



Landshypotek Bank

Landshypotek Bank AB Year-end report 2017

January – December 2017 (compared with 2016)

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

Overall, we present a continued strengthening in earnings with growth in both lending and saving. We have had a great autumn with a successful market launch of our mortgage loans. Landshypotek Bank has attracted considerable attention and been able to welcome numerous new customers – both for farming and forestry and for mortgages. We enter 2018 with full focus on a stronger market presence and on being able to present ourselves as the bank with a difference to an expanding audience in the Swedish banking market.

January – December 2017

compared with January – December 2016

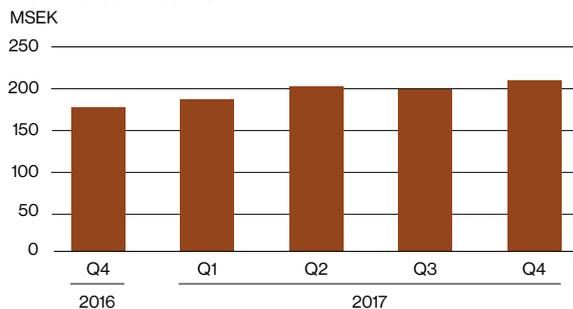
- Operating profit amounted to MSEK 339.2(353.4).
- The underlying operating profit, excluding the net result of financial transactions, was MSEK 387.3 (327.3).
- Net interest income amounted to MSEK 800.4 (737.2).
- Costs totalled MSEK 402.5 (402.4).
- Net loan losses were MSEK 12.5 (14.8).
- Lending amounted to SEK 68.5 billion (66.5).
- Deposits amounted to SEK 12.7 billion (11.7).

October – December 2017

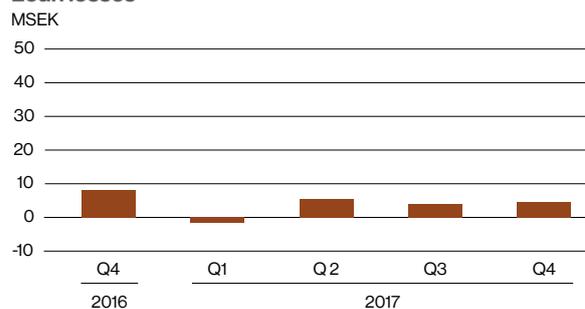
compared with July – September 2017

- Operating profit amounted to MSEK 91.2 (93.2).
- The underlying operating profit, excluding the net result of financial transactions, was MSEK 96.0 (93.5).
- Net interest income amounted to MSEK 208.6 (197.8).
- Costs totalled MSEK 108.7 (100.4).
- Net loan losses were MSEK 4.6 (4.1).
- Lending amounted to SEK 68.5 billion (67.6).
- Deposits amounted to SEK 12.7 billion (12.5).

Net interest income



Loan losses



Landshypotek Bank

Landshypotek Bank is a bank for borrowing and for saving. Loans are offered to farmers and foresters and mortgage customers across the country. Savings are open to the Swedish general public and companies. Together with our customers, the bank generates growth in 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 offering homeowner mortgages. Landshypotek Bank is one of the ten largest banks in Sweden and is of considerable importance for farming and forestry financing.

The bank's 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. The bank has about 185 employees nationwide.

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

- *For a richer life in the countryside:* The bank's brand promise: "For a richer life in the countryside" is interwoven throughout the bank's and its employees, working days. The distribution of the bank's surplus to farmers and foresters comprises another key principle for the value-driven operation that is Landshypotek Bank.
 - *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 is responsible for relations with the members.
- *The force of employee commitment:* The bank is developing together with its employees. The four employee principles — Customer-centric focus, Drive, Enthusiasm and Together — were drawn up by the employees and inspire all work at Landshypotek Bank.
 - *Digital development:* Landshypotek Bank has history extending more than 180 years, but it is also quickly developing to meet customers' needs. Based on a modern platform, a unique digital solution has been built to allow people to quickly and simply become customers, open accounts and start saving at Landshypotek Bank. In 2017, a new platform was launched that facilitates convenient online applications for and granting of mortgages. Digitalisation enables more efficient work and improves possibilities for customers.

Landshypotek Bank – in brief

- Founded in 1836
- Has 76,000 customers in the farming and forestry sector, as well as mortgage borrowers and savers.
- Has loaned SEK 68 billion to farming and forestry in Sweden and slightly more than MSEK 500 to mortgage customers.
- Has savings customers with savings approaching SEK 13 billion.
- Owned by the 40,000 farming and forestry loan customers. MSEK 158 of the earnings for 2016 was distributed to farming and forestry customers.
- Has around 185 employees. The bank has 19 offices enabling it to meet farming and forestry customers locally.

CEO's Statement

Confirmation we are on the right track

Over several years, we have strengthened our bank based on the conviction that there is a growing need in the banking market for a bank with a difference. Customer reactions to our introduction to the mortgage market in 2017 confirmed we are on the right track. This makes 2018 feel highly positive.

Households increasingly want more than one bank. In the latest Swedish Quality Index, about half of bank customers stated they had two or more banks.

At Landshypotek Bank, we have chosen to focus on being a bank to save with and borrow from, for farming and forest properties or for houses.

With this focus — we are building a new bank out of the old. For several years, we have endeavoured to strengthen the bank and lay the foundations for growth with more customers.

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. We have thus created options for taking the next step into the market. Our development has been made possible by the growth and profitability of our core operations, which generate healthy profits.

We have continued to strengthen our bank in 2017. During the year, the bank completed its first issue of a perpetual subordinated loan. Finansinspektionen (Sweden's financial supervisory authority) granted permission to use a proprietary IRB approach for risk assessment of corporate business. Standard & Poor's confirmed the bank's credit rating and moreover, due to the changed outlook for Sweden, raised the outlook for the bank from negative to stable. The Swedish National Debt Office decided that Landshypotek Bank is one of ten institutions with operations that are deemed critical to the function of the Swedish financial system. These are just a few of the activities and events in 2017 that boosted our stability and the security of customers and investors.

Moreover, loan losses remain low. The bank's owners, loan customers in the farming and forestry sector, continue to show their confidence in the bank by increasing their member investments.

2017 was marked by the increased market presence and our mortgage market launch. Following continued internal development in the first six months, we met mortgage market customers in the autumn.

The customer response was faster than anticipated. A strong profile and targeted campaigns generated increased interest. Many customers were quick to change



to Landshypotek Bank. After just a few months, total lending already amounted to more than half a billion kronor.

In the new mortgage lending operations, we can leverage the long-term investment we made when replacing our old IT system with a new, modern core system. This laid the foundation that, a few years ago, enabled us to go to market with a completely new way for customers to open deposit accounts and start saving. We now have almost SEK 13 billion in deposits. We have now met the market with a new way to apply for a mortgage. The digital application is customer-friendly, safe and secure, but also means we do not need to build an organisation to manually process routine data. Customers who have completed the entire application in fifteen minutes confirm its simplicity. We are now advancing these digital lessons further to develop our farming and forestry business.

In the autumn, we noted increasing customer flows of farmers and foresters. We are also broadening the bank in these areas and developing our approach to meeting customers who, for example, run their operations in their leisure time. Our relevance as the bank for farming and forestry is strengthened by the member dividend. Of the net profit for the year, the bank is paying a group contribution of MSEK 170 to the association, to be used mainly for member dividends.

The response confirms the strength of the need to meet a bank with a difference in the Swedish banking market. Our bank applies a countrywide, long-term and sustainable approach that is built around our customers' farming and forestry, and their homes. This provides us all with well-kept forests, open landscapes and a living countryside. We are a different kind of bank and present ourselves as a bank with a difference.

We posted strong overall results. Mortgage lending is up and running. Deposits are rising. Lending to the farming and forestry sectors is continuing to grow. This will make us a larger bank, with increased relevance for more customers in the Swedish banking market. We will continue to become an even better bank to save with and borrow from — for ever more customers.

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

Developments in 2017

— strengthening the bank for expansion

In 2017, Landshypotek Bank grew in terms of both lending and deposits. In parallel, ongoing development activities were conducted to become a better and broader bank.

Active presence in Sweden's farming and forestry

During the year, Landshypotek Bank took several initiatives to highlight key issues for the sector and continued to maintain its strong presence at customer meetings, expos and at events across the country. The expos are important for meeting customers and industry colleagues as well as for keeping informed of industry trends.

During the year, the bank completed several surveys that showcased rural entrepreneurship in Sweden and participated in numerous farming and forestry forums. In the autumn, an increasing flow of farming and forestry customers was noted.

A member-owned bank

More than 1,500 people attended the regional meetings of the bank's owner association, Landshypotek Ekonomisk Förening, held at ten different locations across Sweden in March. The Annual Association Meeting in April resolved to distribute MSEK 158 to

its members. In connection with the member dividend in May, the cooperative association permitted new member investments. The members increased their investments in Landshypotek by around MSEK 113 during the year.

Established as a new bank for homeowner mortgages

Landshypotek Bank announced its mortgage initiative at the start of the year, but the market launch was started in the autumn. The bank presented itself through activities including a tour around Sweden. Around 580,000 people visited the locations visited by the bank. Given the bank's background, its ownership by farmers and foresters, a new digital application process, an excellent offering and a focus on the entire country — Landshypotek Bank stands for something new in the market. Many new customers showed interest in the new bank and by the end of the year, the bank's mortgage lending amounted to over half a billion kronor.

Summary Landshypotek Bank

	Q4 2017	Q4 2016	Q3 2017	Full-year 2017	Full-year 2016
Net interest income, MSEK ¹⁾	208.6	176.1	197.8	800.4	737.2
Operating profit, MSEK	91.2	4.4	93.2	339.2	353.4
Profit after tax, MSEK	69.0	2.8	71.3	256.4	275.6
Loans to the public, MSEK	68,488	66,518	67,619	68,488	66,518
Increase in lending, %	1.3	0.4	0.6	3.0	3.1
Interest margin, %	1.2	1.1	1.2	1.2	1.1
Borrowing/deposits from the public, balance, MSEK	12,675	11,731	12,543	12,675	11,731
Increase in borrowing/deposits, %	1.1	0.2	1.2	8.0	13.8
C/I ratio including financial transactions	0.53	0.91	0.51	0.53	0.52
C/I ratio excluding financial transactions	0.42	0.69	0.51	0.50	0.54
Loan loss level, %	0.03	0.05	0.03	0.02	0.02
Total capital ratio, %	43.8	39.9	42.3	43.8	39.9
Rating, long-term					
Standard & Poor's, Covered bonds	AAA	AAA	AAA	AAA	AAA
Standard & Poor's	A-	A-	A-	A-	A-
Fitch	A	A	A	A	A
Average number of employees	176	162	171	173	162

¹⁾ Other income pertaining to lending has been reclassified from provisions to interest income. The comparative figures for 2016 have been restated.



Focus on Swedish produce and living in the countryside

In June, Landshypotek Bank launched “Den underbara smakresan,” which showcases Swedish produce and the foundations for Swedish food. In a series of web films, restaurateur Pontus Frithiof and sommelier Mario E Moroni visit agricultural entrepreneurs at farms that in differing ways contribute to Swedish produce. The farmers offer new insights and enable taste sensations. The series is being presented on the bank’s digital channels.

Events in the fourth quarter of 2017:

- Landshypotek Bank introduced as a serious contender in the mortgage market. Through several market activities and a separate introductory offer, the bank raised its profile and reached new customers.
- Per Lindblad presented as the new CEO of Landshypotek Bank. Per Lindblad has an extensive banking track record and joins the bank from SEB, but also has a background in farming with a strong interest in forestry. Per Lindblad takes up his post in March 2018.
- Landshypotek Bank and the Swedish economy were rated with a positive outlook by Standard & Poor’s, which changed the rating from negative to stable.
- Landshypotek Bank receives permission from Finansinspektionen to use a proprietary approach to calculate risk and capital requirements for larger corporates in farming and forestry.
- Landshypotek Bank starts a collaboration with the law firm, Avtal24. This provides the bank’s customers with access to legal advice and assistance for drawing up contracts through an easy to use digital service.
- The bank presents the survey, “Choosing with your heart — how Swedes want to live.” The survey found that, in their hearts, many people would prefer to live in a house in the country and that residents of Halland are those who are most satisfied with their homes. The survey attracted widespread media attention.
- The Swedish National Debt Office decided how banks and other institutes in Sweden should manage a crisis. The Swedish National Debt Office decided that Landshypotek Bank is one of ten institutions with operations in the Swedish market that are critical for the financial system. The bank will therefore be encompassed by the Swedish National Debt Office’s separate resolution planning.

Our operating environment

Strong economy and continued low interest rates with no inflation tendencies. Numerous positive signs and a positive sentiment in farming and forestry. There was increased uncertainty in the mortgage market following political decisions. This is notable in the 2017 summary of the operating environment.

Growth in the global economy

The global economy has performed strongly over the year with rising growth across almost all global regions. Production has picked up and employment is rising at a healthy pace. From a historical perspective, a tighter labour market has always led to accelerating wage growth, but this stage has not been reached in this economic cycle, which is why inflation has had difficulty in rising. Central banks have signaled that the time has come to reduce stimulus packages but to date, the steps taken have been small.

In the US, we can look back at eight consecutive years of positive growth. From a historical perspective, this is a long economic boom. Unemployment is down at 4.1 percent, but wage growth has remained at slightly over 2 percent. Growth has stayed at around 3 percent, but inflation continues to struggle to reach the target rate of 2.0 percent. The central bank has continued to slowly raise the interest rate and has indicated further hikes despite the low inflation.

Growth in Europe has become increasingly robust and broad. The countries in southern Europe that were previously in economic difficulty, have picked up speed due to a relaxation in stringent financial policies and increasingly low interest rates. The banks have been cleaned up and can now help with the provision of credit. Companies can once again obtain loans and do so with lower interest rates. The labour market continues to strengthen, but idle resources continue to remain plentiful. Inflation posted a weak upward trend, albeit driven mostly by temporary factors and is now at 1.1 percent, which remains however lower than the ECB's goal of 2.0 percent.

Healthy Swedish economy

The economy remains strong in Sweden. Forward-looking indicators, such as the Purchasing Managers Index and the NIER's Economic Tendency Survey have been at record levels for a long time. GDP growth is at 2.9 percent. Despite the strong economic growth, unemployment remains relatively high at 6.6 percent. However, this is not due to weak employment growth but rather to strong growth in the workforce. Just as in the US, strong job growth has not been able to raise the level of pay increases, which remains at a moderate 2.0 percent. Analyses by the Riksbank, Sweden's central bank, indicate that wage growth has to reach 3.0 percent to create inflation impulses.

Low interest rates combined with the strong Swedish economy have stimulated prices in the housing market. The government's decision to introduce more stringent mortgage amortisation requirements aimed at slowing down the growth in household debt, together with a surplus of expensive new builds, triggered a weaker market and downturn in housing prices toward the end of the year. The obfuscatory political decisions have left the mortgage market uncertain.

Positive for farmers and foresters

The healthy economy is also reflected in the operations of farmers and foresters. The interest in Swedish produce, the construction boom and the increased demand for paper products all boost the economies of farmers and foresters.

Total agricultural production is expected to rise 5 percent in 2017 compared with 2016. Year-on-year, results improved overall for agriculture in 2017.

The general increase in profitability is also reflected in the trend for farmers' outlooks. This has led to increasing numbers planning for investments, not least in production facilities. It was primarily livestock farmers that indicated improved profitability and a confident outlook. Prices remained low for arable farmers, who did not post the same level of improved profitability. Historically low interest rates are both a source of improved profitability and increased willingness to invest.

The healthy economy together with extensive investment in housing, commercial property and infrastructure mean that civil engineering contract services, in which many farmers are engaged, continue to comprise an increasingly significant portion of farmers total income.

Developments in a number of farming and forestry sectors

Rising prices, both domestic and global, have characterised the dairy industry. This was driven by historically high butterfat prices, while the market for milk powder has remained weak. Signs indicate that the price trend will not be as positive in 2018. This strengthens the impression that milk production is now an industry where profitability is largely controlled by the global market and where volatility could remain considerable. Dairy farmers are however optimistic about the future.



Meat production in Sweden is increasing for all types of meat. This can essentially be viewed as an effect of increased demand for Swedish meat. Consumers are starting to understand the added value embedded in the Swedish production model. At the same time, total meat consumption is declining. The Swedish trade balance with meat is strengthening. Imports are decreasing and exports are rising. More and more markets are being opened for meat with the qualities offered by the Swedish model, including good animal husbandry and low use of antibiotics.

Arable farming faced a number of challenges in 2017. Unusually heavy precipitation during and after the harvest period hampered the harvest and autumn tillage. Norrland in particular was hit hard, but even in other parts of the country, fields were left unharvested. Despite this, the cereal harvest was up 9 percent on 2016. However, prices have fallen during the year, partly as a result of large quantities of cereal reaching the global market from Russia in parallel with high levels of global stockpiles.

In forestry, the market remains strong with healthy demand for both timber and pulp wood. The relatively weak krona has improved prospects for the sector in the global market. Prices continued to rise for forest properties across the country. Considerable optimism exists

among forest owners who have high expectations of continued good or increased profitability. This means that there is considerable interest in buying more forest. Again, relatively low interest rates play a key role.

Continued low interest rates

In its interest-rate path, the Riksbank has indicated that interest rates will first be raised in the second half of 2018. Despite an extremely strong economy and above-target inflation, the Riksbank has not noticeably changed its intentions. Admittedly, the bond-purchase programme concludes at the end of the year but the Riksbank will still continue to expand its balance sheet in 2018 — through the decision to reinvest in 2018, government bonds that mature in 2019.

The government has announced that considerable scope exists for stimulus measures with SEK 40 billion in budget reforms next year. Comments have been made that the timing of the stimulus was poor given the strength of the economy.

Forecasts indicate a continued strong economy into 2018 supported by fiscal stimuli. The market has priced in faster tightening than the Riksbank's interest-rate path and it is therefore difficult to see any scope for a larger rise in interest rates in 2018.

Our financial performance

Landshypotek Bank's earnings remained strong, but were negatively impacted by a lower net result of financial transactions. Excluding the net result of financial transactions, earnings improved. Net interest income improved slightly and costs remained on a par with last year. Loan losses continued to be very low.

Financial report 2017

Consolidated operating profit amounted to MSEK 339.2, down MSEK 14.2 compared with 2016 (MSEK 353.4). The decline in earnings was primarily attributable to a decrease in the net result of financial transactions. Excluding the net result of financial transactions, operating profit amounted to MSEK 387.3 (327.3), up MSEK 60.0.

Net interest income and volumes

Net interest income totalled MSEK 800.4 (737.2), up 8.6 percent year-on-year.

Interest income amounted to MSEK 1,295.8 (1,368.4), down MSEK 72.5 year-on-year.

Lending increased SEK 2.0 billion (2.0). Interest income from lending declined however, on the back of loans being renewed at lower market interest rates.

Interest income on the liquidity portfolio decreased to MSEK 32.6 (89.6), due to reinvestments at lower interest rates.

Interest expense amounted to MSEK 495.5 (631.2), down MSEK 135.7 year-on-year. Maturing borrowings were refinanced at lower interest rates. The interest margin improved since interest expense decreased more than interest income.

Interest expense included fees to the Swedish National Debt Office's resolution fund of MSEK 56.9 (28.8). This was a year-on-year increase of MSEK 28.1 as a consequence of the fee being raised.

Other operating income

Other operating income amounted to an expense of MSEK 46.2 (income: 33.5). Compared with the same period in 2016, this was a decline of MSEK 79.7 and was due to a decline of MSEK 74.3 in the net result of financial transactions to an expense of MSEK 48.1 (income: 26.2). This amount comprised an unrealised loss of MSEK 23.0 and a realised loss of MSEK 25.1. The primary cause for the fall was a negative value trend for the basis spreads on swaps used by the bank to hedge exchange-rate movements in international financing.

Costs

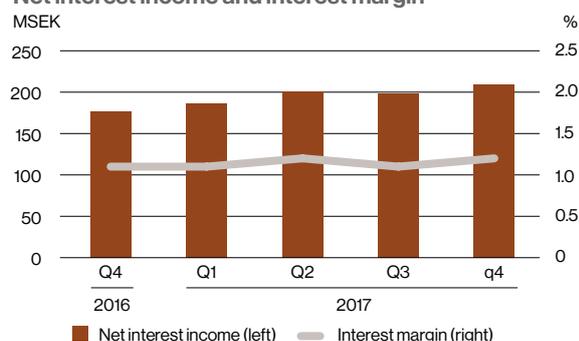
Costs amounted to MSEK 402.5 (402.4), which was in line with last year. Employee numbers grew during the year, in part to administer new mortgage customers and in part to allow the continued strengthening of the bank as a whole. The launch of mortgages entered an intense phase in the fourth quarter of 2017 with the completion of a number of marketing activities.

Loan losses and doubtful credits

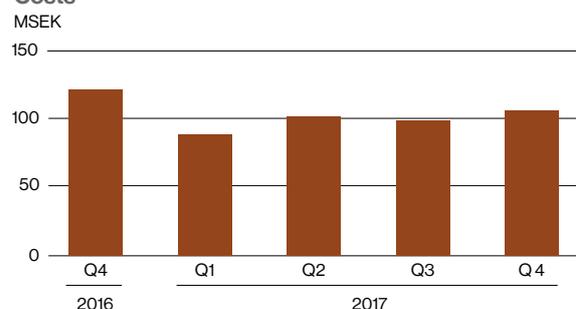
Net loan losses in 2017 amounted to MSEK 12.5 (14.8). Both confirmed losses and provisions for probable loan losses declined year-on-year. However, recoveries were also lower. The provisions pertained to individual commitments within varying types of farming and geographic locations.

At the end of the third quarter, collective provisions totalled MSEK 4.3 (4.7) and were attributable to wind power commitments.

Net interest income and interest margin



Costs



Operating profit

	Jan–Dec 2017	Jan–Dec 2016
Net interest income, MSEK ¹⁾	800.4	737.2
Other operating income, MSEK ¹⁾	-46.2	33.5
Of which net result of financial transactions	-48.1	26.2
Costs, MSEK	402.5	402.4
C/I ratio, including the net result of financial transactions	0.53	0.52
C/I ratio, excluding the net result of financial transactions	0.50	0.54
Net recognised loan losses, MSEK	-12.5	-14.8
Loan loss level, %	0.02	0.02
Operating profit, MSEK	339.2	353.4
Operating profit excluding the net result of financial transactions	387.3	327.3

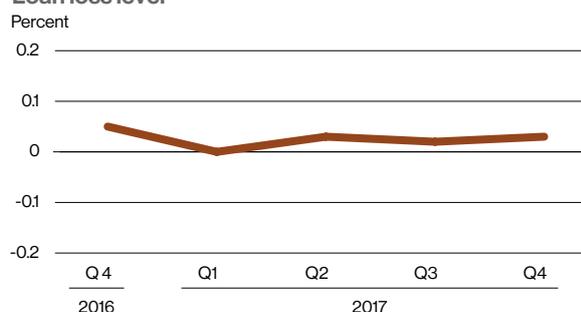
¹⁾ Other income pertaining to lending has been reclassified from provisions to interest income. The comparative figures for 2016 have been restated.

Net doubtful credits after provisions amounted to MSEK 147.4, corresponding to 0.22 percent of loans outstanding. At the corresponding year-earlier date, doubtful credits amounted to MSEK 175.2, corresponding to 0.26 percent of loans outstanding. The continued decrease in doubtful credits was due to a lower inflow of doubtful credits and a number of commitments ending during the period. The quality of the credit portfolio improved year-on-year.

Comparison with the third quarter of 2017

Operating profit for Q4 2017 amounted to MSEK 91.2 (93.2). Excluding the net result of financial transactions, operating profit for Q4 was MSEK 96.0. This was an improvement of MSEK 2.3 compared with Q3 2017, which was mainly due to improved net interest income.

Loan loss level

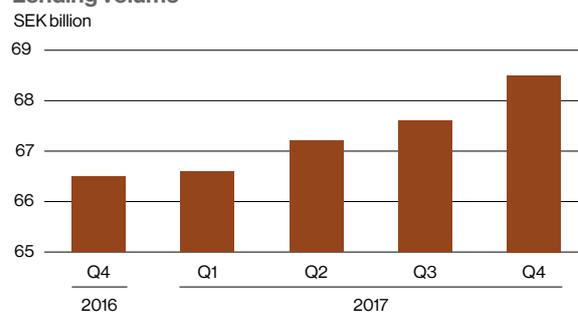


Assets

The largest asset item in the balance sheet is Loans to the public, which increased SEK 2.0 billion in 2017 to SEK 68.5 billion and where the largest part of the upturn came in the second half of 2017. The increase corresponded to lending growth of 3.0 percent, compared with 3.1 percent in the corresponding period in 2016. The geographic distribution of lending is stable over time.

At 31 December 2017, Landshypotek Bank's liquidity portfolio totalled SEK 13.4 billion (12.6). The portfolio comprises Swedish covered bonds with the highest credit rating and bonds issued by Swedish municipalities. The holding of interest-bearing securities functions as a liquidity reserve. At 31 December, the liquidity portfolio was 1.5 times (1.4) 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.

Lending volume



Balance Sheet

Assets, MSEK	31 Dec 2017
Loans to credit institutions	393
Loans to the public	68,488
Bonds and other interest-bearing securities	13,422
Derivatives	1,466
Non-current assets	117
Prepaid expenses, etc.	511
Total assets	84,398

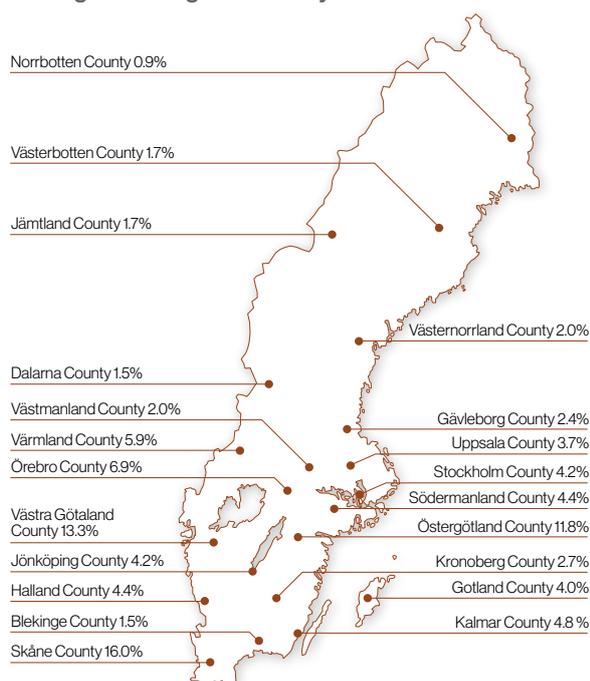
Liabilities, MSEK	31 Dec 2017
Liabilities to credit institutions	424
Borrowing/deposits from the public	12,675
Debt securities in issue	62,878
Derivatives	706
Other liabilities	1,921
Equity	5,793
Total liabilities	84,398

Liabilities

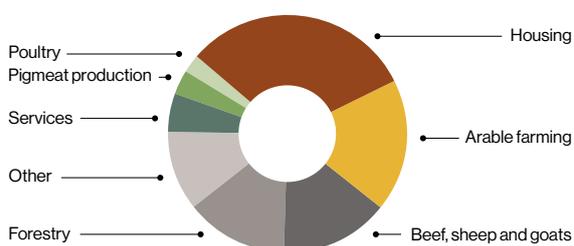
Funding

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

Geographic distribution of Landshypotek Bank's lending to farming and forestry



Breakdown of first lien mortgage lending



Investor relations are of major importance as part of ensuring that investors' levels of awareness and interest are maintained in Landshypotek Bank. In 2017, covered bonds to a value of SEK 13.8 billion were issued. In addition, senior bonds were issued to a value of approximately SEK 5.2 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 15.0 billion, of which about SEK 11.7 billion pertained to covered bonds.

The finance market for Nordic banks functioned smoothly in 2017. Landshypotek Bank was very successful in its funding activities and demand for the bank's bonds was healthy.

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.

Funding

MSEK	Issued 31 Dec 2017	Limit	Issued 31 Dec 2016
Swedish commercial paper	0	10,000	2,880
MTN programme	46,368	60,000	44,123
EMTN programme	11,700	33,665 ¹⁾	9,931
Registered Covered Bonds	3,341		3,354
Subordinated loans	1,900		1,700

¹⁾ MEUR 3,500

Borrowing/deposits from the public

Borrowing/deposits amounted to SEK 12.7 billion (11.7) at the end of 2017. Deposits increased 8.0 percent (13.8). Deposit inflows remained stable during the year and the market share was 0.7 percent.

Rating

Landshypotek Bank has credit ratings from two different rating agencies, Standard & Poor's and Fitch. In 2017, both Standard & Poor's and Fitch confirmed Landshypotek's ratings of A- and A respectively. Standard & Poor's changed its outlook for the Swedish economy and thereby Landshypotek Bank from negative to stable.

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, 26 January 2018

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 interim report has been prepared in accordance with IAS 34. 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, Investor Relations).

IFRS 9 Financial Instruments

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

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

- Assets classified under IAS 39 as Loans and receivables will continue to be classified as financial assets measured at amortised cost.
- Assets classified under IAS 39 as Available-for-sale financial assets will continue to be classified under IFRS 9 as financial assets measured at fair value through other comprehensive income.
- Assets classified under IAS 39 as Assets at FVTPL will continue to be classified in this manner.

The classification of assets pursuant to the above will have no material impact on the financial reporting.

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

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

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

On the transition at 1 January 2018, provisions will increase, which will be recognised in equity. The change will not have any significant impact on capital adequacy. The bank uses the transitional method without retroactive application of comparative figures.

Using the new calculation model under IFRS 9, provisions for credit losses would be MSEK 110.8, as compared with the existing provisions under IAS39 of MSEK 69.1 at 31 December 2017. The increase was mainly attributable to step two in the calculation model.

In terms of the accounting for existing hedging relationships, the change will have limited impact compared with how accounting is performed under IAS 39. IFRS 9 has no material impact on the income statement, balance sheet and total equity with regard to the application of hedge accounting. Macro hedging of fair value in the lending portfolio will continue to be reported pursuant to IAS39.

Income Statement

Landshypotek Bank AB Group, SEK thousand	Q4 2017	Q4 2016	Q3 2017	Full-year 2017	Full-year 2016
Interest income	314,589	307,867	321,213	1,295,831	1,368,377
Interest expense	-106,020	-131,743	-123,415	-495,459	-631,156
- of which: deposit insurance fees	-639	-1,951	-1,695	-6,777	-7,121
- of which: resolution fund fee	-14,169	-7,114	-14,169	-56,945	-28,821
Net interest income Note 2	208,569	176,123	197,797	800,372	737,221
Net result of financial transactions	-4,808	-43,097	-289	-48,093	26,158
Other operating income	838	2,406	91	1,875	7,315
Total operating income	204,599	135,434	197,600	754,154	770,693
General administrative expenses	-104,984	-120,008	-96,620	-388,542	-388,162
Depreciation, amortisation and impairment of tangible and intangible non-current assets	-3,714	-2,951	-3,737	-13,762	-14,050
Other operating expenses	-44	-72	-1	-150	-224
Total expenses before loan losses	-108,743	-123,031	-100,358	-402,455	-402,436
Profit before loan losses	95,856	12,401	97,242	351,699	368,257
Net loan losses Note 3	-4,632	-8,020	-4,077	-12,488	-14,814
Operating profit	91,224	4,381	93,165	339,211	353,443
Income tax for the period	-22,239	-1,567	-21,871	-82,846	-77,823
Net profit for the period	68,986	2,814	71,294	256,366	275,620

Statement of comprehensive income

Landshypotek Bank AB Group, SEK thousand	Q4 2017	Q4 2016	Q3 2017	Full-year 2017	Full-year 2016
Net profit for the period	68,986	2,814	71,294	256,366	275,620
Other comprehensive income					
<i>Items to be reclassified to profit or loss</i>					
Cash-flow hedges	5,981	1,367	831	8,620	11,812
Available-for-sale financial assets	-6,420	5,217	-4,244	20,907	62,087
Tax on items to be reclassified	96	-1,448	751	-6,496	-16,258
<i>Total, items to be reclassified</i>	<i>-342</i>	<i>5,135</i>	<i>-2,662</i>	<i>23,031</i>	<i>57,641</i>
<i>Items that are not reclassified</i>					
Actuarial differences for defined-benefit pensions	-8,417	18,606	-4,626	-14,881	-38,811
Tax items that are not reclassified	1,852	-4,093	1,018	3,274	8,538
<i>Total, items that are not reclassified</i>	<i>-6,565</i>	<i>14,513</i>	<i>-3,608</i>	<i>-11,607</i>	<i>-30,273</i>
Total other comprehensive income	-6,907	19,648	-6,270	11,424	27,369
Comprehensive income for the period	62,079	22,463	65,025	267,790	302,989

Compared with the January – December 2016 period, defined-benefit pensions increased to MSEK -14.9 (-38.8) in the January – September 2017 period.

These were the revaluation effects from defined-benefit pensions that were recognised under Other comprehensive income and represent the difference that arose between the actual outcome and budget. Therefore, the outcome for each period should be compared against the budget for the respective period.

The revaluation effect on the commitment in the January – December 2017 period was a loss of MSEK 14.9, which was net of the following effects:

- Actuarial loss of MSEK 7.1 due to a change in the discount rate from 2.65 percent to 2.50 percent and the change in assumption regarding a future real increase in the income base amount being raised from 1.50 percent to 1.80 percent.

- A loss of MSEK 3.6 due to changed demographic assumptions during the year in connection with the assumption regarding a future real increase in salaries being raised from 1.50 percent to 1.85 percent.

- An experience-based loss on the commitment of MSEK 4.3 that is the portion of the loss that was not attributable to changed assumptions, for example, differences between expected salary increases and actual salary increases, differences between expected mortality and actual mortality, and the actual utilisation rate for early retirement under the pension agreement compared with the expected rate.

- Gain of MSEK 0.1 on the asset side.

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Income Statement

Landshypotek Bank AB Parent Company, SEK thousand	ote	Q4 2017	Q4 2016	Q3 2017	Full-year 2017	Full-year 2016
Interest income		314,589	307,589	321,197	1,295,831	1,367,264
Interest expense		-106,003	-131,744	-123,382	-495,408	-631,134
- of which: deposit insurance fees		-639	-1,951	-1,695	-6,777	-7,121
- of which: resolution fund fee		-14,169	-7,114	-14,169	-56,945	-28,821
Net interest income	Note 2	208,586	175,845	197,814	800,423	736,130
Net result of financial transactions		-4,808	-43,097	-289	-48,093	26,158
Other operating income		838	2,406	91	1,875	7,315
Total operating income		204,616	135,154	197,617	754,205	769,603
General administrative expenses		-106,304	-120,540	-97,284	-389,949	-391,411
Depreciation, amortisation and impairment of tangible and intangible non-current assets		-3,714	-2,951	-3,737	-13,762	-14,165
Other operating expenses		-44	-72	-1	-150	-224
Total expenses before loan losses		-110,062	-123,563	-101,022	-403,861	-405,800
Profit before loan losses		94,554	11,591	96,595	350,344	363,801
Net loan losses	Note 3	-4,632	-8,020	-4,077	-12,488	-14,814
Operating profit		89,922	3,570	92,518	337,856	348,987
Income tax for the period		-21,941	-1,389	-21,859	-82,548	-77,341
Net profit for the period		67,981	2,181	70,659	255,308	271,647

Statement of comprehensive income

Landshypotek Bank AB Parent Company, SEK thousand	Q4 2017	Q4 2016	Q3 2017	Full-year 2017	Full-year 2016
Net profit for the period	67,981	2,181	70,659	255,308	271,647
Other comprehensive income					
<i>Items to be reclassified to profit or loss</i>					
Cash-flow hedges	5,981	1,367	831	8,620	11,812
Available-for-sale financial assets	-6,420	5,217	-4,244	20,907	62,087
Income tax related to other comprehensive income	96	-1,448	751	-6,496	-16,258
<i>Total, items to be reclassified</i>	<i>-342</i>	<i>5,135</i>	<i>-2,662</i>	<i>23,031</i>	<i>57,641</i>
Total other comprehensive income	-342	5,135	-2,662	23,031	57,641
Comprehensive income for the period	67,639	7,316	67,998	278,339	329,288

The revaluation effect on the commitment in the January – December 2016 period was a loss of MSEK 38.8, which was net of the following effects:

- Actuarial loss of MSEK 32.0 due to changed assumptions for which the discount rate declined from 3.20 percent to 2.65 percent and inflation assumption increased from 1.60 percent to 1.70 percent.
- A loss of MSEK 4.5 due to change demographic assumptions during the year in connection with the probability that an (entitled) employee takes early retirement under the pension agreement being increased from 20 percent to 50 percent.

- An experience-based gain on the commitment of MSEK 39.3. An experience-based gain is the portion of the gain that was not attributable to changed assumptions, for example, differences between expected salary increases and actual salary increases, differences between expected mortality and actual mortality and the actual utilisation rate for early retirement under the pension agreement compared with the expected rate.
- A loss of MSEK 41.6 on the asset side.

Balance Sheet

Landshypotek Bank AB SEK thousand	Group			Parent Company		
	31 Dec 2017	30 Sep 2017	31 Dec 2016	31 Dec 2017	30 Sep 2017	31 Dec 2016
ASSETS						
Cash and balances with central banks						
Chargeable treasury bills		1,200,063	-		1,200,063	
Loans to credit institutions	393,346	569,351	592,071	393,115	569,120	591,839
Loans to the public Note 4	68,488,409	67,619,454	66,518,468	68,488,409	67,619,454	66,518,468
Value changes of interest-rate-risk hedged items in macro hedges	63,621	68,467	109,075	63,621	68,467	109,075
Bonds and other interest-bearing securities	13,421,941	15,124,980	12,614,537	13,421,941	15,124,980	12,614,537
Derivatives	1,466,052	1,435,456	1,840,773	1,466,052	1,435,456	1,840,773
Shares in Group companies	0	0	0	200	200	200
Intangible non-current assets	99,355	89,250	66,748	99,355	89,250	66,748
Tangible assets						
Furniture, fixtures and equipment	8,300	8,979	9,282	8,300	8,979	9,282
Buildings and land	9,515	9,653	10,464	9,515	9,653	10,464
Other assets	7,099	7,165	11,383	7,098	7,164	11,383
Current tax assets	0	0	0	0	0	0
Deferred tax assets	4,087	3,836	2,955	365	1,668	2,210
Prepaid expenses and accrued income	435,825	564,113	405,411	435,825	564,113	405,411
TOTAL ASSETS Notes 5, 6	84,397,550	86,700,767	82,181,168	84,393,796	86,698,567	82,180,391
LIABILITIES, PROVISIONS AND EQUITY						
Liabilities to credit institutions	424,038	393,089	1,002,399	424,038	393,089	1,002,399
Borrowing/deposits from the public	12,675,325	12,543,118	11,731,390	12,675,325	12,543,118	11,731,390
Debt securities in issue, etc.	62,877,705	65,551,872	61,572,138	62,877,705	65,551,872	61,572,138
Derivatives	705,737	732,555	730,494	705,737	732,555	730,494
Other liabilities	306,405	62,391	276,177	305,882	61,869	275,654
Tax liabilities	3,681	34,051	6,190	3,681	34,051	6,192
Accrued expenses and deferred income	393,505	557,947	434,746	393,505	557,947	434,746
Provisions	17,712	10,603	4,193	1,319	1,324	1,324
Subordinated liabilities	1,200,000	1,200,000	1,699,972	1,200,000	1,200,000	1,699,972
Total liabilities	78,604,109	81,085,626	77,457,699	78,587,192	81,075,825	77,454,309
Equity	5,793,441	5,615,141	4,723,470	5,806,603	5,622,742	4,726,081
TOTAL LIABILITIES, PROVISIONS AND EQUITY Notes 5, 6	84,397,550	86,700,767	82,181,168	84,393,796	86,698,567	82,180,391

Cash-flow Statement

Landshypotek Bank AB, SEK thousand	Group		Parent Company	
	Full-year 2017	Full-year 2016	Full-year 2017	Full-year 2016
Opening cash and cash equivalents	592,071	396,451	591,839	392,499
Cash flow from operating activities	-417,323	-790,378	-417,322	-786,658
Cash flow from investing activities	-44,439	-49,102	-44,439	-49,102
Cash flow from financing activities	263,037	1,035,100	263,037	1,035,100
Cash flow for the period	-198,725	195,620	-198,724	199,340
Closing cash and cash equivalents	393,346	592,071	393,115	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			9,213	48,428	-30,273		275,621	302,989
Total change before transactions with owners	-	-	9,213	48,428	-30,273		275,621	302,989
New share issue								
Group contributions paid							-175,600	-175,600
Tax on Group contributions paid							38,632	38,632
Equity, 31 December 2016	2,253,000	1,026,254	-6,723	21,715	-16,359		1,445,583	4,723,469

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			6,724	16,307	-11,607		256,366	267,789
Total change before transactions with owners and holders of Tier 1 instruments	-	-	6,724	16,307	-11,607		256,366	267,789
Tier 1 capital						700,000	-21,139	678,861
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	0	38,022	-27,966	700,000	1,804,132	5,793,441

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			9,213	48,428			271,647	329,288
Total change before transactions with owners	-	-	9,213	48,428			271,647	329,288
New share issue								0
Group contributions paid							-175,600	-175,600
Tax on Group contributions paid							38,632	38,632
Equity, 30 December 2016	2,253,000	1,016,694	-6,722	21,713			1,441,395	4,726,082

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 and holders of Tier 1 instruments	-	-	6,724	16,307			255,308	278,339
Tier 1 capital						700,000	-21,139	678,861
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	0	38,022		700,000	1,798,887	5,806,603

Notes

Note 1 Capital and capital adequacy

The total capital ratio amounted to 43.8 percent compared with 42.3 percent at 30 September 2017 and the CET1 capital ratio was 31.7 percent (30.4). Own funds increased MSEK 87 during the quarter to MSEK 6,837, primarily due to higher member contributions in the quarter. Minimum capital requirement declined MSEK 29 to MSEK 1,248, primarily due to several minor capital requirement-reducing factors.

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 27.2 percent of the total risk exposure amount at 31 December 2017.

The capital quotient in accordance with Basel I floor¹⁾ amounted to 1.56 percent. The Bank's leverage ratio amounted to 6.7 percent, up on the preceding quarter (6.4).

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. In November 2017, the bank received permission to use the IRB approach for corporate exposures and intends to start applying this approach within the Pillar I framework after the bank has received permission to change the IRB approach for retail exposures. The bank has prepared under the Pillar II framework for the increased capital requirement the bank expects to arise as a consequence of the above changes.

The internally assessed capital requirement on 31 December 2017 was SEK 5.3 billion, given the aforementioned changes applied for by the bank to Finansinspektionen. The capital requirement should be compared with estimated own funds of SEK 6.8 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⁾ 31 December 2017
CET1 capital: Instruments and reserves	
Member contributions	1,698,189
Other contributed capital	1,797,796
Tier 1 capital instruments	700,000
Reserves	38,022
Actuarial differences	-27,966
Retained earnings	1,542,054
Net profit for the year ²⁾	276,047
Equity in the balance sheet	6,024,142
Deductions related to the consolidated situation and other foreseeable costs	-120,962
Deductions for Tier 1 capital instruments classified as equity	-700,000
CET1 capital before regulatory adjustments³⁾	5,203,180
CET1 capital: regulatory adjustments	
Further value adjustments	-55,765
Intangible assets	-99,356
Deferred tax assets that rely on future profitability	-4,087
Fair value reserves related to gains or losses on cash-flow hedges	0
Negative amounts resulting from the calculation of expected loss amounts (IRB)	-107,327
Defined-benefit pension plans	0
Total regulatory adjustments to CET1 capital	-266,535
CET1 capital	4,936,645
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)	5,636,645
Tier 2 capital: instruments and provisions	
Capital instruments and subordinated loans eligible as Tier 2 capital	1,200,000
Positive amounts resulting from the calculation of expected loss amounts (IRB)	0
Tier 2 capital before regulatory adjustments	1,200,000
Tier 2 capital: regulatory adjustments	
Total regulatory adjustments to Tier 2 capital	0
Tier 2 capital	1,200,000
Own funds (Tier 1 capital + Tier 2 capital)	6,836,645
Total risk-weighted exposure amount	15,595,184
Capital ratios and buffers	
Own funds requirement	1,247,615
CET1 capital ratio (%)	31.7
Tier 1 capital ratio (%)	36.1
Total capital ratio (%)	43.8
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⁾	27.2
Capital adequacy according to Basel I floor	
Own funds	6,943,972
Own funds requirement	4,464,875
Capital quotient	1.56

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 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 31 December 2017				
SEK thousand	Exposure value ¹⁾	Risk-weighted exposure amount ²⁾	Own funds requirement ³⁾	Average risk weight ⁴⁾
Credit risk – IRB approach	66,469,693	8,473,583	677,887	13%
Retail – real estate collateral	66,315,621	8,319,511	665,561	13%
Other non-credit-obligation assets	154,072	154,072	12,326	100%
Credit risk – Standardised Approach	19,124,928	4,468,139	357,451	23%
Central governments or central banks	1,381	-	-	0%
Regional governments or local authorities	6,208,245	-	-	0%
Institutions	1,646,043	552,418	44,193	34%
Corporates	170,421	169,353	13,548	99%
Retail	57,695	40,573	3,246	70%
Secured by mortgages on immovable property	3,734,441	2,964,661	237,173	79%
Exposures in default	7,916	11,255	900	142%
Covered bonds	7,298,786	729,879	58,390	10%
Operational risk – Basic indicator approach		1,366,604	109,328	
Credit valuation adjustment risk – Standardised approach	1,393,580	1,286,858	102,949	92%
Total	86,988,201	15,595,184	1,247,615	-

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

Landshypotek Bank AB – Group SEK thousand	Q4 2017	Q4 2016	Q3 2017	Full-year 2017	Full-year 2016
Interest income					
Interest income on loans to credit institutions	-1,263	-164	-274	-1,699	-173
Interest income on loans to the public	307,355	293,235	311,850	1,254,083	1,266,978
Less interest losses	-206	-235	-106	-949	-1,168
Interest income on interest-bearing securities	5,916	10,864	6,733	31,592	89,598
<i>of which: interest income for financial assets in fair-value hedges</i>	4,814	3,266	4,763	17,338	12,006
<i>of which: interest income on financial assets at FVTPL</i>	5,341	8,930	5,111	25,452	81,516
<i>of which: interest income on available-for-sale financial assets</i>	-4,240	-1,333	-3,140	-11,199	-3,924
Other interest income	0	431	16	12	1,271
Other lending income	2,788	3,737	2,993	12,793	11,872
Total	314,589	307,867	321,213	1,295,831	1,368,377
<i>All interest income is attributable to the Swedish market.</i>					
Interest expense					
Interest expense for liabilities to credit institutions – other	936	1,329	1,219	5,109	7,105
Interest expense for borrowing/deposits from the public	-21,648	-21,241	-21,987	-87,551	-86,582
<i>of which: deposit insurance fees</i>	-639	-1,951	-1,695	-6,777	-7,121
Interest expense for interest-bearing securities	-131,876	-144,830	-142,942	-553,193	-691,341
<i>of which: interest expense for financial liabilities in fair value hedges adjusted for the fair value of hedged risk</i>	-125,266	-87,663	-135,244	-548,935	-492,165
<i>of which: interest expense on interest-bearing securities at amortised cost</i>	-26,892	-105,926	-24,664	-85,588	-355,188
<i>of which: periodisation of the market value created from terminated hedging commitments¹⁾</i>	20,282	48,758	16,966	81,330	156,013
Interest expense for subordinated liabilities	-6,727	-11,165	-6,827	-34,458	-34,641
Interest expense for derivative instruments	71,276	56,363	64,131	249,755	218,913
<i>of which: interest expense on derivatives at FVTPL</i>	-7,493	16,567	8,436	-37,356	41,291
<i>of which: interest expense on derivatives identified as hedging instruments</i>	100,171	81,661	82,123	375,731	326,071
<i>of which: reclassification of terminated hedging relationships¹⁾</i>	-21,404	-41,865	-26,427	-88,619	-148,449
Other interest expense	-17,980	-12,201	-17,011	-75,119	-44,611
<i>of which: government resolution fund fees</i>	-14,219	-7,114	-14,169	-56,945	-28,821
Total	-106,020	-131,743	-123,416	-495,459	-631,156
Total net interest income	208,569	176,123	197,797	800,372	737,221

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 258.4, which will continue until August 2029.

Other lending income was reclassified from commission to interest income. The comparative figures for 2016 have been restated.

continued Note 2 Net interest income

Landshypotek Bank AB – Parent Company SEK thousand	Q4 2017	Q4 2016	Q3 2017	Full-year 2017	Full-year 2016
Interest income					
Interest income on loans to credit institutions	-1,263	-164	-274	-1,699	-173
Interest income on loans to the public	307,355	293,235	311,850	1,254,083	1,266,978
Less interest losses	-206	-235	-106	-949	-1,168
Interest income on interest-bearing securities	5,916	10,864	6,733	31,592	89,598
of which: interest income for financial assets in fair-value hedges	4,814	3,266	4,763	17,338	12,006
of which: interest income on financial assets at FVTPL	5,342	8,930	5,111	25,452	81,516
of which: interest income on available-for-sale financial assets	-4,240	-1,333	-3,140	-11,199	-3,924
Other interest income	0	153	0	12	158
Other lending income	2,788	3,737	2,994	12,793	11,872
Total	314,589	307,589	321,197	1,295,831	1,367,264
<i>All interest income is attributable to the Swedish market.</i>					
Interest expense					
Interest expense for liabilities to credit institutions – other	936	1,329	1,219	5,109	7,105
Interest expense for borrowing/deposits from the public	-21,648	-21,241	-21,988	-87,551	-86,582
of which: deposit insurance fees	-639	-1,951	-1,695	-6,777	-7,121
Interest expense for debt securities in issue	-131,876	-144,830	-142,942	-553,193	-691,341
of which: interest expense for financial liabilities in fair value hedges adjusted for the fair value of hedged risk	-125,266	-87,663	-135,244	-548,935	-492,165
of which: interest expense on interest-bearing securities at amortised cost	-26,892	-105,926	-24,664	-85,588	-355,188
of which: periodisation of the market value created from terminated hedging commitments ¹⁾	20,282	48,758	16,966	81,330	156,013
Interest expense for subordinated liabilities	-6,727	-11,165	-6,827	-34,458	-34,641
Interest expense for derivative instruments	71,276	56,363	64,131	249,755	218,913
of which: interest expense on derivatives at FVTPL	-7,493	16,567	8,436	-37,356	41,291
of which: interest expense on derivatives identified as hedging instruments	100,173	81,661	82,122	375,731	326,071
of which: reclassification of terminated hedging relationships ¹⁾	-21,404	-41,865	-26,427	-88,619	-148,449
Other interest expense	-17,963	-12,203	-16,979	-75,070	-44,589
of which: government resolution fund fees	-14,219	-7,114	-14,169	-56,945	-28,821
Total	-106,003	-131,744	-123,382	-495,408	-631,134
Total net interest income	208,586	175,845	197,814	800,423	736,130

¹⁾ The item pertains to a reduction in recognised interest expenses from the periodisation of the market value created from hedged risk attributable to fair-value hedging relationships that were terminated in 2013 and 2014. A corresponding amount with a negative impact on earnings, attributable to the decrease in value of hedging instruments (derivatives) in the terminated hedging relationships, has been recognised under the item Derivatives in Net interest income. The remaining amount to be periodised is MSEK 258.4, which will continue until August 2029.

Other lending income was reclassified from commission to interest income. The comparative figures for 2016 have been restated.

Note 3 Net loan losses

Landshypotek Bank AB – Group and Parent Company SEK thousand	Q4 2017	Q4 2016	Q3 2017	Full-year 2017	Full-year 2016
Write-off for the period for confirmed losses	-9,506	-19,062	-1,359	-22,802	-37,671
Reversal of prior specific provisions for probable loan losses, recognised as confirmed losses in this period's accounts	6,316	18,074	1,395	20,114	37,315
Specific provision for probable loan losses	-8,979	-9,037	-10,241	-24,670	-51,614
Collective provisions for probable loan losses	459	-4,696	-165	-4,320	-4,696
Recovery of previously confirmed losses	724	2,625	1,595	2,754	8,852
Reversal of prior specific provisions no longer necessary for probable loan losses	6,354	4,076	4,699	16,436	33,000
Total loan losses	-4,632	-8,020	-4,077	-12,488	-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		
	31 Dec 2017	30 Sep 2017	31 Dec 2016	31 Dec 2017	30 Sep 2017	31 Dec 2016
Loan receivables	68,537,095	67,675,700	66,577,900	68,537,095	67,675,700	66,577,900
Less specific provisions for individually valued loan receivables	-44,366	-51,467	-54,736	-44,366	-51,467	-54,736
Less collective provisions for collectively valued loan receivables	-4,320	-4,779	-4,696	-4,320	-4,779	-4,696
Net loan receivables	68,488,409	67,619,454	66,518,468	68,488,409	67,619,454	66,518,468
Disclosures on overdue unimpaired loan receivables						
Loan receivables overdue 5–90 days	4,227	0	77,079	4,227	0	77,079
Loan receivables overdue more than 90 days	226,354	239,996	230,696	226,354	239,996	230,696
Total overdue unimpaired loan receivables	230,581	239,996	307,775	230,581	239,996	307,775
Disclosures on doubtful credits						
Doubtful credits that are not overdue	113,947	118,790	103,767	113,947	118,790	103,767
Overdue doubtful credits	82,186	72,361	130,859	82,186	72,361	130,859
Total doubtful credits, gross	196,133	191,151	234,626	196,133	191,151	234,626
Less capital provisions made	-48,686	-56,246	-59,432	-48,686	-56,246	-59,432
Total doubtful credits, net	147,447	134,905	175,194	147,447	134,905	175,194

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	31 December 2017				31 December 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	322,455			322,455	2,613,652			2,613,652
Interest-rate swaps		624		624				
Cross-currency interest-rate swaps		58,493		58,493		38,796		38,796
Derivatives identified as hedging instruments								
Interest-rate swaps		865,582		865,582		1,081,659		1,081,659
Cross-currency interest-rate swaps		541,353		541,353		720,318		720,318
Available-for-sale financial assets								
Chargeable treasury bills, etc.								
Bonds and other interest-bearing securities	13,099,486			13,099,486	10,000,885			10,000,885
Total assets measured at fair value	13,421,941	1,466,052	-	14,887,993	12,614,537	1,840,773	-	14,455,310
Financial liabilities at FVTPL								
Interest-rate swaps		34,929		34,929		145,250		145,250
Cross-currency interest-rate swaps		4,997		4,997		10,557		10,557
Derivatives identified as hedging instruments								
Interest-rate swaps		331,324		331,324		423,878		423,878
Cross-currency interest-rate swaps		334,487		334,487		150,809		150,809
Total liabilities measured at fair value	-	705,737	-	705,737	-	730,494	-	730,494

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

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

Level 1

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

Level 2

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

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

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

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

Level 3

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

Note 6 Fair Value Disclosures

Landshypotek Bank AB – Group SEK thousand	31 Dec 2017 Carrying amount	31 Dec 2017 Fair value	31 Dec 2016 Carrying amount	31 Dec 2016 Fair value
Assets				
Loans to credit institutions	393,346	393,346	592,071	592,071
Loans to the public	68,488,409	69,520,140	66,518,468	67,409,231
Bonds and other interest-bearing securities	13,421,941	13,421,941	12,614,537	12,614,537
Derivatives	1,466,052	1,466,052	1,840,773	1,840,773
Total assets	83,769,748	84,801,479	81,565,849	82,456,612
Liabilities and provisions				
Liabilities to credit institutions	424,038	424,038	1,002,399	1,002,399
Borrowing from the public	12,675,325	12,675,325	11,731,390	11,731,390
Debt securities in issue, etc.	62,877,705	63,933,290	61,572,138	62,632,533
Derivatives	705,737	705,737	730,494	730,494
Subordinated liabilities	1,200,000	1,271,340	1,699,972	1,745,157
Total liabilities	77,882,805	79,009,730	76,736,394	77,841,973

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	31 Dec 2017 Carrying amount	31 Dec 2017 Fair value	31 Dec 2016 Carrying amount	31 Dec 2016 Fair value
Assets				
Loans to credit institutions	393,115	393,115	591,839	591,839
Loans to the public	68,488,409	69,520,140	66,518,468	67,409,231
Bonds and other interest-bearing securities	13,421,941	13,421,941	12,614,537	12,614,537
Derivatives	1,466,052	1,466,052	1,840,773	1,840,773
Total assets	83,769,517	84,801,248	81,565,617	82,456,380
Liabilities and provisions				
Liabilities to credit institutions	424,038	424,038	1,002,399	1,002,399
Borrowing from the public	12,675,325	12,675,325	11,731,390	11,731,390
Debt securities in issue, etc.	62,877,705	63,933,290	61,572,138	62,632,533
Derivatives	705,737	705,737	730,494	730,494
Subordinated liabilities	1,200,000	1,271,340	1,699,972	1,745,157
Total liabilities	77,882,805	79,009,730	76,736,394	77,841,973

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

Alternative performance measures

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

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

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

Summary of APMs	Q4 2017	Q4 2016	Q3 2017	Full-year 2017	Full-year 2016
Change in lending	869	278	400	1,970	2,017
Opening balance, loans outstanding	67,927	64,501	67,219	66,485	64,501
Increase in lending, %	1.3	0.4	0.6	3.0	3.1
Net interest income calculated on a full-year basis	834	542	791	800	737
Average loans outstanding	68,054	66,443	67,419	67,503	65,510
Interest margin, %	1.2	0.8	1.2	1.2	1.1
Change in deposits	132	27	147	944	1,421
Opening balance borrowing/deposits	12,543	11,704	12,396	11,731	10,310
Increase in borrowing/deposits, %	1.1	0.2	1.2	8.0	13.8
Costs before loan losses	109	123	100	402	402
Total operating income	205	136	198	754	771
C/I ratio including financial transactions	0.53	0.90	0.51	0.53	0.52
Costs before loan losses	109	123	100	402	402
Total operating income excluding financial transactions	209	179	198	802	745
C/I ratio excluding financial transactions	0.52	0.68	0.51	0.50	0.54
Net loan losses calculated on a full-year basis	19	32	16	12	15
Average loans outstanding	68,054	66,443	67,419	67,503	65,510
Loan loss level, %	0.03	0.05	0.02	0.02	0.02
Doubtful credits, gross	196	235	191	196	235
Less provisions made	-49	-59	-56	-49	-59
Doubtful credits, net	147	175	135	147	175
Loans to the public	68,488	66,518	67,619	68,488	66,518
Net doubtful credits after provisions as a percentage of total loans outstanding, %	0.22	0.26	0.20	0.22	0.26
Profit after tax				256	276
Average equity				5,426	4,727
Return on equity, %				4.7	5.8

Reporting calendar 2018

*Landshypotek Bank's reports are available at:
[www.landshypotek.se/en/about-landshypotek/
investor-relations/financial-reports](http://www.landshypotek.se/en/about-landshypotek/investor-relations/financial-reports)*

Annual Report 2017	16 March 2018
Association Meeting	19 April 2018
General Meeting	19 April 2018
Interim Report Q1	26 April 2018

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