



# Landshypotek Bank AB Interim report 2016 #3

January–September 2016 (compared with year-earlier period)

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

We are growing and have posted strong results. The summer months are a quieter period in the farming and forestry sector, but an excellent time to meet customers at various trade fairs and meetings in the Swedish summer. We are working intensively with the bank's continued development and, in parallel, we have boosted our market presence. The bank's strength is shown in its results, a strength that was recognised by the rating agencies during the quarter.

### January–September 2016

compared with January–September 2015

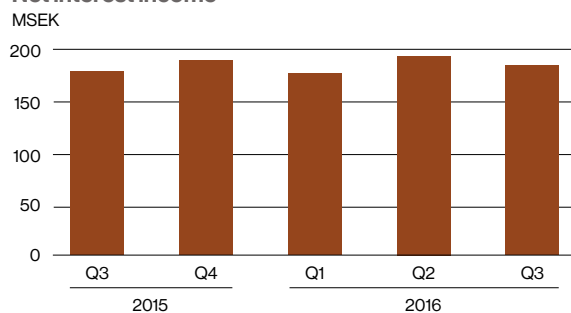
- Operating profit amounted to MSEK 349.1 (267.9).
- The underlying operating profit, excluding the net result of financial transactions, was MSEK 279.8 (255.0).
- Net interest income amounted to MSEK 554.6 (554.4).
- Costs totalled MSEK 281.0 (269.5).
- Net loan losses were MSEK 6.8 (38.7).
- Lending amounted to SEK 66.2 billion (64.0).
- Deposits amounted to SEK 11.7 billion (8.8).

### July–September 2016

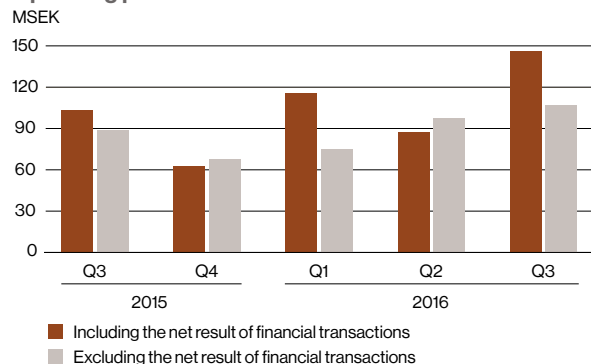
compared with April–June 2016

- Operating profit amounted to MSEK 146.3 (87.4).
- The underlying operating profit, excluding the net result of financial transactions, was MSEK 107.2 (97.7).
- Net interest income amounted to MSEK 184.4 (193.6).
- Costs totalled MSEK 83.4 (101.2).
- Net loan losses resulted in a recovery of MSEK 2.9 (Loss: 1.4).
- Lending amounted to SEK 66.2 billion (65.7).
- Deposits amounted to SEK 11.7 billion (11.3).

#### Net interest income



#### Operating profit



# For a richer life in the countryside

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

Landshypotek Bank finances business and residential initiatives for a richer life in the countryside. With slightly more than SEK 66 billion in loans outstanding, Landshypotek Bank is Sweden's ninth largest bank. We are a niche bank tasked primarily with financing farming and forestry.

Lending customers are active entrepreneurs in the farming and forestry sectors, entrepreneurs running small-scale businesses in the countryside or people living on agricultural properties. Landshypotek Bank has also opened a digital savings bank for savers and savings now comprise almost SEK 12 billion, thereby contributing to the continued development of the Swedish countryside. Accordingly, the bank is available for anyone who wants favourable terms for savings and who holds the countryside dear to their heart.

Our surpluses are reinvested in operations and distributed to members. This spring, the AGM for the bank's owner association, Landshypotek Ekonomisk Förening, resolved to distribute SEK 149 million to the members, the bank's loan customers.

The development of the farming and forestry industries is crucial for the countryside and, therefore, for Sweden's future. Together with our loan customers, Landshypotek has been developing the countryside since 1836.

## Landshypotek Bank is close to its customers

Landshypotek Bank has organised its customer operations into nine districts and has offices in 19 locations across Sweden to promote active and close dialogue with customers. In addition, a central organisation is in place that includes a customer service function for dialogue with customers. Since the end of the year, the bank has started a separate initiative in the form of a new district focused on customers that live on farms and who derive their income from employment rather than from active farming or forestry operations. The district organisation has access to a network of elected representatives who carry out property valuations. The functions for risk, compliance, legal affairs, accounting, finance, savings and loan administration, HR, marketing and communication, development and operations are located at the head office. Landshypotek Bank has slightly more than 160 employees.

## Third quarter of 2016

Landshypotek Bank presented a mortgage survey in July, which showed major differences in attitudes to homes and their financing between the country's three largest cities and the remainder of the country.

Summer and autumn are the time for outdoor expos. Landshypotek Bank participates at these expos and meets customers and stakeholders in the agroforestry industries and a number of fairs and meetings around the country.

A minor adjustment was made to the interest rates for some of the bank's savings accounts in September. The decrease was a reaction to lower market interest rates.

Landshypotek Bank's assignment and commitment makes it unique in the market. In September, several employee videos were published, where employees talk about what it is like to work at a bank with a difference.

The first Association Council meeting at Landshypotek Ekonomisk Förening took place in the quarter. The Council aims to expand and strengthen dialogue within the association as well as between the bank and the association.

In September, the bank submitted an application to the Swedish Financial Supervisory Authority for a new fundamental Corporate IRB model for calculating capital adequacy.

During the quarter, the rating agencies, Fitch and Standard & Poor's, confirmed the bank's ratings.

## Landshypotek Bank is owned by its members

All borrowers from Landshypotek Bank become members of Landshypotek Ekonomisk Förening (Landshypotek Cooperative Association). Accordingly, Landshypotek Bank is owned by some 42,000 members. All business operations are conducted in Landshypotek Bank. The cooperative association is responsible for member relations and overriding control of the bank through the owner directive. Landshypotek Ekonomisk Förening has organised its member operations into ten regions. The Board of each region comprises up to eight elected representatives who represent the members and act as ambassadors for Landshypotek Bank. These elected representatives perform valuations on behalf of the bank. Any surpluses in Landshypotek Bank are reinvested in operations and distributed to the association's members.



## CEO's Statement

# More people need to recognise the countryside's unique possibilities — and challenges

Landshypotek Bank has its assignment for the countryside. In an age when discussion often focuses on the major cities, our chosen niche means particular challenges — and possibilities.

This summer, when we presented our mortgage survey, we were able to show clear differences in customer attitudes between the three largest cities and the rest of the country in terms of their homes and their loans.

In the big cities, the home is to a greater degree seen as an investment. The return on investment becomes important and behaviour becomes financially rational with the emotional factor taking second place. The interest rate and discussing the rate with the bank becomes more important and the repayment of the loan takes a back seat.

Outside of the major cities, a home is bought to live in. The location and environment are the key priorities and there is much less focus on the financial equation or house prices. Repayment of the loan is for personal reasons with the aim of becoming debt-free.

The healthiest repayment culture would appear to be among customers outside of the major cities, whereas the risks often highlighted by politicians and regulators seem to be in the major cities. However, new legislation and new regulations related to these urban risks will impact the entire country and may thus complicate possibilities for home ownership across the country.

Making it difficult for people to find a home, to live and to work across the entire country is not, as we see it, the right societal trend and we intend to continue to participate and raise our views in any future discussions.

Our customers are diversifying their operations and making clear choices with their enterprises to which the bank is responding by developing to move with and support customers in these transitions. We are developing and strengthening customer relationships through initiatives including new possibilities for contact, and products and marketing activities. We have reorganised to better strengthen contact with our customers in the northern parts of Sweden as well as in the counties of Gävleborg and Dalarna.

We continue to post strong results and have noted positive indications in the form of lower loan losses. Moreover, our ratings were confirmed by both our rating agencies during the quarter.

The common denominator for enterprise in the agroforestry industries is that the location is key. Farmers and foresters choose to improve the natural properties and conditions of a defined location for the benefit of all. This means each company is strongly linked to a personal and often emotional commitment and responsibility. This makes operations and values in the agroforestry industries stable over time.

Based on these fundamentals, our lending continues to grow. A strong trend is appearing in the agroforestry industries — many entrepreneurs with a positive outlook are seeking new possibilities to build closer relations with consumers and to invest in the future.

Sweden needs a policy that supports this trend and which promotes confidence in investing to develop businesses in the countryside. Accordingly, there are substantial expectations of the national food strategy and forestry programme.

We recently presented our trend report for the agroforestry industries. This autumn, we are now opening possibilities for farms to showcase their confidence and entrepreneurial ideas through a web platform and through the *Your farm – Your opportunity* competition. This summer and at the start of the autumn, we also noted the substantial, growing interest in Swedish producers when we attended agricultural and food expos around the country.

Liza Nyberg  
CEO of Landshypotek Bank

# Our operating environment

Landshypotek Bank and its customers are impacted by financial market trends, as well as business conditions in the farming and forestry sectors. The financial market recovered swiftly following the Brexit referendum and after a protracted lean period for dairy farmers, milk prices to producers have risen.

## Financial market trends

Prospects for global growth have been revised downward. Political risks and new focus on the European banking system has dampened risk appetites and, in addition, a slowdown in the Chinese economy is raising concerns.

In the US, the Federal Reserve continues to maintain a waiting brief on the cycle of interest rate hikes from December 2015. However, the Fed has signalled that a 25-basis point hike remains to come in 2016. The US labour market and domestic consumption continue to show strength. However, uncertainty surrounds the US economic trend due to the forthcoming presidential elections in November and the US industrial trend.

The initial reaction to the UK's referendum in favour of Brexit triggered sharply falling stock exchanges, lower interest rates and substantial uncertainty. Thereafter, the markets slowly recovered to pre-referendum levels. Until the UK initiates the exit process, market sentiment seems to view Brexit as a political rather than an economic issue.

The eurozone is still suffering in the wake of the financial crisis which is keeping growth at a relatively low pace. The European Central Bank (ECB) wants to see the effects from the expansionary monetary policy adopted earlier and has not taken any new measures in the third quarter. However, households and companies are more positive regarding the economic trend and the labour market has improved, though this has not been quantified in any form of inflation.

The Riksbank (Sweden's central bank) also left its key interest rate and Government bond purchases unchanged in the third quarter. However, there is a declared readiness to do more, particularly if the SEK were to strengthen, though the Riksbank seems satisfied with the current trend. Inflation and expectations of inflation rose and the SEK continued to be kept weak. Robust growth in the Swedish economy during the second half of 2015 boosted the annual rate applicable for 2016, but increasingly low global growth has also dampened the prospects for the Swedish economy.

## Summary Landshypotek Bank

	2016 Q3	2015 Q3	2016 Q2	2016 Jan-Sep	2015 Jan-Sep	2015 Full year
Net interest income, MSEK <sup>1</sup>	184.4	178.8	193.6	554.6	554.4	743.4
Operating profit, MSEK	146.3	103.2	87.4	349.1	267.9	330.6
Profit after tax, MSEK	114.1	80.7	68.2	272.8	209.2	257.1
Loans to the public, MSEK	66,240	64,015	65,663	66,240	64,015	64,501
Increase in lending, %	0.9	0.7	0.9	2.7	3.7	4.5
Interest margin, % <sup>2</sup>	1.1	1.1	1.2	1.1	1.2	1.2
Deposits from the public	11,704	8,777	11,255	11,704	8,777	10,310
Increase in deposits, %	4.0	8.8	5.0	13.5	50.6	76.9
C/I ratio including financial transactions <sup>3</sup>	0.37	0.39	0.53	0.44	0.47	0.51
C/I ratio excluding financial transactions <sup>4</sup>	0.44	0.42	0.51	0.50	0.48	0.51
Loan loss level, % <sup>5</sup>	-0.02	0.02	0.01	0.01	0.08	0.07
Total capital ratio, %	36.5	23.1	33.0	36.5	23.1	26.1
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	162	158	162	162	155	156

<sup>1</sup> Deposit insurance fees and fees to the stabilisation fund have been reclassified from Other operating income to Net interest income. The comparative figures for 2015 have been restated.

<sup>2</sup> Net interest income on an annualised basis in relation to average lending during the period.

<sup>3</sup> Costs in relation to income including the net result of financial transactions.

<sup>4</sup> Costs in relation to income excluding the net result of financial transactions.

<sup>5</sup> Net loan losses on an annualised basis in relation to average lending during the period.

The market is concerned that the central banks have reached the limits for monetary policy. The spotlight has now been aimed at what financial and structural policies can do to stimulate the economy.

Thus far, the repayment requirement introduced on mortgage loans in June has had little marginal effect on house prices. However, the growth rate for household mortgage loans has declined since the requirement's introduction.

The political situation in the US and in Europe is creating some uncertainty about economic developments moving forward. For the remainder of the year, interest rates will be impacted by whether the central banks are strong enough to increase the already expansive monetary policy.

The lending interest rates, according to published prices, that were offered to customers in the third quarter remained unchanged and interest rates continue to be low.

## Trends in farming and forestry

The Swedish countryside is swarming with businesses. Substantial potential exists in terms of increased employment and the production of food, energy and environmental advantages — as well as in the overall development of a sustainable society. Policy should provide the essential prerequisites for entrepreneurs in the countryside. Political news during the quarter, included the continued work on the food strategy and the Government's autumn budget.

The food strategy still waiting to reach the Swedish parliament. The strategy has strong value as a signal regarding attitudes to agriculture and food industry, but also regarding political measures that strengthen the sectors' competitiveness.

One of the more discussed parts of the autumn budget was the proposal to raise diesel tax without compensating business users. Given the processes started by the competitiveness assessment and the efforts with the food strategy, there were expectations of clearer measures promoting enhanced conditions for the agro-forestry industries.

The weather plays a key role for businesses in the countryside. Early spring tillage and a dry early summer resulted in a slightly lower harvest than in 2015. The continued dry summer and autumn have resulted in unique conditions for harvesting and planting new crops. Autumn sowing is expected to have gone better than normal.

Despite declining world stocks, global market prices for cereal crops are under downward pressure, albeit from extremely high levels. One cause comprises the discussion between China and the US regarding subsidies and import duties on cereals and cereal-related products. However, considerable uncertainty remains about the actual stocks and much can still happen during the winter.

Milk production has long been in focus and following a historically long period of weak prices, the global market has stabilised and strengthened. Measures have been put into place to limit milk production in the EU. But, above all, this is attributable to the effect of more stable demand combined with shrinking production in countries such as Australia and New Zealand. Most Swedish milk producers are subject to the same conditions as the rest of the world, and will benefit from the improved market balance. The ratio of milk revenue to the cost of feed has improved and several factors indicate continued improvement during the autumn and winter. Milk prices look set to rise at the same time as feed costs decline.

Companies with organic milk production have had more favourable market conditions in the domestic market and the higher milk price for organic production has further improved the equation. For combined milk and beef producers, high beef prices have mitigated the consequences of low milk prices. Continued healthy demand for Swedish meat is increasing dairy companies' interest in meat production.

For a period, Swedish meat production has benefited from Swedish consumers' interest in the Swedish production model. The period has been marked by healthy demand and relatively high prices. A long summer and therefore an extended barbecue season has resulted in relatively high prices for pigmeat throughout the EU. However, extended periods with high domestic prices increases the risk of pressure from imports.

There seems to be no subsidence in the level of interest in investing in and owning forest and, accordingly, property prices have continued to rise in most areas of the country. Prices of pulp and wood products are not as unequivocally positive. A buoyant construction sector in Sweden and positive trends in certain export markets are the bright spots.

The Swedish summer is a great showcase for the Swedish countryside and food production. And the trend toward diversity is being maintained. This can be seen in all the local markets and fairs where locally produced items are taking more and more space. Everything from farm dairies to cured meats and fruit is appearing in farm shops and in the form of special products at traditional food retailers.

## Contact details

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## Financial calendar

Year-end report 2016      27 January 2017

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

# Landshypotek Bank AB

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

Interim report for the period 1 January–30 September 2016.

Landshypotek Bank is owned by Landshypotek Ekonomisk Förening, in which all of the Bank's loan customers are members. The Bank's assignment is to provide competitive financing to Sweden's farmers and foresters. With loans outstanding of SEK 66.2 billion, Landshypotek Bank accounts for 26.1 percent of total lending to farmers and foresters in Sweden. Lending is characterised by adequate property collateral. Landshypotek Bank has about 160 employees at 19 offices throughout Sweden.

## Operating profit 2016

Consolidated operating profit for the first three quarters rose MSEK 81.1 year-on-year and amounted to MSEK 349.1 (267.9). The increase in earnings was primarily attributable to a year-on-year increase in the net result of financial transactions of MSEK 56.3 in parallel with an MSEK 31.9 decrease in loan losses. Excluding the net result of financial transactions, operating profit amounted to MSEK 279.8 (255.0), up MSEK 24.8 year-on-year.

### Net interest income

Net interest income for the first nine months of 2016 was MSEK 554.6 (554.4), and was unchanged year-on-year. While both interest income and expense were lower, interest expense did not decrease at the same pace as interest income. The interest margin declined slightly year-on-year as a result of Landshypotek issuing a subordinated loan in spring 2016 to strengthen own funds. In addition, preliminary financing was carried out for maturing bond loans, which resulted in a temporary increase in interest expenses.

The return on the liquidity portfolio decreased in the first nine months of the year due to Landshypotek reducing holdings in the portfolio. Moreover, deposits have

continued to grow and while deposits comprise a more expensive source of funding, they are important from a strategic perspective. Deposit insurance fees and fees to the stabilisation fund have been reclassified from Other operating income to Net interest income. The comparative figures for 2015 have been restated. Refer to Note 1.

### Other operating income

Other operating income was MSEK 82.3 (21.7) for the first nine months of 2016. The year-on-year improvement was mainly attributable to a net result of financial transactions of MSEK 69.3 (12.9).

The return on interest income in the liquidity portfolio decreased in the first three quarters but, on the other hand, the unrealised change in value recognised in the net result of financial transactions increased. The change in value switched from highly negative, down MSEK 69.9 in 2015 to positive, up MSEK 15.0 in 2016. The market price trend for basis spreads<sup>1</sup> also boosted the net result of financial transactions in the first three quarters.

### Costs

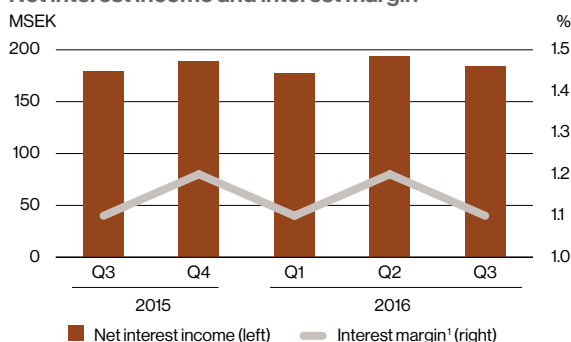
Costs for the first nine months of 2016 amounted to MSEK 281.0 (269.9) As planned, costs are in line the development being driven to strengthen the bank's competitiveness.

### Loan losses

Net loan losses declined in the first nine months of 2016 and totalled MSEK 6.8 (38.7). Confirmed losses totalled a reversal of MSEK 18.6 (15.7). The year-on-year increase was attributable to the winding up of a number of commitments (for which provisions exist) being completed in

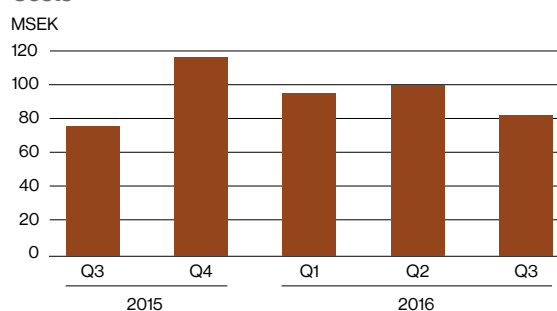
<sup>1</sup> Costs for the ongoing exchange of interest payments from foreign currency to SEK.

## Net interest income and interest margin



<sup>1</sup> Net interest income on an annualised basis by average lending during the period.

## Costs



## Operating profit

	Jan-Sep 2016	Jan-Sep 2015
Net interest income, MSEK <sup>1</sup>	554.6	554.4
Other operating income, MSEK <sup>1</sup>	82.3	21.7
Of which net result of financial transactions	69.3	12.9
Costs, MSEK	281.0	269.5
C/I ratio, including the net result of financial transactions <sup>2</sup>	0.44	0.47
C/I ratio, excluding the net result of financial transactions <sup>3</sup>	0.50	0.48
Net recognised loan losses, MSEK	6.8	38.7
Loan loss level, % <sup>4</sup>	0.03	0.08
Operating profit, MSEK	349.1	267.9
Operating profit excluding the net result of financial transactions	279.8	255.0

<sup>1</sup> Deposit insurance fees and fees to the stabilisation fund have been reclassified from Other operating income to Net interest income. The comparative figures for 2015 have been restated.

<sup>2</sup> Costs in relation to income including the net result of financial transactions.

<sup>3</sup> Costs in relation to income excluding the net result of financial transactions.

<sup>4</sup> Net loan losses on an annualised basis in relation to average lending during the period.

2016. Provisions for probable loan losses amounted to MSEK 42.6 (62.3). The inflow of insolvency cases with large loan debts has declined.

## Comparison with the second quarter of 2016

Consolidated operating profit for the third quarter of 2016 amounted to MSEK 146.3, up MSEK 58.8 compared with the second quarter of 2016. This was mainly attributable to the net result of financial transactions, which was up on the second quarter but was also positively impacted by lower costs and loan losses.

The increase in the net result of financial transactions in the third quarter was attributable to a positive value change in basis spreads<sup>1</sup> of MSEK 17.4 (neg: 11.1). Landshypotek's liquidity and derivative portfolios also trended more favourably in the third quarter.

<sup>1</sup> Costs for the ongoing exchange of interest payments from foreign currency to SEK.

However, net interest income was lower due to increased interest expenses. The cost of the new subordinated loans taken at the end of the second quarter of 2016 were charged to third quarter earnings. The same applied for the preliminary financing of large bond maturities, which was carried out at the end of the second quarter.

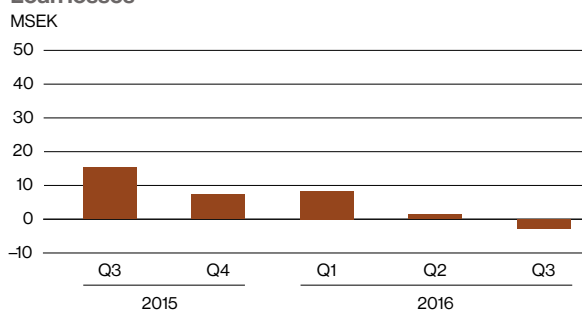
Costs were MSEK 17.8 lower in the third quarter as a consequence of lower operational activity in the summer months.

## Landshypotek's lending

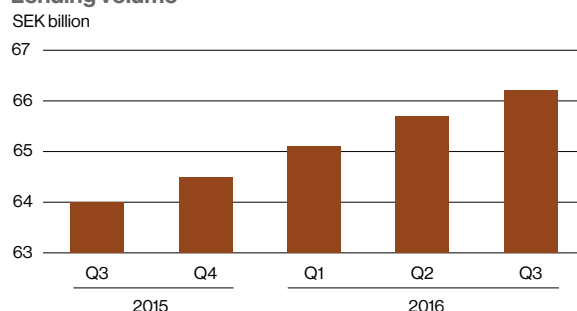
In the first three quarters of 2016, lending increased SEK 1.7 billion to SEK 66.2 billion. The increase corresponded to lending growth of 2.7 percent, compared with 3.7 percent in the corresponding year-earlier period.

Demand for credit remains stable, however, variations exist depending on customers' type of production and

### Loan losses



### Lending volume



the properties' geographic location. The annualised market growth for 2016 is expected to be about 5 percent (about 6 percent in 2015).

### Credit and credit quality

Conventional dairy companies noted improved profitability for the first time since the end of 2015 as a consequence of rising global market prices.

However, the largest uncertainty in the credit portfolio remains milk production, which has been in focus for a long time. Global price pressure has impacted harshly on Swedish producers. During the quarter, Landshypotek has continued to monitor a number of milk producing customers with weak production results and profitability issues. Despite improvements in the operating environment, the bank continues to closely monitor and maintain a frequent dialogue with these customers.

Landshypotek continuously develops efforts to identify and monitor customers in the credit portfolio with poor profitability and low liquidity, with the aim of deploying suitable measures. Among other initiatives in the quarter, a review of the cereal crop industry was carried out due to the prevailing global surplus and consequent downward price pressure. The results showed that decreased costs for input goods and healthy stock levels offset the revenue decrease and that repayment capacity is only marginally impacted at present.

At 30 September 2016, net doubtful credits after impairment continued to decline and amounted to MSEK 207.2 (305.8), corresponding to 0.31 percent (0.48) of loans outstanding.

## Funding

### Borrowing

The major refinancing for the year was completed in the second quarter of 2016. In the third quarter, Landshypotek was not active in the market.

In the first nine months of 2016, the bank issued covered bonds to a value of approximately SEK 9.7 billion and, in

addition, senior bonds to a value of about SEK 1.1 billion and subordinated loans to a value of SEK 1.2 billion. During the same period, bonds have matured and been repurchased to a value of approximately SEK 11.1 billion, of which SEK 9.1 billion pertained to covered bonds.

In general, the finance market for Nordic banks functioned smoothly in 2016. Landshypotek Bank was very successful in its funding activities during the year and demand for Landshypotek Bank's bonds was favourable.

### Deposits

Deposits amounted to SEK 11.7 billion (8.8) at 30 September 2016.

### Liquidity

Landshypotek Bank has a substantial liquidity portfolio of interest-bearing securities. This was valued at SEK 13.2 billion at 30 September 2016. The portfolio primarily comprises Swedish covered bonds with the highest credit rating and bonds issued by Swedish municipalities. At 30 September, the liquidity portfolio was 1.4 (1.9) 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.

The liquidity coverage ratio<sup>1</sup> was 499 percent at 30 September 2016<sup>2</sup>. This can be compared with the external quantitative requirement of 70 percent. Under existing EU reporting rules, the encumbrance ratio<sup>3</sup> was 78 percent, where the assets in the cover pool for issuing covered bonds comprised the source of encumbrance<sup>4</sup>. A total of SEK 65 billion of Landshypotek's assets were encumbered at 30 September 2016.

<sup>1</sup> For Landshypotek Bank's consolidated situation.

<sup>2</sup> In this regard, the bank takes into consideration the entire liquidity reserve in the pool for covered bonds.

<sup>3</sup> Encumbered assets in relation to total assets.

<sup>4</sup> Assets in the pool for covered bonds are counted as encumbered up to the opportunity cost (OC) level, which S&P deems necessary to reach a AAA rating for the bank's covered bonds.

## Program

MSEK	Issued 30 Sep. 2016	Limit	Issued 31 Dec. 2015
Swedish Commercial paper	1,065	10,000	2,270
MTN programme	44,838	60,000	43,431
EMTN programme	11,244	33,692*	12,713
RCB**	3,369		3,407
Subordinated loans	1,700		500

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



## Rating

Landshypotek Bank has credit ratings from two different rating agencies, Standard & Poor's and Fitch. In the third quarter, 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

## Capital and capital adequacy

The total capital ratio under the Basel 3 rules<sup>1</sup> amounted to 36.5 percent compared with 33.0 percent at 30 June 2016 and the CET1 capital ratio was 26.8 percent (24.0). Own funds increased MSEK 130 during the quarter to MSEK 6,414 and the own funds requirement decreased MSEK 118 to MSEK 1,407. In addition to the Pillar I capital requirement of 8 percent, the capital conservation buffer requirement is 2.5 percent of the total risk-weighted amount and, from 27 June 2016, the countercyclical buffer requirement is 1.5 percent of the total risk-weighted amount<sup>2</sup>. The capital conservation buffer and the countercyclical buffer must be covered by CET1 capital. The Bank's remaining CET1 capital to cover the buffer requirements, including the Pillar II requirement, corresponds to 20.8 percent of the total risk-weighted exposure amount at 30 September 2016.

The total capital ratio under the transitional rules linked to the Basel 1 requirement amounted to 12.1 percent, which is an improvement on last quarter (12.0).

The bank's leverage ratio amounted to 5.7 percent.

Profits from the first three quarters of 2016 were included in own funds.

When calculating the internally assessed capital requirement, the bank takes into consideration the capital requirement based on Basel 3 rules and the transitional rules related to the Basel 1 requirements. Accordingly, it is the capital requirement under Basel 3 that sets the bank's capital requirement. The capital adequacy assessment under Basel 3 takes into consideration the

Pillar I requirements including the total combined buffer requirement and Pillar II risks.

Within the Basel 3 framework, 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, on 30 September 2016, the bank applied to the Swedish Financial Supervisory Authority (FI) for a 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 method 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 change, including a buffer given that this is a preliminary assessment.

In terms of the consolidated situation, the internally assessed capital requirement at the end of the third quarter was SEK 4.8 billion, given the aforementioned changes applied for by the bank to FI. The capital requirement should be compared with estimated own funds of SEK 6.1 billion.

## Group structure

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

All operations were conducted exclusively in Landshypotek Bank in 2016. The subsidiary, Landshypotek Jordbrukskredit transferred its operations to Landshypotek Bank in 2015 and was liquidated in September 2016.

## Events after the end of the period

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

<sup>1</sup> In this text, Basel 1 and Basel 3 refer to the Swedish implementation of the Basel regulations, for example, through FFFS 2003:10, the Capital Requirements Regulation (EU) No 575/2013 and the Capital Requirements Directive 36/2013/EU.

<sup>2</sup> The countercyclical buffer is planned to be raised to 2.0 percent from 19, March 2017.

## Capital adequacy analysis

SEK thousand	Consolidated situation <sup>1</sup> 30 September 2016
<b>Own funds, Basel 3</b>	<b>6,414,375</b>
Tier 1 capital	4,714,401
Common Equity Tier 1 (CET1) capital	4,714,401
Capital instruments eligible as CET1 capital	1,509,012
Retained earnings	3,405,167
Accumulated other comprehensive income	9,856
Adjustment of CET1 capital due to prudential filters	-45,877
(-) Other intangible assets	-17,003
(-) Deferred tax assets which are not dependent on future profitability and do not arise as a result of temporary differences, net of associated tax liabilities	-7,515
(-) IRB shortfall of credit-risk adjustments to expected losses	-139,239
(-) Defined-benefit pension plans	0
Tier 2 capital	1,699,975
Capital instruments and subordinated loans eligible as T2 capital	1,699,975
<b>Own funds requirements, Basel 3</b>	<b>1,406,968</b>
<b>Risk-weighted exposure amounts, Basel 3</b>	<b>17,587,099</b>
CET1 capital ratio (%)	26.81
Tier 1 capital ratio (%)	26.81
Total capital ratio (%)	36.47
Institution-specific CET1 capital requirement including buffer requirements (%)	8.50
of which: capital conservation buffer requirement (%)	2.50
of which: countercyclical capital buffer requirement (%)	1.50
CET1 capital available to meet buffers (as a share of total risk-weighted exposure amounts, %) <sup>2</sup>	20.81
Capital quotient	4.56
<b>Capital adequacy under the transitional rules linked to Basel 1</b>	
Own funds	6,553,615
Own funds requirement	4,343,172
Total capital ratio (%) <sup>3</sup>	12.07
Capital quotient	1.51
Leverage ratio (%)	5.7

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

<sup>2</sup> Calculated as "CET1 capital less the amount of this capital used to meet CET1 capital requirements after reduction for any other CET1 capital used to cover the tier 1 capital requirement and total own funds requirements" divided by the risk-weighted exposure amount, Basel 3.

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

## Capital base

SEK thousand	Consolidated situation <sup>1</sup> 30 September 2016
Member contributions	1,509,012
Other contributed capital	1,797,796
Reserves	9,856
Actuarial differences	-30,871
Retained earnings	1,424,584
Net profit for the year <sup>2</sup>	264,197
<b>Equity in balance sheet</b>	<b>4,974,574</b>
Deductions related to the consolidated situation and other foreseeable costs	-81,410
<b>CET1 capital before regulatory adjustments<sup>3</sup></b>	<b>4,893,164</b>
Further value adjustments	-53,667
Intangible assets	-17,003
Deferred tax assets that rely on future profitability	-7,515
Fair value reserves related to gains or losses on cash-flow hedges	7,790
Negative amounts resulting from the calculation of expected loss amounts	-139,239
Defined-benefit pension plans	30,871
<b>CET1 capital</b>	<b>4,714,401</b>
<b>Tier 1 capital</b>	<b>4,714,401</b>
Capital instruments and subordinated loans eligible as T2 capital	1,699,975
<b>T2 capital</b>	<b>1,699,975</b>
<b>Total capital</b>	<b>6,414,375</b>

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

<sup>2</sup> A decision by the Swedish Financial Supervisory Authority on 29 May 2015 gave Landshypotek Bank AB (556500-2762) approval for using the annual surplus in own-funds calculations for the institute and also for its consolidated situation with the prerequisite that the elected auditor (PwC) has verified the surplus and that the surplus has been calculated pursuant to the applicable accounting framework, and that it is possible to verify that deductions have been made for any foreseeable costs and dividends in line with Regulation (EU) No 575/2013 and that these have been calculated according to Regulation (EU) No 241/2014.

<sup>3</sup> The Swedish Financial Supervisory Authority's regulation FFFS 2014:12 entered force in August 2014. Capital adequacy must be reported in accordance with regulatory reporting templates. CET1 capital pertains to the consolidated situation and differs from equity under IFRS. Contributions to equity from insurance activities are excluded as are proposed dividends.

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

Consolidated situation <sup>1</sup> 30 September 2016				
SEK thousand	Exposure value <sup>2</sup>	Risk-weighted exposure amount <sup>3</sup>	Own funds requirements <sup>4</sup>	Average risk weight <sup>5</sup>
<b>Credit risk – IRB approach</b>	<b>64,689,323</b>	<b>9,342,150</b>	<b>747,372</b>	<b>14 %</b>
Retail – real estate collateral	64,586,212	9,239,039	739,123	14 %
Other non-credit-obligation assets	103,111	103,111	8,249	100 %
<b>Credit risk – Standardised Approach</b>	<b>19,782,252</b>	<b>4,894,584</b>	<b>391,567</b>	<b>25 %</b>
National governments or central banks	3,791	-	-	0 %
Regional governments or local authorities or agencies	5,634,564	-	-	0 %
Institutions	3,184,669	1,054,269	84,342	33 %
Corporates	329,874	329,533	26,363	100 %
Retail	120,987	88,755	7,100	73 %
Secured through liens on real property	2,989,588	2,644,108	211,529	88 %
Exposures in default	24,195	28,460	2,277	118 %
Covered bonds	7,494,585	749,459	59,957	10 %
<b>Operational risk – Basic indicator approach<sup>6</sup></b>		<b>1,320,311</b>	<b>105,625</b>	
<b>Credit valuation adjustment risk – standardised approach</b>	<b>2,393,711</b>	<b>2,030,054</b>	<b>162,404</b>	<b>85 %</b>
<b>Total</b>	<b>86,865,287</b>	<b>17,587,099</b>	<b>1,406,968</b>	<b>-</b>

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

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

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

<sup>4</sup> Calculated by multiplying the risk-weighted exposure amount by 8 percent. Does not include any buffer requirements.

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

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

The CEO hereby certifies that the consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and provide a fair representation of the Group's position and performance. This interim report has been prepared in accordance with generally accepted accounting principles and provides a fair representation of the Parent Company's position and performance. This interim report provides a fair view of operations in the Parent Company and the Group and describes the significant risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, 27 October 2016

Liza Nyberg  
CEO

*This interim report has been subject to review by the company's auditors, see page 23.*

## Accounting policies

This Report encompasses the Group comprising Landshypotek Bank AB and the subsidiary Landshypotek Jordbrukskredit AB. Landshypotek Jordbrukskredit AB was liquidated in 2016. In addition, Landshypotek Bank AB is reported separately. Amounts in parentheses refer to the corresponding period in the preceding year.

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting. From 2016, deposit insurance fees and fees to the stabilisation fund have 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](http://www.landshypotek.se), Financial info).

# Income Statement

Landshypotek Bank AB Group, SEK thousand	Note	2016 Q3	2015 Q3	2016 Q2	2016 Jan-Sep	2015 Jan-Sep	2015 Full year
Interest income		338,383	367,892	360,058	1,052,375	1,193,691	1,560,908
Interest expense		-153,985	-189,103	-166,420	-497,795	-639,293	-817,503
- of which: deposit insurance fees		-1,859	-919	-1,734	-5,170	-2,767	-3,675
- of which: government stabilisation fund fees		-7,114	-7,394	-7,650	-21,707	-25,360	-31,660
<b>Net interest income</b>	Note 1	<b>184,398</b>	<b>178,789</b>	<b>193,639</b>	<b>554,581</b>	<b>554,398</b>	<b>743,405</b>
Commission income		2,784	2,420	2,637	8,135	7,699	9,987
Net result of financial transactions		39,064	13,933	-10,252	69,254	12,929	7,787
Other operating income		440	210	4,008	4,909	1,090	2,535
<b>Total operating income</b>		<b>226,687</b>	<b>195,352</b>	<b>190,031</b>	<b>636,880</b>	<b>576,116</b>	<b>763,714</b>
General administrative expenses		-75,330	-68,454	-89,488	-250,410	-238,823	-339,668
Depreciation, amortisation and impairment of tangible and intangible non-current assets		-2,942	-4,921	-3,047	-11,099	-14,736	-19,678
Other operating expenses		-5,088	-3,519	-8,633	-19,515	-15,965	-27,831
<b>Total expenses before loan losses</b>		<b>-83,359</b>	<b>-76,894</b>	<b>-101,168</b>	<b>-281,023</b>	<b>-269,524</b>	<b>-387,177</b>
<b>Profit before loan losses</b>		<b>143,328</b>	<b>118,458</b>	<b>88,863</b>	<b>355,856</b>	<b>306,592</b>	<b>376,537</b>
Net loan losses	Note 2	2,939	-15,293	-1,437	-6,794	-38,652	-45,921
<b>Operating profit</b>		<b>146,267</b>	<b>103,165</b>	<b>87,426</b>	<b>349,062</b>	<b>267,940</b>	<b>330,615</b>
Income tax for the period		-32,161	-22,510	-19,221	-76,256	-58,737	-73,544
<b>Net profit for the period</b>		<b>114,106</b>	<b>80,655</b>	<b>68,205</b>	<b>272,806</b>	<b>209,202</b>	<b>257,071</b>

# Statement of Comprehensive Income

Landshypotek Bank AB Group, SEK thousand	2016 Q3	2015 Q3	2016 Q2	2016 Jan-Sep	2015 Jan-Sep	2015 Full year
<b>Net profit for the period</b>	<b>114,106</b>	<b>80,655</b>	<b>68,205</b>	<b>272,806</b>	<b>209,202</b>	<b>257,071</b>
<b>Other comprehensive income</b>						
<i>Items to be reclassified to profit or loss</i>						
Cash-flow hedges	951	5,848	5,917	10,445	20,035	29,425
Available-for-sale financial assets	28,358	-15,688	6,514	56,870	-45,418	-46,078
Tax on items to be reclassified	-6,448	2,165	-2,734	-14,809	5,584	3,664
<i>Total, items to be reclassified</i>	<i>22,861</i>	<i>-7,675</i>	<i>9,696</i>	<i>52,506</i>	<i>-19,798</i>	<i>-12,990</i>
<i>Items that are not reclassified</i>						
Actuarial differences for defined-benefit pensions	-2,144	6,787	-16,672	-57,417	25,210	40,989
Tax items that are not reclassified	472	-1,493	3,668	12,632	-5,546	-9,018
<i>Total, items that are not reclassified</i>	<i>-1,672</i>	<i>5,294</i>	<i>-13,004</i>	<i>-44,785</i>	<i>19,664</i>	<i>31,971</i>
<b>Total other comprehensive income</b>	<b>21,188</b>	<b>-2,381</b>	<b>-3,308</b>	<b>7,720</b>	<b>-135</b>	<b>18,981</b>
<b>Comprehensive income for the period</b>	<b>135,294</b>	<b>78,273</b>	<b>64,897</b>	<b>280,527</b>	<b>209,068</b>	<b>276,052</b>

# Income Statement

Landshypotek Bank AB Parent Company, SEK thousand	Note	2016 Q3	2015 Q3	2016 Q2	2016 Jan-Sep	2015 Jan-Sep	2015 Full year
Interest income		338,105	361,415	359,780	1,051,540	1,180,870	1,548,087
Interest expense		-153,985	-189,046	-166,419	-497,795	-639,131	-817,284
- of which: deposit insurance fees		-1,859	-919	-1,734	-5,170	-2,767	-3,675
- of which: government stabilisation fund fees		-7,114	-7,394	-7,650	-21,707	-25,360	-31,660
<b>Net interest income</b>	Note 1	<b>184,120</b>	<b>172,369</b>	<b>193,361</b>	<b>553,746</b>	<b>541,739</b>	<b>730,803</b>
Commission income		2,784	2,317	2,637	8,135	7,418	9,672
Net result of financial transactions		39,064	13,933	-10,252	69,254	12,929	7,787
Other operating income		440	210	4,008	4,909	1,090	2,535
<b>Total operating income</b>		<b>226,409</b>	<b>188,829</b>	<b>189,754</b>	<b>636,045</b>	<b>563,176</b>	<b>750,798</b>
General administrative expenses		-74,849	-68,116	-91,596	-253,105	-239,680	-340,295
Depreciation, amortisation and impairment of tangible and intangible non-current assets		-3,057	-4,921	-3,047	-11,214	-14,736	-19,678
Other operating expenses		-5,088	-3,519	-8,633	-19,515	-15,962	-27,828
<b>Total expenses before loan losses</b>		<b>-82,993</b>	<b>-76,556</b>	<b>-103,276</b>	<b>-283,833</b>	<b>-270,378</b>	<b>-387,801</b>
<b>Profit before loan losses</b>		<b>143,415</b>	<b>112,273</b>	<b>86,478</b>	<b>352,211</b>	<b>292,797</b>	<b>362,997</b>
Net loan losses	Note 2	2,939	-13,508	-1,437	-6,794	-34,684	-41,952
Impairment of shares in subsidiaries							-2,266
<b>Operating profit</b>		<b>146,355</b>	<b>98,765</b>	<b>85,041</b>	<b>345,417</b>	<b>258,114</b>	<b>318,778</b>
Income tax for the period		-32,185	-21,716	-18,696	-75,953	-56,749	-70,945
<b>Net profit for the period</b>		<b>114,170</b>	<b>77,049</b>	<b>66,345</b>	<b>269,465</b>	<b>201,365</b>	<b>247,832</b>

# Statement of Comprehensive Income

Landshypotek Bank AB Parent Company, SEK thousand	2016 Q3	2015 Q3	2016 Q2	2016 Jan-Sep	2015 Jan-Sep	2015 Full year
<b>Net profit for the period</b>	<b>114,170</b>	<b>77,049</b>	<b>66,345</b>	<b>269,465</b>	<b>201,365</b>	<b>247,832</b>
<b>Other comprehensive income</b>						
<i>Items to be reclassified to profit or loss</i>						
Cash-flow hedges	951	5,848	5,917	10,445	20,035	29,425
Available-for-sale financial assets	28,358	-15,688	6,514	56,870	-45,418	-46,078
Income tax related to other comprehensive income	-6,448	2,165	-2,734	-14,809	5,584	3,664
<i>Total, items to be reclassified</i>	<i>22,861</i>	<i>-7,675</i>	<i>9,696</i>	<i>52,506</i>	<i>-19,798</i>	<i>-12,990</i>
<b>Total other comprehensive income</b>	<b>22,861</b>	<b>-7,675</b>	<b>9,696</b>	<b>52,506</b>	<b>-19,798</b>	<b>-12,990</b>
<b>Comprehensive income for the period</b>	<b>137,030</b>	<b>69,374</b>	<b>76,041</b>	<b>321,970</b>	<b>181,566</b>	<b>234,843</b>

# Balance Sheet

Landshypotek Bank AB SEK thousand	Group				Parent Company			
	2016 30 Sep	2016 30 Jun	2015 31 Dec	2015 30 Sep	2016 30 Sep	2016 30 Jun	2015 31 Dec	2015 30 Sep
<b>ASSETS</b>								
Cash and balances with central banks			237				237	
Loans to credit institutions	833,259	559,179	396,214	450,147	833,027	555,293	392,262	627,523
Loans to the public Note 3	66,239,834	65,663,382	64,501,262	64,015,230	66,239,834	65,663,382	64,501,262	63,588,444
Value changes of interest-rate-risk hedged items in macro hedges	168,133	184,876	87,842	117,904	168,133	184,876	87,842	117,904
Bonds and other interest-bearing securities	13,112,792	15,287,723	13,251,589	13,744,317	13,112,792	15,287,723	13,251,589	13,744,317
Derivatives	2,670,541	2,527,433	1,874,871	2,132,096	2,670,541	2,527,433	1,874,871	2,132,096
Shares in Group companies					200	278,487	278,487	280,753
Intangible non-current assets	17,003	18,955	20,654	24,620	17,003	18,955	20,654	24,620
Tangible assets								
Furniture, fixtures and equipment	8,942	9,543	10,621	9,982	8,942	9,543	10,621	9,982
Buildings and land	11,436	11,179	20,168	24,886	11,436	11,179	20,168	24,886
Other assets	34,964	23,743	35,324	19,099	34,962	23,485	4,951	6,134
Current tax assets	0	1,508	22,137	4,438			20,670	
Deferred tax assets	7,515	7,215		3,810	2,497	2,694	4,756	6,806
Prepaid expenses and accrued income	631,475	582,955	498,081	705,047	631,475	582,955	498,080	699,724
<b>TOTAL ASSETS</b> Notes 4, 5, 6	<b>83,735,893</b>	<b>84,877,690</b>	<b>80,719,000</b>	<b>81,251,577</b>	<b>83,730,842</b>	<b>85,146,004</b>	<b>80,966,450</b>	<b>81,263,187</b>
<b>LIABILITIES, PROVISIONS AND EQUITY</b>								
Liabilities to credit institutions	1,215,094	701,100	393,227	1,726,503	1,215,094	701,135	393,262	1,746,503
Borrowing from the public	11,703,545	11,255,227	10,309,718	8,777,328	11,703,545	11,255,227	10,309,718	8,777,328
Debt securities in issue, etc.	62,634,626	64,790,683	63,012,651	63,673,878	62,634,626	64,790,683	63,012,651	63,673,878
Derivatives	792,239	973,764	1,059,244	1,018,746	792,239	973,764	1,059,244	1,018,746
Other liabilities	36,671	47,805	297,361	57,487	36,158	320,104	569,657	57,058
Deferred tax liabilities	27,517	3,356	2,555		27,517	3,358		
Accrued expenses and deferred income	764,597	681,679	586,824	878,574	764,597	681,679	586,824	878,572
Provisions	23,656	21,404			1,361	1,361	1,361	2,020
Subordinated liabilities	1,699,975	1,699,992	499,972	499,975	1,699,975	1,699,992	499,972	499,975
<b>Total liabilities</b>	<b>78,897,919</b>	<b>80,175,010</b>	<b>76,161,552</b>	<b>76,632,491</b>	<b>78,875,110</b>	<b>80,427,303</b>	<b>76,432,689</b>	<b>76,654,079</b>
<b>Equity</b>	<b>4,837,974</b>	<b>4,702,681</b>	<b>4,557,448</b>	<b>4,619,085</b>	<b>4,855,732</b>	<b>4,718,701</b>	<b>4,533,761</b>	<b>4,609,108</b>
<b>TOTAL LIABILITIES, PROVISIONS AND EQUITY</b> Notes 4, 5, 6	<b>83,735,893</b>	<b>84,877,690</b>	<b>80,719,000</b>	<b>81,251,577</b>	<b>83,730,842</b>	<b>85,146,004</b>	<b>80,966,450</b>	<b>81,263,187</b>

# Cash-flow Statement

Landshypotek Bank AB SEK thousand	Group			Parent Company		
	2016 Jan-Sep	2015 Jan-Sep	2015 Full year	2016 Jan-Sep	2015 Jan-Sep	2015 Full year
<b>Opening cash and cash equivalents</b>	<b>396,451</b>	<b>720,333</b>	<b>720,333</b>	<b>392,499</b>	<b>813,558</b>	<b>813,558</b>
Cash flow from operating activities	-601,256	-167,665	-24,462	-597,536	-243,514	-121,639
Cash flow from investing activities	2,963	-5,821	-2,720	2,963	-5,821	-2,720
Cash flow from financing activities	1,035,100	-96,700	-296,700	1,035,100	-96,700	-296,700
<b>Cash flow for the period</b>	<b>436,807</b>	<b>-270,186</b>	<b>-323,882</b>	<b>440,527</b>	<b>-346,035</b>	<b>-421,059</b>
<b>Closing cash and cash equivalents</b>	<b>833,258</b>	<b>450,147</b>	<b>396,451</b>	<b>833,026</b>	<b>467,523</b>	<b>392,499</b>

# Statement of Changes in Equity

Landshypotek Bank AB Group SEK thousand	Share capital	Other contributed capital	Hedging reserve	Fair value reserve	Actuarial differenc- es	Retained earnings	Total
<b>Equity 31 December 2014</b>	<b>2,173,000</b>	<b>1,026,254</b>	<b>-38,888</b>	<b>9,228</b>	<b>-18,057</b>	<b>1,178,481</b>	<b>4,330,018</b>
Comprehensive income for the period			15,627	-35,426	19,664	209,202	209,068
<b>Total change before transactions with owners</b>	<b>-</b>	<b>-</b>	<b>15,627</b>	<b>-35,426</b>	<b>19,664</b>	<b>209,202</b>	<b>209,068</b>
New share issue	80,000						80,000
<b>Equity 30 September 2015</b>	<b>2,253,000</b>	<b>1,026,254</b>	<b>-23,262</b>	<b>-26,198</b>	<b>1,608</b>	<b>1,387,683</b>	<b>4,619,086</b>
<b>Equity 31 December 2015</b>	<b>2,253,000</b>	<b>1,026,254</b>	<b>-15,936</b>	<b>-26,714</b>	<b>13,914</b>	<b>1,306,930</b>	<b>4,557,448</b>
Comprehensive income for the period			8,147	44,359	-44,785	272,806	280,527
<b>Total change before transactions with owners</b>	<b>-</b>	<b>-</b>	<b>8,147</b>	<b>44,359</b>	<b>-44,785</b>	<b>272,806</b>	<b>280,527</b>
<b>Equity 30 September 2016</b>	<b>2,253,000</b>	<b>1,026,254</b>	<b>-7,790</b>	<b>17,645</b>	<b>-30,872</b>	<b>1,579,736</b>	<b>4,837,974</b>

Landshypotek Bank AB Parent Company SEK thousand	Share capital	Other contributed capital	Hedging reserve	Fair value reserve		Retained earnings	Total
<b>Equity 31 December 2014</b>	<b>2,173,000</b>	<b>1,016,694</b>	<b>-38,888</b>	<b>9,228</b>		<b>1,187,510</b>	<b>4,347,542</b>
Comprehensive income for the period			15,627	-35,426		201,365	181,566
<b>Total change before transactions with owners</b>	<b>-</b>	<b>-</b>	<b>15,627</b>	<b>-35,426</b>		<b>201,365</b>	<b>181,566</b>
New share issue	80,000						80,000
<b>Equity 30 September 2015</b>	<b>2,253,000</b>	<b>1,016,694</b>	<b>-23,261</b>	<b>-26,198</b>		<b>1,388,876</b>	<b>4,609,108</b>
<b>Equity 31 December 2015</b>	<b>2,253,000</b>	<b>1,016,694</b>	<b>-15,936</b>	<b>-26,714</b>		<b>1,306,718</b>	<b>4,533,761</b>
Comprehensive income for the period			8,147	44,359		269,465	321,970
<b>Total change before transactions with owners</b>	<b>-</b>	<b>-</b>	<b>8,147</b>	<b>44,359</b>		<b>269,465</b>	<b>321,970</b>
<b>Equity 30 September 2016</b>	<b>2,253,000</b>	<b>1,016,694</b>	<b>-7,790</b>	<b>17,645</b>		<b>1,576,182</b>	<b>4,855,732</b>



# Notes

## Note 1 Net interest income

Landshypotek Bank AB – Group SEK thousand	2016 Q3	2015 Q3	2016 Q2	2016 Jan-Sep	2015 Jan-Sep	2015 Full year
<b>Interest income</b>						
Interest income on loans to credit institutions	-3	-641	-6	-9	-707	-707
Interest income on loans to the public	318,804	337,476	330,909	973,743	1,075,845	1,413,906
Less interest losses	-233	-161	-169	-933	-579	-1,601
Interest income on interest-bearing securities	19,536	31,215	29,043	78,734	119,124	149,221
of which interest income for financial assets in fair-value hedges	3,807	0	4,932	8,739	0	0
of which interest income on financial assets at fair value through profit or loss	16,869	31,328	26,979	72,586	107,639	138,361
of which interest income on available-for-sale financial assets	-1,140	-113	-2,868	-2,591	11,485	10,860
Other interest income	279	3	281	840	8	89
<b>Total</b>	<b>338,383</b>	<b>367,892</b>	<b>360,058</b>	<b>1,052,375</b>	<b>1,193,691</b>	<b>1,560,908</b>
<i>All interest income is attributable to the Swedish market.</i>						
<b>Interest expense</b>						
Interest expense for liabilities to credit institutions – other	1,814	1,675	2,516	5,776	3,166	4,060
Interest expense for borrowing/deposits from the public	-22,484	-19,958	-22,002	-65,341	-62,137	-83,941
of which: deposit insurance fees	-1,859	-919	-1,734	-5,170	-2,767	-3,675
Interest expense for interest-bearing securities	-160,776	-205,504	-191,280	-546,511	-678,170	-881,429
of which interest expense for financial liabilities in fair value hedges adjusted for the fair value of hedged risk	-66,754	-178,352	-127,494	-404,503	-476,411	-617,491
of which interest expense on interest-bearing securities at amortised cost	-144,893	-56,743	-91,735	-249,263	-289,571	-381,341
of which periodisation of the market value created from terminated hedging commitments *	50,871	29,592	27,949	107,255	87,812	117,405
Interest expense for subordinated liabilities	-11,412	-4,959	-7,332	-23,476	-19,523	-24,389
Interest expense for derivative instruments	47,903	50,542	61,273	162,550	149,165	209,608
of which interest expense on derivatives at fair value through profit or loss	51,346	-82,123	-4,157	24,724	-107,498	-138,047
of which interest expense on derivatives identified as hedging instruments	46,757	161,412	93,379	244,409	341,965	461,705
of which reclassification of terminated hedging relationships *	-50,200	-28,747	-27,949	-106,584	-85,303	-114,050
Other interest expense	-9,030	-10,899	-9,595	-30,793	-31,794	-41,412
of which: government stabilisation fund fees	-7,114	-7,394	-7,650	-21,707	-25,360	-31,660
<b>Total</b>	<b>-153,985</b>	<b>-189,103</b>	<b>-166,420</b>	<b>-497,795</b>	<b>-639,293</b>	<b>-817,503</b>
<b>Total net interest income</b>	<b>184,398</b>	<b>178,789</b>	<b>193,639</b>	<b>554,581</b>	<b>554,398</b>	<b>743,405</b>

\* 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 in the 2014 annual accounts under the item Net result of financial transactions. From 2015, these amounts will be recognised net in net interest income. The remaining amount to be periodised is MSEK 367,6, which will continue until August 2029.

Costs that were directly attributable to borrowing were reclassified to interest expense in 2015.

Deposit insurance fees and fees to the stabilisation fund have been reclassified from Other operating income to Net interest income in 2016.

The comparative figures for 2015 have been restated.

continued Note 1 Net interest income

Landshypotek Bank AB — Parent Company SEK thousand	2016 Q3	2015 Q3	2016 Q2	2016 Jan-Sep	2015 Jan-Sep	2015 Full year
<b>Interest income</b>						
Interest income on loans to credit institutions	-3	-641	-6	-9	-707	-707
Interest income on loans to the public	318,804	330,990	330,909	973,743	1,063,013	1,401,091
Less interest losses	-233	-151	-169	-933	-567	-1,582
Interest income on interest-bearing securities	19,536	31,215	29,043	78,734	119,124	149,221
of which interest income for financial assets in fair-value hedges	3,807	0	4,932	8,739	0	0
of which interest income on financial assets at fair value through profit or loss	16,869	31,328	26,979	72,586	107,639	138,361
of which interest income on available-for-sale financial assets	-1,140	-113	-2,868	-2,591	11,485	10,860
Other interest income	0	2	3	5	7	64
<b>Total</b>	<b>338,105</b>	<b>361,415</b>	<b>359,780</b>	<b>1,051,540</b>	<b>1,180,870</b>	<b>1,548,087</b>
<i>All interest income is attributable to the Swedish market.</i>						
<b>Interest expense</b>						
Interest expense for liabilities to credit institutions — other	1,814	1,675	2,516	5,776	3,166	4,061
Interest expense for borrowing/deposits from the public	-22,484	-19,958	-22,002	-65,341	-62,137	-83,941
of which: deposit insurance fees	-1,859	-919	-1,734	-5,170	-2,767	-3,675
Interest expense for interest-bearing securities	-160,776	-205,504	-191,280	-546,511	-678,170	-881,429
of which interest expense for financial liabilities in fair value hedges adjusted for the fair value of hedged risk	-66,754	-178,352	-127,494	-404,503	-476,411	-617,491
of which interest expense on interest-bearing securities at amortised cost	-144,893	-56,743	-91,735	-249,263	-289,571	-381,341
of which periodisation of the market value created from terminated hedging commitments *	50,871	29,592	27,949	107,255	87,812	117,405
Interest expense for subordinated liabilities	-11,412	-4,959	-7,332	-23,476	-19,523	-24,389
Interest expense for derivative instruments	47,903	50,542	61,273	162,550	149,165	209,608
of which interest expense on derivatives at fair value through profit or loss	51,346	-82,123	-4,157	24,724	-107,498	-138,047
of which interest expense on derivatives identified as hedging instruments	46,757	161,412	93,379	244,409	341,965	461,705
of which reclassification of terminated hedging relationships *	-50,200	-28,747	-27,949	-106,584	-85,303	-114,050
Other interest expense	-9,030	-10,842	-9,594	-30,793	-31,622	-41,185
of which: government stabilisation fund fees	-7,114	-7,394	-7,650	-21,707	-25,360	-31,660
<b>Total</b>	<b>-153,985</b>	<b>-189,046</b>	<b>-166,419</b>	<b>-497,795</b>	<b>-639,131</b>	<b>-817,284</b>
<b>Total net interest income</b>	<b>184,120</b>	<b>172,369</b>	<b>193,361</b>	<b>553,746</b>	<b>541,739</b>	<b>730,803</b>

\* 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 in the 2014 annual accounts under the item Net result of financial transactions. From 2015, these amounts will be recognised net in net interest income. The remaining amount to be periodised is MSEK 367.6, which will continue until August 2029.

Costs that were directly attributable to borrowing were reclassified to interest expense in 2015.

Deposit insurance fees and fees to the stabilisation fund have been reclassified from Other operating income to Net interest income in 2016.

The comparative figures for 2015 have been restated.

## Note 2 Net loan losses

Landshypotek Bank AB — Group SEK thousand	2016 Q3	2015 Q3	2016 Q2	2016 Jan-Sep	2015 Jan-Sep	2015 Full year
Write-off for the period for confirmed losses	-1,817	-1,435	-3,670	-18,609	-15,739	-50,261
Reversal of prior provisions for probable loan losses, recognised as confirmed losses during the year	1,812	2,040	4,679	19,241	15,822	49,091
Provision for probable loan losses	-10,831	-20,132	-17,307	-42,577	-62,333	-82,226
Recovery of previously confirmed losses	454	2,413	2,969	6,227	3,810	6,225
Reversal of prior provisions no longer necessary for probable loan losses	13,321	1,821	11,891	28,924	19,788	31,250
Guarantees	0	0	0	0	0	0
<b>Total loan losses</b>	<b>2,939</b>	<b>-15,293</b>	<b>-1,437</b>	<b>-6,794</b>	<b>-38,652</b>	<b>-45,921</b>

All loan losses are attributable to loans to the public.

Properties taken over in foreclosure to protect claims, MSEK 0.4 (13.2).

Landshypotek Bank AB — Parent Company SEK thousand	2016 Q3	2015 Q3	2016 Q2	2016 Jan-Sep	2015 Jan-Sep	2015 Full year
Write-off for the period for confirmed losses	-1,817	-1,436	-3,670	-18,609	-13,712	-48,232
Reversal of prior provisions for probable loan losses, recognised as confirmed losses during the year	1,812	2,040	4,679	19,241	14,360	47,629
Provision for probable loan losses	-10,831	-17,972	-17,307	-42,577	-57,198	-77,091
Recovery of previously confirmed losses	454	2,413	2,969	6,227	3,809	6,225
Reversal of prior provisions no longer necessary for probable loan losses	13,321	1,447	11,891	28,924	18,057	29,518
<b>Total loan losses</b>	<b>2,939</b>	<b>-13,508</b>	<b>-1,437</b>	<b>-6,794</b>	<b>-34,684</b>	<b>-41,952</b>

All loan losses are attributable to loans to the public.

Properties taken over in foreclosure to protect claims, MSEK 0.4 (13.2).

## Note 3 Loans to the public

Landshypotek Bank AB SEK thousand	Group				Parent Company			
	2016 30 Sep	2016 30 Jun	2015 31 Dec	2015 30 Sep	2016 30 Sep	2016 30 Jun	2015 31 Dec	2015 30 Sep
Loan receivables	66,303,964	65,734,419	64,574,511	64,112,020	66,303,964	65,734,419	64,574,511	63,658,184
Less specific provisions for individually valued loan receivables	-64,130	-71,037	-73,249	-96,790	-64,130	-71,037	-73,249	-69,740
<b>Net loan receivables</b>	<b>66,239,834</b>	<b>65,663,382</b>	<b>64,501,262</b>	<b>64,015,230</b>	<b>66,239,834</b>	<b>65,663,382</b>	<b>64,501,262</b>	<b>63,588,444</b>
<b>Disclosures on overdue unimpaired loan receivables</b>								
Loan receivables overdue 5–90 days	2,500	880	102,304		2,500	880	102,304	
Loan receivables overdue more than 90 days	364,854	360,596	260,209	683,347	364,854	360,596	260,209	674,487
<b>Total overdue unimpaired loan receivables</b>	<b>367,354</b>	<b>361,476</b>	<b>362,513</b>	<b>683,347</b>	<b>367,354</b>	<b>361,476</b>	<b>362,513</b>	<b>674,487</b>
<b>Disclosures on doubtful credits</b>								
Doubtful credits that are not overdue	104,263	152,946	151,902	94,032	104,263	152,946	151,902	87,802
Overdue doubtful credits	167,111	200,412	266,378	308,574	167,111	200,412	266,378	288,101
<b>Total doubtful credits, gross</b>	<b>271,374</b>	<b>353,358</b>	<b>418,281</b>	<b>402,606</b>	<b>271,374</b>	<b>353,358</b>	<b>418,281</b>	<b>375,903</b>
Less capital provisions made	-64,130	-71,037	-73,249	-96,790	-64,130	-71,037	-73,249	-69,740
<b>Total doubtful credits, net</b>	<b>207,244</b>	<b>282,321</b>	<b>345,032</b>	<b>305,816</b>	<b>207,244</b>	<b>282,321</b>	<b>345,032</b>	<b>306,163</b>

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

## Note 4 Fair-value hierarchy for financial instruments

Landshypotek Bank AB Group and Parent Company, SEK thousand	30 Sep 2016				30 Sep 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value through profit or loss</b>								
Bonds and other interest-bearing securities	2,641,898			2,641,898	8,202,928			8,202,928
Interest-rate swaps		14,511		14,511				
Cross-currency interest-rate swaps		430,170		430,170		358,154		358,154
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		1,401,909		1,401,909		1,157,926		1,157,926
Cross-currency interest-rate swaps		823,952		823,952		616,016		616,016
<b>Available-for-sale financial assets</b>								
Bonds and other interest-bearing securities	10,470,893			10,470,893	5,541,389			5,541,389
<b>Total assets measured at fair value</b>	<b>13,112,792</b>	<b>2,670,541</b>	<b>-</b>	<b>15,783,333</b>	<b>13,744,317</b>	<b>2,132,096</b>	<b>-</b>	<b>15,876,413</b>
<b>Financial liabilities at fair value through profit or loss</b>								
Interest-rate swaps		184,755		184,755		463,240		463,240
Cross-currency interest-rate swaps		2,984		2,984		28,965		28,965
<b>Derivatives identified as hedging instruments</b>								
Interest-rate swaps		521,067		521,067		188,041		188,041
Cross-currency interest-rate swaps		83,433		83,433		338,500		338,500
<b>Total liabilities measured at fair value</b>	<b>-</b>	<b>792,239</b>	<b>-</b>	<b>792,239</b>	<b>-</b>	<b>1,018,746</b>	<b>-</b>	<b>1,018,746</b>

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

No transfers were made between the levels. Level 1 only comprises listed mortgage bonds and bonds issued by municipalities and county councils. Level 2 comprises derivative instruments and 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. The interest-rate and cross-currency basis swap curves are used for measurement of interest-rate and cross-currency interest-rate swaps, respectively. Accrued interest is not included in the calculation of fair value.

### Level 3

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

## Note 5 Fair value disclosures

Landshypotek Bank AB Group, SEK thousand	30 Sep 2016 Carrying amount	30 Sep 2016 Fair value	30 Sep 2015 Carrying amount	30 Sep 2015 Fair value
<b>Assets</b>				
Loans to credit institutions	833,259	833,259	450,147	450,147
Loans to the public	66,239,834	66,213,912	64,015,230	63,757,715
Bonds and other interest-bearing securities	13,112,792	13,112,792	13,744,317	13,744,317
Derivatives	2,670,541	2,670,541	2,132,096	2,132,096
<b>Total assets</b>	<b>82,856,426</b>	<b>82,830,504</b>	<b>80,341,791</b>	<b>80,084,275</b>
<b>Liabilities and provisions</b>				
Liabilities to credit institutions	1,215,094	1,215,094	1,726,503	1,726,503
Borrowing from the public	11,703,545	11,703,545	8,777,328	8,777,328
Debt securities in issue, etc.	62,634,626	63,728,599	63,673,878	64,684,236
Derivatives	792,239	792,239	1,018,746	1,018,746
Subordinated liabilities	1,699,975	1,866,659	499,975	534,954
<b>Total liabilities</b>	<b>78,045,478</b>	<b>79,306,135</b>	<b>75,696,430</b>	<b>76,741,767</b>

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

Landshypotek Bank AB Parent Company, SEK thousand	30 Sep 2016 Carrying amount	30 Sep 2016 Fair value	30 Sep 2015 Carrying amount	30 Sep 2015 Fair value
<b>Assets</b>				
Loans to credit institutions	833,027	833,027	627,523	627,523
Loans to the public	66,239,834	66,213,912	63,588,444	63,330,849
Bonds and other interest-bearing securities	13,112,792	13,112,792	13,744,317	13,744,317
Derivatives	2,670,541	2,670,541	2,132,096	2,132,096
<b>Total assets</b>	<b>82,856,193</b>	<b>82,830,272</b>	<b>80,092,380</b>	<b>79,834,785</b>
<b>Liabilities and provisions</b>				
Liabilities to credit institutions	1,215,094	1,215,094	1,746,503	1,746,503
Borrowing from the public	11,703,545	11,703,545	8,777,328	8,777,328
Debt securities in issue, etc.	62,634,626	63,728,599	63,673,878	64,684,236
Derivatives	792,239	792,239	1,018,746	1,018,746
Subordinated liabilities	1,699,975	1,866,659	499,975	534,954
<b>Total liabilities</b>	<b>78,045,478</b>	<b>79,306,135</b>	<b>75,716,430</b>	<b>76,761,767</b>

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

## Note 6 Disclosures about offsetting

Financial assets and liabilities covered by a contractual master netting agreement or similar, but not offset in the balance sheet.

Group and Parent Company 2016 SEK thousand	Amount recognised in the balance sheet 30 Sep 2016	Related amounts not offset in the balance sheet			Net amount 30 Sep 2016
		Financial instruments	Paid (+) Received (-) collateral – securities	Paid (+) Received (-) cash collateral	
<b>Assets</b>					
Derivatives, fair value	2,670,541	-724,912			
Derivatives, accrued interest	446,304	-131,048			
<i>Derivatives, total value including accrued interest</i>	3,116,845	-855,960		-497,979	1,762,906
Repurchase agreements, reverse repos	-				-
<b>Liabilities</b>					
Derivatives, fair value	-792,239	724,912			
Derivatives, accrued interest	-131,728	131,048			
<i>Derivatives, total value including accrued interest</i>	-923,967	855,960			-68,006
Reverse repos	-680,112				-680,112

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

### Amount recognised in the balance sheet

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

### Financial instruments

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

### Cash collateral received

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

### Net amounts

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

## **Review report - For translation purposes only**

We have reviewed this interim report for the period 1 January 2016 to 30 September 2016 for Landshypotek Bank AB (publ). The board of directors and the CEO are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act for Credit institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

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

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

Stockholm, 27 October 2016

Öhrlings PricewaterhouseCoopers AB

Ulf Westerberg  
*Authorised Public Accountant*  
*Partner in charge*

Helena Kaiser de Carolis  
*Authorised Public Accountant*



**Landshypotek Bank**