

Landshypotek Bank AB

Interim report 2017 #2

January – June 2017 (compared with corresponding year-earlier period)

Catharina Åbjörnsson Lindgren, Acting CEO of Landshypotek Bank, comments on Q2 2017:

Lending and deposits both continue to grow. Costs remain at last year's level and loan losses have decreased. We have posted strong results in parallel with sustaining our investments in the bank's development. We are gradually accelerating the introduction into the mortgage market. This positive future prospect is shared by the members, many of whom chose to reinvest their dividends during the quarter.

January – June 2017

(compared with January – June 2016)

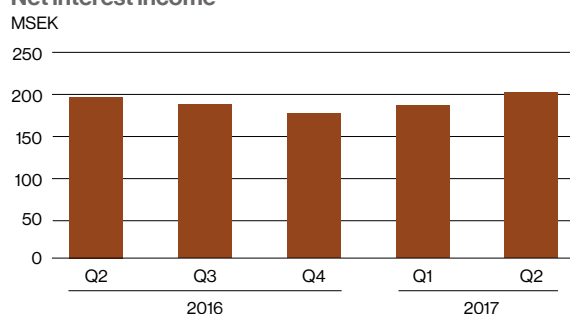
- Operating profit amounted to MSEK 147.8 (202.8).
- The underlying operating profit, excluding the net result of financial transactions, was MSEK 190.7 (172.6).
- Net interest income amounted to MSEK 386.9 (374.3).
- Costs totalled MSEK 193.4 (196.5).
- Net loan losses were MSEK 3.8 (9.7).
- Lending amounted to SEK 67.2 billion (65.7).
- Deposits amounted to SEK 12.4 billion (11.3).

April – June 2017

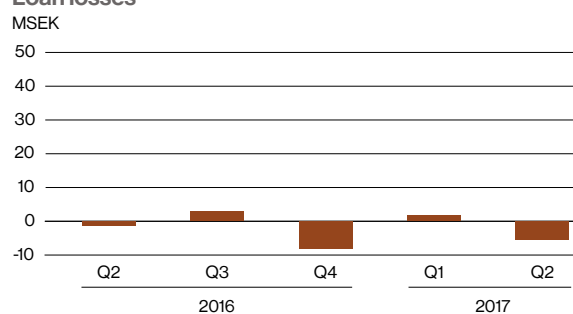
compared with January – March 2017

- Operating profit amounted to MSEK 83.2 (64.5).
- The underlying operating profit, excluding the net result of financial transactions, was MSEK 93.1 (97.6).
- Net interest income amounted to MSEK 201.4 (185.5).
- Costs totalled MSEK 103.3 (90.1).
- Net loan losses were MSEK 5.5 (recovery: 1.7).
- Lending amounted to SEK 67.2 billion (66.6).
- Deposits amounted to SEK 12.4 billion (12.0).

Net interest income



Loan losses



About Landshypotek Bank

Landshypotek Bank AB is a member-owned bank with its main operations financing ownership, living and entrepreneurship based on farming and forestry. The bank has a long history dating back to 1836. The operations mainly focus on lending for land and forestry. The bank also offers savings accounts to the Swedish general public and started offering homeowner mortgages in 2017. By financing investment in the countryside, together with our customers, the bank makes Sweden grow.

The bank is a wholly owned subsidiary of Landshypotek Ekonomisk Förening. The bank's borrowers in farming and forestry become members of the association, unlike mortgage customers and savers. Together, these 41,000 members own the bank. All business and licensable activities are conducted within the bank. The bank has about 170 employees working from 19 offices nationwide.

Landshypotek Bank is one of Sweden's ten largest banks and comprises a unique bank in the Swedish banking market.

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

- For a richer life in the countryside: The bank's brand promise: "For a richer life in the countryside" is interwoven throughout the bank's and its employees' working days. The distribution of the bank's surplus to farmers and foresters comprises another key principle for the value-driven operation that is Landshypotek Bank.
- Being close to customers with both larger and smaller farming and forestry operations: The bank's strength in financing farming and forestry are its close links to the sectors. Account managers at offices around the country often have backgrounds in agriculture and forestry, and banking and financing expertise. The bank's close relationships with customers are complemented by the regional member organisation of the cooperative association.
- Strength of the member organisation: Since borrowers for farming and forestry also become members of Landshypotek Ekonomisk Förening and thereby owners of the bank, this strengthens ties, commitment and the long-term perspective for the bank's operations. The cooperative association is responsible for relations with the 41,000 members.
- The force of employee commitment: Intense, active efforts are being driven at Landshypotek Bank to develop the bank together with its employees. Satisfied employees mean satisfied customers. Last year,

the employees lifted four principles to inspire all work conducted at the bank. Employees of Landshypotek Bank apply the following values: Customer-centric focus, drive, enthusiasm and together.

- Acting as a digital innovator: Landshypotek Bank has a 180-year history, but it is also quickly developing to meet customers' needs. Based on a modern platform, a unique digital solution has been built to allow people to quickly and simply become customers, open accounts and start saving at Landshypotek Bank.

Events at Landshypotek Bank in the quarter included:

- Being proactive and meeting many interested farmers and foresters at the trade fairs: Elmia Wood in Jönköping and Borgeby Fältdagar in Borgeby, Skåne. The bank has also presented the web series "*Den underbara smakresan*," in which six farmers present their operations and viewers learn more about Swedish produce.
- The appointment of an Acting CEO following Liza Nyberg's decision to leave the bank. While recruitment is ongoing of a replacement, the Board has appointed Catharina Åbjörnsson Lindgren and Fredrik Sandberg, as Acting CEO and Acting Deputy CEO respectively for the bank. "We believe it is important to have leadership continuity throughout the recruitment process. It is important to maintain the pace in our operations and in our ongoing development," explains Henrik Toll, Chairman of Landshypotek Bank.
- Distribution of a dividend of SEK 158 million based on earnings in 2016. This was following a resolution taken at the Association Meeting of Landshypotek Ekonomisk Förening. During the quarter, many members chose to reinvest their dividends in Landshypotek.
- The receipt of an injunction from Finansinspektionen (Sweden's financial supervisory authority) to correct the use of one of the bank's methods for establishing the market values of real property not intended for housing. The bank has appealed the decision.

CEO's Statement

Continued high tempo toward a broader bank

Landshypotek Bank is developing into a broader bank to serve more customers. The foundation — being the bank for anyone who lives or runs a business on a farming and forestry property, remains true.

For many years now, Landshypotek Bank has also been a bank for savers. At the start of the year, Landshypotek Bank presented the next step, a new mortgage offering to a new market and new customer groups for the bank. The offering and the market launch of homeowner mortgages across the country is still being prepared, but the first customers have already found us through our new digital application process.

This will make us a larger bank, with increased relevance for more customers in the Swedish banking market. The strategy of growing through increasing the customer base remains firm. The implementation is ongoing at a high pace.

We are building a new bank out of the old. We have developed our organisation, considerably strengthened our credit and risk functions, improved our customer service and made extensive system changes resulting in us now having one of the banking market's most modern IT platforms. Our growing core business and healthy generation of profits have made this possible.

We have identified major opportunities from growing as a bank, but other reasons also exist that make this necessary.

Politicians' requirements for banks are increasing. Regulatory requirements continue to grow, and capital requirements have changed rapidly and risen. Together, these requirements result in a need both for more customers and raised earnings.

The government's proposed hike in the resolution fee further raises requirements. As the fee is based on lending volumes, this has a particularly hard impact on Landshypotek. Our lending volume is substantial compared with the bank's operations. We are a low-risk bank with traditional first lien mortgages, stable collateral and customers with low LTVs. As the proposal is based on lending volumes, it benefits banks offering services where customer relationships are more fickle, and risks and margins are higher. The proposal increases the cost to customers, but will also lead to a competitive shift toward higher risk. Landshypotek Bank does not have these types of transactions in its offering.



At the same time, we are strengthened daily in our conviction and by the fact that the banking market has a real need for a bank with a difference, niched outside of the major cities and focused on farming and forestry.

This was notable in June, when we met many of our existing and potential customers at the world's largest forestry fair, Elmia Wood, and the country's largest agricultural fair, Borgeby Fältdagar.

This is noticeable when our owners, farming and forestry customers and members of Landshypotek Ekonomisk Förening, believe so strongly in their bank. Many members chose to reinvest the dividend they received in the quarter back into Landshypotek. SEK 48 million was invested by members in May and June.

This was also apparent when we presented our communication agenda, the web series: *Den underbara smakresan*. Developing the bank means we need to increase reach and recognition. One way of presenting ourselves is through all the work that entrepreneurs in farming and forestry are doing to produce good food and for Sweden. In the autumn, we will take a further step to present the bank as a broader bank and our homeowner mortgages.

I was appointed Acting CEO during the quarter. I have worked at the bank since 2010 and been part of the major developments in recent years. All of us at the bank and ultimately the management and Board have collaborated intensively on the growth strategy and on becoming a broader bank, which was a noticeable strength during the leadership changes. The strategy can now be implemented with no loss of pace or intensity.

As a bank with a difference in the Swedish banking market, Landshypotek Bank has major opportunities moving forward. I look forward to the chance to work together with the Bank Management and all our employees on continuing to develop these opportunities.

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

Our operating environment

Landshypotek Bank's operations and customers are impacted by the financial market, the economy and the openings for farming and forestry products, among other factors. Interest rates are stable and low. The Swedish economy has performed strongly and many positive signs exist even in the farming and forestry sectors.

Financial market trends

Small movements and low volatility characterised financial markets during the quarter, despite several parliamentary elections in Europe with uncertain political results and a more tense geopolitical environment. Stock exchanges have continued to rise and interest rates have trended weakly downward. The market with the most movement was the commodities market which fell around 20 percent, driven by the drop in oil prices. The major trend in foreign exchange markets was a weaker USD as a result of the market's expectations of the Trump administration's investment reforms not yet being realised, combined with increasingly positive outlooks for the eurozone's economy.

The U.S. economy has slowed. The labour market has cooled and job creation is no longer increasing at the same pace. However, even though unemployment remains at low levels, wage growth is weak. Wage growth are a key growth driver as GDP in the U.S. is dominated

by private consumption. In turn, weak wage growth leads to low inflation and thus low interest rates.

The U.S. central bank has continued to raise interest rates, most recently in June, and forecasts a further rate hike later this year. Low inflation and signs of a slowing economy are raising increasing doubts in the market regarding the forecast.

Focus in Europe has been dominated by politics and the elections that have been held. The markets reacted positively to the presidential and parliamentary elections in France, since Emmanuel Macron and his party are perceived as supporting pro-EU policies and, accordingly, a more stable outlook for Europe. In the UK, the parliamentary election had the opposite effect on the market following the surprising defeat for the Conservatives. Theresa May called a new election aimed at strengthening her parliamentary position ahead of the imminent Brexit negotiations, but the result was the opposite and the Conservatives lost their majority. This has resulted

Summary Landshypotek Bank

	Q2 2017	Q2 2016	Q1 2017	Jan–Jun 2017	Jan–Jun 2016	Full-year 2016
Net interest income, MSEK ¹⁾	201.4	195.8	185.5	386.9	374.3	737.2
Operating profit, MSEK	83.2	87.4	64.5	147.8	202.8	353.4
Profit after tax, MSEK	61.1	68.2	47.9	109.0	158.7	275.6
Loans to the public, MSEK	67,219	65,663	66,585	67,219	65,663	66,518
Increase in lending, %	1.1	0.9	0.1	1.1	1.8	3.1
Interest margin, % ²⁾	1.2	1.2	1.1	1.2	1.2	1.1
Deposits from the public, MSEK	12,396	11,255	12,046	12,396	11,255	11,731
Increase in deposits, %	2.9	5.0	2.7	5.7	9.2	13.8
C/I ratio including financial transactions ³⁾	0.54	0.53	0.59	0.56	0.48	0.52
C/I ratio excluding financial transactions ⁴⁾	0.51	0.50	0.48	0.50	0.52	0.54
Loan loss level, % ⁵⁾	0.03	0.01	0.00	0.01	0.03	0.02
Total capital ratio, %	42.2	33.0	42.1	42.2	33.0	39.9
Rating, long-term						
Standard & Poor's, Covered bonds	AAA	AAA	AAA	AAA	AAA	AAA
Standard & Poor's	A-	A-	A-	A-	A-	A-
Fitch	A	A	A	A	A	A
Average number of employees	169	162	168	169	162	162

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

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

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

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

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

in a more unclear picture of how to implement Brexit and uncertainty in the financial markets.

The eurozone economic outlook is deemed to be brighter than it has been for a long time. Slowly and carefully, the countries are pulling themselves out of the sovereign-debt crisis. The Purchasing Managers Index and other forward-looking indicators point upward, production is rising and unemployment decreasing. As in the U.S., this is not visible in wage growth and the inflation trend remains a threat. The European Central Bank, ECB, has therefore chosen to retain its expansive monetary policy and any tightening of policy is for the future.

In Sweden, the forward-looking indicators continue to point toward extremely strong growth, but the actual statistics presented paint a weaker picture. GDP grew a modest 0.4 percent in the first quarter in parallel with forward-looking indicators pointing toward growth of more than 4.0 percent. The labour market remains strong and employment is rising at a healthy pace however, the labour supply is also expanding and therefore, the strength is not reflected accurately in the unemployment rate. Like the rest of the world, wage growth is weak and, accordingly, so is inflation. The underlying inflation metric, the CPIF (CPI with fixed interest rate) was an annual rate of 1.9 percent in May, however the increase in inflation remains attributable to temporary effects and the forecast indicates a decline over the summer.

The Riksbank, Sweden's central bank, has therefore retained the monetary policy stimulus measures and its interest-rate path still allows scope for lowering interest rates. The Riksbank's repo-rate path includes a first hike in summer 2018 and a positive repo interest rate will not be reached until the start of 2019. Market interest rates and thus customer interest rates are also expected to then rise slowly, but remain low from a historical perspective.

Small fluctuations in market interest rates resulted in stable rates for customers. During the quarter, no changes occurred in Landshypotek Bank's listed rates for customers, both regarding lending and savings.

Trends in farming and forestry

Growth, low unemployment and increased investments benefit Landshypotek Bank's customers, who include owners of agricultural properties, and entrepreneurs and residents in the countryside. Many of the bank's customers live on the property and are first and foremost dependent on the general economic trend and employment in the local area. Property prices are stable and interest rates remain at low levels, which together makes ownership of fixed assets, such as real property,

advantageous. An overheated construction industry with labour shortages is advantageous to businesses with groundwork operations and businesses such as equipment pools and contractor services, where farmers also provides services outside the agroforestry industries.

Forestry

In forestry, the market remains optimistic, which showed in rising pulp and timber prices. The prices for forest properties remain stable even if it is mainly southern Sweden where prices are rising. The location of properties vis-à-vis industry influences prices.

Dairy

Global demand for fat and protein have resulted in a strong upswing for milk prices. In one year, the milk price has risen more than 30 percent. This underscores the dairy market's heavy dependence on the global market's demand and supply trends. Businesses are trying various methods to adapt to these swings, naturally, the methods include lowering costs and raising productivity. Another strategy is diversification through increased meat production or adding further value.

Meat

Meat production is a key component of Swedish agriculture. At the same time, its consumption and impact on the countryside, climate and environment are the subject of much debate. A historical perspective on this trend could be interesting:

Kg/person per year	1996	2016
Pigmeat	35.2	33.5
Beef	19.1	25.6
Poultry	9.0	23.6
Lamb	0.8	1.8
Other meat	4.1	3.2
Total	68.2	87.7

A substantial differential exists between the amount of meat consumed in Sweden and the amount it produces. Meat is often an anonymous part of any meal at a restaurant or from caterers. In 2016, Sweden produced 70.1 percent of the pigmeat, 51.6 percent of the beef, 67.3 percent of the poultry and 28.0 percent of the lamb it consumed.

Pigmeat

The pigmeat production model used in Sweden has received international attention in pace with the increasing interest in the reduced use of antibiotics and good forms of animal husbandry. Demand for Swedish pigmeat remained strong.

Beef

Demand for Swedish beef remains high despite the lack of movement in total consumption. Despite investments being made in new facilities for beef production, no major increase in production is expected. It takes time to increase the number of animals and at the same time, smaller production units are disappearing.

Poultry

Chicken is the meat which has seen the largest changes in consumption over the last 20 years. Consumption has increased faster than Swedish production. In parallel, considerable investments have been made in new production facilities with high technical standards and favourable production results.

Arable farming

A cold wet spring started the year. It is too early to make any predictions about this year's harvest. In many areas the longed for rain arrived and the crops were looking good by midsummer, which breeds hope. However, the price trend for cereals is weak and relatively large stock-piles exist. Despite the above, the market is sensitive to any signals of drought and other factors from around the world. The harvesters are rolling in southern Europe, where it has been exceedingly dry this year. Signals from there indicate that the harvests and the quality of, among others, barley for malting is far below the norm. This could benefit the price trend in Sweden. China's actions in the cereals market is another uncertainty. It is estimated that China is sitting on half of the world's stocks. These must be moved on and then sold in the open market which could generate price changes.

Landshypotek Bank AB

Landshypotek Bank finances businesses and housing in Sweden. The bank mainly specialises in the financing of farming and forestry. With loans outstanding of SEK 67.2 billion, the bank accounts for slightly more than a quarter of total lending (25.4 percent) with farming and forestry properties as collateral. The bank is owned by its loan customers in the farming and forestry sector, organised as members of Landshypotek Ekonomisk Förening. Landshypotek Bank now focuses on more customer groups, such as savers and homeowners.

Financial report for the first half of 2017

Consolidated operating profit for the first half of 2017 amounted to MSEK 147.8, down MSEK 55.0 compared with the first half of 2016 (MSEK 202.8). The decline in earnings was primarily attributable to a year-on-year decrease in the net result of financial transactions of MSEK 73.2. Excluding the net result of financial transactions, operating profit amounted to MSEK 190.7 (172.6), up MSEK 18.1 year-on-year, which was mainly attributable to a higher net interest income and lower loan losses.

Net interest income and volumes

Net interest income for the first half of 2017 was MSEK 386.9 (374.3), up 3.4 percent year-on-year.

Interest income amounted to MSEK 660.0 (719.3), down MSEK 59.3 year-on-year.

Interest income from lending declined on the back of lower fixed interest rates on loan renewals during the period. However, lending in the first half of 2017 increased SEK 0.7 billion (1.5).

In the first half of 2017, the return on the liquidity portfolio decreased to MSEK 18.9 (59.2) due to reinvestments at lower interest rate levels.

Interest expense amounted to MSEK 273.1 (345.0), down MSEK 71.9 compared with the first quarter of

2016. The lower interest expense was attributable to market rates that continued to decline and resulted in lower refinancing costs. Interest expenses decreased more than interest income and, thereby resulted in improved margins.

Interest expense for the first half of 2017 included fees to the Swedish National Debt Office, the resolution fund, which amounted to MSEK 28.6. This was a year-on-year increase of MSEK 14.0 as a consequence of the fee being raised.

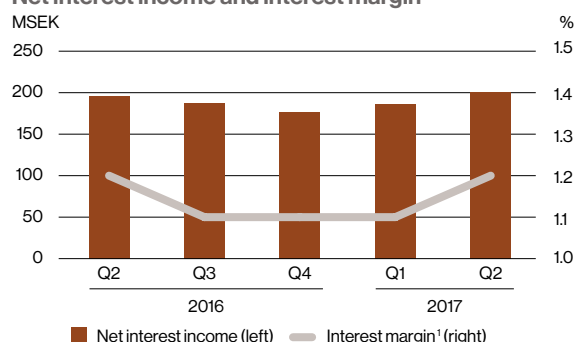
Other operating income

For the first half of 2017, other operating income amounted to an expense of MSEK 42.1 (income: 34.7). Compared with the same period in 2016, this was a decline of MSEK 76.8 and was primarily due to a decline of MSEK 73.2 in the net result of financial transactions to an expense of MSEK 43.0 (income: 30.2). This amount, comprised an unrealised gain of MSEK 35.9 and a realised loss of MSEK 7.1. The primary cause for the fall was lower market values for the basis-rate swaps used by the bank to protect against exchange-rate movements in international financing.

Costs

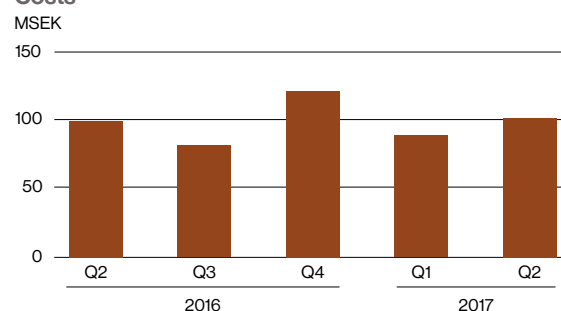
Costs in the first half of 2017 amounted to MSEK 193.4 (196.5), which was slightly lower year-on-year. The bank conducted several marketing activities in the spring,

Net interest income and interest margin



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

Costs



Operating profit

	Jan–Jun 2017	Jan–Jun 2016
Net interest income, MSEK ¹⁾	386.9	374.3
Other operating income, MSEK ¹⁾	-42.1	34.7
Of which net result of financial transactions	-43.0	30.2
Costs, MSEK	-193.4	-196.5
C/I ratio, including the net result of financial transactions	0.56	0.48
C/I ratio, excluding the net result of financial transactions	0.50	0.52
Net recognised loan losses, MSEK	-3.8	-9.7
Loan loss level, %	0.01	0.03
Operating profit, MSEK	147.8	202.8
Operating profit excluding the net result of financial transactions	190.7	172.6

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

such as *Den underbara smakresan*, to increase public awareness of the bank and the brand.

Loan losses and doubtful credits

Net loan losses in the first half of 2017 totalled MSEK 3.8 (9.7). Both confirmed losses and provisions for probable loan losses declined year-on-year.

At the end of the first six months, collective provisions totalled MSEK 4.6 (0.0) and were attributable to wind power commitments.

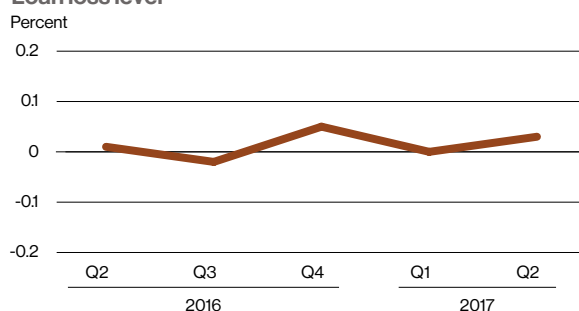
At 30 June 2017, net doubtful credits after provisions amounted to MSEK 153.6, corresponding to 0.23 percent of loans outstanding. In the corresponding year-earlier period, doubtful credits amounted to MSEK 282.3, corresponding to 0.55 percent of loans

outstanding. The decrease in doubtful credits was due to a number of commitments ending during the period and a lower inflow of doubtful credits. The quality of the credit portfolio was improved.

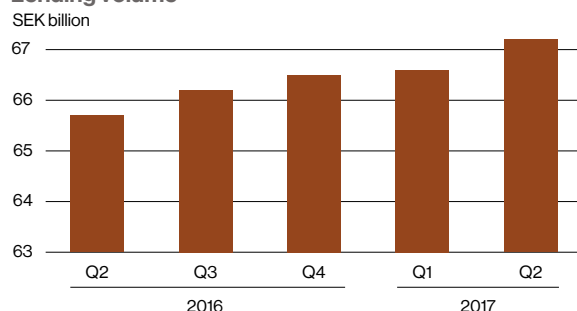
Comparison with the first quarter of 2017

Consolidated operating profit for the second quarter of 2017 amounted to MSEK 83.2, up MSEK 18.7 compared with the first quarter of 2017. Excluding the net result of financial transactions, operating profit for the second quarter amounted to MSEK 93.1, down MSEK 4.5 compared with the first quarter this year. The decline was attributable to slightly higher costs.

Loan loss level



Lending volume



Balance Sheet

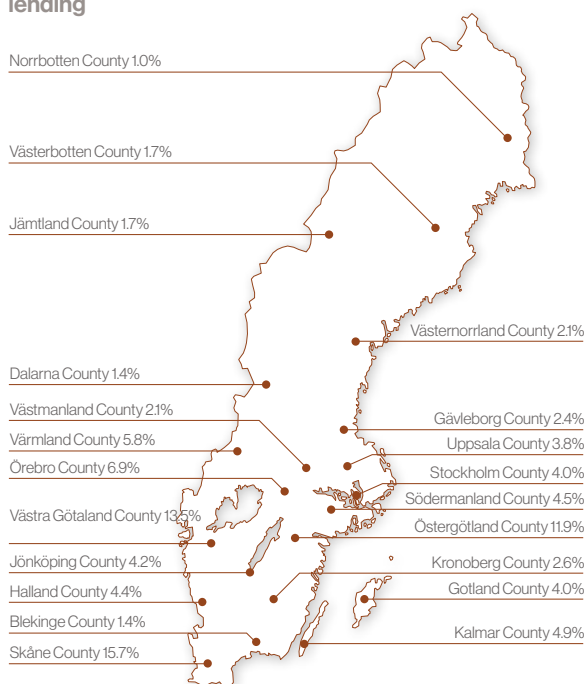
Assets, MSEK	30 Jun 2017
Loans to credit institutions	573
Loans to the public	67,296
Bonds and other interest-bearing securities	14,867
Derivatives	1,558
Non-current assets	103
Prepaid expenses, etc.	503
Total assets	84,900

Liabilities, MSEK	30 Jun 2017
Liabilities to credit institutions	958
Borrowing/deposits from the public	12,396
Debt securities in issue	63,380
Derivatives	835
Other liabilities	1,773
Equity	5,557
Total liabilities	84,900

Assets

The largest asset item in the balance sheet is Loans to the public, which increased MSEK 700 in the first half of 2017 to MSEK 67,219. The increase corresponded to lending growth of 1.1 percent, compared with 1.8 percent

Geographic distribution of Landshypotek Banks lending



in the corresponding period in 2016. The geographic distribution of lending is stable over time.

At 30 June 2017, Landshypotek Bank's liquidity portfolio totalled MSEK 14,867 (15,288). 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 June, the liquidity portfolio was 1.9 (1.7) times larger than refinancing requirements for the next six months. The ratio is affected by the allocation of maturing debt for longer than six months and can, therefore, change between measurement periods.

Liabilities

Funding

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

Investor relations are of major importance as part of ensuring that investors' levels of awareness and interest are maintained in Landshypotek Bank. In the first six months, covered bonds to a value of SEK 6.5 billion were issued. In addition, senior bonds were issued to a value of approximately SEK 3.6 billion and subordinated loans to a value of SEK 0.7 billion. During the same period, bonds have matured or been repurchased to a value of approximately SEK 7.1 billion, of which about SEK 4.3 billion pertained to covered bonds.

Programmes

MSEK	Issued 30 Jun 2017	Limit	Issued 31 Dec 2016
Swedish commercial paper	1,680	10,000	2,880
MTN programme	44,089	60,000	44,123
EMTN programme	10,922	33,665 ¹⁾	9,931
RCB ²⁾	3,401		3,354
Subordinated loans	1,900		1,700

¹⁾ MEUR 3,500 ²⁾ Registered Covered Bonds.

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

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

Deposits

Deposits amounted to SEK 12.4 billion (11.3) at 30 June 2017. In the first half of 2017, deposits increased 5.7 percent (9.2). Inflows of deposits were lower at the start of the year but strengthened in the second quarter.

Rating

Landshypotek Bank has credit ratings from two different rating agencies, Standard & Poor's and Fitch. In 2016, both Standard & Poor's and Fitch confirmed Landshypotek's ratings of A- and A respectively.

Rating

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

Group structure

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

All operations are conducted exclusively in Landshypotek Bank.

Events after the end of the period

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

Stockholm, 19 July 2017

Catharina Åbjörnsson Lindgren
Acting CEO of Landshypotek Bank

Accounting policies

This Report encompasses the Group comprising Landshypotek Bank AB and two dormant subsidiaries. In addition, Landshypotek Bank AB is reported separately. The main difference between the separate company Landshypotek Bank and the Group is the reporting of defined-benefit pensions, according to IAS 19.

Amounts in parentheses refer to the corresponding period in the preceding year.

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

With regard to the introduction of IFRS 9 Financial Instruments on 1 January 2018, a project is ongoing with a primary focus on provisions for credit losses. Work is also ongoing with the development of impairment models.

Evaluation of the classification categories is ongoing for financial assets and documentation is being reviewed for hedge accounting. The standard is not expected to have any material impact on the income statement, balance sheet, equity and capital adequacy.

Income Statement

Landshypotek Bank AB Group, SEK thousand	Note	Q2 2017	Q2 2016	Q1 2017	Jan–Jun 2017	Jan–Jun 2016	Full-year 2016
Interest income		337,217	362,695	322,813	660,029	719,343	1,368,377
Interest expense		-135,784	-166,862	-137,310	-273,094	-344,997	-631,156
- of which: deposit insurance fees		-2,222	-1,734	-2,222	-4,443	-3,310	-7,121
- of which: resolution fund fee		-14,523	-7,650	-14,084	-28,607	-14,593	-28,821
Net interest income	Note 1	201,433	195,833	185,503	386,935	374,346	737,222
Net result of financial transactions		-9,874	-10,252	-33,122	-42,996	30,190	26,158
Other operating income		415	4,008	531	946	4,469	7,315
Total operating income		191,973	189,590	152,911	344,885	409,004	770,694
General administrative expenses		-99,489	-97,623	-87,449	-186,938	-188,234	-388,162
Depreciation, amortisation and impairment of tangible and intangible non-current assets		-3,736	-3,047	-2,575	-6,311	-8,157	-14,050
Other operating expenses		-26	-55	-80	-105	-85	-224
Total expenses before loan losses		-103,250	-100,724	-90,104	-193,354	-196,476	-402,436
Profit before loan losses		88,723	88,865	62,808	151,530	212,528	368,258
Net loan losses	Note 2	-5,484	-1,437	1,704	-3,779	-9,733	-14,814
Operating profit		83,239	87,427	64,512	147,751	202,795	353,444
Income tax for the period		-22,119	-19,221	-16,617	-38,736	-44,095	-77,823
Net profit for the period		61,120	68,207	47,895	109,015	158,700	275,621

Statement of comprehensive income

Landshypotek Bank AB Group, SEK thousand	Q2 2017	Q2 2016	Q1 2017	Jan–Jun 2017	Jan–Jun 2016	Full-year 2016
Net profit for the period	61,120	68,207	47,895	109,015	158,700	275,621
Other comprehensive income						
<i>Items to be reclassified to profit or loss</i>						
Cash-flow hedges	865	5,917	942	1,807	9,494	11,812
Available-for-sale financial assets	36,726	6,514	-5,156	31,570	28,513	62,087
Tax on items to be reclassified	-8,270	-2,734	927	-7,343	-8,361	-16,258
Total, items to be reclassified	29,322	9,696	-3,287	26,035	29,645	57,641
<i>Items that are not reclassified</i>						
Actuarial differences for defined-benefit pensions ¹⁾	-12,194	-16,672	10,356	-1,838	-55,273	-38,811
Tax items that are not reclassified	2,682	3,668	-2,278	404	12,160	8,538
Total, items that are not reclassified	-9,512	-13,004	8,078	-1,434	-43,113	-30,273
Total other comprehensive income	19,810	-3,308	4,791	24,601	-13,468	27,369
Comprehensive income for the period	80,930	64,899	52,686	133,616	145,232	302,990

¹⁾ Compared with the first half of 2016, in the first half of 2017, defined-benefit pensions increased to MSEK -1.8 (-55.3). These were the revaluation effects from defined-benefit pensions that were recognised under Other comprehensive income and represent the difference that arose between the actual outcome and budget. Therefore, the outcome for each period should be compared against the budget for the respective period.

The revaluation effect on the commitment in the first half of 2017 was a loss of MSEK 28.6, which was largely attributable to a change in the discount rate to 2.5 percent (budgeted discount rate 2.65 percent). In addition, a revaluation effect on plan assets of MSEK 26.8 arose during the six months. Accordingly, a total revaluation loss of MSEK 1.8 arose on net pension commitments.

In the first half of 2016, a loss of MSEK 49 arose and was attributable to a change in the discount rate to 2.65 percent (budgeted discount rate 3.2 percent). Moreover, there was an effect from a change in experience-based assumptions amounting to a loss of MSEK 0.3 and an effect from changed demographic assumptions amounting to a loss of MSEK 9.5. As in the first half of 2017, a revaluation effect on plan assets of a loss of MSEK 6.2 arose in the comparative period. Total revaluation effects in the first half of 2016 amounted to a loss of MSEK 55.3.

Income Statement

Landshypotek Bank AB Parent Company, SEK thousand	Note	Q2 2017	Q2 2016	Q1 2017	Jan–Jun 2017	Jan–Jun 2016	Full-year 2016
Interest income		337,225	362,417	322,821	660,045	718,787	1,367,264
Interest expense		-135,784	-166,863	-137,309	-273,093	-344,975	-631,134
- of which: deposit insurance fees		-2,222	-1,734	-2,222	-4,443	-3,310	-7,121
- of which: resolution fund fee		-14,523	-7,650	-14,084	-28,607	-14,593	-28,821
Net interest income	Note 1	201,441	195,554	185,512	386,952	373,812	736,130
Net result of financial transactions		-9,874	-10,252	-33,122	-42,996	30,190	26,158
Other operating income		415	4,008	531	946	4,469	7,315
Total operating income		191,981	189,310	152,920	344,902	408,470	769,603
General administrative expenses		-98,367	-99,731	-87,994	-186,361	-191,432	-391,411
Depreciation, amortisation and impairment of tangible and intangible non-current assets		-3,736	-3,047	-2,575	-6,311	-8,157	-14,050
Other operating expenses		-26	-55	-80	-105	-85	-224
Total expenses before loan losses		-102,128	-102,833	-90,649	-192,777	-199,674	-405,685
Profit before loan losses		89,853	86,477	62,272	152,125	208,796	363,918
Net loan losses	Note 2	-5,484	-1,437	1,704	-3,779	-9,733	-14,814
Operating profit		84,369	85,040	63,976	148,345	199,063	349,104
Income tax for the period		-22,249	-18,696	-16,499	-38,748	-43,768	-77,341
Net profit for the period		62,120	66,345	47,477	109,597	155,295	271,762

Statement of comprehensive income

Landshypotek Bank AB Parent Company, SEK thousand	Q2 2017	Q2 2016	Q1 2017	Jan–Jun 2017	Jan–Jun 2016	Full-year 2016
Net profit for the period	62,120	66,345	47,477	109,597	155,295	271,762
Other comprehensive income						
<i>Items to be reclassified to profit or loss</i>						
Cash-flow hedges	865	5,917	942	1,807	9,494	11,812
Available-for-sale financial assets	36,726	6,514	-5,156	31,570	28,513	62,087
Income tax related to other comprehensive income	-8,270	-2,734	927	-7,343	-8,361	-16,258
<i>Total, items to be reclassified</i>	<i>29,322</i>	<i>9,696</i>	<i>-3,287</i>	<i>26,035</i>	<i>29,645</i>	<i>57,641</i>
Total other comprehensive income	29,322	9,696	-3,287	26,035	29,645	57,641
Comprehensive income for the period	91,441	76,041	44,190	135,631	184,940	329,404

Balance Sheet

Landshypotek Bank AB SEK thousand	Group				Parent Company			
	30 Jun 2017	31 Mar 2017	31 Dec 2016	30 Jun 2016	30 Jun 2017	31 Mar 2017	31 Dec 2016	30 Jun 2016
ASSETS								
Cash and balances with central banks	0	0	0	0	0	0	0	0
Loans to credit institutions	573,140	877,588	592,071	559,179	572,909	877,357	591,839	555,293
Loans to the public Note 3	67,219,077	66,584,823	66,518,468	65,663,382	67,219,077	66,584,823	66,518,468	65,663,382
Value changes of interest-rate-risk hedged items in macro hedges	76,857	85,744	109,075	184,876	76,857	85,744	109,075	184,876
Bonds and other interest-bearing securities	14,866,808	13,152,622	12,614,537	15,287,723	14,866,808	13,152,622	12,614,537	15,287,723
Derivatives	1,558,227	1,690,210	1,840,773	2,527,433	1,558,227	1,690,210	1,840,773	2,527,433
Shares in Group companies	0	0	0	0	200	200	200	278,487
Intangible non-current assets	83,467	79,616	66,748	37,578	83,467	79,616	66,748	37,578
Tangible assets	0	0	0	0	0	0	0	0
Furniture, fixtures and equipment	9,661	10,142	9,282	9,543	9,661	10,142	9,282	9,543
Buildings and land	9,790	9,927	10,464	11,179	9,790	9,927	10,464	11,179
Other assets	38,586	18,953	11,383	5,120	38,586	12,253	11,383	4,863
Current tax assets	1,173	0	0	1,508	1,173	0	0	0
Deferred tax assets	3,000	365	2,955	7,215	1,838	2,016	2,210	2,694
Prepaid expenses and accrued income	460,527	488,764	405,411	582,955	460,527	488,764	405,411	582,955
TOTAL ASSETS Notes 4, 5, 6	84,900,314	82,998,755	82,181,168	84,877,690	84,899,121	82,993,675	82,180,391	85,146,004
LIABILITIES, PROVISIONS AND EQUITY								
Liabilities to credit institutions	958,269	1,806,301	1,002,399	701,100	958,269	1,806,301	1,002,399	701,135
Borrowing from the public	12,396,256	12,046,207	11,731,390	11,255,227	12,396,256	12,046,207	11,731,390	11,255,227
Debt securities in issue, etc.	63,380,046	60,399,887	61,572,138	64,790,683	63,380,046	60,399,887	61,572,138	64,790,683
Derivatives	835,303	725,973	730,494	973,764	835,303	725,973	730,494	973,764
Other liabilities	93,612	264,160	276,177	47,805	93,089	263,638	275,654	320,104
Deferred tax liabilities	27,123	8,075	6,190	3,356	27,123	8,077	6,192	3,358
Accrued expenses and deferred income	445,997	572,013	434,746	681,679	445,997	572,013	434,746	681,679
Provisions	6,624	0	4,193	21,404	1,324	1,324	1,324	1,361
Subordinated liabilities	1,200,000	1,699,984	1,699,972	1,699,992	1,200,000	1,699,984	1,699,972	1,699,992
Total liabilities	79,343,228	77,522,599	77,457,699	80,175,010	79,337,408	77,523,403	77,454,309	80,427,303
Equity	5,557,086	5,476,155	4,723,470	4,702,681	5,561,713	5,470,272	4,726,081	4,718,701
TOTAL LIABILITIES, PROVISIONS AND EQUITY Notes 4, 5, 6	84,900,314	82,998,755	82,181,168	84,877,690	84,899,121	82,993,675	82,180,391	85,146,004

Cash-flow Statement

Landshypotek Bank AB, SEK thousand	Group			Parent Company		
	Jan–Jun 2017	Jan–Jun 2016	Full-year 2016	Jan–Jun 2017	Jan–Jun 2016	Full-year 2016
Opening cash and cash equivalents	592,071	396,451	396,451	591,839	392,499	392,499
Cash flow from operating activities	-13,726	-875,981	-790,378	-13,725	-875,915	-786,658
Cash flow from investing activities	-22,735	3,609	-49,102	-22,735	3,609	-49,102
Cash flow from financing activities	17,530	1,035,100	1,035,100	17,530	1,035,100	1,035,100
Cash flow for the period	-18,931	162,728	195,620	-18,930	162,794	199,340
Closing cash and cash equivalents	573,140	559,179	592,071	572,909	555,293	591,839

Statement of Changes in Equity

Landshypotek Bank AB Group SEK thousand	Share capital	Other con- tributed capital	Hedging reserve	Fair value reserve	Actuarial differ- ences	Tier 1 capital	Retained earnings	Total
Equity, 31 December 2015	2,253,000	1,026,254	-15,936	-26,714	13,914		1,306,930	4,557,448
Comprehensive income for the period			7,405	22,240	-43,113		158,700	145,232
Total change before transactions with owners	-	-	7,405	22,240	-43,113		158,700	145,232
Equity, 30 June 2016	2,253,000	1,026,254	-8,531	-4,473	-29,199		1,465,630	4,702,681

Equity, 31 December 2016	2,253,000	1,026,254	-6,724	21,715	-16,359		1,445,583	4,723,469
Comprehensive income for the period			1,410	24,625	-1,434		109,015	133,616
Total change before transactions with owners	-	-	1,410	24,625	-1,434		109,015	133,616
Tier 1 capital						700,000		700,000
Equity, 30 June 2017	2,253,000	1,026,254	-5,314	46,340	-17,793	700,000	1,554,598	5,557,086

Landshypotek Bank AB Parent Company SEK thousand	Share capital	Other con- tributed capital	Hedging reserve	Fair value reserve		Tier 1 capital	Retained earnings	Total
Equity, 31 December 2015	2,253,000	1,016,694	-15,936	-26,714			1,306,718	4,533,761
Comprehensive income for the period			7,405	22,240			155,295	184,940
Total change before transactions with owners	-	-	7,405	22,240			155,295	184,940
Equity, 30 June 2016	2,253,000	1,016,694	-8,531	-4,473			1,462,010	4,718,701
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			1,410	24,625			109,597	135,631
Total change before transactions with owners	-	-	1,410	24,625			109,597	135,631
Tier 1 capital						700,000		700,000
Equity, 30 June 2017	2,253,000	1,016,694	-5,313	46,340		700,000	1,550,993	5,561,713

Notes

Note 1 Capital and capital adequacy

The total capital ratio amounted to 42.2 percent compared with 42.1 percent at 31 March 2017 and the CET1 capital ratio was 30.2 percent (30.1). Own funds increased MSEK 43 during the quarter to MSEK 6,716, primarily due to higher profits. The minimum capital requirement rose MSEK 5 to MSEK 1,274.

In addition to the minimum capital requirement of 8 percent of the total risk-weighted amount, the capital conservation buffer requirement is 2.5 percent and, since 19 March 2017, the countercyclical buffer requirement is 2 percent. These two buffers make up the combined buffer requirement that must be covered by CET1 capital. The Bank's remaining CET1 capital to cover the combined buffer requirement and Pillar II requirements corresponded to 25.7 percent of the total risk-weighted exposure amount at 30 June 2017.

The capital quotient in accordance with Basel I floor¹ amounted to 1.55 percent. The Bank's leverage ratio amounted to 6.5 percent, down on the preceding quarter (6.6). The bank aims to change its exposure classes to better reflect the market trends for farming and forestry, and to adapt to new regulatory changes. As a consequence of the above, the bank applied to Finansinspektionen in autumn 2016 for permission to use the

IRB approach, excluding our own estimates of LGD values and conversion factors, for corporate exposures. The bank has also applied for permission to change its approach for retail exposures. The bank has prepared under the Pillar II framework for the increased capital requirement that is expected to arise as a consequence of the above changes.

The internally assessed capital requirement on 30 June 2017 was SEK 5.2 billion, given the aforementioned changes applied for by the bank to Finansinspektionen. The capital requirement should be compared with estimated own funds of SEK 6.7 billion. The capital adequacy assessment takes into account the minimum capital requirement, the combined buffer requirement and the Pillar II capital requirement. The capital requirement under the transitional rules related to Basel I is also included in the assessment of the bank's capital requirements, but did not impact the amount of the capital requirements.

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

continued Note 1 Capital adequacy analysis

SEK thousand	Consolidated situation ¹⁾ 30 June 2017
CET1 capital: Instruments and reserves	
Member contributions	1,608,555
Other contributed capital	1,797,796
Tier 1 capital instruments	700,000
Reserves	41,026
Actuarial differences	-17,793
Retained earnings	1,563,194
Net profit for the year ²⁾	100,099
Equity in the balance sheet	5,792,878
Deductions related to the consolidated situation and other foreseeable costs ³⁾	-31,855
Deductions for Tier 1 capital instruments classified as equity	-700,000
CET1 capital before regulatory adjustments	5,061,023
CET1 capital: regulatory adjustments	
Further value adjustments	-56,623
Intangible assets	-83,467
Deferred tax assets that rely on future profitability	-3,000
Fair value reserves related to gains or losses on cash-flow hedges	5,313
Negative amounts resulting from the calculation of expected loss amounts (IRB)	-107,749
Defined-benefit pension plans	0
Total regulatory adjustments to CET1 capital	-245,526
CET1 capital	4,815,497
Additional Tier 1 capital: instruments	
Tier 1 capital instruments	700,000
<i>of which: classified as equity under applicable accounting standards</i>	700,000
Tier 1 capital (CET1 capital + Tier 1 capital instruments)	5,515,497
Tier 2 capital: instruments and provisions	
Capital instruments and subordinated loans eligible as Tier 2 capital	1,200,000
Positive amounts resulting from the calculation of expected loss amounts (IRB)	276
Tier 2 capital before regulatory adjustments	1,200,276
Tier 2 capital: regulatory adjustments	
Total regulatory adjustments to Tier 2 capital	0
Tier 2 capital	1,200,276
Own funds (Tier 1 capital + Tier 2 capital)	6,715,773
Total risk-weighted exposure amount	15,922,388
Capital ratios and buffers	
Own funds requirement	1,273,791
CET1 capital ratio (%)	30.2
Tier 1 capital ratio (%)	34.6
Total capital ratio (%)	42.2
Institution-specific CET1 capital requirement including buffer requirements (%)	9.0
<i>of which: capital conservation buffer requirement (%)</i>	2.5
<i>of which: countercyclical buffer requirement (%)</i>	2.0
CET1 capital available to meet buffers (%) ⁴⁾	25.7
Capital adequacy according to Basel I floor	
Own funds	6,823,247
Own funds requirement	4,408,236
Capital quotient	1.55

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

²⁾ A decision by Finansinspektionen in February 2017 gave Landshypotek Bank approval, subject to specific terms and conditions in the decision, for using the interim or full-year surplus in own-funds calculations for the institute and also for its consolidated situation.

³⁾ This item pertains to the proposed dividend's contribution to equity.

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

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

Consolidated situation ¹⁾ 30 June 2017				
SEK thousand	Exposure value ²⁾	Risk-weighted exposure amount ³⁾	Own funds requirement ⁴⁾	Average risk weight ⁵⁾
Credit risk – IRB approach	66,138,155	8,612,599	689,008	13%
Retail – real estate collateral	65,976,232	8,450,676	676,054	13%
Other non-credit-obligation assets	161,923	161,923	12,954	100%
Credit risk – Standardised Approach	20,266,439	4,571,497	365,720	23%
Central governments or central banks	2,608	-	-	0%
Regional governments or local authorities	6,312,812	-	-	0%
Institutions	1,836,819	605,689	48,455	33%
Corporates	278,709	277,888	22,231	100%
Retail	108,467	75,946	6,076	70%
Secured by mortgages on immovable property	3,112,753	2,735,543	218,843	88%
Exposures in default	12,417	16,246	1,300	131%
Covered bonds	8,601,855	860,186	68,815	10%
Operational risk – Basic indicator approach		1,423,728	113,898	
Credit valuation adjustment risk – Standardised approach	1,399,268	1,314,565	105,165	94%
Total	87,803,863	15,922,388	1,273,791	-

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

²⁾ Exposure value calculated in accordance with the CRR. In certain cases, instead of exposure value, the abbreviation EAD (Exposure at default) and the term exposure amount were used in the bank's previous reports.

³⁾ After application of the relevant risk weights. Risk weights for the IRB approach are based on internal risk classification and internal historical data while risk weights as prescribed in the CRR are applied for the standardised approach.

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

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

Note 2 Net interest income

Landshypotek Bank AB – Group SEK thousand	Q2 2017	Q2 2016	Q1 2017	Jan–Jun 2017	Jan–Jun 2016	Full-year 2016
Interest income						
Interest income on loans to credit institutions	-55	-6	-107	-162	-6	-173
Interest income on loans to the public	326,430	330,909	308,448	634,878	654,939	1,266,978
Less interest losses	-534	-169	-103	-637	-700	-1,168
Interest income on interest-bearing securities	8,208	29,043	10,734	18,942	59,198	89,598
of which: interest income for financial assets in fair-value hedges	4,067	4,932	3,695	7,762	4,932	12,006
of which: interest income on financial assets at FVTPL	6,508	26,979	8,491	14,999	55,717	81,516
of which: interest income on available-for-sale financial assets	5,318	-2,868	-1,452	3,866	-1,451	-3,924
Other interest income	3	281	-8	-4	561	1,271
Other lending income	3,164	2,637	3,848	7,012	5,351	11,872
Total	337,217	362,695	322,813	660,029	719,343	1,368,377
<i>All interest income is attributable to the Swedish market.</i>						
Interest expense						
Interest expense for liabilities to Group companies	0	0	0	0	0	0
Interest expense for liabilities to credit institutions – other	1,717	2,516	1,237	2,954	3,962	7,105
Interest expense for borrowing/deposits from the public	-22,239	-22,002	-21,676	-43,915	-42,857	-86,582
of which: deposit insurance fees	-2,221	-1,734	-2,222	-4,443	-3,310	-7,121
Interest expense for interest-bearing securities	-142,106	-191,280	-136,269	-278,375	-385,735	-691,341
of which: interest expense for financial liabilities in fair value hedges adjusted for the fair value of hedged risk	-148,707	-185,239	-139,718	-288,425	-395,493	-646,601
of which: interest expense on interest-bearing securities at amortised cost	-13,759	-33,990	-20,272	-34,032	-46,625	-200,753
of which: periodisation of the market value created from terminated hedging commitments ¹⁾	20,360	27,949	23,722	44,081	56,383	156,013
Interest expense for subordinated liabilities	-16,823	-7,332	-11,151	-27,975	-12,064	-34,641
Interest expense for derivative instruments	63,180	61,270	51,168	114,348	114,644	218,913
of which: interest expense on derivatives at FVTPL	-20,734	-4,157	-17,565	-38,299	-26,622	41,291
of which: interest expense on derivatives identified as hedging instruments	100,983	93,376	92,454	193,437	197,649	326,071
of which: reclassification of terminated hedging relationships ¹⁾	-17,068	-27,949	-23,722	-40,789	-56,383	-148,449
Other interest expense	-19,512	-10,034	-20,619	-40,131	-22,948	-44,611
of which: government resolution fund fees	-14,523	-7,650	-14,084	-28,607	-14,593	-28,821
Total	-135,784	-166,862	-137,310	-273,094	-344,997	-631,157
Total net interest income	201,433	195,833	185,503	386,935	374,346	737,220

¹⁾ The item pertains to a reduction in recognised interest expenses from the periodisation of the market value created from hedged risk attributable to fair-value hedging relationships that were terminated in 2013 and 2014. A corresponding amount with a negative impact on earnings, attributable to the decrease in value of hedging instruments (derivatives) in the terminated hedging relationships, has been recognised under the item Derivatives in Net interest income. The remaining amount to be periodised is MSEK 321.7, which will continue until August 2029.

Costs that were directly attributable to borrowing were reclassified from net commission income to interest expense in 2017.
The comparative figures for 2016 have been restated.

continued Note 2 Net interest income

Landshypotek Bank AB – Parent Company SEK thousand	Q2 2017	Q2 2016	Q1 2017	Jan–Jun 2017	Jan–Jun 2016	Full-year 2016
Interest income						
Interest income on loans to credit institutions	-55	-6	-107	-162	-6	-173
Interest income on loans to the public	326,430	330,909	308,448	634,878	654,939	1,266,978
Less interest losses	-534	-169	-103	-637	-700	-1,168
Interest income on interest-bearing securities	8,208	29,043	10,734	18,942	59,198	89,598
of which: interest income for financial assets in fair-value hedges	0	4,932	3,695	0	4,932	12,006
of which: interest income on financial assets at FVTPL	0	26,979	8,491	0	55,717	81,516
of which: interest income on available-for-sale financial assets	0	-2,868	-1,452	0	-1,451	-3,924
Other interest income	12	3	0	12	5	158
Other lending income	3,164	2,637	3,848	7,012	5,351	11,872
Total	337,225	362,417	322,821	660,045	718,787	1,367,264
<i>All interest income is attributable to the Swedish market.</i>						
Interest expense						
Interest expense for liabilities to Group companies	0	0	0	0	0	0
Interest expense for liabilities to credit institutions – other	1,717	2,516	1,237	2,954	3,962	7,105
Interest expense for borrowing/deposits from the public	-22,239	-22,002	-21,676	-43,915	-42,857	-86,582
of which: deposit insurance fees	-2,221	-1,734	-2,222	-4,443	-3,310	-7,121
Interest expense for debt securities in issue	-142,106	-191,280	-136,269	-278,375	-385,735	-691,341
of which: interest expense for financial liabilities in fair value hedges adjusted for the fair value of hedged risk	0	-127,494	-139,718	0	-337,749	-492,165
of which: interest expense on interest-bearing securities at amortised cost	0	-91,735	-20,272	0	-104,369	-355,188
of which: periodisation of the market value created from terminated hedging commitments ¹⁾	0	27,949	23,722	0	56,383	156,013
Interest expense for subordinated liabilities	-16,824	-7,332	-11,151	-27,975	-12,064	-34,641
Interest expense for derivative instruments	63,180	61,270	51,168	114,348	114,647	218,913
of which: interest expense on derivatives at FVTPL	0	-4,157	-17,565	0	-26,622	41,291
of which: interest expense on derivatives identified as hedging instruments	0	93,376	92,454	0	197,652	326,071
of which: reclassification of terminated hedging relationships ¹⁾	0	-27,949	-23,722	0	-56,383	-148,449
Other interest expense	-19,512	-10,035	-20,618	-40,130	-22,926	-44,589
of which: government resolution fund fees	-14,523	-7,650	-14,084	-28,607	-14,593	-28,821
Total	-135,784	-166,863	-137,309	-273,093	-344,975	-631,135
Total net interest income	201,441	195,554	185,512	386,952	373,812	736,130

¹⁾ The item pertains to a reduction in recognised interest expenses from the periodisation of the market value created from hedged risk attributable to fair-value hedging relationships that were terminated in 2013 and 2014. A corresponding amount with a negative impact on earnings, attributable to the decrease in value of hedging instruments (derivatives) in the terminated hedging relationships, has been recognised under Derivatives in Net interest income. The remaining amount to be periodised is MSEK 342.8, which will continue until August 2029.

Costs that were directly attributable to borrowing were reclassified from net commission income to interest expense in 2017.
The comparative figures for 2016 have been restated.

Note 3 Net loan losses

Landshypotek Bank AB – Group and Parent Company SEK thousand	Q1 2017	Q2 2016	Q1 2017	Jan–Jun 2017	Jan–Jun 2016	Full-year 2016
Write-off for the period for confirmed losses	-3,410	-3,670	-8,527	-11,937	-16,792	-37,671
Reversal of prior specific provisions for probable loan losses, recognised as confirmed losses in this period's accounts	3,720	4,679	8,684	12,403	17,429	37,315
Specific provision for probable loan losses	-7,726	-17,307	-2,420	-10,146	-31,746	-51,614
Collective provisions for probable loan losses	921	0	-839	82		-4,696
Recovery of previously confirmed losses	152	2,969	283	435	5,773	8,852
Reversal of prior specific provisions no longer necessary for probable loan losses	861	11,891	4,523	5,383	15,603	33,000
Total loan losses	-5,484	-1,437	1,704	-3,779	-9,733	-14,814

All loan losses are attributable to loans to the public.

Properties taken over in foreclosure to protect claims, MSEK 0.0 (13.7).

Note 4 Loans to the public

Landshypotek Bank AB SEK thousand	Group				Parent Company			
	30 Jun 2017	31 Mar 2017	31 Dec 2016	30 Jun 2016	30 Jun 2017	31 Mar 2017	31 Dec 2016	30 Jun 2016
Loan receivables	67,274,172	66,636,550	66,577,900	65,734,419	67,274,172	66,636,550	66,577,900	65,734,419
Less specific provisions for individually valued loan receivables	-50,481	-46,192	-54,736	-71,037	-50,481	-46,192	-54,736	-71,037
Less collective provisions for collectively valued loan receivables	-4,614	-5,535	-4,696		-4,614	-5,535	-4,696	
Net loan receivables	67,219,077	66,584,823	66,518,468	65,663,382	67,219,077	66,584,823	66,518,468	65,663,382
Disclosures on overdue unimpaired loan receivables								
Loan receivables overdue 5–90 days	1,102	45,979	77,079	880	1,102	45,979	77,079	880
Loan receivables overdue more than 90 days	279,322	253,409	230,696	360,596	279,322	253,409	230,696	360,596
Total overdue unimpaired loan receivables	280,424	299,388	318,166	361,476	280,424	299,388	307,775	361,476
Disclosures on doubtful credits								
Doubtful credits that are not overdue	119,947	97,950	103,767	152,946	119,947	97,950	103,767	152,946
Overdue doubtful credits	88,736	94,314	130,859	200,412	88,736	94,314	130,859	200,412
Total doubtful credits, gross	208,683	192,264	234,626	353,358	208,683	192,264	234,626	353,358
Less capital provisions made	-55,095	-51,727	-59,432	-71,037	-55,095	-51,727	-59,432	-71,037
Total doubtful credits, net	153,588	140,537	175,194	282,321	153,588	140,537	175,194	282,321

Collateral exists in the form of real property for lending.

Note 5 Fair-value hierarchy for financial instruments

Landshypotek Bank AB – Group and Parent Company, SEK thousand	30 June 2017				30 June 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL								
Bonds and other interest-bearing securities	1,274,619			1,274,619	5,089,330			5,089,330
Interest-rate swaps				0				
Cross-currency interest-rate swaps		35,324		35,324		372,916		372,916
Derivatives identified as hedging instruments								
Interest-rate swaps		919,326		919,326		1,414,406		1,414,406
Cross-currency interest-rate swaps		603,577		603,577		740,111		740,111
Available-for-sale financial assets								
Bonds and other interest-bearing securities	13,592,189			13,592,189	10,198,393			10,198,393
Total assets measured at fair value	14,866,808	1,558,227	-	16,425,035	15,287,723	2,527,433	-	17,815,155
Financial liabilities at FVTPL								
Interest-rate swaps		138,017		138,017		243,158		243,158
Cross-currency interest-rate swaps		20,829		20,829		23,404		23,404
Derivatives identified as hedging instruments								
Interest-rate swaps		381,919		381,919		524,912		524,912
Cross-currency interest-rate swaps		294,538		294,538		182,290		182,290
Total liabilities measured at fair value	-	835,303	-	835,303	-	973,764	-	973,764

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

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

Level 1

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

Level 2

The fair values of derivative instruments not traded on an active market are calculated using the valuation technique of discounting future cash flows.

Quoted market rates for the tenor in question are used for discounting. In all cases, listed swap curves are utilised as the basis for measurement.

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

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

Level 3

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

Note 6 Fair Value Disclosures

Landshypotek Bank AB – Group SEK thousand	30 June 2017 Carrying amount	30 June 2017 Fair value	30 June 2016 Carrying amount	30 June 2016 Fair value
Assets				
Loans to credit institutions	573,140	573,140	559,179	559,179
Loans to the public	67,219,077	68,326,569	65,663,382	64,915,295
Bonds and other interest-bearing securities	14,866,808	14,866,808	15,287,723	15,287,723
Derivatives	1,558,227	1,558,227	2,527,433	2,527,433
Total assets	84,217,253	85,324,745	84,037,717	83,289,629
Liabilities and provisions				
Liabilities to credit institutions	958,269	958,269	701,100	701,100
Borrowing from the public	12,396,256	12,396,256	11,255,227	11,255,227
Debt securities in issue, etc.	63,380,046	64,427,877	64,790,683	64,531,583
Derivatives	835,303	835,303	973,764	973,764
Subordinated liabilities	1,200,000	1,263,912	1,699,992	524,632
Total liabilities	78,769,874	79,881,618	79,420,766	77,986,306

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 June 2017 Carrying amount	30 June 2017 Fair value	30 June 2016 Carrying amount	30 June 2016 Fair value
Assets				
Cash and balances with central banks	0	0	0	0
Loans to credit institutions	572,909	572,909	555,293	555,293
Loans to the public	67,219,077	68,326,569	65,663,382	64,915,295
Bonds and other interest-bearing securities	14,866,808	14,866,808	15,287,723	15,287,723
Derivatives	1,558,227	1,558,227	2,527,433	2,527,433
Total assets	84,217,022	85,324,514	84,033,830	83,285,743
Liabilities and provisions				
Liabilities to credit institutions	958,269	958,269	701,135	701,135
Borrowing from the public	12,396,256	12,396,256	11,255,227	11,255,227
Debt securities in issue, etc.	63,380,046	64,427,877	64,790,683	64,531,583
Derivatives	835,303	835,303	973,764	973,764
Subordinated liabilities	1,200,000	1,263,912	1,699,992	524,632
Total liabilities	78,769,874	79,881,618	79,420,801	77,986,341

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

Alternative performance measures

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

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

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

Summary of APMs	Q2 2017	Q2 2016	Q1 2017	Jan-Jun 2017	Jan-Jun 2016	Full-year 2016
Change in lending	634	575	67	701	1,162	2,017
Opening balance, loans outstanding	66,585	65,089	66,518	66,518	64,501	64,501
Increase in lending, %	1.0	0.9	0.1	1.1	1.8	3.1
Net interest income calculated on a full-year basis	806	783	742	774	749	737
Average loans outstanding	66,902	65,376	66,552	66,869	65,082	65,510
Interest margin, %	1.2	1.2	1.1	1.2	1.2	1.1
Change in deposits	350	531	315	665	946	1,421
Opening balance, deposits	12,046	10,724	11,731	11,731	10,310	10,310
Increase in deposits, %	2.9	5.0	2.7	5.7	9.2	13.8
Costs before loan losses	103	101	90	193	196	402
Total operating income	192	190	153	345	409	771
C/I ratio including financial transactions	0.54	0.53	0.59	0.56	0.48	0.52
Costs before loan losses	103	101	90	193	196	402
Total operating income excluding financial transactions	202	200	186	388	379	745
C/I ratio excluding financial transactions	0.51	0.50	0.48	0.50	0.52	0.54
Net loan losses calculated on a full-year basis	22	6	-7	8	19	15
Average loans outstanding	66,902	65,952	66,552	66,869	65,082	65,510
Loan loss level, %	0.03	0.01	0	0.01	0.03	0.02
Doubtful credits, gross	209	353	192	209	353	235
Less provisions made	-55	-71	-52	-55	-71	-59
Doubtful credits, net	154	282	140	154	282	175
Loans to the public	67,219	65,663	66,585	67,219	65,663	66,518
Net doubtful credits after provisions as a percentage of total loans outstanding, %	0.23	0.43	0.21	0.23	0.43	0.26
Profit after tax						276
Average equity						4,727
Return on equity, %						5.8

Reporting calendar 2017

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

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