



Landshypotek Bank

# Landshypotek Bank AB Interim report 2015 #3

January – September 2015 (compared with year-earlier period)

## Liza Nyberg, CEO of Landshypotek Bank, comments on Q3:

Once again, Landshypotek Bank posted strong quarterly results. This healthy earnings capacity is a prerequisite for bearing the costs of our continued growth. We are successively developing the bank into a broader bank for entrepreneurs in the green industries, people living on farms and savers.

### January – September 2015

compared with January – September 2014

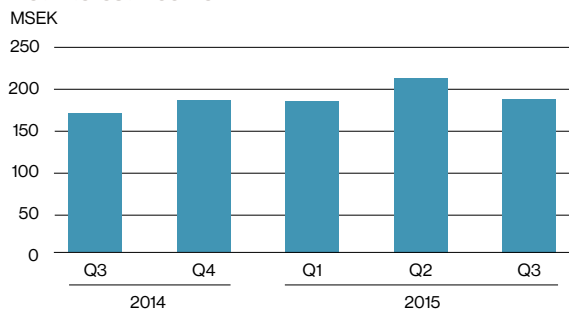
- Operating profit amounted to MSEK 267.9 (300.9)
- The underlying operating profit, profit excluding financial transactions, totalled MSEK 255.0 (170.2).
- Net interest income rose MSEK 85.8 to MSEK 582.5 (496.7).
- Costs increased in line with the bank's development and were MSEK 269.5 (249.3).
- Provisions for probable loan losses declined and amounted to MSEK 62.3 (81.9).
- Net loan losses declined to MSEK 38.7 (66.5).
- Lending amounted to SEK 64.0 billion (61.8), up 3.7 percent (1.9) compared with year-end.
- Deposits amounted to MSEK 8,777 (4,824), up MSEK 3,953.
- The total capital ratio amounted to 23.1 percent not taking the transitional rules linked to Basel I into account.

### July – September 2015

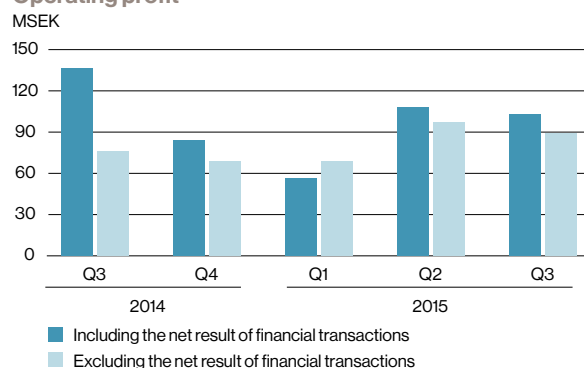
compared with April – June 2015

- Operating profit amounted to MSEK 103.2 (108.0)
- The underlying operating profit, excluding the net result of financial transactions, was MSEK 89.2 (96.8).
- Net interest income amounted to MSEK 187.1 (212.6).
- Costs totalled MSEK 76.9 (97.0)
- Provisions for probable loan losses amounted to MSEK 20.1 (29.5).
- Net loan losses totalled MSEK 15.3 (14.0).
- Lending amounted to SEK 64.0 billion (63.6).
- Deposits amounted to MSEK 8,777 (8,067).

#### Net interest income



#### Operating profit



# For a richer life in the countryside

Landshypotek Bank's assignment is to provide competitive financing and offer financial services to Sweden's farmers, foresters and people living on farms. In addition, Landshypotek Bank has introduced savings accounts that offer competitive interest rates for the general public in Sweden. The bank is owned by its loan customers, organised as members of Landshypotek Ekonomisk Förening.

- Landshypotek Bank finances investments and entrepreneurship for a richer life in the countryside. We specialise in the farming and forestry industries. The core assignment has remained unchanged since 1836.
- With nearly SEK 64 billion in loans outstanding, Landshypotek Bank is Sweden's ninth largest bank. We are a profiled niche bank that drives prices down for the financing of farming and forestry.
- Landshypotek Bank is owned by Landshypotek Ekonomisk Förening, in which all of the Bank's loan customers are members. Our surpluses are reinvested in operations and distributed to loan customers. In May, MSEK 164 of net profit for 2014 was distributed to our loan customers.
- Landshypotek Bank is the farmers and foresters' own bank. For us, the development of the farming and forestry industries is crucial for the countryside and, therefore, for Sweden's future.
- Landshypotek Bank has a strong local network maintained by elected representatives who value agricultural properties and act as ambassadors for our operations.
- Landshypotek Bank systematically recruits account managers who understand financing and have backgrounds in agronomy, forestry or agrology. We understand the people behind the multitude of family businesses in the countryside.
- Landshypotek Bank has opened a digital savings bank that offers competitive interest rates for the general public in Sweden. Accordingly, we are the bank for anyone who wants favourable terms for savings and who holds the countryside dear to their heart. Together with our loan customers, we have been developing the countryside since 1836. Saving with Landshypotek Bank contributes to the continued development of the Swedish countryside.

## Landshypotek Bank is close to its customers

Landshypotek Bank has organised its customer operations into eight districts and has 19 sales offices throughout Sweden to promote active and close dialogue with customers. In addition, a central organisation is in place that includes a customer service function for dialogue with customers. The district organisation has access to a network of elected representatives who carry out property valuations. The company's local presence and expertise in farming and forestry are prerequisites and success factors for operations. Functions for risk, compliance, legal affairs, accounting, finance, loan and savings administration, HR, marketing and development, IT, communication and credit are located at the head office. Landshypotek Bank has approximately 160 employees.

## Landshypotek Bank is owned by its members

All borrowers from Landshypotek Bank become members of Landshypotek Ekonomisk Förening (Landshypotek Cooperative Society). Accordingly, Landshypotek Bank is owned by some 43,000 members. All business operations are conducted in Landshypotek Bank. The cooperative society is responsible for member relations and overriding control of the bank through the owner directive. Landshypotek Ekonomisk Förening has organised its member operations into ten regions. The Board of each region comprises up to eight elected representatives who represent the members and act as ambassadors for Landshypotek Bank. These elected representatives perform valuations on behalf of the bank. Any surpluses in Landshypotek Bank are reinvested in operations and distributed to loan customers.



## Managing Director's Statement

# Commitment to society generates favourable prospects

We are on a journey of transition from being a building society to becoming a broader bank. Our journey is distinguished by our commitment to the countryside and green industries.

Never before have Swedish farmers had such extensive skill sets or been such driven entrepreneurs. In many areas, our farming is the best in the world. At the same time, consumer knowledge is dwindling with regard to the food being produced and the requirements of modern farming. I meet many people outside of the industry who are astonished when I tell them about the size of many of these farming businesses and the extensive strategic business choices that farmers face.

However, people are curious. Modern food consumers are searching for products that are genuine, honest and natural. The curiosity of consumers is another reason that Swedish farming and forestry are industries for the future – and why Landshypotek Bank is a bank for the future. We are committed to the green industries and increasing numbers of people view societal commitment as particularly important. This summer, when we surveyed young people's opinions of banks, we received an unequivocal response: banks have greater societal responsibility than other companies.

Of late, both we and the public have shared a commitment to hard-pressed Swedish dairy farmers. We have frequent dialogues with our dairy farmers and monitor their operations closely. We help with temporary measures for producers that we believe run operations that are sustainable in the long term and help others to perform an orderly restructuring. During the year, we have also got involved in efforts to prepare government credit guarantees. However, the regulation passed by the government did not improve conditions for any dairy farmers and, accordingly, together with the other banks, we chose not to sign frame agreements to use these loans. We are positive to participating in continued political efforts on behalf of dairy farmers, but the measures must lead to real improvements of conditions.

We have now noted a general trend, whereby farmers and foresters are diversifying their operations. Large is becoming larger in the ongoing structural reorganisation, while others are specialising in one segment or niche. Some people chose to live on a farm, earn their living from employment and operate the business in their spare time. Landshypotek Bank is here for all of these people.

I am also pleased to report that our lending is continuing to grow. Even during the, for financing, often low intensity summer months, credit granting increased for land acquisitions and investments.

We continue to be active in the market and strengthen our organisation where it meets customers. In the autumn, several activities are planned and we are kicking off with an entrepreneurial initiative in the countryside.

We aim to provide an attractive long-term alternative for farmers and foresters and to be their main supplier of banking services. This is why we are on a journey of transition from being a building society to becoming a broader bank, and being a sustainable bank requires stronger results. A healthy earnings capacity is required to accelerate this development. We are growing and developing in pace with our initiatives, while maintaining good control of costs and remaining risk aware.

During the last quarter, we have generally strengthened dialogue with customers, for reasons including early identification of commitments that could be associated with risk. Our loan losses comprise extremely few individual commitments.

There is substantial interest in a bank with a difference that is committed to society. Many savers choose us as the bank for the countryside. Our savings accounts are continuing to grow and expansion through household savings is a key element of our strategy. During the quarter, we came close to SEK 9 billion in deposits.



Liza Nyberg

Managing Director Landshypotek Bank

# Our operating environment

Landshypotek Bank and its customers are impacted by trends in the financial market, as well as circumstances for conducting business in the farming and forestry sectors. Interest rates remain low. The pressure on dairy farmers has still not alleviated, while in some areas, such as livestock production, conditions differ positively compared with the rest of Europe.

## Financial market trends

The third quarter was also characterised by falling interest rates, even if the trend is not quite as unambiguous as previously. Expectations of the US central bank are for it to continue to normalise monetary policy. In parallel, the financial situation in China with falling stock markets has resulted in declining commodity prices and is driving down inflation prospects. Furthermore, amid concerns about a weaker global trend, growth forecasts have been successively downgraded during the quarter.

The US economic trend, which has previously acted as the engine driving the global recovery, is no longer as strong. The economic data indicates a weaker trend and the expected interest-rate hike by the Federal Reserve at the September meeting did not materialise. The increase was withheld due to concerns regarding global growth, low commodity prices, weak wage growth pressure and a stronger dollar.

Europe has also trended somewhat below expectations. The European Central Bank's expansive monetary policy, which is aimed at increasing inflation, credit growth and strengthening the competitiveness of the Euro countries, has not had the desired effect. Neither exports nor corporate profits have met expectations.

In Sweden, the Riksbank, Sweden's central bank, unexpectedly lowered the key interest rate to -0.35 percent in July and, furthermore, increased purchases of government bonds to a total of SEK 135 billion. Inflation data has been mixed however, which is not unusual over the summer months. The decline in the SEK has had an effect, since a certain proportion of inflation has been imported.

The labour market has strengthened with declining unemployment despite an increase in the total labour force. In the second quarter, GDP growth posted a surprising 1.1 percent, which indicates an annual growth rate of about 3.0 percent. This was primarily driven by a substantial increase in exported services, government spending and private consumption.

Since the summer, credit spreads (the premium required by investors to cover credit risk) have risen, which has countered the Riksbank's interest-rate cut and been reflected in consumer rates. Landshypotek Bank has made changes in both its deposit and lending interest rates in the third quarter. The deposit rates were lowered by 10 basis points as a follow-on to the Riksbank's cut in the repo interest rate. Short and long-term lending interest rates have also been lowered.

Low commodity prices, lower market interest rates, weaker demand and low salary expectations are keeping

## Summary Landshypotek Bank

	2015 Q3	2014 Q3	2015 Q2	2015 Jan-Sep	2014 Jan-Sep	2014 Full year
Net interest income, MSEK	184.4	169.3	214.0	582.5	496.7	682.0
Operating profit, MSEK	103.2	136.4	108.0	267.9	300.9	384.9
Profit after tax, MSEK	80.7	106.4	84.3	209.2	234.6	301.4
Loans to the public, MSEK	64,015	61,795	63,581	64,015	61,795	61,743
Increase in lending, %	0.7 %	0.3 %	2.2 %	3.7 %	1.5 %	1.5 %
Interest margin, %	1.2 %	1.1 %	1.4 %	1.2 %	1.1 %	1.1 %
Deposits from the public	8,777	4,824	8,067	8,777	4,824	5,829
Increase in deposits, %	8.8 %	21.3 %	18.1 %	50.6 %	124.7 %	171.5 %
C/I ratio	0.42	0.37	0.47	0.48	0.46	0.47
Loan loss level, %	0.10 %	0.11 %	0.09 %	0.08 %	0.14 %	0.13 %
Capital adequacy, %	23.1 %	24.6 %	23.2 %	23.1 %	24.6 %	24.5 %
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	157.5	144.5	153.0	154.5	141.3	143.4

inflation down. For Landshypotek Bank's customers, this has meant that the cost of capital has remained at historically low levels. The prospects for continued low rates are favourable.

## Trends in farming and forestry

Swedish and European farming reflects the global market, where the trends in China and Russia in particular are at the forefront. European farming is undergoing a period of extremely low profitability, which has resulted in strong protests from farmers' organisations. Conditions for farming in Sweden differ positively in several areas. It has also become increasingly clear that agricultural entrepreneurs' choice of marketing strategy can significantly impact profitability and competitiveness.

For example, positive differences apply for pork production in Sweden. While global pork prices are under pressure, due primarily to export barriers to Russia, the domestic market is marked by a clear preference for Swedish pork. Conscientious animal husbandry, extensive regulations regarding the protection of animals and concern about antibiotic-resistant bacteria generates a unique position for Swedish meat with consumers and higher prices for producers. Consumers' choices make a difference. Additional focus will be placed on labelling as Swedish to showcase the positive differences with Swedish products at food retailers through the newly formed organisation for Swedish labelling Svenskmärkning AB, which was founded by the Swedish Food Federation, Svensk Dagligvaruhandel (trade organisation for food retailers) and the Federation of Swedish Farmers.

On the meat side, increasing interest in investments in livestock production comprise evidence of confidence moving forward. Major producers are expanding and discontinued dairy farms are often being sold to beef producers. There is also growing interest in investments in chick production.

Individual choices in marketing strategy are also noticeable in milk production. Global market prices for milk powder have been at record lows. Dairy farmers who have chosen and had the ability to focus on strong domestic markets with growing demand, for example, organic milk have noted an entirely different trend. Competition between dairies for the raw product has led to major price differences between milk produced conventionally and milk produced organically.

Dairy farmers have remained under pressure during the quarter. For an extended period, the number of dairy farms has been in decline, but the trend is now accelerating. Several initiatives have been taken within the EU and

voluntarily in the Swedish retail industry and among consumers to support dairy farmers in these trying times. However, no initiative has had any noticeably positive impact on dairy farmers. Landshypotek Bank maintains a close dialogue with its dairy farmers and, where needed, applies measures to improve the situation for long-term sustainable companies experiencing temporary pressure. The bank has also been involved in the government's proposed credit guarantees, an initiative that thus far has not led to any actual measures from the government. Hopeful trends toward raised prices are now being noted in the global market. Analysts are unanimous that the world market price is expected to climb at the end of the year or start of 2016.

In most cases, the Swedish harvest of cereals and oilseeds was very good though later than normal. However, in many cases the desired quality levels for barley for malting and corn was not reached, which resulted in lower prices. During the harvest period, domestic prices were driven downward and the margins between prices listed on the international exchanges, such as MATIF in Paris and in the Swedish market were at record highs. Accordingly, there is substantial interest in storing and waiting for rising prices with later sales. For some, this could lead to pressure on liquidity.

The forestry industry reported continued weak growth in wood consumption. On the paper side, the restructuring is continuing from the production of graphic paper to packaging materials. Healthy price levels for pulp and favourable exchange rates are contributing to maintaining earnings in the industry. However, the prices paid to forest owners for raw materials are under pressure.

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## Financial calendar 2016

Interim report, Q4

29 January 2016

*All reports are published in Swedish and English and are available for download from [www.landshypotek.se](http://www.landshypotek.se) under Financial reports.*

# Landshypotek Bank AB

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

Interim report for the period 1 January – 30 September 2015.

Landshypotek Bank AB (Landshypotek) is owned by Landshypotek Ekonomisk Förening, in which all of the Bank's loan customers are members. The Bank's assignment is to provide competitive financing to Sweden's farmers and foresters. With loans outstanding of SEK 64.0 billion, Landshypotek accounts for 26.8 percent of total lending to farmers and foresters in Sweden. Lending is characterised by adequate property collateral which, historically, has resulted in extremely low loan losses. Landshypotek has 160 employees at 19 offices throughout Sweden.

## Operating profit 2015

Consolidated operating profit for the first three quarters of 2015 amounted to MSEK 267.9, which is lower year-on-year (MSEK 300.9). Net interest income rose MSEK 85.8 to MSEK 582.5 (496.7). The net result of financial transactions was MSEK 12.9 (130.7). Costs increased to MSEK 269.5 (249.3). Net loan losses totalled MSEK 38.7 (66.5). Excluding the net result of financial transactions, operating profit amounted to MSEK 255.0 (170.2), up MSEK 84.8 year-on-year.

### Net interest income

Net interest income for the first three quarters of 2015 amounted to MSEK 582.5. This was a year-on-year increase of MSEK 85.8 or 17.3 percent (496.7). The amount of net interest income is determined by the volume of loans outstanding, the margin between the interest rates on borrowing and lending and the return obtained on equity.

The increase in net interest income was primarily due to higher lending and lower borrowing costs, and a higher percentage of interest compensation received. From 2015, terminated hedging relationships have been reclassified so that income and costs for these terminated

hedging relationships offset each other in net interest income. Refer to Note 1.

### Other operating income

Other operating income was negative at MSEK 6.4 for the period. Other operating income includes fees of MSEK 28.1 for the stabilisation fund and deposit insurance, the profit of MSEK 12.9 from the net result of financial transactions, net commission income (excluding the stabilisation fund and deposit insurance) of MSEK 8.2 and income from property of MSEK 0.6.

Other operating income was down MSEK 126.4 compared with the corresponding period in 2014 (120.0). The decrease was primarily due to a decline of MSEK 117.8 in the net result of financial transactions to MSEK 12.9 (130.7). The profit of MSEK 12.9 comprised an unrealised loss of MSEK 21.5 and a realised gain of MSEK 34.4. The net result of financial transactions included realised results from the purchase and sale of financial instruments, as well as the result from the buyback of bonds. In addition, this item includes the unrealised result from the revaluation of financial instruments. To gain an understanding of the total effect of market valuations, the remeasurements recognised directly in equity via other comprehensive income must also be taken into account. Remeasurements in equity amounted to negative MSEK 25.4 (pos: 2.1) in the first three quarters of 2015.

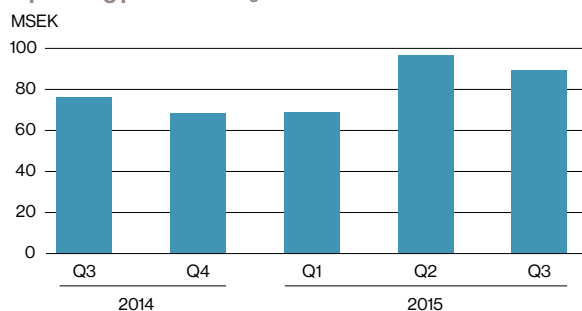
### Costs

Costs for the first three quarters amounted to MSEK 269.5 (249.3). The increase in costs of MSEK 20.2 was as planned and was primarily linked to developments to strengthen the bank's competitiveness.

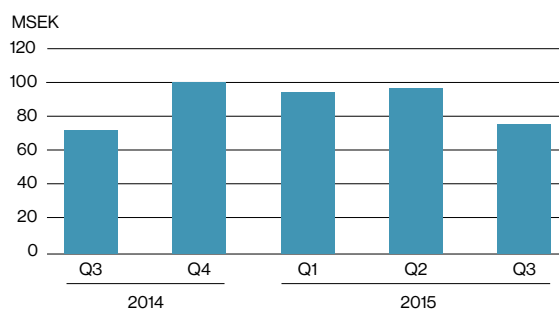
### Loan losses and doubtful credits

Net loan losses for the first nine months of the year amounted to MSEK 38.7 (66.5). Confirmed losses

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



### Costs



## Operating profit

	Jan-Sep 2015	Jan-Sep 2014
Net interest income, MSEK	582.5	496.7
Other operating income, MSEK	-6.4	120.0
Of which net result of financial transactions	12.9	130.7
Costs, MSEK	-269.5	-249.3
C/I ratio adjusted for net result of financial transactions	0.48	0.51
Net recognised loan losses, MSEK	-38.7	-66.5
Loan loss level, %	0.08 %	0.14 %
Operating profit, MSEK	267.9	300.9
Operating profit excluding the net result of financial transactions	255.0	170.2

totalled MSEK 15.7 (25.0). Provisions for probable loan losses amounted to MSEK 62.3 (82.0). Reversals of previous provisions for confirmed losses in the annual accounts totalled MSEK 15.8 (22.3). Recoveries of previously confirmed losses and reversals of previous provisions for probable loan losses that are no longer required, amounted to MSEK 23.6 (18.1).

At 30 September 2015, net doubtful credits after provisions amounted to MSEK 305.8, corresponding to 0.48 percent of loans outstanding. The percentage of doubtful credits has decreased slightly compared with the last quarter and increased year-on-year. At 30 September 2014, doubtful credits totalled MSEK 235.9, corresponding to 0.38 percent of loans outstanding.

Confirmed loan losses were lower year-on-year, and the provision for probable loan losses declined. Landshypotek Bank is continuing internal development efforts to identify and follow companies with poor and low liquidity in the credit portfolio, thereby, enabling the bank to take suitable measures at an earlier stage. The provision for probable loan losses is attributable to a limited number of individual commitments.

## Compared with the second quarter of 2015

Compared with the second quarter of 2015, operating profit for the third quarter of 2015 declined MSEK 4.9. Excluding the net result of financial transactions, operating profit for the third quarter amounted to MSEK 89.2, down MSEK 7.5

compared with the second quarter of 2015. Though net interest income has declined, costs and loan losses were also lower compared with the second quarter of 2015.

## Landshypotek's development

In the first three quarters of 2015, lending increased SEK 2.3 billion. The increase corresponded to lending growth of 3.7 percent, compared with 1.5 percent in the corresponding year-earlier period.

Demand for credit in the market from farmers and foresters has now levelled off and stabilised following a flagging trend in 2014. The annualised growth for 2015 is estimated at about 5 percent.

With an expanded market presence and broader product offering, Landshypotek Bank is growing in pace with the market.

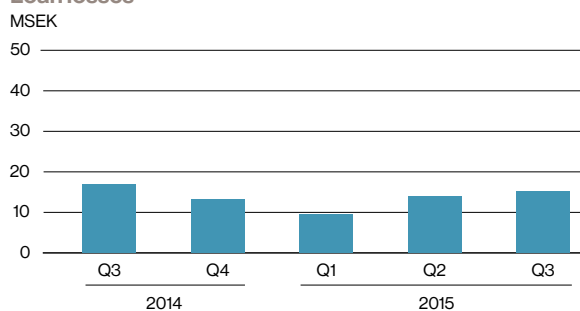
## Funding

### Borrowing

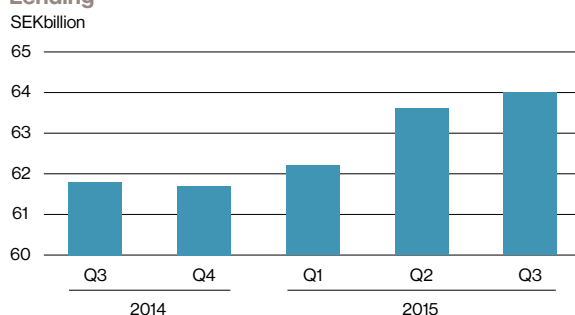
Landshypotek Bank's ambition is to borrow funds on the best possible terms given a low risk profile. The following also applies:

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

### Loan losses



### Lending



Landshypotek Bank operates with considerable flexibility and actively raises funds via national and international bond markets, as well as striving to always respond to investors' concerns regarding tenors and interest-rate structures.

Investor relations are of major importance as part of ensuring that investors' levels of awareness and interest are maintained in Landshypotek Bank. During the first nine months, the Bank issued covered bonds to a value of approximately SEK 7.4 billion and senior bonds to a value of SEK 1.0 billion. During the same period, bonds have matured and been repurchased to a value of approximately SEK 13.3 billion, of which SEK 10.3 billion pertained to covered bonds.

In general, the financial market for Nordic banks has functioned smoothly thus far into 2015. In the first six months of the year, Landshypotek Bank issued, for example, five-year covered bonds to a value of SEK 3.2 billion with a coupon rate of 0.635 percent. The issue showed that demand continues to be extremely strong for Landshypotek Bank's bonds.

#### Deposits

Deposits amounted to MSEK 8,777 (4,824) at the end of September 2015.

#### Liquidity

Landshypotek Bank has a substantial liquidity portfolio of interest-bearing securities, valued at SEK 13.7 billion at 30 September 2015. The portfolio primarily comprises Swedish covered bonds with the highest credit rating and, to some extent, bonds issued by Swedish municipalities. Securities can be sold or borrowed against, as required, to manage the financing of maturing debt. At 30 September, the liquidity portfolio was 1.9 (2.0) times larger than refinancing requirements for the next six months.

### Rating

Landshypotek Bank has credit ratings from two different rating agencies, Standard & Poor's and Fitch. In the third quarter, Fitch changed Landshypotek Bank's rating to A with stable outlook. The motivation was that the quality of Landshypotek Bank's loan portfolio was approaching the quality of those of other banks and, accordingly, Fitch

lowered its previously extremely strong credit-quality rating.

Standard & Poor's confirmed the AAA rating for covered bonds in 2014.

### Rating

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

### Risk management

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

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

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

Landshypotek Bank is exposed to market risk in the form of interest-rate, currency, basis-spread and credit-spread risk. Limits have been set for all of these risks. Interest-rate and currency risk are mainly managed through swap agreements and are therefore low. Basis-spread risk arises from entering into interest-rate and currency swap agreements and is moderated through

### Programme

MSEK	Issued 30 Sept 2015	Limit	Issued 31 Dec 2014
Swedish commercial paper	3,070	10,000	3,274
MTN programme	43,371	60,000	44,950
EMTN programme	12,114	32,739*	14,947
RCB**	3,273		3,302
Subordinated loans	500		700

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



limiting funding in foreign currency. Credit-spread risk arises in Landshypotek Bank's liquidity portfolio and is limited through requirements for high credit ratings for securities in the liquidity portfolio. Landshypotek Bank monitors the market and liquidity risks, for which limits apply, on a daily basis.

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

## Capital adequacy

The total capital ratio amounted to 23.1 percent<sup>1)</sup> without taking into account the transitional rules linked to Basel I<sup>2)</sup>. Own funds amounted to MSEK 4,710 and the own funds requirement was MSEK 1,629. The total capital ratio including the transitional rules was 9.3 percent.

On 1 January 2014, the EU's Capital Requirements Directive (new European capital adequacy rules), based on parts of the Basel III rules, entered into force in Sweden. In relation to the earlier Swedish implementation of the Basel II rules, the new regulations entailed a raised capital requirement for Landshypotek Bank. On 2 August 2014, the EU's Capital Requirements Directive (CRD IV) was implemented in Sweden through new laws and provisions. The latter contains rules pertaining to capital buffers and, with regard to Landshypotek Bank an additional requirement for a capital conservation buffer of 2.5 percent of the total risk-weighted exposure amount, over and above previous Basel III capital requirements<sup>3)</sup>. The capital conservation buffer must be covered by Common Equity Tier 1 capital (CET1 capital). The Bank's remaining CET1 capital to cover the buffer requirements, corresponds to 14.7 percent of the total risk-weighted exposure amount at 30 September 2015. From 13 September 2015, an additional requirement will be introduced of a countercyclical capital buffer of 1.0 percent of the total risk-weighted exposure amount<sup>4)</sup>. If an institute has insufficient capital to cover the buffer requirements, it must submit a plan to the Swedish Financial Supervisory Authority disclosing how it will meet the buffer requirements within a reasonable period of time. In addition, the institution will be subject to restrictions in the form of bans proscribing actions, such as, the payment of dividends and certain types of variable remuneration<sup>5)</sup>. However, the buffer requirements differ from other regulatory capital requirements, since not

meeting them is allowed on a temporary basis. Accordingly, the buffer requirements are not included under the capital requirement recognised under the Basel III rules (tables on pages 10-11).

### Internally assessed capital requirement

Landshypotek Bank bases its capital requirement assessment on three different methods and then applies the value from the method that generates the highest capital requirement. One method is based on the target of having capitalisation corresponding to a "very strong" rating in S&P's risk-adjusted capital model for Landshypotek Bank AB. One of the reasons this model is used is that the bank will be able to maintain a rating of AAA for its covered bonds. Another method used is the own funds requirement based on the transitional rule related to the Basel I rule, including a stress test buffer in order to keep above the capital requirement in a highly stressed scenario. The third method is based on the Basel III rules that, in addition to the Pillar I capital requirements, include a total combined buffer requirement, Pillar II capital including a risk weight floor and a loss buffer for a normal economic slowdown cycle.

The internally assessed capital requirement was not impacted by the Basel III rules. Due to the high risk weighting under the Basel I rules for loans with collateral in agricultural and forest properties, the method under the Basel I rules continues to set the highest capital requirement. For 2015, this capital requirement, for both the consolidated situation and for Landshypotek Bank AB, amounts to approximately SEK 4.6 billion. At 30 September 2015, own funds, under the transitional rule related to Basel I, amounted to SEK 4.91 billion for the consolidated situation and to SEK 4.90 billion for Landshypotek Bank AB.

## Group structure

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

More than 90 percent of business activities are conducted in Landshypotek Bank. The other Group company is Landshypotek Jordbrukskredit, which is 100-percent owned by Landshypotek Bank.

The operations in Landshypotek Jordbrukskredit will be transferred to Landshypotek Bank in October 2015. Thereafter, Landshypotek Jordbrukskredit will be discontinued.

<sup>1)</sup> In this text, Basel I and Basel III refer to the Swedish implementation of the Basel regulations.

<sup>2)</sup> The earnings for the first nine months of 2015 were not taken into account in own funds.

<sup>3)</sup> The Basel III capital requirements without buffer requirements correspond to 8 percent of the total risk-weighted exposure amount.

<sup>4)</sup> The countercyclical buffer is planned to be raised to 1.5 percent from 27 June 2016.

<sup>5)</sup> Provided that the institute does not meet the requirements for the maximum distributable amount.

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

Consolidated situation <sup>1</sup> 30 September 2015				
SEK thousand	Exposure value <sup>2</sup>	Own funds requirements <sup>4</sup>	Risk weighted exposure amounts <sup>3</sup>	Average risk weight <sup>5</sup>
<b>Credit risk – Internal Ratings Based approach</b>	<b>61,971,356</b>	<b>932,773</b>	<b>11,659,665</b>	<b>19 %</b>
Retail – Secured by real estate	61,881,351	925,573	11,569,660	19 %
Other non credit-obligation assets	90,005	7,200	90,005	100 %
<b>Credit risk – Standardised approach</b>	<b>21,179,061</b>	<b>437,288</b>	<b>5,466,099</b>	<b>26 %</b>
Central governments or central banks	6,645	-	-	0 %
Regional governments or local authorities	5,119,898	-	-	0 %
Institutions	3,357,510	106,139	1,326,741	40 %
Corporates	295,920	22,807	285,093	96 %
Retail	196,391	9,479	118,482	60 %
Secured by mortgages on immovable property	3,005,262	218,335	2,729,185	91 %
Exposures in default	33,920	3,584	44,794	132 %
Covered bonds	8,708,982	69,672	870,898	10 %
Other items	454,534	7,273	90,907	20 %
<b>Operational risk – Basic Indicator approach<sup>6</sup></b>		<b>96,994</b>	<b>1,212,430</b>	
<b>Credit valuation adjustment risk – Standardised approach</b>	<b>2,767,364</b>	<b>161,463</b>	<b>2,018,291</b>	<b>73 %</b>
<b>Total</b>	<b>85,917,781</b>	<b>1,628,519</b>	<b>20,356,485</b>	<b>-</b>

<sup>1</sup> The consolidated situation includes Landshypotek Ekonomisk Förening and the Landshypotek Bank AB Group.

<sup>2</sup> After application of the appropriate conversion factors to, where possible, also capture unutilised limits. For the IRB approach, conversion factors are based on internal historic data while standardised conversion factors as stated in the Capital Requirements Directive are applied for the standardised approach.

<sup>3</sup> After application of the appropriate risk weights. Risk weights for the IRB approach are based on internal risk classification and internal historic data while standardised values as stated in the Capital Requirements Directive are applied for the standardised approach.

<sup>4</sup> Calculated by multiplying the risk-weighted exposure amount by 8 percent. No buffer requirements are included.

<sup>5</sup> Calculated by dividing the risk-weighted exposure amount by the exposure value for the respective risk/exposure class.

<sup>6</sup> No exposure values exist for operational risk and, accordingly, there is no recognition of exposure values or average risk weight.

## Capital adequacy analysis

TSEK	Consolidated situation <sup>1</sup> 30 September 2015
<b>Own funds, Basel 3</b>	<b>4,710,451</b>
Tier 1 capital	4,210,477
Common equity tier 1 (CET1) capital	4,210,477
Capital instruments eligible as CET1 Capital	1,385,675
Retained earnings	3,093,854
Accumulated other comprehensive income	-49,458
Adjustments to CET1 due to prudential filters	23,260
(-) Other intangible assets	-24,620
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-3,810
(-) IRB shortfall of credit risk adjustments to expected losses	-202,141
(-) Defined benefit pension fund assets	-12,284
Tier 2 capital	499,975
Capital instruments and subordinated loans eligible as T2 Capital	499,975
<b>Own funds requirements, Basel 3</b>	<b>1,628,519</b>
<b>Risk weighted exposure amounts, Basel 3</b>	<b>20,356,485</b>
CET1 capital ratio (%)	20.68
Tier 1 capital ratio (%)	20.68
Total capital ratio (%)	23.14
Institution specific CET1-requirement including buffer requirements (%)	8.00
of which: capital conservation buffer requirement (%)	2.50
of which: countercyclical capital buffer (%)	1.00
CET1 capital available to meet buffers (as a share of risk exposure amounts, %) <sup>2</sup>	14.68
Capital quotient	2.89
<b>Capital adequacy according to transitional rules Basel 1</b>	
Own funds	4,912,592
Own funds requirement	4,217,622
Total capital ratio (%) <sup>3</sup>	9.32
Capital quotient	1.16

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

<sup>2</sup> Calculated as "CET1 capital less the amount of this capital used to meet CET1 capital requirements after reduction for any other CET1 capital used to cover the tier 1 capital requirement and total own funds requirements" divided by the risk-weighted exposure amount, Basel III.

<sup>3</sup> Corresponds to the term capital adequacy ratio, which has been used in previous financial statements.

## Events after the end of the period

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

Stockholm, 23 October 2015

Liza Nyberg,  
Managing Director

*This interim report has not been subject to review by the company's auditors.*

## Accounting policies

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

This Interim Report has been prepared in accordance with IAS 34 Interim Financial Reporting. From 2015, terminated hedging relationships have been reclassified so that income and costs for these terminated hedging relationships offset each other in net interest income. Comparative figures for 2014 have been restated. Costs attributable to Landshypotek Bank's funding have been reclassified from "general administrative expenses" to "interest expense." Accounting policies, calculation methods and risk management are unchanged compared to those applied in the most recent Annual Report (see [www.landshypotek.se](http://www.landshypotek.se), Financial info).

# Income statement

Landshypotek Bank AB Group, SEK Thousand	Note	2015 Q3	2014 Q3	2015 Q2	2015 Jan-Sep	2014 Jan-Sep	2014 Full year
Interest income		367,892	497,909	399,555	1,193,691	1,556,107	2,027,831
Interest expense		-180,790	-328,636	-187,006	-611,166	-1,059,423	-1,345,798
<b>Net interest income</b>	Note 1	<b>187,102</b>	<b>169,273</b>	<b>212,549</b>	<b>582,525</b>	<b>496,684</b>	<b>682,033</b>
Commission income		2,420	3,404	3,010	7,699	9,415	14,082
Commission expense		-8,313	-7,063	-8,330	-28,127	-21,451	-28,037
Net result of financial transactions		13,933	60,184	11,280	12,929	130,682	146,151
Other operating income		210	520	502	1,090	1,384	1,474
<b>Total operating income</b>		<b>195,352</b>	<b>226,318</b>	<b>219,011</b>	<b>576,116</b>	<b>616,714</b>	<b>815,703</b>
General administrative expenses		-68,454	-63,324	-85,371	-238,823	-219,385	-310,799
Depreciation, amortisation and impairment of tangible and intangible non-current assets		-4,921	-4,192	-4,923	-14,736	-12,051	-16,491
Other operating expenses		-3,519	-5,371	-6,671	-15,965	-17,878	-23,854
<b>Total expenses before loan losses</b>		<b>-76,894</b>	<b>-72,887</b>	<b>-96,965</b>	<b>-269,524</b>	<b>-249,314</b>	<b>-351,144</b>
<b>Profit before loan losses</b>		<b>118,458</b>	<b>153,432</b>	<b>122,046</b>	<b>306,592</b>	<b>367,400</b>	<b>464,559</b>
Loan losses, net	Note 2	-15,293	-17,009	-14,001	-38,652	-66,516	-79,612
<b>Operating profit</b>		<b>103,165</b>	<b>136,423</b>	<b>108,045</b>	<b>267,940</b>	<b>300,884</b>	<b>384,947</b>
Income tax for the period		-22,510	-30,031	-23,758	-58,737	-66,277	-83,535
<b>Net profit for the period</b>		<b>80,654</b>	<b>106,392</b>	<b>84,287</b>	<b>209,202</b>	<b>234,606</b>	<b>301,412</b>

# Statement of comprehensive income

Landshypotek Bank AB Group, SEK Thousand	2015 Q3	2014 Q3	2015 Q2	2015 Jan-Sep	2014 Jan-Sep	2014 Full year
<b>Net profit for the period</b>	<b>80,654</b>	<b>106,392</b>	<b>84,287</b>	<b>209,202</b>	<b>234,606</b>	<b>301,412</b>
<b>Other comprehensive income</b>						
<i>Items to be reclassified to profit or loss</i>						
Cash-flow hedges	5,848	-1,107	7,429	20,035	-16,563	-9,167
Available-for-sale financial assets	-15,688	4,522	-27,199	-45,418	18,702	6,346
Tax on items to be reclassified	2,165	-751	4,349	5,584	-470	621
<i>Total, items to be reclassified</i>	<i>-7,675</i>	<i>2,663</i>	<i>-15,421</i>	<i>-19,798</i>	<i>1,668</i>	<i>-2,200</i>
<i>Items that are not reclassified</i>						
Actuarial differences for defined-benefit pensions	6,787	-9,626	46,329	25,210	-15,644	-10,124
Tax on items that are not reclassified	-1,493	2,118	-10,192	-5,546	3,442	2,227
<i>Total, items that are not reclassified</i>	<i>5,294</i>	<i>-7,508</i>	<i>36,137</i>	<i>19,664</i>	<i>-12,202</i>	<i>-7,897</i>
<b>Total other comprehensive income</b>	<b>-2,381</b>	<b>-4,845</b>	<b>20,716</b>	<b>-135</b>	<b>-10,534</b>	<b>-10,097</b>
<b>Comprehensive income for the period</b>	<b>78,273</b>	<b>101,547</b>	<b>105,003</b>	<b>209,068</b>	<b>224,072</b>	<b>291,315</b>

# Income statement

Landshypotek Bank AB Parent Company, SEK Thousand Note	2015 Q3	2014 Q3	2015 Q2	2015 Jan-Sep	2014 Jan-Sep	2014 Full year
Interest income	361,415	492,593	397,064	1,180,870	1,542,011	2,009,104
Interest expense	-180,733	-328,562	-186,949	-611,004	-1,059,217	-1,345,529
<b>Net interest income</b> Note 1	<b>180,682</b>	<b>164,031</b>	<b>210,115</b>	<b>569,866</b>	<b>482,794</b>	<b>663,575</b>
Commission income	2,317	3,307	2,870	7,418	8,606	13,223
Commission expense	-8,313	-7,062	-8,330	-28,127	-21,451	-28,037
Net result of financial transactions	13,933	60,184	11,280	12,929	130,682	146,151
Other operating income	210	520	502	1,090	1,376	1,466
<b>Total operating income</b>	<b>188,829</b>	<b>220,980</b>	<b>216,437</b>	<b>563,176</b>	<b>602,007</b>	<b>796,378</b>
General administrative expenses	-68,116	-64,071	-85,653	-239,680	-222,400	-312,947
Depreciation, amortisation and impairment of tangible and intangible non-current assets	-4,921	-4,192	-4,923	-14,736	-12,051	-16,491
Other operating expenses	-3,519	-5,369	-6,669	-15,962	-17,873	-23,845
<b>Total expenses before loan losses</b>	<b>-76,556</b>	<b>-73,632</b>	<b>-97,245</b>	<b>-270,378</b>	<b>-252,324</b>	<b>-353,283</b>
<b>Profit before loan losses</b>	<b>112,272</b>	<b>147,348</b>	<b>119,192</b>	<b>292,797</b>	<b>349,683</b>	<b>443,095</b>
Loan losses, net Note 2	-13,508	-17,327	-14,585	-34,684	-53,537	-66,278
<b>Operating profit</b>	<b>98,765</b>	<b>130,021</b>	<b>104,607</b>	<b>258,114</b>	<b>296,146</b>	<b>376,817</b>
Income tax for the period	-21,716	-28,623	-23,002	-56,749	-65,235	-81,750
<b>Net profit for the period</b>	<b>77,049</b>	<b>101,398</b>	<b>81,605</b>	<b>201,365</b>	<b>230,912</b>	<b>295,067</b>

# Statement of comprehensive income

Landshypotek Bank AB Parent Company, SEK Thousand	2015 Q3	2014 Q3	2015 Q2	2015 Jan-Sep	2014 Jan-Sep	2014 Full year
<b>Net profit for the period</b>	<b>77,049</b>	<b>101,398</b>	<b>81,605</b>	<b>201,365</b>	<b>230,912</b>	<b>295,067</b>
<b>Other comprehensive income</b>						
<i>Items to be reclassified to profit or loss</i>						
Cash-flow hedges	5,848	-1,107	7,429	20,035	-16,563	-9,167
Available-for-sale financial assets	-15,688	4,522	-27,199	-45,418	18,702	6,346
Income tax related to other comprehensive income	2,165	-751	4,349	5,584	-470	621
<i>Total, items to be reclassified</i>	<i>-7,675</i>	<i>2,663</i>	<i>-15,421</i>	<i>-19,798</i>	<i>1,668</i>	<i>-2,200</i>
<b>Total other comprehensive income</b>	<b>-7,675</b>	<b>2,663</b>	<b>-15,421</b>	<b>-19,798</b>	<b>1,668</b>	<b>-2,200</b>
<b>Comprehensive income for the period</b>	<b>69,373</b>	<b>104,061</b>	<b>66,184</b>	<b>181,566</b>	<b>232,580</b>	<b>292,866</b>

# Balance Sheet

Landshypotek Bank AB SEK thousand	Group				Parent Company			
	2015 30 Sep	2015 30 Jun	2014 31 Dec	2014 30 Sep	2015 30 Sep	2015 30 Jun	2014 31 Dec	2014 30 Sep
<b>ASSETS</b>								
Cash and balances with central banks		-14	242,001	3		-14	242,001	3
Loans to credit institutions	450,147	455,135	478,332	449,471	627,523	569,499	571,557	597,572
Loans to the public Note 3	64,015,230	63,580,716	61,742,595	61,795,426	63,588,444	63,196,897	61,432,397	61,388,670
Value changes of interest-rate-risk hedged items in macro hedges	117,904	102,244	115,422	59,829	117,904	102,244	115,422	59,829
Bonds and other interest-bearing securities	13,744,317	15,026,767	16,798,258	16,848,521	13,744,317	15,026,767	16,798,258	16,848,521
Derivatives	2,132,096	2,114,747	2,047,922	1,530,001	2,132,096	2,114,747	2,047,922	1,530,001
Shares in Group companies					280,753	280,753	280,753	280,753
Intangible non-current assets	24,620	28,586	36,517	37,220	24,620	28,586	36,517	37,220
Tangible assets								
Furniture, fixtures and equipment	9,982	10,342	10,596	5,559	9,982	10,342	10,596	5,559
Buildings and land	24,886	25,621	21,288	12,531	24,886	25,621	21,288	12,531
Other assets	19,099	12,406	19,169	37,191	6,134	6,159	18,942	36,987
Current tax assets	4,438	4,330	2,960	4,781				
Deferred tax assets	3,810	6,386	13,911	17,472	6,806	8,080	11,177	12,792
Prepaid expenses and accrued income	705,047	603,563	576,901	802,665	699,724	601,283	572,334	797,521
<b>TOTAL ASSETS</b> Note 4, 5, 6	<b>81,251,577</b>	<b>81,970,829</b>	<b>82,105,872</b>	<b>81,600,670</b>	<b>81,263,187</b>	<b>81,970,964</b>	<b>82,159,164</b>	<b>81,607,959</b>
<b>LIABILITIES, PROVISIONS AND EQUITY</b>								
Liabilities to credit institutions	1,726,503	2,043,108	447,322	430,746	1,746,503	2,043,108	495,983	431,906
Borrowing from the public	8,777,328	8,067,344	5,828,821	4,824,409	8,777,328	8,067,344	5,828,821	4,824,409
Debt securities in issue, etc.	63,673,878	65,003,972	68,593,547	69,068,901	63,673,878	65,003,972	68,593,547	69,068,901
Derivatives	1,018,746	960,519	1,192,720	1,060,142	1,018,746	960,519	1,192,720	1,060,142
Other liabilities	57,487	77,630	306,383	96,582	57,058	76,824	305,564	96,283
Accrued expenses and deferred income	878,574	777,451	693,045	998,917	878,572	777,451	693,046	998,917
Provisions	0	0	14,094	20,442	2,020	2,020	2,020	2,389
Subordinated liabilities	499,975	499,992	699,921	699,930	499,975	499,992	699,921	699,930
<b>Total liabilities</b>	<b>76,632,491</b>	<b>77,430,016</b>	<b>77,775,854</b>	<b>77,200,069</b>	<b>76,654,079</b>	<b>77,431,230</b>	<b>77,811,622</b>	<b>77,182,877</b>
<b>Equity</b>	<b>4,619,085</b>	<b>4,540,813</b>	<b>4,330,018</b>	<b>4,400,601</b>	<b>4,609,108</b>	<b>4,539,734</b>	<b>4,347,542</b>	<b>4,425,082</b>
<b>TOTAL LIABILITIES, PROVISIONS AND EQUITY</b> Note 4, 5, 6	<b>81,251,577</b>	<b>81,970,829</b>	<b>82,105,872</b>	<b>81,600,670</b>	<b>81,263,187</b>	<b>81,970,964</b>	<b>82,159,164</b>	<b>81,607,959</b>

# Cash-flow statement

Landshypotek Bank AB SEK thousand	Group			Parent Company		
	2015 Jan-Sep	2014 Jan-Sep	2014 Full year	2015 Jan-Sep	2014 Jan-Sep	2014 Full year
<b>Opening cash and cash equivalents</b>	<b>720,333</b>	<b>693,766</b>	<b>693,766</b>	<b>813,558</b>	<b>732,853</b>	<b>732,853</b>
Cash flow from operating activities	-167,665	-140,845	147,546	-243,514	-138,831	201,684
Cash flow from investing activities	-5,821	-3,698	-21,229	-5,821	-3,698	-21,229
Cash flow from financing activities	-96,700	-99,750	-99,750	-96,700	-99,750	-99,750
<b>Cash flow for the period</b>	<b>-270,186</b>	<b>-244,293</b>	<b>26,567</b>	<b>-346,035</b>	<b>-242,279</b>	<b>80,705</b>
<b>Closing cash and cash equivalents</b>	<b>450,147</b>	<b>449,473</b>	<b>720,333</b>	<b>467,523</b>	<b>490,574</b>	<b>813,558</b>

# Statement of Changes in Equity

Landshypotek Bank AB Group SEK Thousand	Share capital	Other contributed capital	Hedging reserve	Fair value reserve	Actuarial differences	Retained earnings	Total
<b>Equity 31 December 2013</b>	<b>2,117,000</b>	<b>1,026,254</b>	<b>-31,737</b>	<b>4,278</b>	<b>-10,161</b>	<b>1,014,894</b>	<b>4,120,529</b>
Comprehensive income for the period			-12,919	14,587	-12,202	234,607	224,072
<b>Total change before transactions with owners</b>	-	-	-12,919	14,587	-12,202	234,607	224,072
New share issue	56,000						56,000
<b>Equity 30 September 2014</b>	<b>2,173,000</b>	<b>1,026,254</b>	<b>-44,656</b>	<b>18,866</b>	<b>-22,363</b>	<b>1,249,501</b>	<b>4,400,601</b>
<b>Equity 31 December 2014</b>	<b>2,173,000</b>	<b>1,026,254</b>	<b>-38,888</b>	<b>9,228</b>	<b>-18,057</b>	<b>1,178,481</b>	<b>4,330,018</b>
Comprehensive income for the period					19,664	209,202	228,866
<b>Total change before transactions with owners</b>	-	-	-	-	19,664	209,202	228,866
New share issue							0
<b>Equity 30 September 2015</b>	<b>2,173,000</b>	<b>1,026,254</b>	<b>-38,888</b>	<b>9,228</b>	<b>1,607</b>	<b>1,387,683</b>	<b>4,558,884</b>

Landshypotek Bank AB Parent Company SEK Thousand	Share capital	Other contributed capital	Hedging reserve	Fair value reserve		Retained earnings	Total
<b>Equity 31 December 2013</b>	<b>2,117,000</b>	<b>1,016,694</b>	<b>-31,737</b>	<b>4,278</b>		<b>1,030,269</b>	<b>4,136,502</b>
Comprehensive income for the period			-12,919	14,587		230,912	232,580
<b>Total change before transactions with owners</b>	-	-	-12,919	14,587		230,912	232,580
New share issue	56,000						56,000
<b>Equity 30 September 2014</b>	<b>2,173,000</b>	<b>1,016,694</b>	<b>-44,656</b>	<b>18,865</b>		<b>1,261,182</b>	<b>4,425,082</b>
<b>Equity 31 December 2014</b>	<b>2,173,000</b>	<b>1,016,694</b>	<b>-38,888</b>	<b>9,228</b>		<b>1,187,510</b>	<b>4,347,542</b>
Comprehensive income for the period						201,365	201,365
<b>Total change before transactions with owners</b>	-	-	-	-		201,365	201,365
New share issue							0
<b>Equity 30 September 2015</b>	<b>2,173,000</b>	<b>1,016,694</b>	<b>-38,888</b>	<b>9,228</b>		<b>1,388,875</b>	<b>4,548,906</b>

# Notes

## Note 1 Net interest income

Landshypotek Bank AB Group, SEK thousand	2015 Q3	2014 Q3	2015 Q2	2015 Jan–Sep	2014 Jan–Sep	2014 Full year
<b>Interest income</b>						
Interest income on loans to credit institutions	-641	1,673	-55	-707	6,718	6,811
Interest income on loans to the public	337,476	436,559	359,674	1,075,845	1,355,002	1,770,615
Less interest losses	-161	-457	-253	-579	-822	-951
Interest income on interest-bearing securities	31,215	60,132	40,188	119,124	195,204	251,120
of which interest income on financial assets at fair value through profit or loss	31,328	44,222	36,283	107,639	136,979	179,940
of which interest income on available-for-sale financial assets	-113	15,911	3,905	11,485	58,225	71,180
Other interest income	3	2	1	8	5	236
<b>Total</b>	<b>367,892</b>	<b>497,909</b>	<b>399,555</b>	<b>1,193,691</b>	<b>1,556,107</b>	<b>2,027,831</b>
<i>All interest income is attributable to the Swedish market.</i>						
<b>Interest expense</b>						
Interest expense for liabilities to Group companies	0	-4	0	0	-162	-163
Interest expense for liabilities to credit institutions – other	1,675	-1,587	1,183	3,166	-5,740	-5,891
Interest expense for borrowing/deposits from the public	-19,039	-19,446	-19,382	-59,370	-50,427	-71,253
Interest expense for debt securities in issue	-205,504	-316,273	-220,911	-678,170	-1,029,298	-1,309,846
of which interest expense for other financial liabilities in fair value hedges adjusted for the fair value of hedged risk	-178,352	-154,254	-138,263	-476,411	-392,570	-529,599
of which interest expense on interest-bearing securities at amortised cost	-56,743	-190,766	-111,919	-289,571	-690,812	-863,077
of which periodization of the market value created from terminated hedging relationships *	0	28,747	0	87,812	54,084	82,830
Interest expense for subordinated liabilities	-4,959	-8,362	-6,889	-19,523	-25,498	-33,505
Interest expense for derivative instruments	50,542	18,068	60,472	149,165	52,982	76,639
of which interest expense on derivatives at fair value through profit or loss	-82,123	-39,515	-26,875	-107,498	-60,488	-172,699
of which interest expense on derivatives identified as hedging instruments	161,412	86,330	115,782	341,965	167,554	332,169
of which reclassification of terminated hedging relationships **	0	-28,747	0	-85,303	-54,084	-82,830
Other interest expense	-3,505	-1,032	-1,480	-6,434	-1,280	-1,780
<b>Total</b>	<b>-180,790</b>	<b>-328,636</b>	<b>-187,006</b>	<b>-611,166</b>	<b>-1,059,423</b>	<b>-1,345,798</b>
<b>Total net interest income</b>	<b>187,102</b>	<b>169,273</b>	<b>212,549</b>	<b>582,525</b>	<b>496,684</b>	<b>682,033</b>

\* The item pertains to the periodization of market value created in the underlying hedged risk attributable to terminated fair-value hedging relationships in 2013 and 2014.

\*\* Reclassification from the net result of financial transactions to net interest income, interest expense for derivatives, of corresponding items for derivatives in the above terminated hedging relationships.

\*\*\* Costs that are directly attributable to Landshypotek Bank's funding have been reclassified from "general administrative expenses" to "interest expense."

Interest expense for 2014, recalculated in line with the reclassification applied from 1 January 2015.



Landshypotek Bank AB Parent Company, SEK thousand	2015 Q3	2014 Q3	2015 Q2	2015 Jan-Sep	2014 Jan-Sep	2014 Full year
<b>Interest income</b>						
Interest income on loans to credit institutions	-641	1,671	-55	-707	6,706	6,800
Interest income on loans to Group companies	0	154	0	0	276	325
Interest income on loans to the public	330,990	431,091	357,182	1,063,013	1,340,642	1,751,590
<i>Less interest losses</i>	-151	-457	-253	-567	-821	-946
Interest income on interest-bearing securities	31,215	60,132	40,188	119,124	195,204	251,120
<i>of which interest income on financial assets at fair value through profit or loss</i>	31,328	44,222	36,283	107,639	136,979	179,940
<i>of which interest income on available-for-sale financial assets</i>	-113	15,911	3,905	11,485	58,225	71,180
Other interest income	2	1	2	7	4	215
<b>Total</b>	<b>361,415</b>	<b>492,593</b>	<b>397,064</b>	<b>1,180,870</b>	<b>1,542,011</b>	<b>2,009,104</b>
<i>All interest income is attributable to the Swedish market.</i>						
<b>Interest expense</b>						
Interest expense for liabilities to Group companies	0	-4	0	-9	-177	-188
Interest expense for liabilities to credit institutions – other	1,675	-1,587	1,183	3,166	-5,740	-5,891
Interest expense for borrowing/deposits from the public	-19,039	-19,446	-19,382	-59,370	-50,427	-71,253
Interest expense for debt securities in issue	-205,504	-316,273	-220,911	-678,170	-1,029,298	-1,309,846
<i>of which interest expense for other financial liabilities in fair value hedges adjusted for the fair value of hedged risk</i>	-178,352	-154,254	-138,263	-476,411	-392,570	-529,599
<i>of which interest expense on interest-bearing securities at amortised cost</i>	-56,743	-190,766	-111,919	-289,571	-690,812	-863,077
<i>of which periodization of the market value created from terminated hedging relationships*</i>	29,592	28,747	29,271	87,812	54,084	82,830
Interest expense for subordinated liabilities	-4,959	-8,362	-6,889	-19,523	-25,498	-33,505
Interest expense for derivative instruments	50,542	18,068	60,472	149,165	52,982	76,639
<i>of which interest expense on derivatives at fair value through profit or loss</i>	-82,123	-39,515	-26,875	-107,498	-60,488	-172,699
<i>of which interest expense on derivatives identified as hedging instruments</i>	161,412	86,330	115,782	341,965	167,554	332,169
<i>of which reclassification of terminated hedging relationships**</i>	-28,747	-28,747	-28,434	-85,303	-54,084	-82,830
Other interest expense	-3,448	-958	-1,422	-6,262	-1,059	-1,486
<b>Total</b>	<b>-180,732</b>	<b>-328,562</b>	<b>-186,949</b>	<b>-611,004</b>	<b>-1,059,217</b>	<b>-1,345,529</b>
<b>Total net interest income</b>	<b>180,682</b>	<b>164,031</b>	<b>210,115</b>	<b>569,866</b>	<b>482,794</b>	<b>663,575</b>

\* The item pertains to the periodization of market value created in the underlying hedged risk attributable to terminated fair-value hedging relationships in 2013 and 2014.

\*\* Reclassification from the net result of financial transactions to net interest income, interest expense for derivatives, of corresponding items for derivatives in the above terminated hedging relationships.

\*\*\* Costs that are directly attributable to Landshypotek Bank's funding have been reclassified from "general administrative expenses" to "interest expense."

Interest expense for 2014, recalculated in line with the reclassification applied from 1 January 2015.

## Note 2 Loan losses net

Landshypotek Bank AB Group, SEK thousand	2015 Q3	2014 Q3	2015 Q2	2015 Jan-Sep	2014 Jan-Sep	2014 Full year
Write-off for the period for confirmed losses	-1,435	-16,212	-14,302	-15,739	-24,960	-56,266
Reversal of prior provisions for probable loan losses, recognised as confirmed losses during the year	2,040	13,880	13,782	15,822	22,295	56,487
Provision for probable loan losses	-20,132	-22,517	-29,512	-62,333	-81,952	-104,547
Recovery of previously confirmed losses	2,413	85	498	3,810	615	1,004
Reversal of prior provisions no longer necessary for probable loan losses	1,821	7,755	14,995	19,788	17,486	23,710
Guarantees			538			
<b>Total loan losses</b>	<b>-15,293</b>	<b>-17,009</b>	<b>-14,001</b>	<b>-38,652</b>	<b>-66,516</b>	<b>-79,612</b>

All loan losses are attributable to loans to the public.

Properties taken over in foreclosure to protect claims, MSEK 13.7 (9).

Landshypotek Bank AB Parent Company, SEK thousand	2015 Q3	2014 Q3	2015 Q2	2015 Jan-Sep	2014 Jan-Sep	2014 Full year
Write-off for the period for confirmed losses	-1,436	-12,479	-12,276	-13,712	-20,112	-49,624
Reversal of prior provisions for probable loan losses, recognised as confirmed losses during the year	2,040	10,948	12,320	14,360	18,425	50,809
Provision for probable loan losses	-17,972	-20,367	-29,136	-57,198	-65,237	-85,070
Recovery of previously confirmed losses	2,413	85	497	3,809	563	950
Reversal of prior provisions no longer necessary for probable loan losses	1,447	4,486	14,010	18,057	12,824	16,656
<b>Total loan losses</b>	<b>-13,508</b>	<b>-17,327</b>	<b>-14,585</b>	<b>-34,684</b>	<b>-53,537</b>	<b>-66,278</b>

All loan losses are attributable to loans to the public.

Properties taken over in foreclosure to protect claims, MSEK 13.7 (9).

## Note 3 Loans to the public

Landshypotek Bank AB SEK thousand	Group				Parent Company			
	2015 30 Sep	2015 30 Jun	2014 31 Dec	2014 30 Sep	2015 30 Sep	2015 30 Jun	2014 31 Dec	2014 30 Sep
Loan receivables	64,112,020	63,663,553	62,276,027	61,890,387	63,658,184	63,254,468	61,489,426	61,457,083
Less specific provisions for individually valued loan receivables	-96,790	-82,837	-82,138	-94,961	-69,740	-57,571	-57,029	-68,413
<b>Net loan receivables</b>	<b>64,015,230</b>	<b>63,580,716</b>	<b>62,193,889</b>	<b>61,795,426</b>	<b>63,588,444</b>	<b>63,196,897</b>	<b>61,432,397</b>	<b>61,388,670</b>
<b>Disclosures on overdue loan receivables without provisions<sup>1</sup></b>								
Loan receivables overdue 5 - 90 days		2,925	34,748			2,925	34,748	
Loan receivables overdue more than 90 days	683,347	672,447	754,985	825,051	674,487	662,397	748,039	816,918
<b>Total overdue unimpaired loan receivables<sup>2</sup></b>	<b>683,347</b>	<b>675,372</b>	<b>789,732</b>	<b>825,051</b>	<b>674,487</b>	<b>665,322</b>	<b>782,786</b>	<b>816,918</b>
<b>Disclosures on doubtful credits</b>								
Doubtful credits that are not overdue	94,032	85,861	136,605	112,538	87,802	80,029	125,980	102,725
Overdue doubtful credits	308,574	313,548	220,443	218,317	288,101	293,487	206,451	204,006
<b>Total doubtful credits, gross</b>	<b>402,606</b>	<b>399,409</b>	<b>357,048</b>	<b>330,855</b>	<b>375,903</b>	<b>373,516</b>	<b>332,431</b>	<b>306,730</b>
Less capital provisions made	-96,790	-82,837	-82,138	-94,961	-69,740	-57,571	-57,029	-68,413
<b>Total doubtful credits, net</b>	<b>305,816</b>	<b>316,572</b>	<b>274,910</b>	<b>235,894</b>	<b>306,163</b>	<b>315,945</b>	<b>275,402</b>	<b>238,317</b>

<sup>1</sup> The distribution between overdue loan receivables 5-90 days and loan receivables overdue more than 90 days can vary between quarters, since the first quarter is generally shorter than the other three quarters.

<sup>2</sup> The interim report dated 30 September 2014 showed overdue loan receivables including doubtful credits. In the 30 September 2015 interim report, the amounts are now shown excluding the overdue doubtful credits. At 30 September 2015, total overdue receivables including doubtful credits was SEK 991,921,000 (1,043,368,000) for the Group and SEK 962,588,000 (1,020,924,000) for the Parent Company.

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

## Note 4 Fair-value hierarchy for financial instruments

Landshypotek Bank AB Group, SEK thousand	30 Sep 2015				30 Sep 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Loans and receivables</b>								
Loans to credit institutions		450,147		450,147		449,471		449,471
Loans to the public			63,757,715	63,757,715			61,414,337	61,414,337
<b>Financial assets at fair value through profit or loss.</b>								
Bonds and other interest-bearing securities	8,202,928			8,202,928	10,291,141			10,291,141
Interest-rate swaps						12,249		12,249
Cross-currency interest-rate swaps		358,154		358,154		134,580		134,580
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		1,157,926		1,157,926		1,007,777		1,007,777
Cross-currency interest-rate swaps		616,016		616,016		375,395		375,395
<b>Available-for-sale financial assets</b>								
Bonds and other interest-bearing securities	5,541,389			5,541,389	6,557,380	-		6,557,380
<b>Total assets measured at fair value</b>	<b>13,744,317</b>	<b>2,582,243</b>	<b>63,757,715</b>	<b>80,084,275</b>	<b>16,848,521</b>	<b>1,979,472</b>	<b>61,414,337</b>	<b>80,242,330</b>
<b>Financial liabilities at fair value through profit or loss</b>								
Interest-rate swaps		463,240		463,240		614,338		614,338
Cross-currency interest-rate swaps		28,965		28,965		227,137		227,137
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		188,041		188,041		208,542		208,542
Cross-currency interest-rate swaps		338,500		338,500		10,126		10,126
<b>Other financial liabilities</b>								
Liabilities to credit institutions		1,726,503		1,726,503		430,746		430,746
Borrowing from the public		8,777,328		8,777,328		4,824,409		4,824,409
Debt securities in issue, etc.		64,684,236		64,684,236		70,636,492		70,636,492
Subordinated liabilities		534,954		534,954		759,740		759,740
<b>Total liabilities measured at fair value</b>	<b>-</b>	<b>76,741,767</b>	<b>-</b>	<b>76,741,767</b>	<b>-</b>	<b>77,711,529</b>	<b>-</b>	<b>77,711,529</b>

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 quoted mortgage bonds and listed bonds issued by municipalities and county councils. Level 2 only comprises derivative instruments and financial liabilities for which there are well-established measuring models based on market data.

### Level 1

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

### Level 2

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

### Level 3

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

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

Landshypotek Bank AB Parent Company, SEK thousand	30 Sep 2015				30 Sep 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Loans and receivables</b>								
Loans to credit institutions		627,523		627,523		597,572		597,572
Loans to the public			63,330,849	63,330,849			61,008,306	61,008,306
<b>Financial assets at fair value through profit or loss</b>								
Bonds and other interest-bearing securities	8,202,928			8,202,928	10,291,141			10,291,141
Interest-rate swaps						12,249		12,249
Cross-currency interest-rate swaps		358,154		358,154		134,580		134,580
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		1,157,926		1,157,926		1,007,777		1,007,777
Cross-currency interest-rate swaps		616,016		616,016		375,395		375,395
<b>Available-for-sale financial assets</b>								
Bonds and other interest-bearing securities	5,541,389			5,541,389	6,557,380			6,557,380
<b>Total assets measured at fair value</b>	<b>13,744,317</b>	<b>2,759,619</b>	<b>63,330,849</b>	<b>79,834,785</b>	<b>16,848,521</b>	<b>2,127,573</b>	<b>61,008,306</b>	<b>79,984,399</b>
<b>Financial liabilities at fair value through profit or loss</b>								
Interest-rate swaps		463,240		463,240		614,338		614,338
Cross-currency interest-rate swaps		28,965		28,965		227,137		227,137
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		188,041		188,041		208,542		208,542
Cross-currency interest-rate swaps		338,500		338,500		10,126		10,126
<b>Other financial liabilities</b>								
Liabilities to credit institutions		1,746,503		1,746,503		431,906		431,906
Borrowing from the public		8,777,328		8,777,328		4,824,409		4,824,409
Debt securities in issue, etc.		64,684,236		64,684,236		70,636,492		70,636,492
Subordinated liabilities		534,954		534,954		759,740		759,740
<b>Total liabilities measured at fair value</b>	<b>-</b>	<b>76,761,767</b>	<b>-</b>	<b>76,761,767</b>	<b>-</b>	<b>77,712,689</b>	<b>-</b>	<b>77,712,689</b>

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 quoted mortgage bonds and listed bonds issued by municipalities and county councils. Level 2 only comprises derivative instruments and financial liabilities for which there are well-established measuring models based on market data.

**Level 1**

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

**Level 2**

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

**Level 3**

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

## Note 5 Fair value disclosures

Landshypotek Bank AB Group, SEK thousand	30 Sep 2015 Carrying amount	30 Sep 2015 Fair value	30 Sep 2014 Carrying amount	30 Sep 2014 Fair value
<b>Assets</b>				
Cash and balances with central banks			3	3
Loans to credit institutions	450,147	450,147	449,471	449,471
Loans to the public	64,015,230	63,757,715	61,795,426	61,414,337
Bonds and other interest-bearing securities	13,744,317	13,744,317	16,848,521	16,848,521
Derivatives	2,132,096	2,132,096	1,530,001	1,530,001
<b>Total assets</b>	<b>80,341,791</b>	<b>80,084,275</b>	<b>80,623,422</b>	<b>80,242,333</b>
<b>Liabilities and provisions</b>				
Liabilities to credit institutions	1,726,503	1,726,503	430,746	430,746
Borrowing from the public	8,777,328	8,777,328	4,824,409	4,824,409
Debt securities in issue, etc.	63,673,878	64,684,236	69,068,901	70,636,492
Derivatives	1,018,746	1,018,746	1,060,142	1,060,142
Subordinated liabilities	499,975	534,954	699,930	759,740
<b>Total liabilities</b>	<b>75,696,430</b>	<b>76,741,767</b>	<b>76,084,128</b>	<b>77,711,529</b>

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 2015 Carrying amount	30 Sep 2015 Fair value	30 Sep 2014 Carrying amount	30 Sep 2014 Fair value
<b>Assets</b>				
Cash and balances with central banks			3	3
Loans to credit institutions	627,523	627,523	597,572	597,572
Loans to the public	63,588,444	63,330,849	61,388,670	61,008,306
Bonds and other interest-bearing securities	13,744,317	13,744,317	16,848,521	16,848,521
Derivatives	2,132,096	2,132,096	1,530,001	1,530,001
<b>Total assets</b>	<b>80,092,380</b>	<b>79,834,785</b>	<b>80,364,767</b>	<b>79,984,403</b>
<b>Liabilities and provisions</b>				
Liabilities to credit institutions	1,746,503	1,746,503	431,906	431,906
Borrowing from the public	8,777,328	8,777,328	4,824,409	4,824,409
Debt securities in issue, etc.	63,673,878	64,684,236	69,068,901	70,636,492
Derivatives	1,018,746	1,018,746	1,060,142	1,060,142
Subordinated liabilities	499,975	534,954	699,930	759,740
<b>Total liabilities</b>	<b>75,716,430</b>	<b>76,761,767</b>	<b>76,085,288</b>	<b>77,712,689</b>

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

## Note 6 Disclosures about offsetting

Financial assets and liabilities included in a legal entitlement to offset, but not offset in the balance sheet.

Group and Parent Company 2015 SEK thousand	Amount recognised in the balance sheet 30 Sep 2015	Related amounts not offset in the balance sheet			Net amount 30 Sep 2015
		Financial instruments	Paid (+) Received (-) collateral – securities	Paid (+) Received (-) cash collateral	
<b>Assets</b>					
Derivatives, fair value	2,132,096	-717,333			
Derivatives, accrued interest	475,492	-167,099			
<i>Derivatives, total value including accrued interest</i>	<b>2,607,588</b>	<b>-884,432</b>		<b>-385,438</b>	<b>1,337,718</b>
Repurchase agreements, reverse repos					
<b>Liabilities</b>					
Derivatives, fair value	-1,018,746	717,333			
Derivatives, accrued interest	-172,425	167,099			
<i>Derivatives, total value including accrued interest</i>	<b>-1,191,171</b>	<b>884,432</b>			<b>-306,739</b>
Repurchase agreements, reverse repos	-1,333,622				-1,333,622

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

### Amounts recognised in the balance sheet

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

### Financial instruments

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

### Cash collateral received

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

### Net amounts

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





**Landshypotek Bank**