Landshypotek Bank

Landshypotek Bank AB Interim report Q3 2018

January – September 2018 (compared with year-earlier period)

Per Lindblad, CEO of Landshypotek Bank comments on the first three quarters of 2018:

I am pleased to report continued growth in the number of customers and in volume. We have strong underlying earnings and it is gratifying that this now shows more clearly in the results. Our diversification is starting to have a noticeable impact, earnings are becoming more stable and the bank is more sustainable. Our mortgage venture is for the long term. We have already noted that the volume increase is starting to positively impact results.

January – September 2018

compared with January – September 2017

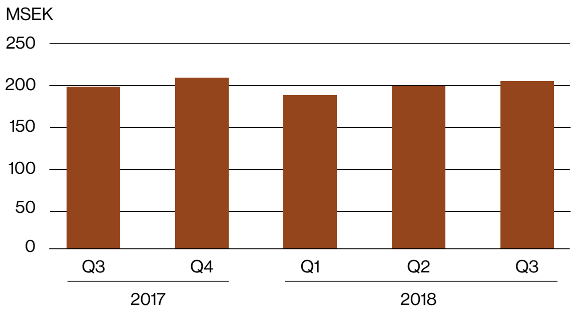
- Operating profit amounted to MSEK 298.7 (248.0).
- The underlying operating profit, excluding the net result of financial transactions, was MSEK 281.5 (291.3).
- Net interest income amounted to MSEK 590.5 (591.8).
- Costs totalled MSEK 320.4 (293.7).
- Net credit losses resulted in a gain of MSEK 7.3 (loss: 7.9).
- Lending amounted to SEK 71.5 billion (67.6).
- Deposits amounted to SEK 13.7 billion (12.5).

July – September 2018

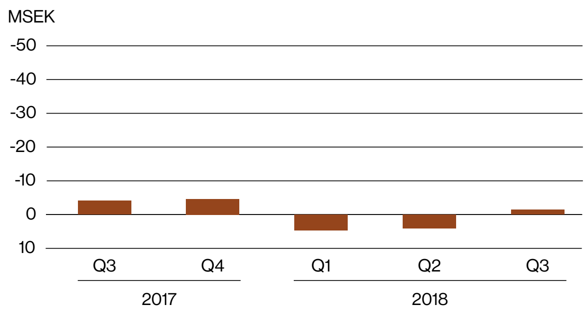
compared with April – June 2018

- Operating profit amounted to MSEK 100.7 (95.7).
- The underlying operating profit, excluding the net result of financial transactions, was MSEK 102.8 (91.4).
- Net interest income amounted to MSEK 204.5 (198.6).
- Costs totalled MSEK 101.5 (112.5).
- Net credit losses amounted to MSEK 1.4 (gain: 4.0).
- Lending amounted to SEK 71.5 billion (70.8).
- Deposits amounted to SEK 13.7 billion (13.5).

Net interest income



Credit losses



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's history dates back to 1836, but it is also a growing bank undergoing rapid development. 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 2017, the bank started to offer homeowner mortgages and is now establishing itself as a new operator in the mortgage market. Landshypotek Bank is one of the ten largest banks in Sweden and is of considerable importance for farming and forestry financing.

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 185 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 the sectors. Account managers at offices around the country often have backgrounds in agriculture and forestry, and banking and financing expertise. The bank's close relationships with customers are complemented by the regional member organisation of the cooperative association.
- *Strength of the member organisation:* 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 also quickly developing 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. Digitalisation enables more efficient work and improves possibilities for customers.
- *A challenger as a mortgage bank:* Though relatively recently launched, 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 and transparent interest rates.
- *Promoting a sustainable countryside:* A living countryside, where fields and forests are cultivated, and thereby create growth and jobs. These are the cornerstones for a well-developed business community and Swedish welfare. The country's sustainable development rests on the conditions for living and working throughout Sweden. Landshypotek Bank enables rural living and investments in rural enterprise. This lays the foundation for a future for the cities and the countryside.

Landshypotek Bank — in brief

- Founded in 1836.
- Has 78,000 customers in the farming and forestry sector, as well as mortgage borrowers and savers.
- Has loaned slightly more than SEK 68.5 billion to farming and forestry in Sweden and SEK 3.0 billion in homeowner mortgages.
- Has savings customers with savings approaching SEK 13.7 billion.
- Owned by the 40,000 farming and forestry loan customers. MSEK 153 of the earnings for 2017 was distributed back to farming and forestry customers.
- Has about 185 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

Dialog, growth and close relationships

Strong customer relationships in the wake of the drought and continued growth in mortgages show some of Landshypotek Bank's strength.

This summer's drought continued to dominate the quarter for our farming customers. We have taken action by gearing up our organisation to keep even closer customer contact, to encourage dialog and to accurately assess the situation right now and moving forward. We have financed farming and forestry since 1836 and know that when times feel challenging, a bank with long-term security is what is needed.

Accordingly, we have actively chosen not to handle the drought by making short-term, general promises or with campaigns. Instead, we have chosen to maintain close dialog with our customers through our account managers and have obtained good information about the current situation through the association's elected representatives. We always make individual assessments about what is good and what is possible for each entrepreneur. As the farmers and foresters' own bank, we want to be part of meeting and overcoming temporary challenges to otherwise sound, long-term entrepreneurship. With almost two centuries' experience of farming and forestry financing, we have a long-term mindset, and have close ties and believe in the future of agriculture and forestry.

The drought will affect the agriculture and forestry markets as well as the finances of individual entrepreneurs for several years although the consequences vary according to geography and sector. Our relationships and close dialogs with our customers furnish us with good control over the situation.

We have invested extensively in the internal work with capital and regulations over several years. We have also built and become an even more reliable and long-term sustainable bank. This is a solid basis for increased customer focus.

We continue to grow our business with increased volumes in farming and forestry in 2018. It is also becoming noticeable that we are stronger and have more legs to stand on. Moreover, we celebrated one year as a mortgage bank during the quarter. We are continuing to grow in the market and reached lending of SEK 3 billion in the quarter. We are consciously growing at low risk. Our focus is long term, but we have already noted that the volume increase is starting to positively impact results. We are confident in our digital solution and our approach as a mortgage bank.

Many new competitors have been attracted to the mortgage market for reasons other than those benefitting customers or society. We base our actions on doing something positive for customers and society. We respect the special trust many customers endow on the bank when involving us in key decisions about their finances. We want to be part of building a better Sweden. We refer to ourselves as a challenger in the mortgage market, but when we challenge, we do not jeopardise customers' security or lose our understanding of the importance of providing opportunities for the whole country.

We have noted continued growth, in the number of customers and in volume. Increased lending volume is boosting net interest income. The largest transaction started to make a tangible impact on earnings in the last quarter. Previously, the earnings improvement has not been visible due to nonrecurring effects in 2018 and an extra SEK 14 million in resolution fund costs. Growth is important to drive forward and to develop our bank. Our growth means increasing the number of employees, but much of the cost increases arise from statutory fees and in adjustments to new regulations.

For us, autumn often starts with special dialog initiatives — with both customers and employees. We meet existing and potential customers at expos and harvest festivals across the country to talk about shared interests. Through our presence, we can convey our belief in Swedish food production, its benefit to society and not least for the countryside.

At the start of the autumn, all of the bank's employees had an opportunity to meet together. There is strength in being small. Everyone who works for the bank can come together at the same time and in the same place. Dialogs about what is important at the moment and going forward are key to employee commitment, and therefore, to our endeavour to become a better bank.

We will gradually develop as a mortgage bank. We are strengthening our role and position in agriculture and forestry. We are targeting more and more customer groups in the increasingly diversified group that owns farming and forestry properties — naturally, we want to be the bank they all choose. We will develop and care for our unique soul and culture. After six months as CEO, I am still struck but its strength.

Per Lindblad
CEO

Events at the bank in Q3

During the quarter, the bank continued to strengthen its position as a challenger in the mortgage market, conducted a dialog about the consequences of the drought and launched Lantbrukspanelen, a panel that investigates issues that affect agriculture and being an entrepreneur in agriculture and forestry.

- *The bank passed the three billion Swedish krona mark for homeowner mortgages.* Many new customers have discovered Landshypotek Bank since mortgage loans were launched in the market slightly more than a year ago. The bank now has more than three billion Swedish krona in homeowner mortgages. This underlines the need for a challenger, a competitive bank with a difference in the Swedish banking market.
- *The bank continued the dialog about the drought and its consequences.* Many agricultural entrepreneurs around the country were hard hit by this summer's drought, and its consequences in terms of harvests and livestock. 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 bank has participated in customer solutions of a temporary or a long-term nature that are designed to promote sustainable and healthy entrepreneurship.
- *Extra regional meetings held in Norrland.* Landshypotek Ekonomisk Förening's member organisation divided the Norrland region to make closer contact with the members and to increase its local presence. In August, the first member meetings were held in Sollefteå and Skellefteå for the new regions Mitt and Norr.
- *The bank presents Boendebarometern (the housing barometer).* The result of the survey of Swedish views on housing and financing showed, inter alia, that concerns regarding higher interest rates were far higher in the country's major cities than in other parts of the country. The survey also shows that people who live in the city prefer to travel when on holiday, while those living in the countryside prefer to holiday at home.
- *Launch of the Lantbrukspanelen.* This is a new and recurring panel with answers provided by driven and engaged agricultural entrepreneurs across the country. The panel comprising around 100 people provides answers to current issues that affect the industry and being an entrepreneur in agriculture and forestry. The first answers from the panel show that farmers believe that the general public knows little about Swedish agricultural today and a step toward increasing awareness would be to introduce agriculture as a subject in the school curriculum.
- *The bank participates in many harvest festivals and expos across the country.* The late summer and autumn is the high season for all the harvest festivals and expos. Landshypotek participates at many events across the country. Many of the bank's employees attend the events, meeting new and old acquaintances and presenting the bank.

Summary Landshypotek Bank

Group, MSEK	Q3 2018	Q3 2017	Q2 2018	Jan–Sep 2018	Jan–Sep 2017	Full-year 2017
Net interest income	204.5	197.8	198.6	590.5	591.8	800.4
Operating profit	100.7	93.2	95.7	298.7	248.0	339.2
Profit after tax	72.0	71.3	78.2	228.5	187.4	256.4
Loans to the public	71,532	67,619	70,822	71,532	67,619	68,488
Increase in lending, %	1.0	0.6	1.8	1.0	1.7	3.0
Interest margin, LTM, %	1.14	1.14	1.15	1.14	1.14	1.19
Deposits from the public	13,702	12,543	13,533	13,702	12,543	12,675
Increase in deposits from the public, %	1.2	1.2	4.1	8.1	6.9	8.0
C/I ratio including financial transactions	0.50	0.51	0.55	0.52	0.53	0.53
C/I ratio excluding financial transactions	0.49	0.51	0.56	0.54	0.50	0.50
Credit loss level, %[1]	0.01	0.02	–	0.00	0.02	0.02
Total capital ratio, %	21.1	42.3	21.1	21.1	42.3	43.8
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, LTM	188	171	184	188	171	176

[1] *An outcome is only presented in the case of a negative earnings impact.*

Ongoing events impacting the bank and its customers

Growth in Sweden remains strong, even if it has eased slightly. The Riksbank (Sweden's central bank), has announced future interest rate hikes. The farming and forestry sectors were dominated by the summer's drought, but the full impact has yet to be assessed. Differences were considerable between regions and between sectors.

Drought dominated the third quarter

The third quarter started with high temperatures and drought. The weather did not start to return to normal until August. According to the Jordbruksverket's (Swedish Board of Agriculture) harvest forecast, which was published in August, as a result of the conditions the total cereal harvest would be 29 percent down on last year's harvest and 25 percent below the average for the last five years. The total oilseed harvest is estimated at 44 percent less than last year and 36 percent below the average for the last five years. Jordbruksverket publishes no official forecasts for the hay harvest, which is used as fodder in animal production. Hushållningssällskapet (the Rural Economy and Agricultural Societies) has however compiled a status report that shows that conditions are better than was feared during the summer, since many farmers have been able to compensate some of the very low first and second harvests with a late harvest in the autumn. According to this report, the total hay harvest could be up to 75 percent of the normal.

The forecasts are highly uncertain and the assessment is that the impact of the drought varied according to geography, where even short distances can give rise to considerable crop losses. It is too early to assess the financial consequences for individual farmers. However, following a number of years with a booming economy, good harvests, positive price trends and low interest rates — the resilience of agriculture as a whole is strong.

In July, due to the drought, the government approved a crisis package of SEK 1.2 billion, which will be paid in 2018 and 2019. In total, MSEK 460 will be distributed in 2018 and MSEK 760 in 2019. The aid that can be applied for this year is only for animal farmers, while the aid for 2019 can also be applied for by other producers.

Developments in a number of farming and forestry sectors

Prices for standard and organic milk remained lower than last year and calculated for H1, the price was down 6 percent compared with the average price for 2017. However in 2016 and 2017, the milk price rose sharply in H2. Preliminary data, based on figures from Arla, indicate that prices have risen in Q3 but have yet to reach the same level as last year. Several dairies have announced further raises in the settlement price in October and November. For the full-year 2018, the forecast price is SEK 3.54 kg, which is down 4 percent on 2017. In H1, milk collection was 2 percent lower year-on-year. The forecast indicates the decrease will remain at this level for the full year. The drought may cause the volume to decrease further. Given that both price and volume are expected to decline, the forecast is that the real production value will decrease 7 percent in 2018. The loss of volume due to the drought has not been taken into account.

Demand for Swedish Beef remained strong. The slight decline in beef consumption was offset by the more consumers choosing Swedish beef. In Q2, the number of animals slaughtered was up 6.4 percent year-on-year. This was partly attributable to increased beef production, but was also a sign of the drought, which prompted more farmers to increase the numbers sent to slaughter in order to reduce feed consumption. In H1 2018, average prices for beef were down an average of 5 percent year-on-year. The weak Swedish krona has resulted in a stable price difference to imports, which suggests that current price levels can be maintained despite the number of animals being sent to slaughter remaining high.

The number of pigs sent for slaughter in 2018 increased marginally in relation to the previous year. Imports have continued to decline, while exports have increased. Both fattening pig production and piglet production weakened marginally due to higher feed costs as a consequence of the drought. Moreover, piglet production came under pressure from lower settlement prices.

Cereal prices posted a strong upward trend as concerns increased regarding the weather's impact on harvests. Jordbruksverket's latest published figures (as of July) show a 25 percent increase in the cereal price index this year, and prices have risen further since. Harvest forecasts have been revised downward for northern parts of Europe, Russia, Ukraine, Great Britain and France. If the price trend continues, it could compensate some of the lost income that the poorer harvest forecast indicates for cereal producers.

The drought has also entailed certain challenges for forest owners. To varying degrees, forest fires and bark beetle infestations have created problems. However, the forest industry remains very strong with healthy demand and rising prices for both timber and pulp wood. A slight slowdown might be possible to discern in the Chinese market and construction has decreased slightly in central and northern Sweden. In parallel, the US has imposed customs duties against Canada, which can benefit Swedish exports.

For those farmers who also have wind power operations, the dry summer has boosted profitability as electricity prices have risen due to the water reservoirs for hydroelectric plants not filling at their usual pace.

Increasingly large differences in global growth

For the first time since 2016, the International Monetary Fund has reduced its forecast for global economic growth by 0.2 percentage points for 2018 and 2019 compared with its latest report in April. There are increasingly large regional differences in the development of global growth. In the US, confidence indicators for both companies and households are at very high levels and despite the country being in a late phase of the economic cycle, the economy continues to trend very robustly. However, euro area growth has slowed significantly in H1 2018. A general slowdown in global economic activity has impacted hard primarily on foreign trade, and both the Purchasing Managers Index and the industrial order intake have trended downward. Moreover, a number of emerging markets are struggling in the wake of a stronger dollar and higher U.S. interest rates. Increased uncertainty is driven by an escalating trade war and trends toward a slowdown in the Chinese economy negatively impact the economic trend.

In the US, the sustained strength of the labour market, with unemployment now at 3.7 percent, has begun to have some effect on wage growth leading to rising inflationary pressure. President Trump's expansive fiscal policies have promoted strong optimism and growth that increased more than 4 percent in the Q2. The continued economic boom and higher inflation prompted the US central bank to complete the already started rate-hike cycle. The interest rate was raised by 25 basis points to the range 2.00–2.25 percent in September, and expectations have gradually risen of a further increase in December. The US 10-year interest rate has now equalled the highest levels in seven years.

Euro area development is mainly supported by domestic demand, which has been maintained by expansive financial conditions and relatively strong employment growth. Political uncertainty in Italy regarding budget negotiations together with complex Brexit negotiations, which have not made any real progress despite a strict timetable, are negatively impacting European sentiment primarily in the form of a weaker euro and higher interest rates in southern European countries. Core inflation surprised negatively in September and closed at 0.9 percent, which is expected to keep key interest rates at the current low levels at least until after summer 2019. Bond purchases have been reduced as planned and will be stop at the end of the year.

Lowered growth and stable property prices

Q2 growth in Sweden was revised down from 3.3 percent to 2.5 percent per year. The decline was mainly driven by higher imports, but also by lower private consumption and investment. Swedish exports were expected to take over and drive growth after the decline in housing investment, but have not yet to do so. Both exports and order intake have been declined, which is probably linked to weaker global demand. However, the labour market remains strong and the employment level in Sweden is growing at a healthy pace. Moreover, companies' recruitment plans remain at high levels.

The downturn in housing prices has slowed, but the number of objects for sale in the market has risen since the introduction of the amortisation requirement in March. Agricultural property prices remain stable. CPIF inflation remained above the Riksbank's target of 2.0 percent but the most recent figures were lower than forecast. CPIF excluding energy has also continued to trend lower at just 1.2 percent in September. However, the Riksbank has signalled an interest rate hike of 25 basis points either in December 2018 or in February 2019. The pace of future interest rate hikes is expected to be slow.

Our financial performance

Landshypotek Bank continued to post strong earnings in Q3. Earnings improved due to a year-on-year higher net result of financial transactions. Net interest income continued its positive trend due to a steadily increasing lending volume and costs remained up slightly year-on-year. Credit losses continued to be very low.

Financial report for the first three quarters of 2018

The Group's operating profit amounted to MSEK 298.7, up MSEK 50.7 compared with 2017 (MSEK 248.0). 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 MSEK 281.5 (291.3), down MSEK 9.8. 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 MSEK 27.0. Excluding this non-recurring item, operating profit excluding the net result of financial transactions increased MSEK 17.2.

Net interest income and volumes

Net interest income totalled MSEK 590.5 (591.8) and interest income amounted to MSEK 921.4 (981.2). Lending increased SEK 3.9 billion year-on-year.

Interest expenses amounted to MSEK 330.9 (389.4), down MSEK 58.5 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, which amounted to MSEK 57.3 (42.8). This was a year-on-year increase of MSEK 14.5 as a consequence of the fee being raised. After excluding the resolution fee, the underlying interest margin improved.

Other operating income

Other operating income amounted to MSEK 21.3 (loss: 42.2), up MSEK 63.5 compared with the year-earlier period. This was due to an increase of MSEK 60.4 in the net result of financial transactions to MSEK 17.1 (loss: 43.0). This amount, comprised an unrealised gain of MSEK 15.4 and a realised loss of MSEK 1.7.

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.

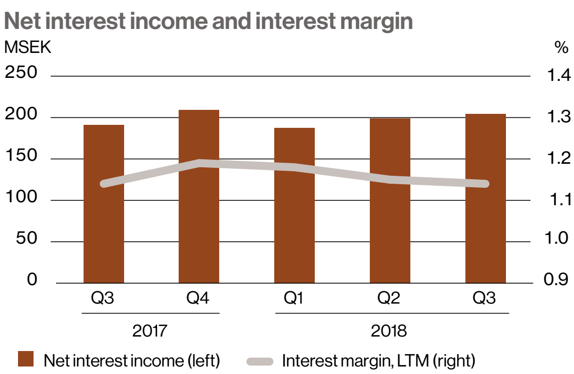
Costs

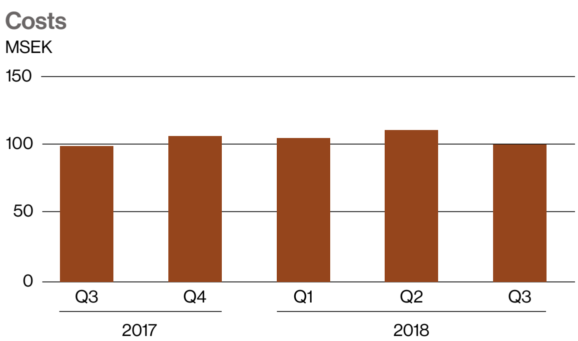
Costs amounted to MSEK 320.4 (293.7), up MSEK 26.7 year-on-year, but still in line with the bank's plans. Employee numbers grew during 2017 and early 2018, in part to administer new mortgage customers and in part to allow the continued strengthening of the bank as a whole.

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

Credit losses and credit-impaired assets

From 1 January 2018, Landshypotek Bank applies IFRS 9, which means credit losses are recognised for both non-credit-impaired assets (stages 1 and 2) and credit-impaired assets (stage 3). See notes 3 and 4 for further information.





Operating profit

Group, MSEK	Jan–Sep 2018	Jan–Sep 2017
Net interest income	590.5	591.8
Other operating income	21.3	-42.2
Of which net result of financial transactions	17.1	-43.3
Costs	-320.4	-293.7
C/I ratio including financial transactions	0.52	0.53
C/I ratio excluding financial transactions	0.54	0.50
Net recognised credit losses	7.3	-7.9
Credit loss level, %[1]	0.00	0.02
Operating profit	298.7	248.0
Operating profit excluding the net result of financial transactions	281.5	291.3

[1] *An outcome is only presented in the case of a negative earnings impact.*

Net credit losses had a positive earnings impact of MSEK 7.3 (negative: 7.9), comprised of a positive earnings impact of MSEK 7.8 from net credit losses for non-credit-impaired assets and a negative earnings impact of MSEK 0.5 from credit-impaired assets. 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 MSEK 5.4, together with recoveries of previously confirmed losses with a positive earnings impact of MSEK 4.9 (2.0).

The total credit loss allowance for non-credit-impaired assets amounted to MSEK 32.1. Of this allowance, MSEK 3.4 pertained to a collectively measured credit loss allowance attributable to wind power commitments.

Gross credit-impaired assets amounted to MSEK 624.5 and the credit loss allowance to MSEK 36.5. At 30 June 2018, gross credit-impaired assets amounted to MSEK 557.9 and the credit loss allowance to MSEK 40.1. The provisions for credit-impaired assets pertained to individual commitments within varying types of farming and geographic locations.

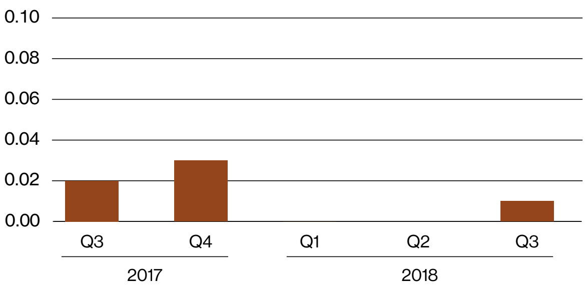
Other comprehensive income

Other comprehensive income amounted to an expense of MSEK 20.7 compared with income of MSEK 18.3 for the same period in 2017. From 1 January 2018, 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 and negatively impacted other comprehensive income with MSEK 25.0. Actuarial gains and losses in defined-benefit pensions amounted to a net gain of MSEK 7.2 (loss: 5.0).

At the end of the Q2, provisions for the defined-benefit pension obligation were, as a result of erroneous input data, overvalued by MSEK 65.6 resulting in deferred tax being MSEK 14.4 too high. Accordingly, there was a net negative impact on other comprehensive income of MSEK 51.2. This was identified in Q3 and the comparative figures for Q2 have been corrected in this report to provide an accurate image of the bank's balance sheet and comprehensive income for the quarter.

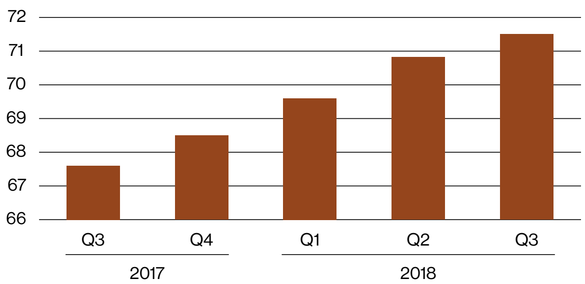
Credit loss level

Percent



Lending volume

SEK billion



Balance Sheet

Assets, MSEK	30 Sep 2018
Loans to credit institutions	411
Loans to the public	71,532
Liquidity portfolio	12,199
Derivatives	1,636
Tangible and intangible assets	147
Prepaid expenses, etc.	462
Total assets	**86,386**

Total liabilities and equity, MSEK	30 Sep 2018
Liabilities to credit institutions	765
Deposits from the public	13,702
Debt securities issued	63,772
Derivatives	395
Other liabilities	1,804
Equity	5,948
Total liabilities and equity	**86,386**

Capital and capital adequacy

The total capital ratio for the consolidated situation amounted to 20.2 percent compared with 19.8 percent at 30 June 2018 and the CET1 capital ratio was 15.1 percent (14.8). The internally assessed capital requirement for the consolidated situation on 30 September 2018 was SEK 5.0 billion, which should be compared with own funds of SEK 6.1 billion. See also Note 1 for further information.

Comparison with the second quarter of 2018

Operating profit for the quarter totalled MSEK 100.7 (95.7). Excluding the net result of financial transactions, operating profit for Q3 was MSEK 102.8 (91.4), up MSEK 11.4. This improvement was mainly due to higher net interest income and lower costs. The underlying interest margin remained favourable.

Assets

The largest asset item in the balance sheet is Loans to the public, which increased SEK 0.7 billion in the quarter to SEK 71.5 billion and where the largest part of the upturn was attributable to mortgage operations. The increase corresponded to lending growth of 1.0 percent for the quarter, compared with 0.6 percent in the corresponding period in 2017. The geographic distribution of lending is stable over time.

At 30 September 2018, Landshypotek Bank's liquidity portfolio totalled SEK 12.2 billion (12.8). 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 30 September 2018, the liquidity portfolio was 3.6 times (8.0) 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

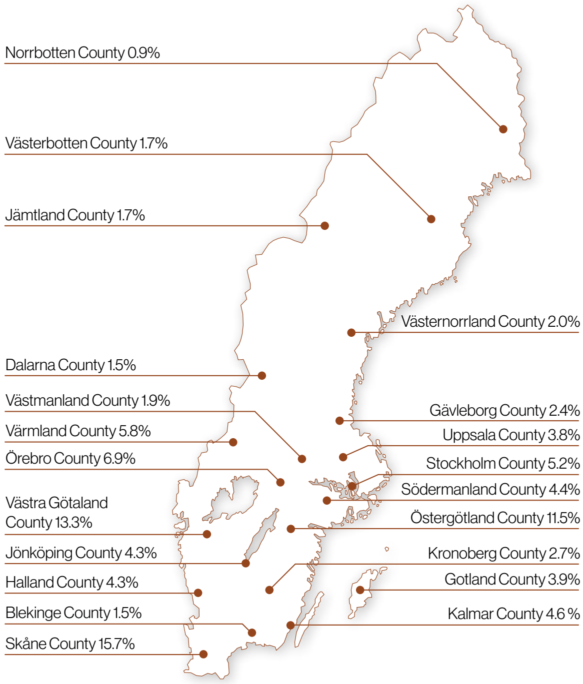
Landshypotek Bank actively raises funds via bond markets, and always strives to meet investors' wishes regarding tenors and interest-rate structures. Investor relations are of major importance as part of ensuring that investors' levels of awareness and interest are maintained in Landshypotek Bank. In Q3 2018, senior bonds to a value of SEK 1.0 billion were issued. In Q3 2018, bonds matured or were repurchased to a value of approximately SEK 0.2 billion, of which about SEK 0.1 billion pertained to covered bonds. The funding market for Nordic banks functioned smoothly in the third quarter of 2018. Landshypotek Bank has been very successful

Funding

MSEK	Issued 30 Sep 2018	Limit	Issued 31 Dec 2017
Swedish commercial paper	–	10,000	–
MTN programme	40,094	60,000	46,368
EMTN programme	18,847	36,155[1]	11,700
Registered covered bonds	3,512		3,341
Subordinated loans	1,900		1,900

[1] *MEUR 3,500*

Geographic distribution of
Landshypotek Banks lending



in its funding activities and demand for Landshypotek's bonds has been favourable.

Deposits from the public

At 30 September 2018, deposits from the public totalled SEK 13.7 billion (12.5). Deposits increased SEK 0.2 billion for the quarter.

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 October 2018

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	Q3 2018	Q3 2017	Q2 2018	Jan–Sep 2018	Jan–Sep 2017	Full-year 2017
Interest income		312,534	321,213	308,150	921,417	981,242	1,295,831
Interest expenses		-108,070	-123,416	-109,548	-330,914	-389,439	-495,459
- of which fees for deposit insurance		-2,407	-1,695	-1,965	-6,337	-6,138	-6,777
- of which fees for resolution fund		-17,472	-14,169	-18,698	-57,320	-42,776	-56,945
Net interest income	Note 2	**204,464**	**197,797**	**198,602**	**590,502**	**591,803**	**800,372**
Net result of financial transactions		-2,022	-289	4,335	17,142	-43,285	-48,093
Other operating income		1,190	91	1,267	4,130	1,037	1,875
Total operating income		**203,632**	**197,599**	**204,204**	**611,774**	**549,555**	**754,154**
General administrative expenses		-97,201	-96,620	-108,150	-307,659	-283,558	-388,542
Depreciation, amortisation and impairment of tangible and intangible assets		-4,327	-3,737	-4,327	-12,682	-10,048	-13,762
Other operating expenses		–	-1	-16	-97	-106	-150
Total expenses before credit losses		**-101,528**	**-100,358**	**-112,493**	**-320,439**	**-293,712**	**-402,455**
Profit before credit losses		**102,103**	**97,241**	**91,711**	**291,336**	**255,843**	**351,699**
Net credit losses	Note 3	-1,373	-4,077	3,984	7,331	-7,856	-12,488
Operating profit		**100,731**	**93,165**	**95,695**	**298,666**	**247,987**	**339,211**
Tax expense for the period		-28,777	-21,871	-17,490	-70,118	-60,607	-82,846
Net profit for the period		**71,954**	**71,294**	**78,206**	**228,548**	**187,380**	**256,366**

Statement of Comprehensive Income

Group SEK thousand	Q3 2018	Q3 2017	Q2 2018	Jan–Sep 2018	Jan–Sep 2017	Full-year 2017
Net profit for the period	**71,954**	**71,294**	**78,206**	**228,548**	**187,380**	**256,366**
Other comprehensive income						
Items to be reclassified to income statement						
Cash-flow hedges	–	831	–	–	2,639	8,620
Available-for-sale financial assets	–	-4,244	–	–	27,327	20,907
Financial assets at FVTOCI	-7,671	–	4,782	-2,918	–	–
- of which change in credit risk	–	–	-1	–	–	–
Change in cross-currency basis spreads in fair value hedges	1,798	–	-14,373	-32,857	–	–
Tax on items that will be reclassified	1,292	751	2,110	7,871	-6,592	-6,496
Total items that will be reclassified	**-4,581**	**-2,662**	**-7,481**	**-27,905**	**23,373**	**23,031**
Items that will not be reclassified						
Actuarial changes, defined benefit pensions	12,103	-4,626	2,483[1)]	9,212	-6,464	-14,881
Tax on items that will not be reclassified	-2,663	1,018	-546[1)]	-2,027	1,422	3,274
Total items that will not be reclassified	**9,440**	**-3,608**	**1,937**	**7,185**	**-5,042**	**-11,607**
Total other comprehensive income	**4,859**	**-6,270**	**-5,545**	**-20,720**	**18,331**	**11,424**
Comprehensive income for the period	**76,813**	**65,024**	**72,661**	**207,828**	**205,711**	**267,790**

[1)] *The comparative figures for Q2 have been corrected in this report, refer to page 9 for more information.*

Income Statement

Parent Company SEK thousand	Note	Q3 2018	Q3 2017	Q2 2018	Jan–Sep 2018	Jan–Sep 2017	Full-year 2017
Interest income		312,534	321,197	308,150	921,417	981,242	1,295,831
Interest expenses		-107,983	-123,382	-109,460	-330,653	-389,405	-495,408
- of which fees for deposit insurance		-2,407	-1,695	-1,965	-6,337	-6,138	-6,777
- of which fees for resolution fund		-17,472	-14,169	-18,698	-57,320	-42,776	-56,945
Net interest income	Note 2	**204,551**	**197,814**	**198,689**	**590,764**	**591,837**	**800,423**
Net result of financial transactions		-2,022	-289	4,335	17,142	-43,285	-48,093
Other operating income		1,190	91	1,267	4,130	1,037	1,875
Total operating income		**203,719**	**197,617**	**204,292**	**612,036**	**549,589**	**754,205**
General administrative expenses		-97,529	-97,284	-108,685	-309,180	-283,645	-389,949
Depreciation, amortisation and impairment of tangible and intangible assets		-4,327	-3,737	-4,327	-12,682	-10,048	-13,762
Other operating expenses		–	-1	-16	-97	-106	-150
Total expenses before credit losses		**-101,856**	**-101,022**	**-113,028**	**-321,960**	**-293,799**	**-403,861**
Profit before credit losses		**101,862**	**96,595**	**91,264**	**290,076**	**255,790**	**350,344**
Net credit losses	Note 3	-1,373	-4,077	3,984	7,331	-7,856	-12,488
Operating profit		**100,490**	**92,518**	**95,249**	**297,407**	**247,934**	**337,856**
Tax expense for the period		-28,883	-21,859	-17,231	-69,840	-60,607	-82,548
Net profit for the period		**71,606**	**70,659**	**78,018**	**227,567**	**187,327**	**255,308**

Statement of Comprehensive Income

Parent Company SEK thousand	Q3 2018	Q3 2017	Q2 2018	Jan–Sep 2018	Jan–Sep 2017	Full-year 2017
Net profit for the period	**71,606**	**70,659**	**78,018**	**227,567**	**187,327**	**255,308**
Other comprehensive income						
Items to be reclassified to income statement						
Cash-flow hedges	–	831	–	–	2,639	8,620
Available-for-sale financial assets	–	-4,244	–	–	27,327	20,907
Financial assets at FVTOCI	-7,671	–	4,782	-2,918	–	–
- of which change in credit risk	–	–	-1	–	–	–
Change in cross-currency basis spreads in fair value hedges	1,798	–	-14,373	-32,857	–	–
Income tax related to other comprehensive income	1,292	751	2,110	7,871	-6,592	-6,496
Total items that will be reclassified	**-4,581**	**-2,662**	**-7,481**	**-27,905**	**23,373**	**23,031**
Total other comprehensive income	**-4,581**	**-2,662**	**-7,481**	**-27,905**	**23,373**	**23,031**
Comprehensive income for the period	**67,025**	**67,998**	**70,536**	**199,662**	**210,700**	**278,339**

Balance Sheet

SEK thousand	Note	Group 30 Sep 2018	Group 30 Jun 2018	Group 31 Dec 2017	Group 30 Sep 2017	Parent Company 30 Sep 2018	Parent Company 30 Jun 2018	Parent Company 31 Dec 2017	Parent Company 30 Sep 2017
ASSETS									
Eligible treasury bills[1]		4,975,674	4,982,811	5,559,234	6,984,148	4,975,674	4,982,811	5,559,234	6,984,148
Loans to credit institutions		410,872	590,849	393,346	569,351	410,646	590,623	393,115	569,120
Loans to the public	Note 4	71,532,032	70,821,864	68,488,409	67,619,454	71,532,032	70,821,864	68,488,409	67,619,454
Value change of interest-hedged items in portfolio hedges		52,012	73,809	63,621	68,467	52,012	73,809	63,621	68,467
Bonds and other interest-bearing securities		7,222,955	7,786,316	7,862,707	9,340,895	7,222,955	7,786,316	7,862,707	9,340,895
Derivatives		1,635,797	1,809,106	1,466,052	1,435,456	1,635,797	1,809,106	1,466,052	1,435,456
Shares in Group entities		–	–	–	–	200	200	200	200
Intangible assets		131,703	118,074	99,355	89,250	131,703	118,074	99,355	89,250
Tangible assets									
Equipment		6,401	7,106	8,300	8,979	6,401	7,106	8,300	8,979
Buildings and land		9,104	9,241	9,515	9,653	9,104	9,241	9,515	9,653
Other assets		7,183	13,898	7,099	7,165	7,181	13,896	7,098	7,164
Current tax assets		–	2,398	–	–	–	2,398	–	–
Deferred tax assets		1,810	4,365[2]	4,087	3,836	394	392	365	1,668
Prepaid expenses and accrued income		400,817	348,269	435,825	564,113	400,817	348,269	435,825	564,113
TOTAL ASSETS	Notes 5, 6	86,386,362	86,568,107	84,397,550	86,700,767	86,384,916	86,564,106	84,393,796	86,698,567
LIABILITIES, PROVISIONS AND EQUITY									
Liabilities to credit institutions		765,206	1,843,718	424,038	393,089	765,206	1,843,718	424,038	393,089
Deposits from the public		13,701,964	13,533,483	12,675,325	12,543,118	13,701,964	13,533,483	12,675,325	12,543,118
Debt securities issued		63,771,634	63,180,190	62,877,705	65,551,872	63,771,634	63,180,190	62,877,705	65,551,872
Derivatives		395,437	403,344	705,737	732,555	395,437	403,344	705,737	732,555
Other liabilities		102,766	117,072	306,405	62,391	102,241	116,551	305,883	61,869
Tax liabilities		9,488	–	3,681	34,051	9,488	–	3,681	34,051
Accrued expenses and prepaid income		483,070	391,183	393,505	557,947	483,070	391,183	393,505	557,947
Provisions		9,086	21,057[2]	17,712	10,603	3,169	2,796	1,319	1,324
Subordinated liabilities		1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Total liabilities		80,438,653	80,690,047	78,604,109	81,085,626	80,432,211	80,671,265	78,587,193	81,075,825
Equity		5,947,709	5,878,060	5,793,441	5,615,141	5,952,705	5,892,841	5,806,603	5,622,742
TOTAL LIABILITIES, PROVISIONS AND EQUITY	Notes 5, 6	86,386,362	86,568,107	84,397,550	86,700,767	86,384,916	86,564,106	84,393,796	86,698,567

[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.*

[2] *The comparative figures for Q2 have been corrected in this report, refer to page 9 for more information.*

Statement of cash flow

SEK thousand	Group Jan–Sep 2018	Group Jan–Sep 2017	Group Full-year 2017	Parent Company Jan–Sep 2018	Parent Company Jan–Sep 2017	Parent Company Full-year 2017
Opening cash and cash equivalents	**393,346**	**592,071**	**592,071**	**393,115**	**591,839**	**591,839**
Cash flow from operating activities	81,327	-19,435	-417,323	81,332	-19,434	-417,322
Cash flow from investment activities	-42,720	-31,435	-44,439	-42,720	-31,435	-44,439
Cash flow from financing activities	-21,080	28,150	263,037	-21,080	28,150	263,037
Cash flow for the period	**17,526**	**-22,720**	**-198,725**	**17,531**	**-22,719**	**-198,724**
Closing cash and cash equivalents	**410,872**	**569,351**	**393,346**	**410,646**	**569,120**	**393,115**

Statement of changes in equity

Group SEK thousand	Share capital	Other contributed 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	5,793,441
Change on initial transition to IFRS 9				64	-64			-32,481	-32,481
Restated opening balance 1 January 2018	2,253,000	1,026,254	–	38,086	-64	-27,966	700,000	1,771,651	5,760,961

Group SEK thousand	Share capital	Other contributed 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			-25,629	-2,276	–	7,185		228,548	207,828
Total change before transactions with owners and holders of Tier 1 capital instruments	–	–	-25,629	-2,276	–	7,185	–	228,548	207,828
Dividend on Tier 1 capital instruments								-21,080	-21,080
Equity, 30 September 2018	2,253,000	1,026,254	-25,629	35,810	-64	-20,781	700,000	1,979,119	5,947,709

Parent Company SEK thousand	Share capital	Other contributed 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 contributed 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			-25,629	-2,276	–			227,567	199,663
Total change before transactions with owners and holders of Tier 1 capital instruments	–	–	-25,629	-2,276	–	–	–	227,567	199,663
Dividend on Tier 1 capital instruments								-21,080	-21,080
Equity, 30 September 2018	2,253,000	1,016,694	-25,629	35,810	-64	–	700,000	1,972,894	5,952,705

Notes

Note 1 Capital and capital adequacy

The total capital ratio for the consolidated situation amounted to 20.2 percent compared with 19.8 percent at 30 June 2018 and the CET1 capital ratio was 15.1 percent (14.8). At Landshypotek Bank AB, the total capital ratio amounted to 21.1 percent (21.1) and the CET1 capital ratio was 14.9 percent (14.9). For the consolidated situation, own funds increased MSEK 131 to MSEK 6,141 during the quarter, which was mainly attributable to an improvement in comprehensive income in Q3. The minimum capital requirement rose MSEK 2 to MSEK 2,428.

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 capital buffer requirement is 2 percent. These two buffers make up the combined buffer requirement that must be covered by CET1 capital.

On 18 September, Finansinspektionen decided to raise the countercyclical buffer to 2.5 percent from 19 September 2019.

The leverage ratio for the consolidated situation amounted to 6.0 percent at (5.9).

The internally assessed capital requirement for the consolidated situation on 30 September 2018 was SEK 5.0 billion, which should be compared with own funds of SEK 6.1 billion. 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] 30 September 2018	Landshypotek Bank AB 30 September 2018
CET1 capital: Instruments and reserves		
Member contributions	1,680,286	
Share capital		2,253,000
Other contributed equity	1,797,796	1,016,694
Tier 1 capital instruments	700,000	700,000
Reserves	10,117	10,117
Actuarial changes	-20,781	0
Retained earnings	1,611,746	1,745,327
Net profit for the year[2]	218,002	227,567
Equity in the balance sheet	**5,997,167**	**5,952,705**
Deductions related to the consolidated situation and other foreseeable costs	-77,983	-106,501
Deductions for Tier 1 capital instruments classified as equity	-700,000	-700,000
CET1 capital before regulatory adjustments[3]	**5,219,184**	**5,146,204**
CET1 capital: regulatory adjustments		
Further value adjustments	-14,230	-14,230
Intangible assets	-131,703	-131,703
Deferred tax assets that rely on future profitability	-1,810	-394
Fair value reserves related to gains or losses on cash-flow hedges	0	0
Negative amounts resulting from the calculation of expected loss amounts (IRB)	-492,601	-492,601
Defined-benefit pension plans	0	0
Total regulatory adjustments to CET1 capital	**-640,344**	**-638,928**
CET1 capital	**4,578,839**	**4,507,276**
Additional Tier 1 capital: instruments		
Tier 1 capital instruments	0	700,000
of which classified as equity under applicable accounting standards	0	700,000
Qualifying Tier I capital included in consolidated additional Tier 1 capital issued by subsidiaries and held by third parties	591,831	
Tier 1 capital (CET1 capital + Tier 1 capital)	**5,170,671**	**5,207,276**
Tier 2 capital: instruments and provisions		
Capital instruments and subordinated loans eligible as Tier 2 capital	0	1,200,000
Positive amounts resulting from the calculation of expected loss amounts (IRB)	0	0
Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third parties	970,153	
Tier 2 capital before regulatory adjustments	**970,153**	**1,200,000**
Tier 2 capital: regulatory adjustments		
Total regulatory adjustments to Tier 2 capital	**0**	**0**
Tier 2 capital	**970,153**	**1,200,000**
Own funds (Tier 1 capital + Tier 2 capital)	**6,140,824**	**6,407,276**
Total risk-weighted exposure amount	**30,344,682**	**30,343,755**
Capital ratios and buffers		
Own funds requirement	**2,427,575**	**2,427,500**
CET1 capital ratio (%)	15.1	14.9
Tier 1 capital ratio (%)	17.0	17.2
Total capital ratio (%)	20.2	21.1
Institution-specific CET1 capital requirement including buffer requirements (%)	9.0	9.0
of which capital conservation buffer requirement (%)	2.5	2.5
of which countercyclical buffer requirement (%)	2.0	2.0
CET1 capital available to meet buffers (%)[4]	10.6	10.4

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 CET 1 used to cover the CET1 capital requirement and less any other CET1 items used to cover the tier 1 capital requirement and/or total own funds requirements divided by the total risk-weighted exposure amount."*

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

				Consolidated situation 30 September 2018
SEK thousand	Exposure value[1]	Risk-weighted exposure amount[2]	Own funds requirement[3]	Average risk weight[4]
Credit risk – IRB approach	**72,839,857**	**26,187,425**	**2,094,994**	**36%**
Retail – real estate collateral	44,014,606	6,719,132	537,531	15%
Corporates	28,750,947	19,393,989	1,551,519	67%
Other non-credit-obligation assets	74,303	74,303	5,944	100%
Credit risk – Standardised approach	**14,614,303**	**1,444,034**	**115,523**	**10%**
Central governments or central banks	106,945	–	–	0%
Regional governments or local authorities	5,603,701	–	–	0%
Institutions	2,008,327	647,560	51,805	32%
Corporates	11,488	11,488	919	100%
Retail	40,705	28,871	2,310	71%
Secured by mortgage liens on immovable property	206,290	90,844	7,268	44%
Exposures in default	1,141	1,700	136	149%
Covered bonds	6,635,707	663,571	53,086	10%
Operational risk – Basic indicator approach		**1,366,604**	**109,328**	
Credit valuation adjustment risk – Standardised approach	**1,702,919**	**1,343,998**	**107,520**	**79%**
Additional risk exposure amounts under Article 3 CRR		**2,622**	**210**	
Total	**89,157,079**	**30,344,682**	**2,427,575**	**–**

				Landshypotek Bank AB, 30 September 2018
SEK thousand	Exposure value[1]	Risk-weighted exposure amount[2]	Own funds requirement[3]	Average risk weight[4]
Credit risk – IRB approach	**72,839,134**	**26,186,702**	**2,094,936**	**36%**
Retail – real estate collateral	44,014,606	6,719,132	537,531	15%
Corporates	28,750,947	19,393,989	1,551,519	67%
Other non-credit-obligation assets	73,581	73,581	5,886	100%
Credit risk – Standardised approach	**14,613,090**	**1,443,829**	**115,506**	**10%**
Central governments or central banks	103,584	–	–	0%
Regional governments or local authorities	5,606,926	–	–	0%
Institutions	2,007,228	647,340	51,787	32%
Corporates	11,488	11,488	919	100%
Retail	40,725	28,887	2,311	71%
Secured by mortgage liens on immovable property	206,290	90,844	7,268	44%
Exposures in default	1,141	1,700	136	149%
Covered bonds	6,635,707	663,571	53,086	10%
Operational risk – Basic indicator approach		**1,366,604**	**109,328**	
Credit valuation adjustment risk – Standardised approach	**1,702,919**	**1,343,998**	**107,520**	**79%**
Additional risk exposure amounts under Article 3 CRR		**2,622**	**210**	
Total	**89,155,143**	**30,343,755**	**2,427,500**	**–**

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 [1] SEK thousand	Q3 2018	Q3 2017	Q2 2018	Jan–Sep 2018	Jan–Sep 2017	Full-year 2017
Interest income						
Interest income on loans to credit institutions	–	-274	–	-44	-436	-1,699
Interest income on loans to the public	304,713	312,502	301,406	906,871	946,728	1,254,083
Interest income on interest-bearing securities	5,341	6,733	4,044	6,781	25,676	31,592
Other interest income	2,481	2,251	2,699	7,809	9,275	11,856
Total interest income [2]	**312,534**	**321,213**	**308,150**	**921,417**	**981,242**	**1,295,831**
Interest expenses						
Interest expenses for liabilities to credit institutions	1,361	1,219	2,963	5,689	4,173	5,109
Interest expenses for deposits from the public	-24,983	-21,987	-24,155	-72,152	-65,903	-87,551
- of which fees for deposit insurance	*-2,407*	*-1,695*	*-1,965*	*-6,337*	*-6,138*	*-6,777*
Interest expenses for interest-bearing securities	-108,034	-142,941	-110,202	-331,051	-421,317	-553,193
Interest expenses for subordinated liabilities	-7,095	-6,827	-6,845	-20,176	-27,731	-34,458
Interest expenses for derivative instruments	53,586	64,131	53,166	160,408	178,480	249,755
Other interest expenses	-22,906	-17,011	-24,475	-73,633	-57,142	-75,122
- of which fees for resolution fund	*-17,472*	*-14,169*	*-18,698*	*-57,320*	*-42,776*	*-56,945*
Total interest expenses	**-108,070**	**-123,416**	**-109,548**	**-330,914**	**-389,439**	**-495,459**
Total net interest income	**204,464**	**197,797**	**198,602**	**590,502**	**591,803**	**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	Q3 2018	Q3 2017	Q2 2018	Jan–Sep 2018	Jan–Sep 2017	Full-year 2017
Change in credit loss allowance, Stage 1	-309	–	1,733	759	–	–
Change in credit loss allowance, Stage 2	-2,287	–	6,053	7,026	–	–
- of which change in collective credit loss allowance, Stage 2	*128*	-	*236*	*220*	–	–
Collective allowances under IAS39	–	-165	–	–	-83	376
Net credit losses, non-credit-impaired lending	**-2,596**	**-165**	**7,785**	**7,785**	**-83**	**376**
Change in credit loss allowance, Stage 3	3,572	0	19,457	34,237	0	0
Write-off for the period for confirmed losses	-4,122	-1,359	-24,388	-39,604	-13,296	-22,802
Recoveries of previously confirmed losses	1,773	1,595	1,129	4,913	2,030	2,754
Specific provisions under IAS39	–	-4,148	–	–	3,493	7,184
Net credit losses, credit-impaired lending	**1,223**	**-3,912**	**-3,801**	**-454**	**-7,773**	**-12,864**
Total net credit losses	**-1,373**	**-4,077**	**3,984**	**7,331**	**-7,856**	**-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.

Estimates and critical assessments
The bank's expected credit losses are subject to continual assessment at both individual and collective levels. The estimate is largely based on risk estimates for default and loss given default, which are in turn influenced by projections of future interest rate, GDP and property price trends.

The risk estimate for the credit portfolio is based on internal historic data and uses 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.

In the case of the credit portfolio, one scenario includes the macro parameters for interest, GDP and the property price index. The bank's projections of the above macro parameters are based on reputable, external sources and the assessments of internal experts. 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 for the macro parameters. The bank's three scenarios for future economic developments (base, improved and deteriorated) are weighed together using the respective likelihoods of 80 and 10 percent each.

In general, a deterioration in the future economic trend will lead to increased credit loss allowances based either on the projected macro parameters or on an increase in the likelihood of the deteriorated scenario taking place. In the same way, improvements in economic prospects will lead to lower credit loss allowances.

Note 4 Loans to the public

Group and Parent Company SEK thousand	30 Sep 2018	30 Jun 2018	31 Dec 2017	30 Sep 2017
Loan receivables, stage 1	60,679,572	59,869,738	–	–
Loan receivables, stage 2	10,294,730	10,462,425	–	–
Loan receivables, stage 3	624,543	557,864	–	–
Gross loan receivables	**71,598,845**	**70,890,027**	**68,537,095**	**67,675,700**
Less credit loss allowance under IFRS 9	-66,813	-68,163	–	–
- of which change in collectively measured credit loss allowance	*-3,408*	*-3,536*	–	–
Less provisions under IAS 39	–	–	-48,686	-56,246
Net loan receivables	**71,532,032**	**70,821,864**	**68,488,409**	**67,619,454**
Disclosures on overdue loan receivables, gross				
Loan receivables overdue 5–90 days	0	2,447	4,227	0
Loan receivables overdue more than 90 days	304,212	232,364	308,540	312,357
Total overdue loan receivables, gross	**304,212**	**234,811**	**312,767**	**312,357**

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		-915	-2,565	-489	-3,970	*-3,250*	*-720*
Decreases due to derecognition		643	6,210	7,422	14,275	*11,403*	*2,872*
Decrease in allowance due to write-offs				39,604	39,604	*39,604*	–
Changes due to change in credit risk		1,030	3,381	-12,299	-7,887	*-7,437*	*-451*
Closing balance at 30 September 2018		**-6,159**	**-25,979**	**-36,526**	**-68,663**	***-66,813***	***-1,850***

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 September 2018				30 september2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL								
Bonds and other interest-bearing securities	316,668			316,668	1,296,421			1,296,421
Interest-rate swaps				–		2,407		2,407
Cross-currency interest-rate swaps				–		38,583		38,583
Derivatives identified as hedging instruments								
Interest-rate swaps		783,777		783,777		874,159		874,159
Cross-currency interest-rate swaps		852,020		852,020		520,307		520,307
Available-for-sale financial assets								
Eligible treasury bills, etc.	–			–	6,984,148			6,984,148
Bonds and other interest-bearing securities	–			–	8,044,474			8,044,474
Financial assets at FVTOCI								
Eligible treasury bills, etc.	4,975,674			4,975,674				–
Bonds and other interest-bearing securities	6,906,287			6,906,287				–
Total assets measured at fair value	**12,198,629**	**1,635,797**	**–**	**13,834,426**	**16,325,043**	**1,435,456**	**–**	**17,760,499**
Financial liabilities at FVTPL								
Interest-rate swaps		14,894		14,894		79,710		79,710
Cross-currency interest-rate swaps				–		16,831		16,831
Derivatives identified as hedging instruments								
Interest-rate swaps		234,239		234,239		376,079		376,079
Cross-currency interest-rate swaps		146,304		146,304		259,935		259,935
Total liabilities measured at fair value	**–**	**395,437**	**–**	**395,437**	**–**	**732,555**	**–**	**732,555**

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	30 Sep 2018 Carrying amount	30 Sep 2018 Fair value	30 Sep 2017 Carrying amount	30 Sep 2017 Fair value
Assets				
Eligible treasury bills	4,975,674	4,975,674	6,984,148	6,984,148
Loans to credit institutions	410,872	410,872	569,351	569,351
Loans to the public	71,532,032	72,691,140	67,619,454	68,793,645
Bonds and other interest-bearing securities	7,222,955	7,222,955	9,340,895	9,340,895
Derivatives	1,635,797	1,635,797	1,435,456	1,435,456
Total assets	**85,777,331**	**86,936,439**	**85,949,304**	**87,123,495**
Liabilities and provisions				
Liabilities to credit institutions	765,206	765,206	393,089	393,089
Deposits from the public	13,701,964	13,701,964	12,543,118	12,543,118
Debt securities issued	63,771,634	64,501,650	65,551,872	66,604,742
Derivatives	395,437	395,437	732,555	732,555
Subordinated liabilities	1,200,000	1,256,484	1,200,000	1,272,288
Total liabilities	**79,834,242**	**80,620,742**	**80,420,634**	**81,545,792**

[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 costs.
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.

Group MSEK	Q3 2018	Q3 2017	Q2 2018	Jan–Sep 2018	Jan–Sep 2017	Full-year 2017
Change in lending	710	400	1,226	3,044	1,102	1,971
Opening balance, loans outstanding	70,822	67,219	69,596	68,488	66,518	66,518
Change in lending, %	**1.0**	**0.6**	**1.8**	**4.4**	**1.7**	**3.0**
Net interest income, accumulated LTM	799	765	792	799	765	800
Average loans outstanding, LTM	69,798	66,868	68,861	69,798	66,868	67,351
Interest margin, LTM, %	**1.14**	**1.14**	**1.15**	**1.14**	**1.14**	**1.19**
Change in deposits from the public	168	147	531	1,027	812	944
Opening balance deposits from the public	13,533	12,396	13,003	12,675	11,731	11,731
Change in deposits from the public, %	**1.2**	**1.2**	**4.1**	**8.1**	**6.9**	**8.0**
Costs before credit losses	-102	-100	-112	-320	-294	-402
Total operating income	204	198	204	612	550	754
C/I ratio including financial transactions	**0.50**	**0.51**	**0.55**	**0.52**	**0.53**	**0.53**
Costs before credit losses	-102	-100	-112	-320	-294	-402
Total operating income excluding financial transactions	206	198	200	595	593	802
C/I ratio excluding financial transactions	**0.49**	**0.51**	**0.56**	**0.54**	**0.50**	**0.50**
Net loan losses calculated on a full-year basis	-5	-16	16	-2	-10	-12
Average loans outstanding, LTM	69,798	66,868	68,861	69,798	66,868	67,351
Credit loss level, %[1]	**0.01**	**0.02**	**–**	**0.00**	**0.02**	**0.02**
Credit-impaired assets, gross	625	–	558	625	–	708[2]
Less provisions made	-37	–	-40	-37	–	-71[2]
Credit-impaired assets, net	**588**	**–**	**518**	**588**	**–**	**637**[2]
Loans to the public	71,532		70,822	71,532		68,520
Net credit-impaired assets after allowances as a percentage of total loans outstanding, %	**0.82**		**0.73**	**0.82**		**0.93**[2]
Profit after tax						256
Average equity						5,426
Return on equity, %						**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.*

Auditor’s review report (unofficial translation)

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

Introduction

We have reviewed the interim report of Landshypotek Bank AB (publ) as of 30 September 2018 and the nine-month period then ended. The Board of Directors and the CEO are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review

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

Conclusion

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

Stockholm, 25 October 2018

Öhrlings PricewaterhouseCoopers AB

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

Sofie Nordenborg
Authorised Public Accountant

Reporting calendar

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

Year-end report 2018	25 January 2019
Annual Report 2018	13 March 2019
Interim Report Q1	30 April 2019
General Meeting	7 May 2019

For further information, please contact:

Tomas Uddin
Chief Communications Officer
070 - 299 24 08

Per Lindblad
Chief Executive Officer
Can be reached through Tomas Uddin

Fredrik Sandberg
CFO
Can be reached through Tomas Uddin

Landshypotek Bank AB (publ)

Corp. Reg. No.: 556500-2762
Box 14092
SE-104 41 Stockholm
www.landshypotek.se

Landshypotek Bank

Production: Wildeco