

Länsförsäkringar Hypotek

Year-end report 2017

The year in brief, Group

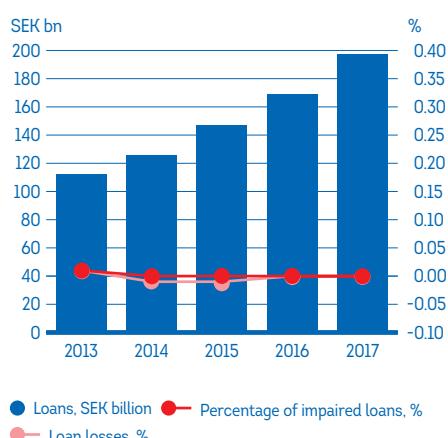
- Operating profit increased 23% to SEK 813.0 M (658.4) and the return on equity strengthened to 6.9% (6.7).
- Net interest income increased 28% to SEK 2,101 M (1,647).
- Loan losses amounted to SEK 0.0 M (-4.8*), net, corresponding to a loan loss level of 0.00% (-0.01).
- Lending increased 17% to SEK 197.7 billion (168.9). The Common Equity Tier 1 capital ratio amounted to 56.3% (54.5**) on 31 December 2017.
- The number of customers rose 10% to 255,000 (231,000).
- According to the 2017 Swedish Quality Index customer satisfaction survey, Länsförsäkringar is the single player on the market with the most satisfied retail mortgage customers.

Figures in parentheses pertain to the same period in 2016.

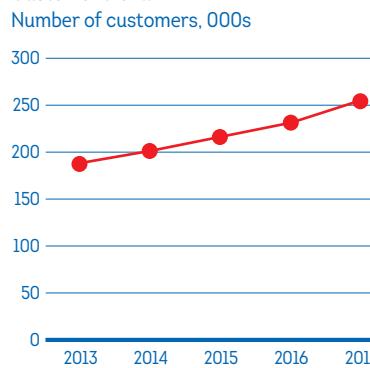
* Includes the dissolution of reserves of SEK 3.1 M.

** Pertains to 30 September 2017.

Loans to the public



Customer trend



President's comment

Länsförsäkringar Hypotek performed very well in 2017 and operating profit continued to report a positive trend, driven by strong underlying net interest income. Lending is growing at a stable rate, while credit quality remains high and loan losses very low. We can see that the number of customers is continuing to grow and we are successively capturing market shares, which is largely due to our high customer satisfaction and our strong local presence. The Swedish economy continued to perform well and household finances remain healthy, although there are macroeconomic risks related to household indebtedness and housing prices. Given these risks, the Swedish FSA decided to introduce stricter mortgage repayment requirements. While a stronger repayment behaviour and a certain correction to housing prices are healthy developments, it is important that politicians going forward instead focus on the functionality of the housing market.

Martin Rydin

President of Länsförsäkringar Hypotek

Key figures

	Q 4 2017	Q 3 2017	Q 4 2016	Jan-Dec 2017	Jan-Dec 2016
Return on equity, %	7.3	6.7	6.5	6.9	6.7
Return on total capital, %	0.44	0.39	0.35	0.40	0.37
Investment margin, %	1.05	1.06	0.98	1.03	0.92
Cost/income ratio before loan losses	0.10	0.11	0.13	0.11	0.13
Common Equity Tier 1 capital ratio, %	56.3	54.5	44.1	56.3	44.1
Total capital ratio, %	59.8	60.0	49.7	59.8	49.7
Percentage of impaired loans, gross, %	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
Reserve ratio in relation to loans, incl. held remuneration to regional insurance companies, %	0.02	0.02	0.02	0.02	0.02
Loan loss level, %	0.00	0.00	-0.01*	0.00	0.00*

* Includes the dissolution of reserves.

Income statement, quarterly

SEK M	Q 4 2017	Q 3 2017	Q 2 2017	Q 1 2017	Q 4 2016
Net interest income	561.4	540.4	508.2	490.6	457.8
Net commission	-309.3	-305.3	-267.0	-259.6	-257.0
Net gains/losses from financial items	11.8	-11.3	-10.3	-33.1	-16.9
Other operating income	0.0	0.0	0.0	0.0	0.1
Total operating income	264.0	223.8	230.8	197.8	183.9
Staff costs	-3.3	-4.1	-4.3	-4.0	-2.9
Other administration expenses	-22.4	-21.3	-21.6	-22.2	-20.7
Total operating expenses	-25.8	-25.4	-25.8	-26.2	-23.7
Profit before loan losses	238.2	198.4	205.1	171.5	160.2
Loan losses, net	-0.6	-0.8	0.7	0.7	3.8
Operating profit	237.6	197.6	205.8	172.2	164.0

Market commentary

A sense of optimism prevailed in the economy during 2017, with the global economy growing stronger. The largest surprise was Europe's performance where the economy clearly surged and growth exceeded expectations. However, inflation remained far short of targets, which means that the ECB is expected to maintain its expansive monetary policy. The US economy also trended positively, particularly the strong labour market, although inflation was lower than anticipated, which led to the Fed continuing its austerity measures in monetary policy at a restrained rate and increased interest rates three times. The Republican tax reform slightly raised expectations of US growth in 2018, further fuelling stock market performance. In general, the global economy was surprisingly stable in 2017, particularly in light of the political risks that dominated the news. The UK applied to leave the EU, Germany experienced difficulties in forming a government and the US markedly elevated its tone towards North Korea, while risks in

the Middle East increased. Stock markets generally posted a favourable trend for the year, led by emerging markets.

The fixed-income market reported no major fluctuations during the year. Long-term US interest rates moved sideways following a sharp upswing towards the end of 2016, while short-term rates tracked the Fed's three rate hikes. Swedish and European long-term interest rates ended 2017 slightly higher than at the start of the year and short-term rates fell marginally. Rates on Swedish covered bonds fell during the year and demand from investors was good.

The Swedish economy performed strongly during the year; growth was surprisingly positive, the labour market continued to improve and inflation rose. The employment rate is now well above levels prior to the financial crisis of 2008. Nevertheless, the Riksbank decided to wait out interest rate increases, and the repo rate has been negative for almost three years. The SEK strengthened against the USD but weakened against

the EUR during the year. Continued expansive signals from the Riksbank, a degree of concern regarding the Swedish housing market and a stronger EUR underpinned this trend. Housing prices generally show seasonal variations with a weaker performance towards the end of the year, yet 2017 reported considerably weaker figures than normal and housing prices, excluding seasonal variations, fell 5.3% in the second half of the year. The Swedish Financial Supervisory Authority's decision to introduce a stricter repayment requirement combined with a temporarily high supply of new-builds may have accelerated this development. Looking forward, the housing market has now become a more distinct risk for the Swedish economy, even though the underlying economic conditions for the households remain unchanged.

2017 compared with 2016

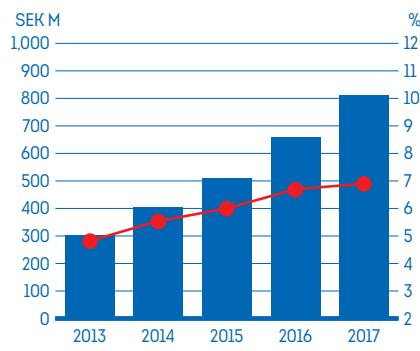
Growth and customer trend

Loans to the public increased 17%, or SEK 28.8 billion, to SEK 197.7 billion (168.9), with continued very high credit quality. The number of customers increased 10%, or 24,000, to 255,000 (231,000), and 87% (87) of mortgage customers have Länsförsäkringar as their primary bank.

Earnings and profitability

Operating profit increased 23% to SEK 813.0 M (658.4), primarily due to higher net interest income. The investment margin strengthened to 1.03% (0.92). Profit before loan losses rose 24% to SEK 813.0 M (653.6) due to higher net interest income. Return on equity strengthened to 6.9% (6.7).

Operating profit and return on equity



● Operating profit, SEK M ● Return on equity, %

Income

Operating income rose 22% to SEK 916.4 M (751.0), due to higher net interest income attributable to increased volumes and lower refinancing costs. Net interest income increased 28% to SEK 2,101 M (1,647). Net losses from financial items amounted to SEK -43.0 M (gains: 39.1). Net commission amounted to SEK -1,141 M (-935.3), due to increased remuneration to the regional insurance companies related to higher business volumes and strengthened profitability of the business.

Net interest income



Expenses

Operating expenses amounted to SEK 103.4 M (97.4). The cost/income ratio was 0.11 (0.13) before loan losses and 0.11 (0.12) after loan losses.

Loan losses

Loan losses amounted to SEK 0.0 M (-4.8*), 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 27.9 M (27.0), corresponding to a reserve ratio in relation to loans of 0.01% (0.02). In addition, SEK 19.6 M (16.1) 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% (0.02).

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

* The comparative figure includes dissolution of reserves of SEK 3.1 M.

Loans

All loans are granted in Sweden, in SEK and have a well-diversified geographic distribution. Loans to the public increased 17%, or SEK 28.8 billion, to SEK 197.7 billion (168.9). The credit quality of the loan portfolio, comprising 72% (72) single-family homes, 24% (23) tenant-owned apartments and 4% (5) multi-family housing, remained favourable. On 31 December 2017, the market share of retail mortgages had strengthened to 6.3% (5.8) according to Statistics Sweden.

Cover pool

The cover pool, which forms the basis of issuance of covered bonds, contains SEK 188.4 billion, corresponding to 95% of the loan portfolio. The collateral comprises only private homes, of which 72% (74) are single-family homes, 26% (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 1.20 M (1.17). The weighted average loan-to-value ratio, LTV, was 57% (57) and the nominal, current OC (overcollateralisation) amounted to 35% (38). 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 65% (65) on 31 December 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, Q2 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	31 Dec 2017	31 Dec 2016
Cover pool, SEK billion	198	168
OC ¹ , nominal, current level, %	35	38
Weighted average LTV, %	57	57
Collateral	Private homes	Private homes
Seasoning, months	57	58
Number of loans	357,051	313,840
Number of borrowers	157,840	140,777
Number of properties	157,643	140,465
Average commitment, SEK 000s	1,195	1,092
Average loan, SEK 000s	528	496
Interest rate type, variable, %	69	67
Interest rate type, fixed, %	31	33
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 20% to SEK 152.8 billion (126.9). Issued covered bonds during the year totalled a nominal SEK 39.0 billion (31.3) and repurchases of a nominal SEK 7.2 billion (8.4) were executed. Matured covered bonds amounted to a nominal SEK 6.8 billion (8.3).

In March, Länsförsäkringar Hypotek issued a seven-year Euro benchmark-covered bond for a nominal EUR 500 M. In addition, Länsförsäkringar Hypotek issued two Swedish benchmark bonds during the year, LFH516 and LFH517, which mature in September 2023 and September 2024, respectively.

Maturity profile



Liquidity

On 31 December 2017, the liquidity reserve totalled SEK 9.8 billion (9.3). Liquidity remained healthy and the survival horizon was about 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)	31 Dec 2017	30 Sep 2017
IRB Approach	15,517	15,157
retail exposures	12,202	11,791
exposures to corporates	3,315	3,365
Standardised Approach	1,487	1,496
Operational risks	915	915
Total REA	18,589	18,222
Common Equity Tier 1 capital	10,456	9,933
Tier 1 capital	10,456	9,933
Total capital	11,117	10,934
Common Equity Tier 1 capital ratio	56.3%	54.5%
Tier 1 ratio	56.3%	54.5%
Total capital ratio	59.8%	60.0%

The Common Equity Tier 1 capital ratio amounted to 56.3% (54.5). Common Equity Tier 1 capital strengthened again in the fourth quarter, with continued profit generation. In the fourth quarter, a portion of Tier 2 capital was converted into Common Equity Tier 1 capital by dissolving three internal subordinated loans and replacing them with shareholders' contributions.

On 31 December 2017, the total Risk Exposure Amount (REA) in Länsförsäkringar Hypotek was SEK 18,589 M (18,222). The increase in REA for the quarter was primarily attributable to increased lending. The credit quality of lending remained favourable.

For more information on capital adequacy, see note 12.

¹ The comparative period pertains to 30 September 2017.

Internally assessed capital requirement and buffer

The internally assessed capital requirement for Länsförsäkringar Hypotek AB on 31 December 2017 amounted to SEK 1,836 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 4,659 M as at 31 December 2017. The countercyclical capital buffer at 2% of REA totalled SEK 372 M. This capital conservation buffer that is to correspond to 2.5% of REA amounted to SEK 465 M on 31 December 2017.

The capital meeting the internal capital requirement including buffer, meaning own funds, amounted to SEK 11,117 M.

Interest-rate risk

On 31 December 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 94.2 M (decrease: 2.3).

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.

Fourth quarter of 2017 compared with third quarter of 2017

Operating profit increased 20% to SEK 237.6 M (197.6), primarily due to higher net interest income and improved net gains from financial items. The return on equity rose to 7.3% (6.7). Operating income increased 18% to SEK 264.0 M (223.8). Net interest income rose 4% to SEK 561.4 M (540.4), attributable to increased volumes and lower refinancing costs. Net gains from financial items amounted to SEK 11.8 M (-11.3) as a result of changes in fair value. Commission expense amounted to SEK 309.9 M (306.0). Operating expenses amounted to SEK 25.8 M (25.4) and the cost/income ratio before loan losses to 0.10% (0.11). Loan losses amounted to SEK 0.6 M (0.8).

Events after the end of the period

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

Annual Report

The Annual Report will be available on Länsförsäkringar Hypotek's website on 13 March 2018.

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	Q4 2017	Q3 2017	Change	Q4 2016	Change	Jan-Dec 2017	Jan-Dec 2016	Change
Interest income		757.5	719.7	5%	628.6	21%	2,832.5	2,355.6	20%
Interest expense		-196.1	-179.3	9%	-170.8	15%	-731.9	-708.7	3%
Net interest income	3	561.4	540.4	4%	457.8	23%	2,100.6	1,646.9	28%
Commission income		0.6	0.7	-14%	0.5	20%	2.4	2.2	9%
Commission expense		-309.9	-306.0	1%	-257.5	20%	-1,143.7	-937.5	22%
Net commission income	4	-309.3	-305.3	1%	-257.0	20%	-1,141.3	-935.3	22%
Net gains/losses from financial items	5	11.8	-11.3		-16.9		-43.0	39.1	
Other operating income		-	-		0.1		-	0.2	
Total operating income		264.0	223.8	18%	183.9	44%	916.4	751.0	22%
Staff costs		-3.3	-4.1	-20%	-2.9	14%	-15.7	-14.8	6%
Other administration expenses		-22.4	-21.3	5%	-20.7	8%	-87.5	-82.5	6%
Total operating expenses		-25.7	-25.4	1%	-23.6	9%	-103.2	-97.3	6%
Depreciation and impairment of tangible assets		0.0	0.0		0.0		-0.2	-0.2	
Total operating expenses		-25.8	-25.4	2%	-23.6	9%	-103.4	-97.4	6%
Profit before loan losses		238.2	198.4	20%	160.2	49%	813.0	653.6	24%
Loan losses, net	6	-0.6	-0.8	-25%	3.8		0.0	4.8	
Operating profit		237.6	197.6	20%	164.0	45%	813.0	658.4	23%
Appropriations		-206.2	-		-150.0	37%	-200.0	-150.0	33%
Tax		-7.9	-43.5	-82%	-12.5	-37%	-135.9	-121.1	12%
Profit for the period		23.4	154.1	-85%	1.5		477.1	387.3	23%

Statement of comprehensive income									
SEK M	Q4 2017	Q3 2017	Change	Q4 2016	Change	Jan-Dec 2017	Jan-Dec 2016	Change	
Profit for the period	23.4	154.1	-85%	1.5		477.1	387.3	23%	
Other comprehensive income									
Items that have been reclassified or may subsequently be reclassified to the income statement									
Cash-flow hedges	9.4	-22.2		-70.6		-126.9	-100.7		
Change in fair value from available-for-sale financial assets	-2.3	-6.6		0.2		7.0	17.1		
Tax attributable to items that have been transferred or can be transferred to profit for the period	-1.5	6.3		15.5		26.4	18.4		
Total other comprehensive income for the period, net after tax	5.6	-22.5		-54.9		-93.5	-65.2		
Total comprehensive income for the period	29.0	131.6		-53.4		383.6	322.1		

Balance sheet			
SEK M	Note	31 December 2017	31 December 2016
Assets			
Loans to credit institutions			
Loans to the public	7	2,859.2	4,614.7
Bonds and other interest-bearing securities	8	197,654.8	168,947.9
Derivatives	9	9,837.9	9,313.9
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		4,681.3	5,744.5
Tangible assets		207.5	536.4
Deferred tax assets		0.5	0.5
Other assets		27.7	-
Prepaid expenses and accrued income		43.5	23.2
Total assets		215,336.6	189,227.6
Liabilities, provisions and equity			
Due to credit institutions			
Debt securities in issue	7	47,266.6	47,002.4
Derivatives	9	152,811.9	126,887.9
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		683.9	1,138.7
Deferred tax liabilities		1,134.7	3,027.2
Other liabilities		-	0.3
Accrued expenses and deferred income		133.4	77.9
Provisions		2,031.9	2,002.6
Subordinated liabilities		1.1	1.0
Total liabilities and provisions		661.0	1,001.0
Untaxed reserves		204,724.4	181,139.0
Equity			
Share capital		70.3	70.3
Statutory reserve		14.1	14.1
Fair value reserve		-69.1	24.4
Retained earnings		9,461.1	7,133.8
Profit for the period		477.1	387.3
Total equity		9,953.4	7,629.9
Total liabilities, provisions and equity		215,336.6	189,227.6
Other notes			
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Cash-flow statement in summary, indirect method

SEK M	Jan-Dec 2017	Jan-Dec 2016
Cash and cash equivalents, 1 January	11.5	17.0
Cash flow from operating activities	-1,599.1	-605.5
Cash flow from investing activities	-0.2	0.0
Cash flow from financing activities	1,600.0	600.0
Cash flow for the period	0.7	-5.5
Cash and cash equivalents, 31 December	12.2	11.5

Cash and cash equivalents are defined as loans to credit institutions and payable on demand. The change in cash flow from operating activities is largely attributable to Loans to the public amounting to SEK -28,706.5 M (-21,895.1) and Debt securities in issue to SEK 25,253.6 M (15,515.4). Changes to the cash flow from the financing activities are largely attributable to shareholder's contribution received SEK 1,940.0 M (600.0).

Statement of changes in Shareholders' equity

SEK M	Restricted equity		Non-restricted equity				Total	
	Share capital	Statutory reserve	Fair value reserve		Retained earnings	Profit for the period		
			Fair value reserve	Hedge reserve				
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						387.3	387.3	
Other comprehensive income for the period			13.3	-78.5			-65.2	
<i>Comprehensive income for the period</i>			13.3	-78.5		387.3	322.1	
Resolution by Annual General Meeting					308.3	-308.3	-	
Conditional shareholders' contribution received					600.0		600.0	
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						477.1	477.1	
Other comprehensive income for the period			5.5	-99.0			-93.5	
<i>Comprehensive income for the period</i>			5.5	-99.0		477.1	383.5	
Resolution by Annual General Meeting					387.3	-387.3	-	
Conditional shareholders' contribution received					1,940.0 ¹		1,940.0	
Closing balance, 31 December 2017	70.3	14.1	28.9	-98.0	9,461.1	477.1	9,953.4	

¹During the quarter, all conditional shareholders' contributions that Länsförsäkringar Hypotek AB (publ) previously received from Länsförsäkringar Bank AB (publ) were converted to unconditional shareholders' contributions.

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 from 1 January 2017 to present financial instruments measured at fair value including accrued interest, which conforms with the classifications in the CRR regulations. The change affected comparative figures in the balance sheet as per 31 December 2016. The affected asset items are: Derivatives have increased by SEK 574 M, Bonds and other interest-bearing securities have increased by SEK 112, Prepaid expenses and accrued income have declined by SEK 687 M. The affected liability items are: Derivatives have increased by SEK 138 M and Accrued expenses and deferred income have declined by SEK 138 M. Comparative figures and performance measures have been updated to the new classification. The change has not affected equity.

NEW IFRS AND INTERPRETATIONS THAT HAVE NOT YET BEEN APPLIED

IFRS 9 Financial instruments

IFRS 9 Financial Instruments took effect on 1 January 2018 and largely replaces IAS 39. The standard contains new requirements for the classification and measurement of financial instruments, new hedge accounting rules and an expected loss impairment model. The company's project to implement the new rules has been completed and the outcome is as follows:

Classification and measurement

Financial assets are to be divided into three measurement categories under IFRS 9. The division into these three categories is based on the company's business model for the various holdings and the cash flow characteristics that the assets give rise to. The outcome for the company is:

Financial asset	Fair value through profit and loss	Amortised cost	Fairvalue through other comprehensive income
Cash and balances with central banks		X	
Treasury bills and other eligible bills			X
Loans to credit institutions	X		
Loans to the public	X		
Bonds and other interest-bearing securities		X	
Shares and participations		X	
Derivatives	X		
Other financial assets		X	

The transition to IFRS 9 does not entail any material reclassification of financial assets in the company and thus does not impact the carrying amounts of the assets.

The classification of financial liabilities has not been changed and financial liabilities continue to be measured at amortised cost.

Hedge accounting

In 2017, the company further analysed the options for hedge accounting under IFRS 9 and decided to make use of the exceptions that entail that the rules in IAS 39 can continue to be applied for all hedging relationships.

Expected credit losses

The impairment model under IFRS 9 encompasses financial assets measured at amortised cost and debt instruments measured at fair value through other comprehensive income, financial guarantees and loan commitments.

The expected loss impairment model is based on dividing the financial assets in three different stages. Stage 1 comprises assets for which the credit risk has not increased significantly since initial recognition. Stage 2 comprises assets for which the credit risk has increased significantly since initial recognition, but the asset is not credit-impaired. Stage 3 comprises credit-impaired assets. Estimating expected credit losses for stage 1 is to correspond to the 12-month expected credit losses (ECL). For stages 2 and 3, estimating expected credit losses is to correspond to the full lifetime expected credit losses. The approach selected to assess the significant increase in credit risk is to compare PD on the reporting date in question with PD from the initial reporting date. In addition, a credit risk is deemed to have increased significantly for assets that are more than 30 days past due.

The calculations are primarily based on existing internal ratings-based models, but the reporting standard includes the new requirement that the calculations must also take into account prospective information. The provision for the expected credit losses is achieved by calculating the expected credit loss for the asset's contractual cash flows. The present value of the expected credit loss is calculated for every date in each cash flow by multiplying the remaining exposure with the probability of default (PD) and the loss given default (LGD). For stage 1, the expected credit loss is calculated as the present value of the 12-month ECL, while the credit loss for stages 2 and 3 is calculated as the present value of the full lifetime expected credit losses. All calculations of the expected credit losses including estimates of exposure, PD and LGD take into account prospective information and are based on a weighting of at least three different possible macroeconomic scenarios. A number of statistical macro models have been developed to determine how each macroeconomic scenario will affect the expected future exposure, PD and LGD.

The effect of the transition from IAS 39 to IFR 9 is recognised as an adjustment of equity (after tax) in the opening balance for 2018. A calculation of the provision for expected credit losses under IFRS 9 was performed on 1 January 2018. The change in the provision entails that the company's equity increased by SEK 17.5 M.

The effect on own funds is marginal since the company applies the IRB Approach to most of its loan portfolio. The company has decided not to apply the capital adequacy rules that permit a phase-in of expected credit losses in own funds.

The company does not intend to restate comparative figures for IFRS 9 in future financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers replaced all previously issued standards and interpretations on income on 1 January 2018. The standard contains a single model for recognising revenue from contracts with customers that is not encompassed by other standards (for example, IFRS 9). Other than additional disclosure requirements, the rules have no effect on the company's financial statements.

IFRS 16 Leases

IFRS 16 Leases will replace IAS 17 Leases on 1 January 2019. Early adoption is permitted provided that IFRS 15 Revenue from Contracts with Customers is also applied. The company will not apply the standard in advance. The largest changes entailed by the new standard is that a lessee is to recognise leases in its balance sheet. The company currently has a project in progress to analyse the effects of the standard.

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 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.

Note 3	Net interest income							
SEK M	Q 4 2017	Q 3 2017	Change	Q 4 2016	Change	Jan-Dec 2017	Jan-Dec 2016	Change
Interest income								
Loans to credit institutions	4.8	8.7	-45%	2.6	85%	38.3 ¹	12.4	
Loans to the public	847.4	825.3	3%	768.1	10%	3,263.7	3,004.3	9%
Interest-bearing securities	18.3	18.1	1%	31.0	-41%	85.9 ¹	144.4	-41%
Derivatives	-112.9	-132.4	-15%	-173.3	-35%	-555.4	-805.6	-31%
Other interest income	0.0	0.0		0.1		-0.1	0.1	
Total interest income	757.5	719.7	5%	628.6	21%	2,832.5	2,355.6	20%
Interest Expense								
Due to credit institutions	-114.5	-109.6	4%	-114.0		-438.1 ¹	-412.3	6%
Dept securities in issue	-455.7	-444.0	3%	-442.0	3%	-1,821.9	-1,853.8	-2%
Subordinated liabilities	-3.8	-3.9	-3%	-3.9	-3%	-15.2	-15.9	-4%
Derivatives	407.0	407.2	2%	398.4	2%	1,656.9	1,621.3	2%
Other interest expense	-29.0	-29.1		-9.3		-113.7	-48.0	
Total interest expense	-196.1	-179.3	9%	-170.8	15%	-731.9	-708.7	3%
Total net interest income	561.4	540.4	4%	457.8	23%	2,100.6	1,646.9	28%
Average interest rate on loans to the public during the period, %	1.8	1.8		1.9	-5%	1.8	1.9	-5%

¹ Of which negative interest of Loans to credit institutions SEK -6.1 M, Interest-bearing securities SEK -3.5 M and Due to credit institutions SEK 7.7 M.

Note 4	Commission income							
SEK M	Q 4 2017	Q 3 2017	Change	Q 4 2016	Change	Jan-Dec 2017	Jan-Dec 2016	Change
Commission income								
Loans	0.6	0.7	-14%	0.5	20%	2.4	2.2	9%
Total commission income	0.6	0.7	-14%	0.5	20%	2.4	2.2	9%
Commission Expense								
Remuneration to regional insurance companies	-309.8	-305.9	1%	-257.3	20%	-1,143.3	-936.0	22%
Other commission	-0.1	-0.1		-0.2		-0.4	-1.6	
Total commission expense	-309.9	-306.0	1%	-257.5	20%	-1,143.7	-937.5	22%
Total commission income	-309.3	-305.3	1%	-257.0	20%	-1,141.3	-935.3	22%

Note 5	Net gains / losses from financial items							
SEK M	Q 4 2017	Q 3 2017	Change	Q 4 2016	Change	Jan-Dec 2017	Jan-Dec 2016	Change
Interest-bearing assets and liabilities and related derivatives								
Interest-bearing assets and liabilities and related derivatives	3.8	-19.0		-24.2		-72.1	1.2	
Other financial assets and liabilities	0.6	-0.3		-0.1		0.2	0.2	
Interest compensation	7.4	8.0	-8%	7.3	1%	29.0	37.8	-23%
Total net gains / losses from financial items	11.8	-11.3		-16.9		-43.0	39.1	

Note 6	Loan losses and impaired loans							
	Q 4 2017	Q 3 2017	Förändring	Q 4 2016	Förändring	Jan-Dec 2017	Jan-Dec 2016	Förändring
Net loan losses, SEK M								
Specific reserve for individually assessed loan receivables								
Write-off of confirmed loan losses during the period	-0.6	-0.7	-14%	-0.1		-1.1	-0.7	57%
Reversed earlier impairment of loan losses recognised as confirmed losses	0.2	0.0		0.0		0.3	0.4	-25%
Impairment of loan losses during the period	-1.5	-1.2	25%	-11	36%	-4.5	-5.0	10%
Payment received for prior confirmed loan losses	0.5	0.2		0.5		2.0	2.4	-17%
Reversed impairment of loan losses no longer required	0.9	1.0	-10%	3.3	-73%	3.6	6.5	-45%
Net expense for the year for individually assessed loan receivables	-0.6	-0.7	-14%	2.7		0.2	3.7	-95%
Collective assessed homogenous groups of loan receivables with limited value and similar credit risk								
Provision / reversal of impairment of loan losses	0.0	-0.1		1.1		-0.3	1.1	
Net expense for the year for collectively assessed receivables	0.0	-0.1		1.1		-0.3	1.1	
Annual net expense for the year for fulfillment of guarantees	-	-				-	-	
Net expense of loan losses for the period	-0.6	-0.8	-25%	3.8		0.0	4.8	

All information pertains to receivables from the public.

Impaired loans, SEK M	31 December 2017				31 December 2016			
	Gross	Individual	Collective	Net	Gross	Individual	Collective	Net
		impair- ments	impair- ments			impair- ments	impair- ments	
Retail sector	-	-3.3	-24.6	-27.9	-	-2.7	-24.3	-27.0
Total	-	-3.3	-24.6	-27.9	-	-2.7	-24.3	-27.0

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 31 December 2017, the total credit reserve requirement amounted to SEK 47 M of which Länsförsäkringar Hypoteks recognised credit reserve accounted for SEK 28 M and the remainder of SEK 19 M was offset against the regional insurance companies' withheld funds, according to the model described above.

Note 7	Loans / due to credit institutions
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Loans to credit institutions include deposits with the Parent Company of SEK 2,847.0 (4,273.6) M. Due to credit institutions includes borrowings from the Parent Company of SEK 47,213.8 (46,986.7) 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		31 December 2017	31 December 2016
Corporate sector		6,864.6	7,136.2
Retail sector		190,818.0	161,838.6
Loans to the public before reserves		197,682.7	168,974.9
Reservations		-27.9	-27.0
Loans to the public		197,654.8	168,947.9
Fixed-interest period			
Remaining term of not more than 3 month		137,312.8	106,118.5
Remaining term of more than 3 months but not more than 1 year		19,255.6	15,444.7
Remaining term of more than 1 year but not more than 5 years		39,448.8	45,649.4
Remaining term of more than 5 years		1,637.6	1,735.2
Loans to the public		197,654.8	168,947.9

Definition

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

Note 9	Derivatives			
SEK M		31 December 2017	31 December 2016	
		Nominellt belopp	Verkligt värde	Nominellt belopp
				Verkligt värde
Derivatives with positive values				
<i>Derivatives in hedge accounting</i>				
Interest-related	99,502.0	1,688.4	83,647.0	2,629.2
Currency-related	28,286.0	2,992.8	22,967.8	3,115.3
<i>Other derivatives</i>				
Interest-related	-	-	-	-
Total derivatives with positive values	127,788.0	4,681.3	106,614.8	5,744.5
Derivatives with negative values				
<i>Derivatives in hedge accounting</i>				
Interest-related	68,730.0	535.9	61,530.0	960.7
Currency-related	2,036.7	148.0	3,213.2	177.9
<i>Other derivatives</i>				
Interest-related	-	-	2,000.0	0.1
Total derivatives with negative values	70,766.7	683.9	66,743.2	1,138.7

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		31 December 2017	31 December 2016
For own liabilities, pledged assets		197,724.0	168,137.0
Commitments		11,202.9	9,545.0

Note 11	Fair value valuation techniques	31 December 2017		31 December 2016	
SEK M		Book value	Fair value	Book value	Fair value
Financial assets					
Loans to credit institutions		2,859.2	2,859.2	4,614.7	4,614.7
Loans to the public		197,654.8	198,186.5	168,947.9	169,562.9
Bonds and other interest-bearing securities		9,837.9	9,837.9	9,313.9	9,313.9
Derivatives		4,681.3	4,681.3	5,744.5	5,744.5
Other receivables		0.0	0.0	-	-
Summa		215,033.2	215,564.9	188,621.0	189,236.0
Financial Liabilities					
Due to credit institutions		47,266.6	47,266.6	47,002.4	47,002.4
Debt securities in issue		152,811.9	156,434.7	126,887.9	131,774.9
Derivatives		683.9	683.9	1,138.7	1,138.7
Other liabilities		7.0	7.0	6.7	6.7
Subordinated liabilities		661.0	673.5	1,001.0	1,023.3
Total		201,430.4	205,053.2	176,036.7	180,946.0

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

31 December 2017, SEK M	Level 1	Level 2	Level 3	Total
Assets				
Bonds and other interest-bearing securities	9,837.9			9,837.9
Derivatives		4,681.3		4,681.3
Liabilities				
Derivatives		683.9		683.9
31 December, 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

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				
31 December 2017, SEK M		Level 1	Level 2	Level 3
Assets				
Loans to the public		198,186.5		198,186.5
Liabilities				
Debt securities in issue		156,434.7		156,434.7
Subordinated liabilities		673.5		673.5
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

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		
Presentation of own funds in accordance with Article 5 of the European Commission Implementing Regulation (EU) No 1423/2013. Rows that are empty in the presentation in accordance with the Regulation have been excluded in the table below to provide a better overview. There are no items encompassed by the provisions applied before Regulation (EU) No 575/2013 or any prescribed residual amounts under the Regulation.			
SEK M		31 Dec 2017	31 Dec 2016
Common Equity Tier 1 capital: instruments and reserves			
Capital instruments and associated share premium reserves		598.2	442.3
Of which: share capital		70.3	70.3
Non-distributed earnings (Retained earnings)		9,461.0	7,133.8
Accumulated Other comprehensive income		-69.1	24.4
Interim profits, net, after deductions for foreseeable charge and dividends that have been verified by persons independent of the institution		477.1	387.3
Common Equity Tier 1 capital before legislative adjustments		10,467.2	7,987.8
Common Equity Tier 1 capital: legislative adjustments			
Additional value adjustments		-14.5	-15.4
Fair value reserves related to gains or losses on cash-flow hedges		98.1	-10
Negative amounts resulting from the calculation of expected loss amounts		-94.4	-80.9
Total legislative adjustments of Common Equity Tier 1 capital		-10.8	-97.3
Common Equity Tier 1 capital and additional Tier 1 instruments		10,456.4	7,890.5
Tier 2 capital: instruments and provisions			
Capital instruments and associated share premium reserves		661.0	1,001.0
Tier 2 capital		661.0	1,001.0
Total capital (total capital = Tier 1 capital + Tier 2 capital)		11,117.4	8,891.5
Total risk-weighted assets		18,589.1	17,893.6
Capital ratios and buffers			
Common Equity Tier 1 capital (as a percentage of the total risk-weighted exposure amount)		56.3%	44.1%
Tier 1 capital (as a percentage of the total risk-weighted exposure amount)		56.3%	44.1%
Total capital (as a percentage of the total risk-weighted exposure amount)		59.8%	49.7%
Institution-specific buffer requirements		9.0%	8.5%
Of which: capital conservation buffer requirement		2.5%	2.5%
Of which: countercyclical capital buffer requirement		2.0%	1.5%
Of which: systemic risk buffer requirement		-	-
Of which: buffer for globally systemically important institution or for another systemically important institution		-	-
Common Equity Tier 1 capital available for use as a buffer (as a percentage of the riskweighted exposure amount)		51.8%	39.6%
Capital requirement according to Basel I floor *		8,228.4	6,992.2
Own funds adjusted according to Basel I floor		11,211.8	8,972.4
Surplus capital according to Basel I floor		2,983.4	1,980.2

From 1 January 2018, the capital requirement under the Basel I floor based Article 500(1) of the Regulation No 575/2013/EU on prudential requirements ceases to apply.

Note 12 Capital-adequacy analysis, continued		31 Dec 2017		31 Dec 2016	
SEK M		Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement
Credit risk according to Standardised Approach					
Exposures to institutions		431.9	34.6	1,419.8	113.6
Covered bonds		983.8	78.7	931.6	74.5
Other items		71.2	5.7	4.8	0.4
Total capital requirement and risk exposure amount		1,486.9	119.0	2,356.3	188.5
Credit risk according to IRB Approach					
<i>Retail exposures</i>					
Exposures secured by real estate collateral		431.1	34.5	423.2	33.9
Other retail exposures		11,737.3	939.0	10,058.1	804.6
Other retail exposures, small and medium-sized businesses		5.5	0.4	2.9	0.2
Other retail exposures		28.2	2.3	26.1	2.1
Total retail exposures		12,202.1	976.2	10,510.2	840.8
Exposures to corporates		3,314.7	265.2	3,349.7	268.0
Total capital requirement and risk exposure amount		15,516.8	1,241.3	13,859.9	1,108.8
Operational risk					
Standardised Approach		915.3	73.2	740.4	59.2
Total capital requirement for operational risk		915.3	73.2	740.4	59.2
Total capital requirement for credit valuation adjustments		670.2	53.6	937.1	75.0
Total capital requirement and risk exposure amount		18,589.1	1,487.1	17,893.6	1,431.5

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, 9 February 2018

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 per 31 December 2017 and the twelve-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 9 February 2018

Dan Beitner
Authorized Public Accountant

Financial calendar

Interim report January–March Länsförsäkringar Bank	25 April 2018
Interim report January–March Länsförsäkringar Hypotek	25 April 2018

This report contains such information that Länsförsäkringar Hypotek AB (publ) must publish in accordance with the Securities Market Act and EU Market Abuse Regulation. The information was submitted for publication on 9 February 2018 at 12:00 a.m. Swedish time.

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