-37	-56	-71 ²⁾
Credit-impaired assets, net	470	637²⁾	588	470	637²⁾
Loans to the public	72,511	68,520	71,532	72,511	68,520
Net credit-impaired assets after allowances as a percentage of total loans outstanding, %	0.65	0.93²⁾	0.82	0.65	0.93²⁾
Profit after tax				296	256
Average equity				5,872	5,426
Return on equity, %				5.0	4.7

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

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

Reporting calendar 2019

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

Annual Report 2018	13 March 2019
Interim Report Q1	30 April 2019
General Meeting	7 May 2019
Annual Association Meeting	7 May 2019

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