

Länsförsäkringar Hypotek

Interim Report January–September 2017

The period in brief

- Operating profit increased 16% to SEK 575.4 M (494.4) and the return on equity amounted to 6.8% (6.8).
- Net interest income increased 29% to SEK 1,539 M (1,189).
- Loan losses amounted to SEK -0.6 M (-1.0), net, corresponding to a loan loss level of -0.00% (-0.00).
- Lending increased 16% to SEK 189.0 billion (162.9).
- The Common Equity Tier 1 capital ratio amounted to 54.5% (50.6*) on 30 September 2017.
- The number of customers increased 9% to 248,000 (228,000).

Figures in parentheses pertain to the same period in 2016.
* Pertains to 30 June 2017.

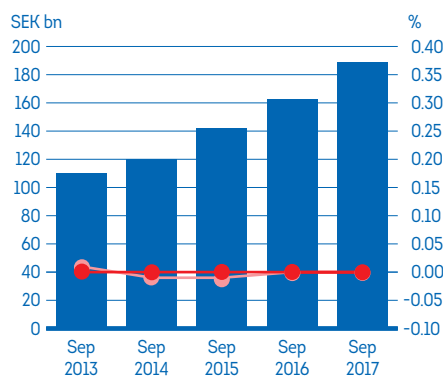
President's comment

Länsförsäkringar Hypotek's retail mortgage operations are continuing to perform strongly and we see an increase in the number of customers and higher market shares. We delivered a strong operating profit for the period and are further strengthening our market position. The strong local presence of the regional insurance companies and high customer satisfaction are the keys to the stable growth in lending. We are continuing to maintain our high credit quality and loan losses for the period remained unchanged at very low levels. The trend in housing prices remains a much debated issue and it is positive that the price trend now appears to have weakened slightly.

Martin Rydin

President of Länsförsäkringar Hypotek

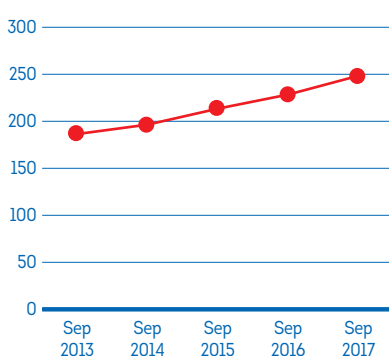
Loans to the public



● Loans, SEK billion ● Percentage of impaired loans, %
● Loan losses, %

Customer trend

Number of customers, 000s



Key figures

	Q3 2017	Q2 2017	Q3 2016	Jan-Sep 2017	Jan-Sep 2016	Full-Year 2016
Return on equity, %	6.7	7.1	6.1	6.8	6.8	6.7
Return on total capital, %	0.39	0.41	0.33	0.38	0.38	0.37
Investment margin, %	1.06	1.01	0.94	1.03	0.90	0.92
Cost/income ratio before loan losses	0.11	0.11	0.14	0.12	0.13	0.13
Common Equity Tier 1 capital ratio, %	54.5	50.6	44.2	54.5	44.2	44.1
Total capital ratio, %	60.0	56.2	49.9	60.0	49.9	49.7
Percentage of impaired loans, gross, %	0.00	0.00	0.00	0.00	0.00	0.00
Reserve ratio in relation to loans, %	0.01	0.01	0.02	0.01	0.02	0.02
Reserve ratio in relation to loans, incl. held remuneration to regional insurance companies, %	0.02	0.02	0.03	0.02	0.03	0.02
Loan loss level, %	0.00	-0.00	0.00	-0.00	-0.00	-0.00*

* Includes the dissolution of reserves.

Income statement, quarterly

SEK M	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Net interest income	540.4	508.2	490.6	457.8	426.2
Net commission	-305.3	-267.0	-259.6	-257.0	-245.4
Net gains/losses from financial items	-11.3	-10.3	-33.1	-16.9	-5.1
Other operating income	0.0	0.0	0.0	0.1	0.0
Total operating income	223.8	230.8	197.8	183.9	175.6
Staff costs	-4.1	-4.3	-4.0	-2.9	-3.5
Other administration expenses	-21.3	-21.6	-22.2	-20.7	-20.5
Total operating expenses	-25.4	-25.8	-26.2	-23.7	-24.0
Profit before loan losses	198.4	205.1	171.5	160.2	151.6
Loan losses, net	-0.8	0.7	0.7	3.8	-0.2
Operating profit	197.6	205.8	172.2	164.0	151.4

Market commentary

The global economy continued to strengthen during the third quarter of the year. The rate of growth in the US was high and the economic trend in Europe continued to surprise on the upside. Political uncertainty in Europe abated slightly with the victory of Angela Merkel and the CDU party in the German federal election. The nature of the political risks changed, however, due to Merkel's uncertain mandate to form a government. The largest political risk involves the relationship between the US and North Korea which appears to be increasingly unstable. It is nevertheless difficult to quantify any consequences of an escalated conflict and the market has so far remained relatively calm. Global stock markets reported a weak trend for the summer months but made a slight recovery in September. The performance of the Swedish stock market was weaker than the global index, while emerging markets continued to report a robust performance.

Growth was strong in the US, particularly in the labour market, whereas inflation was lower than expected. As a result, the market lowered its expectations of the Fed raising

interest rates in the quarter, which in turn caused the USD to fall and interest rates to decline, though only to a limited extent. At the Fed meeting in September, Janet Yellen reiterated that the Fed's plan to continue to raise interest rates remained firm, which led to rates increasing and the USD strengthening towards the end of the quarter. The Fed also announced that it will initiate its balance sheet normalisation programme in October. At the end of the quarter, US President Donald Trump presented a tax reform proposal that was well received by the market.

The European economy continued to perform at a surprisingly favourable rate. Recovery was widespread across countries and industries, although inflation remained low. The market started to build up gradual expectations of a less expansive monetary policy from the ECB which strengthened the EUR.

The Swedish economy was solid with high growth figures and strong confidence figures. Next year's finance policy is expected to spur on demand in the economy. Inflation and inflation expectations continued to rise. However, the Riksbank is deferring austerity

measures due to the uncertain inflation outlook. The SEK strengthened against the USD but weakened marginally against the EUR in the quarter. Rates on Swedish covered bonds were largely unchanged during the quarter and demand from investors was good.

Adjusted for seasonal effects, housing prices remained unchanged for Sweden as a whole during the quarter. By the end of the year, the government is expected to announce its standpoint on the Financial Supervisory Authority's proposal on stricter mortgage repayment requirements, something that is expected to mainly affect the large metropolitan areas.

January-September 2017 compared with January-September 2016

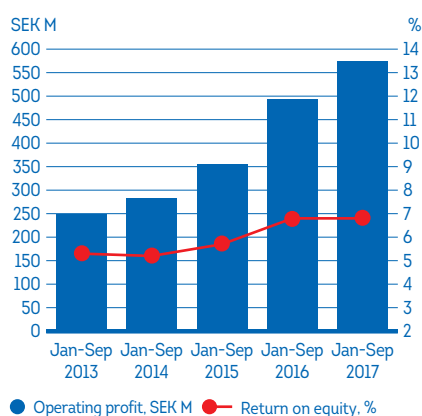
Growth and customer trend

Loans to the public rose 16%, or SEK 26.1 billion, to SEK 189.0 billion (162.9), with continued very high credit quality. The number of customers increased 9%, or 20,000, to 248,000 (228,000), and 87% (87) of retail mortgage customers have Länsförsäkringar as their primary bank.

Earnings and profitability

Operating profit increased 16% to SEK 575.4 M (494.4), primarily due to higher net interest income. The investment margin strengthened to 1.03% (0.90). Profit before loan losses rose 16% to SEK 574.8 M (493.4). The return on equity amounted to 6.8% (6.8).

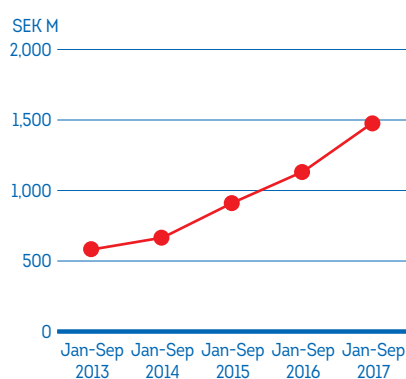
Operating profit and return on equity



Income

Operating income rose 15% to SEK 652.4 M (567.1), due to higher net interest income attributable to increased volumes and lower refinancing costs. Net interest income rose 29% to SEK 1,539 M (1,189). Net losses from financial items amounted to SEK -54.7 M (gains: 56.1) due to changes in fair value. Net commission amounted to SEK -832.0 M (-678.3), as a result of increased remuneration to the regional insurance companies due to a favourable volume trend and the strengthened profitability of the business.

Net interest income



Expenses

Operating expenses amounted to SEK 77.6 M (73.7). The cost/income ratio was 0.12 (0.13) before loan losses and 0.12 (0.13) after loan losses.

Loan losses

Loan losses amounted to SEK -0.6 M (-1.0), net, corresponding to a loan loss level of -0.00% (-0.00). Impaired loans, gross, amounted to SEK 0 M (0), corresponding to a percentage of impaired loans, gross, of 0.00% (0.00). Reserves amounted to SEK 27.4 M (30.4), corresponding to a reserve ratio in relation to loans of 0.01% (0.02). In addition, SEK 17.7 M (14.1) of the remuneration to the regional insurance companies is withheld in accordance with the settlement model. The reserve ratio in relation to loans, including withheld remuneration to the regional insurance companies, was 0.02% (0.03).

For more information regarding loan losses, reserves and impaired loans, see notes 6 and 8.

Loans

All loans are granted in Sweden, in SEK and have a well-diversified geographic distribution. Loans to the public increased 16%, or SEK 26.1 billion, to SEK 189.0 billion (162.9). The credit quality of the loan portfolio, comprising 71% (72) single-family homes, 24% (23) tenant-owned apartments and 5% (5) multi-family housing, remained favourable. On 31 August 2017, the market share of retail mortgages had strengthened to 6.1% (5.7) according to Statistics Sweden.

Cover pool

The cover pool, which forms the basis of issuance of covered bonds, contains SEK 179.7 billion, corresponding to 95% of the loan portfolio. The collateral comprises only private homes, of which 73% (74) are single-family homes, 25% (24) tenant-owned apartments and 2% (2) vacation homes. The geographic spread throughout Sweden is favourable and the average loan commitment is low at SEK 1.17 M (1.09). The weighted average loan-to-value ratio, LTV, decreased to 56% (57) and the nominal, current OC (over-collateralisation) amounted to 35% (39). A stress test of the cover pool based on a 20% price drop in the market value of the mortgages' collateral, resulted in a weighted average LTV of 64% (64) on 30 September 2017. No impaired loans are included in the cover pool. Länsförsäkringar Hypotek's cover pool

has a healthy buffer to manage any downturns in housing prices. According to Moody's report (Global Covered Bonds Monitoring Overview) from 20 July 2017, the assets in Länsförsäkringar Hypotek's cover pool continue to maintain the highest collateral score among all Swedish covered-bond issuers, and are among the foremost in Europe.

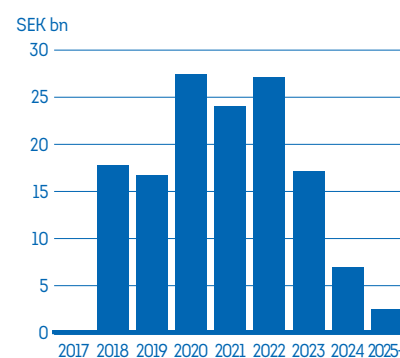
Cover pool	30 Sep 2017	30 Sep 2016
Cover pool, SEK billion	189	163
OC ¹ , nominal level, %	35	39
Weighted average LTV, %	56	57
Collateral	Private homes	Private homes
Seasoning, months	58	58
Number of loans	346,508	313,840
Number of borrowers	153,465	140,777
Number of properties	153,163	140,465
Average commitment, SEK 000s	1,173	1,092
Average loan, SEK 000s	519	489
Interest rate type, variable, %	68	66
Interest rate type, fixed, %	32	34
Impaired loans	None	None

¹ OC is calculated using nominal values and excludes accrued interest rates. Debt securities in issue in other currencies than SEK are translated into SEK using the swap rate. Debt securities in issue include repurchase agreements.

Funding

Länsförsäkringar Hypotek continuously issues bonds to refinance future new loans and current funding falling due. The funding structure is favourable and the maturity profile is well diversified. Debt securities in issue increased 19% to SEK 145.7 billion (122.3). Issued covered bonds during the period totalled a nominal SEK 28.9 billion (21.6) and repurchases of a nominal SEK 3.9 billion (3.5) were executed. Matured covered bonds amounted to a nominal SEK 6.8 billion (8.0). In addition, Länsförsäkringar Hypotek issued a new Swedish benchmark bond (LFH517) in September, which matures in October 2024.

Maturity profile



● Covered bonds

Liquidity

On 30 September 2017, the liquidity reserve totalled SEK 9.7 billion (10.4), according to the Swedish Bankers' Association's definition. The liquidity situation remained healthy and the survival horizon was slightly more than 1.5 years. The liquidity reserve comprised 100% (100) Swedish covered bonds with the credit rating of AAA/Aaa.

Rating

Länsförsäkringar Hypotek is one of three issuers in the Swedish market with the highest credit rating for covered bonds from both Standard & Poor's and Moody's. The Parent Company Länsförsäkringar Bank's credit rating is A/Stable from Standard & Poor's and A1/Stable from Moody's.

Capital ratio¹

Länsförsäkringar Hypotek AB (SEK M)	30 Sep 2017	30 Jun 2017
IRB Approach	15,157	14,708
retail exposures	11,791	11,361
exposures to corporates	3,365	3,347
Standardised Approach	1,496	1,420
Operational risks	915	915
Total REA	18,222	17,770
Common Equity Tier 1 capital	9,933	8,987
Tier 1 capital	9,933	8,987
Total capital	10,934	9,988
Common Equity Tier 1 capital ratio	54.5%	50.6%
Tier 1 ratio	54.5%	50.6%
Total capital ratio	60.0%	56.2%

The Common Equity Tier 1 capital ratio amounted to 54.5% (50.6). Common Equity Tier 1 capital also strengthened during the third quarter due to generated profit and a shareholders' contribution received. On 30 September 2017, the total Risk Exposure Amount (REA) amounted to SEK 18,222 M (17,770).

For more information on capital adequacy, see note 12.

¹ The comparative period is 30 June 2017.

Internally assessed capital requirement and buffer

The internally assessed capital requirement for Länsförsäkringar Hypotek AB on 30 September 2017 amounted to SEK 1,853 M, comprising the minimum capital requirement under Pillar I and the capital requirement for risks managed under Pillar II. The internally assessed capital requirement is calculated based on the methods and models used to calculate the capital requirement under the framework of Pillar I. Internal models are used for Pillar II risks. In addition to this, there is the capital requirement for the risk weight floor for Swedish mortgages, the countercyclical capital buffer and the capital conservation buffer. The risk weight floor for mortgages of 25% entailed a capital requirement of SEK 4,474 M as at 30 September 2017. The countercyclical capital buffer at 2% of REA totalled SEK 364.4 M. This capital conservation buffer that is to correspond to 2.5% of REA amounted to SEK 455.6 M on 30 September 2017. The capital meeting the internal capital requirement including buffer, meaning own funds, amounted to SEK 10,934 M.

Interest-rate risk

On 30 September 2017, an increase in market interest rates of 1 percentage point would have increased the value of interest-bearing assets and liabilities, including derivatives, by SEK 37.5 M (decrease: 21.4).

Risks and uncertainties

Länsförsäkringar Hypotek is exposed to a number of risks, primarily credit risks, liquidity risks and market risks. The macroeconomic situation in Sweden is critical for credit risk, since all loans are granted in Sweden. Market risks primarily comprise interest-rate risks that are restricted through narrow limits. The operations are characterised by a low risk profile. Loan losses remain low and the refinancing of business activities was

highly satisfactory during the period. A more detailed description of risks is available in the 2016 Annual Report. No significant changes in the allocation of risk have taken place compared with the description provided in the Annual Report.

Third quarter of 2017 compared with the second quarter of 2017

Operating profit declined 4% to SEK 197.6 M (205.8), due to higher commission expense attributable to increased remuneration to the regional insurance companies based on higher volumes. The return on equity amounted to 6.7% (7.1). Operating income amounted to SEK 223.8 M (230.8). Net interest income rose 6% to SEK 540.4 M (508.2), attributable to increased volumes and lower refinancing costs. Net losses from financial items amounted to SEK -11.3 M (-10.3) as a result of changes in fair value. Commission expense amounted to SEK 306.0 M (267.6). Operating expenses amounted to SEK 25.4 M (25.8) and the cost/income ratio before loan losses to 0.11% (0.11). Loan losses amounted to SEK 0.8 M (-0.7).

Events after the end of the period

No significant events took place after the end of the period.

Rating

Company	Agency	Long-term rating	Short-term rating
Länsförsäkringar Hypotek [†]	Standard & Poor's	AAA/Stable	-
Länsförsäkringar Hypotek [†]	Moody's	Aaa	-
Länsförsäkringar Bank	Standard & Poor's	A/Stable	A-1(K-1)
Länsförsäkringar Bank	Moody's	A1/Stable	P-1

[†] Pertains to the company's covered bonds.

Income statement

SEK M	Note	Q3 2017	Q2 2017	Change	Q3 2016	Change	Jan-Sep 2017	Jan-Sep 2016	Change	Full-Year 2016
Interest income		719.7	698.4	3%	596.3	21%	2,075.0	1,727.0	20%	2,355.6
Interest expense		-179.3	-190.2	-6%	-170.1	5%	-535.9	-537.9		-708.7
Net interest income	3	540.4	508.2	6%	426.2	27%	1,539.1	1,189.1	29%	1,646.9
Commission income		0.7	0.6	17%	0.6	17%	1.8	1.7	6%	2.2
Commission expense		-306.0	-267.6	14%	-246.0	24%	-833.8	-680.0	23%	-937.5
Net commission income	4	-305.3	-267.0	14%	-245.4	24%	-832.0	-678.3	23%	-935.3
Net gains/losses from financial items	5	-11.3	-10.3	10%	-5.1		-54.7	56.1		39.1
Other operating income		-	-		0.0		-	0.1		0.2
Total operating income		223.8	230.8	-3%	175.6	27%	652.4	567.1	15%	751.0
Staff costs		-4.1	-4.3	-5%	-3.5	17%	-12.4	-11.8	5%	-14.8
Other administration expenses		-21.3	-21.6	-1%	-20.5	4%	-65.1	-61.8	5%	-82.5
Total operating expenses		-25.4	-25.8	-2%	-24.0	6%	-77.5	-73.6	5%	-97.3
Depreciation and impairment of tangible assets		0.0	0.1		0.0		-0.1	-0.1		-0.1
Total operating expenses		-25.4	-25.8	-2%	-24.0	6%	-77.6	-73.7	5%	-97.4
Profit before loan losses		198.4	205.1	-3%	151.6	31%	574.8	493.4	16%	653.6
Loan losses, net	6	-0.8	0.7		-0.2		0.6	1.0	-40%	4.8
Operating profit		197.6	205.8	-4%	151.4	31%	575.4	494.4	16%	658.4
Appropriations		-	-		-		6.2	-		-150.0
Tax		-43.5	-45.2	-4%	-33.3	31%	-127.9	-108.7	18%	-121.1
Profit for the period		154.1	160.5	-4%	118.1	30%	453.7	385.7	18%	387.3

Statement of comprehensive income

SEK M	Q3 2017	Q2 2017	Change	Q3 2016	Change	Jan-Sep 2017	Jan-Sep 2016	Change	Full-Year 2016
Profit for the period	154.1	160.5	-4%	118.1	30%	453.7	385.7	18%	387.3
Other comprehensive income									
Items that have been reclassified or may subsequently be reclassified to the income statement									
Cash-flow hedges	-22.2	-49.1	-55%	-37.6	-41%	-136.3	-30.1		-100.7
Change in fair value from available-for-sale financial assets	-6.6	15.2		15.0		9.3	16.8	-45%	17.1
Tax attributable to items that have been transferred or can be transferred to profit for the period	6.3	7.4	-15%	4.9	29%	27.9	2.9		18.4
Total other comprehensive income for the period, net after tax	-22.5	-26.5	-15%	-17.7	27%	-99.1	-10.4		-65.2
Total comprehensive income for the period	131.6	134.0	-2%	100.4	31%	354.6	375.3	-6%	322.1

Balance sheet

SEK M	Note	30 Sep 2017	31 Dec 2016	30 Sep 2016
Assets				
Loans to credit institutions	7	3,221.6	4,614.7	5,475.4
Loans to the public	8	188,977.8	168,947.9	162,880.6
Bonds and other interest-bearing securities		9,650.9	9,313.9	10,425.0
Derivatives	9	4,223.4	5,744.5	6,857.0
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		255.9	536.4	772.3
Tangible assets		0.5	0.5	0.5
Deferred tax assets		29.7	-	2.9
Other assets		38.9	23.2	3.8
Prepaid expenses and accrued income		56.8	46.6	50.7
Total assets		206,455.6	189,227.6	186,468.1
Liabilities, provisions and equity				
Due to credit institutions	7	46,171.5	47,002.4	48,085.4
Debt securities in issue		145,715.7	126,887.9	122,274.4
Derivatives	9	748.1	1,138.7	1,309.6
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		1,322.5	3,027.2	4,390.3
Deferred tax liabilities		-	0.3	-
Other liabilities		132.7	77.9	70.8
Accrued expenses and deferred income		1,325.8	2,002.6	1,343.6
Provisions		1.1	1.0	1.0
Subordinated liabilities		1,001.0	1,001.0	1,001.0
Total liabilities and provisions		196,418.5	181,139.0	178,476.1
Untaxed reserves		452.6	458.8	308.8
Equity				
Share capital		70.3	70.3	70.3
Statutory reserve		14.1	14.1	14.1
Fair value reserve		-74.6	24.4	79.3
Retained earnings		9,121.1	7,133.8	7,133.8
Profit for the period		453.7	387.3	385.7
Total equity		9,584.6	7,629.9	7,683.2
Total liabilities, provisions and equity		206,455.6	189,227.6	186,468.1
Other notes				
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Cash-flow statement in summary, indirect method

SEK M	Jan-Sep 2017	Jan-Sep 2016
Cash and cash equivalents, 1 January	11.5	17.0
Cash flow from operating activities	-1,601.4	-606.9
Cash flow from investing activities	-0.2	0.0
Cash flow from financing activities	1,600.0	600.0
Cash flow for the period	-1.6	-6.8
Cash and cash equivalents, 30 September	9.9	10.2

Cash and cash equivalents are defined as loans to credit institutions, payable on demand. The change in cash flow from operating activities is largely attributable to Loans to the public amounting to SEK -20,029.5 (-15,824.8) M and Debt securities in issue to SEK 18,310.7 (10,775.7) M. Changes to the cash flow from the financing activities are largely attributable to shareholder's contribution received SEK 1,600.0 (600.0) M.

Statement of changes in Shareholders' equity

SEK M	Restricted equity		Non-restricted equity				Total
	Share capital	Statutory reserve	Fair value reserve			Profit for the period	
			Fair value reserve	Hedge reserve	Retained earnings		
Opening balance, 1 January 2016	70.3	14.1	10.1	79.5	6,225.5	308.3	6,707.8
Profit for the period						385.7	385.7
Other comprehensive income for the period			13.1	-23.5			-10.4
<i>Comprehensive income for the period</i>			<i>13.1</i>	<i>-23.5</i>		<i>385.7</i>	<i>375.3</i>
Resolution by Annual General Meeting					308.3	-308.3	-
Conditional shareholders' contribution received					600.0		600.0
Closing balance, 30 September 2016	70.3	14.1	23.2	56.0	7,133.8	385.7	7,683.2
Opening balance, 1 October 2016	70.3	14.1	23.2	56.0	7,133.8	385.7	7,683.2
Profit for the period						1.6	1.6
Other comprehensive income for the period			0.2	-55.0			-54.8
<i>Comprehensive income for the period</i>			<i>0.2</i>	<i>-55.0</i>		<i>1.6</i>	<i>-53.2</i>
Closing balance, 31 December 2016	70.3	14.1	23.4	1.0	7,133.8	387.3	7,629.9
Opening balance, 1 January 2017	70.3	14.1	23.4	1.0	7,133.8	387.3	7,629.9
Profit for the period						453.7	453.7
Other comprehensive income for the period			7.3	-106.4			-99.1
<i>Comprehensive income for the period</i>			<i>7.3</i>	<i>-106.4</i>		<i>453.7</i>	<i>354.6</i>
Resolution by Annual General Meeting					387.3	-387.3	-
Conditional shareholders' contribution received					1,600.0		1,600.0
Closing balance, 30 September 2017	70.3	14.1	30.8	-105.4	9,121.1¹	453.7	9,584.6

¹The shareholders' contributions that have been paid are conditional and the Parent Company Länsförsäkringar Bank AB (publ) is entitled to receive repayment of the contributions from the unappropriated earnings of Länsförsäkringar Hypotek AB (publ), provided that approval is obtained from the general meeting. On 30 September 2017, the amount of the conditional shareholders' contribution received was SEK 4,460.6 (4,460.6) M.

Notes

Amounts in SEK million if not otherwise stated.

Note 1 Accounting policies

Länsförsäkringar Hypotek AB prepares its accounts in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), the Swedish Securities Market Act (2007:528) and Swedish Financial Supervisory Authority's regulations and general guidelines (FFFS 2008:25). The company also applies the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities and statements issued pertaining to listed companies. The regulations in RFR 2 stipulate that the company, in the annual accounts for the legal entity, is to apply all IFRS adopted by the EU and statements to the extent that this is possible within the framework of the Swedish Annual Accounts Act and the Pension Obligations Vesting Act and with consideration to the relationship between accounting and taxation. The recommendation stipulates the permissible exceptions from and additions to IFRS. This interim report was prepared in accordance with IAS 34 Interim Financial Reporting.

Changes to 2017 reporting

The company has decided to present financial instruments measured at fair value including accrued interest, which conforms with the classifications in the CRR regulations. The change has affected the comparative figures in the balance sheet as of 2016-12-31. Assets that have been affected are: Derivatives has increased with SEK 574 M, Bonds and other interest-bearing securities has increased with SEK 112 M and Prepaid expenses and accrued income has decreased with SEK 687 M. Liabilities that have been affected are: Derivatives has increased with SEK 138 M and Accrued expenses and deferred income decreased with SEK 138 M. Comparative figures and performance measures have been updated to the new classification. The change has not affect equity.

Note 2 Segment reporting

The business of the company represents one operating segment and reporting to the chief operating decision maker thus agrees with the interim report.

NEW IFRS AND INTERPRETATIONS THAT HAVE NOT YET BEEN APPLIED

IFRS 9 Financial instruments

IFRS 9 Financial Instruments will take effect on 1 January 2018. The standard contains new requirements for the classification and measurement of financial instruments, an expected loss impairment model and hedge accounting rules. The bank's project on implementing the new accounting regulations is progressing according to plan. The implementation of the system for calculating expected credit losses has reached its final stage and all material assessments and assumptions have been documented and subject to quality assurance. The new impairment regulations are expected to lead to slightly higher reserves for loan losses than under the current rules. The parts of the project on the new accounting rules that involve classification, measurement and hedge accounting are also in the final phase and are not expected to have any material effects on the financial statements. New and updated governance documents and processes affected by the transition to IFRS 9 are being prepared.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers will take effect on 1 January 2018. The standard contains a single model for recognising revenue from contracts with customers that is not encompassed by other standards. The company has performed an analysis of the effects of IFRS 15, and implementation is ongoing. The assessment is that the standard will not have any significant effect on the consolidated financial statements except for enhanced disclosure requirements.

Alternative performance measures

The European Securities and Markets Authority's (ESMA) Guidelines on Alternative Performance Measures came into effect on 3 July 2016. In accordance with these guidelines, disclosures on financial performance measures that are not defined by IFRS have been provided. Alternative performance measures, such as return on equity, return on total capital, investment margin, cost/income ratio before loan losses, reserve ratio in relation to loans and loan loss level are defined in the 2016 Annual Report.

In all other respects, the interim report has been prepared in accordance with the same accounting policies and calculation methods applied in the 2016 Annual Report.

Note 3		Net interest income								
SEK M	Q3 2017	Q2 2017	Change	Q3 2016	Change	Jan-Sep 2017	Jan-Sep 2016	Change	Full-Year 2016	
Interest income										
Loans to credit institutions	8.7	11.0	-21%	0.7		33.6 ¹	9.7		12.4	
Loans to the public	825.3	804.7	3%	759.0	9%	2,416.3	2,236.2	8%	3,004.3	
Interest-bearing securities	18.1	24.3	-26%	33.7	-46%	67.6 ¹	113.4	-40%	144.4	
Derivatives	-132.4	-141.5	-6%	-197.1	-33%	-442.5	-632.3	-30%	-805.6	
Other interest income	0.0	-0.1		0.0		0.0	0.0		0.1	
Total interest income	719.7	698.4	3%	596.3	21%	2,075.0	1,727.0	20%	2,355.6	
Interest Expense										
Due to credit institutions	-109.6	-101.9	8%	-102.7	7%	-323.6 ¹	-298.3	8%	-412.3	
Dept securities in issue	-444.0	-467.8	-5%	-455.5	-3%	-1,366.2	-1,411.8	-3%	-1,853.8	
Subordinated liabilities	-3.9	-3.9		-3.9		-11.3	-12.0	-6%	-15.9	
Derivatives	407.2	412.5	-1%	401.1	2%	1,249.9	1,222.9	2%	1,621.3	
Other interest expense	-29.1	-29.1		-9.2		-84.6	-38.7		-48.0	
Total interest expense	-179.3	-190.2	-6%	-170.1	5%	-535.9	-537.9		-708.7	
Total net interest income	540.4	508.2	6%	426.2	27%	1,539.1	1,189.1	31%	1,646.9	
Average interest rate on loans to the public during the period, %	1.8	1.8		1.9		1.8	1.9		1.9	

¹ Of which negative interest of Loans to credit institutions SEK -4.2 M, Interest-bearing securities SEK -2.6 M and Due to credit institutions SEK 5.2 M.

Note 4		Commission income								
SEK M	Q3 2017	Q2 2017	Change	Q3 2016	Change	Jan-Sep 2017	Jan-Sep 2016	Change	Full-Year 2016	
Commission income										
Loans	0.7	0.6	17%	0.6	17%	1.8	1.7	6%	2.2	
Total commission income	0.7	0.6	17%	0.6	17%	1.8	1.7	6%	2.2	
Commission Expense										
Remuneration to regional insurance companies	-305.9	-267.5	14%	-245.8	24%	-833.5	-678.7	23%	-936.0	
Other commission	-0.1	0.0		-0.2		-0.3	-1.4	-43%	-1.6	
Total commission expense	-306.0	-267.6	14%	-246.0	24%	-833.8	-680.0	23%	-937.5	
Total commission income	-305.3	-267.0	14%	-245.4	24%	-832.0	-678.3	23%	-935.3	

Note 5		Net gains / losses from financial items								
SEK M	Q3 2017	Q2 2017	Change	Q3 2016	Change	Jan-Sep 2017	Jan-Sep 2016	Change	Full-Year 2016	
Interest-bearing assets and liabilities and related derivatives	-19.0	-16.9	12%	-14.8	28%	-75.9	25.4		1.2	
Other financial assets and liabilities	-0.3	-0.7	-57%	-0.4	-25%	-0.4	0.3		0.2	
Interest compensation	8.0	7.3	10%	10.1	-21%	21.6	30.4	-29%	37.8	
Total net gains / losses from financial items	-11.3	-10.3	10%	-5.1		-54.7	56.1		39.1	

Note 6		Loan losses and impaired loans							
Net loan losses, SEK M	Q 3 2017	Q 2 2017	Change	Q 3 2016	Change	Jan-Sep 2017	Jan-Sep 2016	Change	Full-Year 2016
Specific reserve for individually assessed loan receivables									
Write-off of confirmed loan losses during the period	-0.7	0.5		-0.1		-0.5	-0.7	-29%	-0.7
Reversed earlier impairment of loan losses recognised as confirmed losses	0.0	0.0		0.0		0.1	0.4	-75%	0.4
Impairment of loan losses during the period	-1.2	-1.3	-8%	-1.7	-29%	-3.0	-3.9	-23%	-5.0
Payment received for prior confirmed loan losses	0.2	0.6	-67%	0.6	-67%	1.5	1.9	-21%	2.4
Reversed impairment of loan losses no longer required	1.0	0.9	11%	1.0		2.7	3.2	-16%	6.5
Net expense for the year for individually assessed loan receivables	-0.7	0.8		-0.2		0.8	1.0	-20%	3.7
Collective assessed homogenous groups of loan receivables with limited value and similar credit risk									
Provision / reversal of impairment of loan losses	-0.1	-0.1		0.0		-0.2	0.0		1.1
Net expense for the year for collectively assessed receivables	-0.1	0.0		0.0		-0.2	0.0		1.1
Annual net expense for the year for fulfillment of guarantees	-	-		-		-	-		
Net expense of loan losses for the period	-0.8	0.7		-0.2		0.6	1.0	-40%	4.8

All information pertains to receivables from the public.

Impaired loans, SEK M	30 September 2017				31 December 2016				30 September 2016			
	Gross	Individual impairments	Collective impairments	Net	Gross	Individual impairments	Collective impairments	Net	Gross	Individual impairments	Collective impairments	Net
Retail sector	-	-2.9	-24.6	-27.4	-	-2.7	-24.3	-27.0	0.0	-5.0	-25.4	-30.4
Total	-	-2.9	-24.6	-27.4	-	-2.7	-24.3	-27.0	0.0	-5.0	-25.4	-30.4

The settlement model regarding the commitment that the regional insurance companies have for loan losses related to the business they have originated, entails that the regional insurance companies cover 80% of the provision requirement on the date when an impairment is identified. Off-setting takes place against, and can amount to a maximum of, accrued commission. Remuneration corresponding to 80% of the provision requirement is withheld on every occasion until the lending mediated by the regional insurance company has been regulated. On 30 September 2017, the total credit reserve requirement amounted to SEK 45 M of which Länsförsäkringar Hypotek recognised credit reserve accounted for SEK 27 M and the remainder of SEK 18 M was offset against the regional insurance companies' withheld funds, according to the model described above.

Note 7 Loans / due to credit institutions

Loans to credit institutions include deposits with the Parent Company of SEK 1,256.0 (1,197.2) M. Due to credit institutions includes borrowings from the Parent Company of SEK 44,302.2 (43,840.3) M.

Balances in the Parent Company's bank accounts pertaining to the covered bond operations are recognised as Loans to credit institutions.

Note 8	Loans to the public Loan receivables are geographically attributable in their entirety to Sweden			
SEK M	30 September 2017	31 Dec 2016	30 September 2016	
Corporate sector	6,950.9	7,136.2	7,172.8	
Retail sector	182,054.3	161,838.6	155,738.2	
Loans to the public before reserves	189,005.2	168,974.9	162,910.9	
Reservations	-27.4	-27.0	-30.4	
Loans to the public	188,977.8	168,947.9	162,880.6	
Fixed-interest period				
Remaining term of not more than 3 month	128,101.5	106,118.5	100,109.2	
Remaining term of more than 3 months but not more than 1 year	20,336.8	15,444.7	12,992.1	
Remaining term of more than 1 year but not more than 5 years	38,906.6	45,649.4	47,971.9	
Remaining term of more than 5 years	1,632.9	1,735.2	1,807.4	
Loans to the public	188,977.8	168,947.9	162,880.6	

Definition

Remaining term is defined as the remaining fixed-interest period if the loan has periodically restricted conditions.

Note 9	Derivatives					
SEK M	30 September 2017		31 Dec 2016		30 September 2016	
	Nominal value	Fair value	Nominal value	Fair value	Nominal value	Fair value
Derivatives with positive values						
<i>Derivatives in hedge accounting</i>						
Interest-related	89,097.6	1,663.3	83,647.0	2,629.2	84,242.0	3,309.4
Currency-related	22,967.8	2,560.1	22,967.8	3,115.3	22,967.8	3,547.2
<i>Other derivatives</i>						
Interest-related	-	-	-	-	5,000.0	0.4
Total derivatives with positive values	112,065.4	4,223.4	106,614.8	5,774.5	112,209.8	6,857.0
Derivatives with negative values						
<i>Derivatives in hedge accounting</i>						
Interest-related	71,590.0	619.8	61,530.0	960.7	56,325.0	1,176.4
Currency-related	7,355.0	127.6	3,213.2	177.9	3,213.2	132.8
<i>Other derivatives</i>						
Interest-related	25,000.0	0.7	2,000.0	0.1	5,000.0	0.4
Total derivatives with negative values	103,945.0	748.1	66,743.2	1,138.7	64,538.2	1,309.6

Länsförsäkringar Hypotek AB enters into financial hedging agreements to hedge against the interest-rate risk and currency risk that the Group's funding programmes give rise to. By using derivatives, the company can hedge both the fair value of the bonds issued due to changes in the market interest rate, and hedge cash flows attributable to future flows in foreign currency. Hedging instruments primarily comprise interest and currency interest-rate swaps.

Note 10	Pledged assets, contingent liabilities and commitments			
SEK M	30 September 2017	31 Dec 2016	30 September 2016	
For own liabilities, pledged assets	190,662.8	168,137.0	166,718.0	
Commitments	12,840.1	9,545.0	10,379.6	

SEK M	30 September 2017		31 Dec 2016		30 September 2016	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets						
Loans to credit institutions	3,221.6	3,221.6	4,614.7	4,614.7	5,475.4	5,475.4
Loans to the public	188,977.8	189,573.6	168,947.9	169,562.9	162,880.6	163,520.8
Bonds and other interest-bearing securities	9,650.9	9,650.9	9,313.9	9,313.9	10,425.0	10,425.0
Derivatives	4,223.4	4,223.4	5,744.5	5,744.5	6,857.0	6,857.0
Total	206,073.7	206,669.5	188,621.0	189,236.0	185,638.0	186,278.2
Financial Liabilities						
Due to credit institutions	46,171.5	46,171.5	47,002.4	47,002.4	48,085.4	48,085.4
Debt securities in issue	145,715.7	148,292.8	126,887.9	131,774.9	122,274.4	127,820.1
Derivatives	748.1	748.1	1,138.7	1,138.7	1,309.6	1,309.6
Other liabilities	7.0	7.0	6.7	6.7	6.7	6.7
Subordinated liabilities	1,001.0	1,026.0	1,001.0	1,023.3	1,001.0	1,007.9
Total	193,643.3	196,245.4	176,036.7	180,946.0	172,677.1	178,229.7

The carrying amount of loans to credit institutions, due to credit institutions and other liabilities comprises a reasonable approximation of the fair value based on the cost of the assets and liabilities.

Gains and losses are recognised in profit and loss under "net gains from financial items."

Determination of fair value through published price quotations or valuation techniques where				
Level 1 includes Instruments with published price quotations				
Level 2 includes Valuation techniques based on observable market prices				
Level 3 includes Valuation techniques based on unobservable market price				
Financial instruments measured at fair value in the balance sheet				
30 September 2017, SEK M	Level 1	Level 2	Level 3	Total
Assets				
Bonds and other interest-bearing securities	9,650.9			9,650.9
Derivatives		4,223.4		4,223.4
Liabilities				
Derivatives		748.1		748.1
31 December 2016, SEK M				
Assets				
Bonds and other interest-bearing securities	9,313.9			9,313.9
Derivatives		5,744.5		5,744.5
Liabilities				
Derivatives		1,138.7		1,138.7
30 September 2016, SEK M				
Assets				
Bonds and other interest-bearing securities	10,425.0			10,425.0
Derivatives		6,857.0		6,857.0
Liabilities				
Derivatives		1,309.6		1,309.6

Derivatives in Level 2 essentially refer to swaps for which fair value has been calculated by discounting expected future cash flows.

There were no significant transfers between Level 1 and Level 2 in 2017 or 2016. There were also no transfers from Level 3 in these years.

Note 11 Fair value valuation techniques, continued**Financial instruments measured at amortised cost in the balance sheet**

30 September 2017, SEK M	Level 1	Level 2	Level 3	Total
Assets				
Loans to the public		189,573.6		189,573.6
Liabilities				
Debt securities in issue		148,292.8		148,292.8
Subordinated liabilities		1,026.0		1,026.0
31 December 2016				
Assets				
Loans to the public		169,562.9		169,562.9
Liabilities				
Debt securities in issue		131,774.9		131,774.9
Subordinated liabilities		1,023.3		1,023.3
30 September 2016				
Assets				
Loans to the public		163,520.8		163,520.8
Liabilities				
Debt securities in issue		127,820.1		127,820.1
Subordinated liabilities		1,007.9		1,007.9

When calculating the fair value of deposits and funding from the public and loans to the public, anticipated cash flows have been discounted using a discount rate set at the current deposit and lending rates applied (including discounts). Fair value for debt securities in issue and subordinated liabilities is determined based on quoted prices. Parts of debt securities in issue that are considered to be illiquid are adjusted based on expected current issue prices. Commercial papers do not have external market prices and the fair value is determined based on the yield curve of each currency.

There were no significant transfers between Level 1 and Level 2 in 2017 or 2016. There were also no transfers from Level 3 in these years.

For further information about how the fair value was determined for financial instruments measured at fair value, and about valuation techniques and inputs, see also the note on Accounting policies.

Note 12	Capital-adequacy				
SEK M	30 Sep 2017	31 Dec 2016	30 Sep 2016		
Total Equity	9,584.6	7,629.9	7,683.2		
78 % of untaxed reserves	353.0	357.9	240.9		
Own funds eligible for capital-adequacy	9,937.6	7,987.8	7,924.1		
Adjustment for cash flow hedge	105.4	-1.0	-56.0		
IRB Provisions deficit (-) / surplus (+)	-95.5	-80.9	-79.6		
Adjustment for prudent valuation	-14.2	-15.4	-18.0		
Common Equity Tier 1 capital	9,933.3	7,890.5	7,770.5		
Tier 2 instruments	1,001.0	1,001.0	1,001.0		
IRB Provisions deficit (-) / surplus (+)	-	-	-		
Tier 2 capital	1,001.0	1,001.0	1,001.0		
Total Own funds	10,934.3	8,891.5	8,771.5		
Risk exposure amount according to CRD IV	18,222.4	17,893.6	17,582.2		
Total Capital requirement according to CRD IV	1,457.8	1,431.5	1,406.6		
Capital requirement for credit risk according to Standardised Approach	119.7	188.5	142.4		
Capital requirement for credit risk according to IRB Approach	1,212.5	1,108.8	1,082.7		
Capital requirement for operational risk	73.2	59.2	59.2		
Capital requirement according to credit valuation adjustment	52.3	75.0	122.2		
Core Tier 1 ratio according to CRD IV	54.5%	44.1%	44.2%		
Tier 1 ratio according to CRD IV	54.5%	44.1%	44.2%		
Capital adequacy ratio according to CRD IV	60.0%	49.7%	49.9%		
Special disclosures					
IRB Provisions surplus (+) / deficit (-)	-95.5	-80.9	-79.6		
- IRB Total provisions (+)	45.1	43.1	44.4		
- IRB Anticipated loss (-)	-140.6	-124.0	-124.0		
Capital requirement according to Basel I floor	7,908.8	6,992.2	6,793.6		
Capital base adjusted according to Basel I floor	11,029.8	8,972.4	8,851.1		
Surplus of capital according to Basel I floor	3,121.0	1,980.2	2,057.5		
	Minimum capital requirements	Capital conservation buffer	Counter-cyclical buffer	Systemic risk buffer	Total
Minimum capital requirements and buffers					
Core Tier 1 capital	4.5%	2.5%	2.0%	n/a	9.0%
Tier 1 capital	6.0%	2.5%	2.0%	n/a	10.5%
Capital base	8.0%	2.5%	2.0%	n/a	12.5%
SEK M					
Core Tier 1 capital	820.0	455.6	364.4	n/a	1,640.0
Tier 1 capital	1,093.3	455.6	364.4	n/a	1,913.3
Capital base	1,457.8	455.6	364.4	n/a	2,277.8
Core Tier 1 capital available for use as buffer					50.0%

SEK M	30 Sep 2017		31 Dec 2016		30 Sep 2016	
	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount
	Capital-adequacy analysis, continued					
Credit risk according to Standardised Approach						
Exposures to institutions	33.9	423.6	113.6	1,419.8	57.3	716.1
Covered bonds	77.2	965.1	74.5	931.6	83.4	1,042.5
Other items	8.6	107.6	0.4	4.8	1.7	21.5
Total capital requirement and risk exposure amount	119.7	1,496.4	188.5	2,356.3	142.4	1,780.1
Credit risk according to IRB Approach						
<i>Retail exposures</i>						
Exposures secured by real estate collateral	34.5	430.9	33.9	423.2	34.2	427.8
Other retail exposures	906.5	11,331.6	804.6	10,058.1	780.5	9,755.9
Other retail exposures, small and medium-sized businesses	0.5	6.6	0.2	2.9	0.1	1.8
Other retail exposures	1.8	22.4	2.1	26.1	2.6	31.9
Total retail exposures	943.3	11,791.5	840.8	10,510.2	817.4	10,217.4
Exposures to corporates	269.2	3,365.2	268.0	3,349.7	265.3	3,316.4
Total capital requirement and risk exposure amount	1,212.5	15,156.7	1,108.8	13,859.9	1,082.7	13,533.8
Operational risk						
Standardised Approach	73.2	915.3	59.2	740.4	59.2	740.4
Total capital requirement for operational risk	73.2	915.3	59.2	740.4	59.2	740.4
Total capital requirement for credit valuation adjustments	52.3	654.1	75.0	937.1	122.2	1,527.9

Note 13 Disclosures on related parties

Significant agreements for Länsförsäkringar Hypotek AB are primarily outsourcing agreements with the 23 regional insurance companies and outsourcing agreements with Länsförsäkringar AB regarding development, service, finance and IT. Normal business transactions took place between Group companies as part of the outsourced operations.

This interim report is a translation of the Swedish interim report that has been reviewed by the company's auditors.

The President affirm that this interim report provides a true and fair view of the company's operations, financial position and earnings and describes the significant risks and uncertainties to which the company is exposed.

Stockholm, 10 November 2017

Martin Rydin
President

Auditor's report on review of interim report prepared in accordance with Chapter 9 of the Annual Accounts Act

To the Board of Directors of Länsförsäkringar Hypotek AB (publ)

Corp. id. 556244-1781

Introduction

I have reviewed the attached interim report of Länsförsäkringar Hypotek AB (publ) as of 30 September 2017 and the nine-month period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. My responsibility is to express a conclusion on this interim financial information report based on my review.

Scope of review

I conducted my review in accordance with International Standard on Review Engagements ISRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information 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 and other generally accepted auditing practices and consequently does not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. Accordingly, I do not express an audit opinion.

Conclusion

Based on my review, nothing has come to my attention that causes me to believe that the attached interim report is not prepared, in all material respects, in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm 10 November 2017

Dan Beitner
Authorized Public Accountant

Financial calendar

Year-end report Länsförsäkringar Bank	9 February 2018
Year-end report Länsförsäkringar Hypotek	9 February 2018

This report contains such information that Länsförsäkringar Hypotek AB (publ) must publish in accordance with the Securities Market Act. The information was submitted for publication on 10 November 2017 at 12:00 a.m. Swedish time.

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