25 April 2018

Länsförsäkringar Hypotek

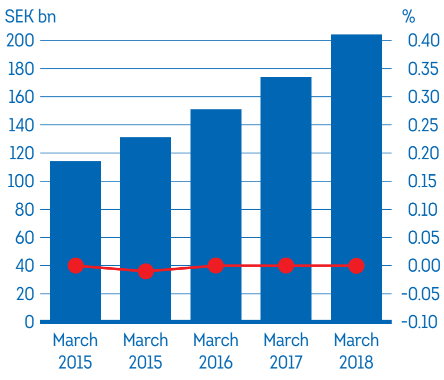
Interim Report January–March 2018

The period in brief, Group

- Operating profit increased 37% to SEK 236.4 M (172.2) and the return on equity amounted to 6.9% (6.6).
- Net interest income increased 19% to SEK 585.4 M (490.6).
- Credit losses amounted to SEK –0.3 M (–0.7), net, corresponding to a credit loss level of –0.00% (–0.00).
- Lending increased 17% to SEK 203.9 billion (174.2).
- The Common Equity Tier 1 capital ratio amounted to 54.8% (56.3*) on 31 March 2018.
- The number of customers rose 10% to 260,000 (236,000).
- 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.

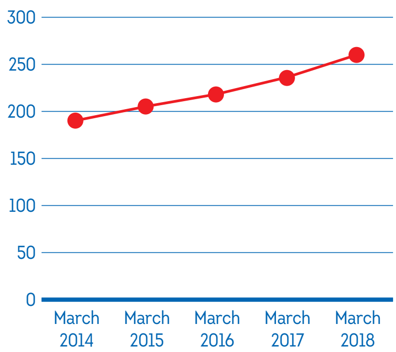
Figures in parentheses pertain to the same period in 2017.
* Refers to 31 December 2017.

Loans to the public



Customer trend

Number of customers, 000s



President's comment

The positive performance for Länsförsäkringar Hypotek continues and operating profit trended positively due to continued strong net interest income. Lending growth is stable, while credit quality remains high and credit losses very low. Our market share in the mortgage market is continuously increasing and the inflow of new customers is continuing, which indicates that customers value Länsförsäkringar's mortgage offering. The price trend of the housing market remained in focus during the period and the stricter repayment requirements came into effect in March. Although a stricter repayment culture is essentially a healthy development, politicians must further concentrate on the function of the housing market, make it less sluggish and reduce lock-in effects moving forward.

Anders Borgcrantz
President of Länsförsäkringar Hypotek

Länsförsäkringar

lansforsakringar.se/finansiellthypotek

Key figures

	Q 1 2018	Q 4 2017	Q 1 2017	Full-year 2017
Return on equity, %	6.9	7.3	6.6	6.9
Return on total capital, %	0.43	0.44	0.35	0.40
Return on total assets, %	0.33	0.34	0.28	0.31
Investment margin, %	1.06	1.05	1.01	1.03
Cost/income ratio before credit losses	0.10	0.10	0.13	0.11
Common Equity Tier 1 capital ratio, %	54.8	56.3	50.2	56.3
Total capital ratio, %	58.2	59.8	55.9	59.8
Share of credit-impaired loan receivables, %	0.07	–	–	–
Reserve ratio for credit-impaired loan receivables, %	1.1	–	–	–
Reserve ratio credit-impaired loan receivables, incl. withheld remuneration to regional insurance companies, %	5.5	–	–	–
Credit loss level, %	-0.00	0.00	-0.00	-0.00

Income statement, quarterly

SEK M	Q 1 2018	Q 4 2017	Q 3 2017	Q 2 2017	Q 1 2017
Net interest income	585.4	561.4	540.4	508.2	490.6
Net commission	-321.7	-309.3	-305.3	-267.0	-259.6
Net gains/losses from financial items	0.0	11.8	-11.3	-10.3	-33.1
Other operating income	0.0	0.0	0.0	0.0	0.0
Total operating income	**263.8**	**264.0**	**223.8**	**230.8**	**197.8**
Staff costs	-4.5	-3.3	-4.1	-4.3	-4.0
Other administration expenses	-23.2	-22.4	-21.3	-21.6	-22.2
Total operating expenses	**-27.7**	**-25.8**	**-25.4**	**-25.8**	**-26.2**
Profit before credit losses	**236.1**	**238.2**	**198.4**	**205.1**	**171.5**
Credit losses, net	0.3	-0.6	-0.8	0.7	0.7
Operating profit	**236.4**	**237.6**	**197.6**	**205.8**	**172.2**

Market commentary

The global economy continued to strengthen during the first quarter of the year. Concerns about rising inflation, interest rates and trade barriers dominated the news. In March, the US administration decided to introduce tariffs on steel and aluminium imports and also announced further plans to impose tariffs on Chinese goods and restrictions on Chinese investments in the US. China responded by introducing similar measures. However, the EU and a number of other countries were granted exemptions from the steel and aluminium tariffs. In real-economic terms, the US economy continued to post a positive trend, particularly the US labour market, mainly driven by the tax reform adopted in December. Confidence indicators suggest that the strong trend will continue, and inflation has started to rise, fuelling expectations of a higher number of rate increases in the US. As expected, the Fed hiked interest rates to the 1.50 – 1.75% interval in March and economic forecasts were revised upwards. The European economy continued to develop favourably, although confidence indicators fell slightly from previously high levels. The Swedish economy continues to perform well and GDP increased at an annualised rate of 3.3% in the fourth quarter. Similar to Europe, confidence indicators declined slightly yet continue to suggest a robust performance. However, the inflation trend was weaker than expected and the salary trend remains slow. In February, the Riksbank revised its inflation forecast downward yet left the interest rate path unchanged, and continued to indicate that it would not raise interest rates until the third quarter of 2018.

Long-term government bond rates rose at the start of the year due to the continued strength of the economy, increasing inflation expectations and hopes that the central banks will ease up slightly earlier. However, the initial increase in interest rates in Europe was wiped out in the quarter due to weaker risk sentiment and concern about trade barriers, as well as a softer approach from the ECB and Riksbank. US long-term interest rates were more resilient in light of the raised expectations from the Fed. Rates on covered bonds fell slightly during the quarter.

The equities markets saw heightened volatility during the first quarter of the year and following a favourable start to the year, stock market performance was by weighed down by fears of central banks more quickly adopting austere monetary policies and a trade war. The Swedish stock market ended the quarter largely unchanged, whereas the global index had performed more weakly. The SEK weakened against both the EUR and the USD in the quarter. The housing market remained uncertain and the stricter repayment requirements came into effect in March. Housing prices had fallen a total of 6% by the end of March, excluding seasonal changes from the peak of August 2017. The development during the first quarter of the year was mostly unchanged.

First quarter of 2018 compared with first quarter of 2017

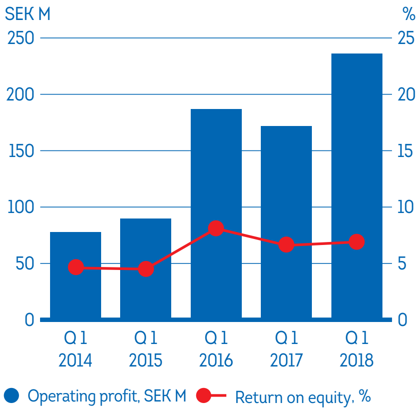
Growth and customer trend

Loans to the public rose 17%, or SEK 29.7 billion, to SEK 203.9 billion (174.2), with continued very high credit quality. The number of customers increased 10%, or 24,000, to 260,000 (236,000), and 88% (87) of mortgage customers have Länsförsäkringar as their primary bank.

Earnings and profitability

Operating profit increased 37% to SEK 236.4 M (172.2), due to higher net interest income. The investment margin strengthened to 1.06% (1.01). Profit before credit losses rose 38% to SEK 236.1 M (171.5). Return on equity strengthened to 6.9% (6.6).

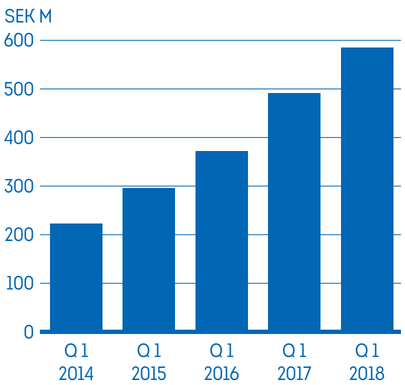
Operating profit and return on equity



Income

Operating income increased 33% to SEK 263.8 M (197.8), due to higher net interest income. Net interest income increased 19% to SEK 585.4 M (490.6), attributable to higher volumes. Net gains from financial items amounted to SEK 0.0 M (–33.1). Net commission amounted to SEK –321.7 M (–259.6), 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 27.7 M (26.3). The cost/income ratio before credit losses amounted to 0.10 (0.13).

Credit losses

Länsförsäkringar Hypotek applies IFRS 9 Financial Instruments from 1 January 2018. This accounting standard replaces IAS 39 and the new model for calculating loss allowances has the largest financial impact. Under IFRS 9, the loss allowance is based on expected losses. Accordingly, the loss allowance is calculated under IFRS 9 on initial recognition, which differs from the former IAS 39 rules where calculations take place in connection with the occurrence of a specific incurred loss event.

Credit losses amounted to SEK –0.3 M (–0.7), net, corresponding to a credit loss level of –0.00% (–0.00). Credit-impaired loan receivables amounted to SEK 154.2 M, corresponding to a share of credit-impaired loan receivables of 0.07%. The estimated value of collateral for credit-impaired loan receivables was SEK 153.1 M. The total recognised loss allowance for loan receivables under IFRS 9 amounted to SEK 5.5 M, of which SEK 1.7 M pertained to credit-impaired loan receivables. The reserve ratio for credit-impaired loan receivables amounted to 1.1%. In addition to the recognised loss allowance for loan receivables, SEK 21.9 M of the remuneration to the regional insurance companies' credit-risk commitments for generated business is withheld in accordance with the settlement model. Including the withheld remuneration to the regional insurance companies, the loss allowance for loan receivables totalled SEK 27.4 M. The reserve ratio for credit-impaired loan receivables, including withheld remuneration to regional insurance companies, amounted to 5.5%.

For further information on the effect of IFRS 9 and credit losses and credit-impaired loan receivables, refer to 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 17%, or SEK 29.7 billion, to SEK 203.9 billion (174.2). The credit quality of the loan portfolio, whose collateral comprises 71% (72) single-family homes, 25% (23) tenant-owned apartments and 4% (5) multi-family housing, remained favourable. On 28 February 2018, the market share of retail mortgages strengthened to 6.4% (5.9) according to Statistics Sweden.

Cover pool

The cover pool, which forms the basis of issuance of covered bonds, contains mortgages of SEK 194.9 billion, corresponding to 96% of the loan portfolio. This collateral comprises only private homes, of which 72% (73) are single-family homes, 26% (25) tenant-owned apartments and 2% (2) vacation homes. The geographic spread throughout Sweden is favourable and the average loan commitment is low at SEK 1.21 M (1.13). The weighted average loan-to-value ratio, LTV, was 57% (58) and the nominal, current OC (overcollateralisation) amounted to 32% (30). A stress test of the cover pool based on a 20% fall in the market value of the mortgages' collateral resulted in a weighted average loan-to-value ratio of 65% (65) on 31 March 2018. The cover pool does not include any loans that are past due 60 days. 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, Q3 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 Mar 2018	31 Mar 2017
Cover pool, SEK billion	205	174
OC[1], nominal, current level, %	32	30
Weighted average LTV, %	57	58
Collateral	Private homes	Private homes
Seasoning, months	58	59
Number of loans	364,842	328,250
Number of borrowers	160,994	146,270
Number of properties	160,841	145,976
Average commitment, SEK 000s	1,212	1,129
Average loan, SEK 000s	534	502
Interest rate type, variable, %	71	67
Interest rate type, fixed, %	29	33
Loans past due 60 days	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 17% to SEK 162.3 billion (139.0). Issued covered bonds during the quarter totalled a nominal SEK 12.4 billion (14.4) and repurchases of a nominal SEK 4.2 billion (2.1) were executed. No covered bonds matured during the period. In March, Länsförsäkringar Hypotek issued a seven-year Euro benchmark covered bond for a nominal EUR 500 M. Demand was high and the transaction was well-received by the market.

Maturity profile

Liquidity

On 31 March 2018, the liquidity reserve totalled SEK 10.6 billion (9.6). The liquidity situation remained healthy and the survival horizon was more than two 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 ratio[1]

Länsförsäkringar Hypotek AB (SEK M)	31 Mar 2018	31 Dec 2017
IRB Approach	15,928	15,517
retail exposures	12,730	12,202
exposures to corporates	3,198	3,315
Standardised Approach	1,519	1,487
Operational risks	1,131	915
Total REA	19,409	18,589
Common Equity Tier 1 capital	10,637	10,456
Tier 1 capital	10,637	10,456
Total capital	11,298	11,117
Common Equity Tier 1 capital ratio	54.8 %	56.3 %
Tier 1 ratio	54.8 %	56.3 %
Total capital ratio	58.2 %	59.8 %

The Common Equity Tier 1 capital ratio amounted to 54.8% (56.3). Common Equity Tier 1 capital strengthened again this quarter, with continued profit generation. On 31 March 2018, the total Risk Exposure Amount (REA) amounted to SEK 19,409 M (18,589).

For more information on capital adequacy, see note 12.

[1] The comparative period pertains to 31 December 2017. Periodic information according to the Swedish Financial Supervisory Authority's regulations regarding prudential requirements and capital buffers, (FFFS 2014:12) and regarding management of liquidity risks in credit institutions and investment firms (FFFS 2010:7) is provided in this section, the section on funding and liquidity and in note 12.

Internally assessed capital and buffer requirements

The internally assessed capital requirement for Länsförsäkringar Hypotek AB on 31 March 2018 amounted to SEK 2,656 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 4,781 M as at 31 March 2018. The countercyclical capital buffer at 2% of REA totalled SEK 388 M. The capital conservation buffer of 2.5% of REA amounted to SEK 485 M on 31 March 2018.

The capital used to meet the internal capital requirement including buffer, meaning own funds, amounted to SEK 11,298 M.

Interest-rate risk

On 31 March 2018, 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 103.6 M (–16.6).

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, which are restricted through narrow limits. The operations are characterised by a low risk profile. Credit 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 2017 Annual Report. No significant changes in the allocation of risk have taken place compared with the description provided in the Annual Report.

First quarter of 2017 compared with fourth quarter of 2017

Operating profit amounted to SEK 236.4 M (237.6) due to higher net interest income and improved net gains from financial items. The return on equity amounted to 6.9% (7.3). Operating income amounted to SEK 263.8 M (264.0). Net interest income rose 4% to SEK 585.4 M (561.4), attributable to increased volumes and lower refinancing costs. Net gains from financial items amounted to SEK 0.0 M (11.8) as a result of changes in fair value. Commission expense amounted to SEK 322.3 M (309.9). Operating expenses amounted to SEK 27.7 M (25.8) and the cost/income ratio before credit losses to 0.10% (0.10). Credit losses amounted to SEK –0.3 M (0.6).

Events after the end of the period

On 2 April 2018, Anders Borgcrantz returned to the position as President of Länsförsäkringar Hypotek. Martin Rydin returned to the position as CFO and Executive Vice President of Länsförsäkringar Hypotek. In connection with this, Sven Eggefalk, President of Länsförsäkringar Bank, became the Chairman of Länsförsäkringar Hypotek.

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	Q 1 2018	Q 4 2017	Change	Q 1 2017	Change	Full-Year 2017
Interest income calculated according to the effective interest method		772.2	757.5	2%	656.9	18%	2,832.5
Interest expense		-186.8	-196.1	-5%	-166.3	12%	-731.9
Net interest income	3	**585.4**	**561.4**	**4%**	**490.6**	**19%**	**2,100.6**
Commission income		0.6	0.6		0.6		2.4
Commission expense		-322.3	-309.9	4%	-260.2	24%	-1,143.7
Net commission income	4	**-321.7**	**-309.3**	**4%**	**-259.6**	**24%**	**-1,141.3**
Net gains/losses from financial items	5	0.0	11.8		-33.1		-43.0
Other operating income		0.0	-		0.0		-
Total operating income		**263.8**	**264.0**		**197.8**	**33%**	**916.4**
Staff costs		-4.5	-3.3	36%	-4.0	13%	-15.7
Other administration expenses		-23.2	-22.4	4%	-22.2	5%	-87.5
Total operating expenses		**-27.6**	**-25.7**	**7%**	**-26.2**	**5%**	**-103.2**
Depreciation and impairment of tangible assets		0.0	0.0		-0.1		-0.2
Total operating expenses		**-27.7**	**-25.8**	**7%**	**-26.3**	**5%**	**-103.4**
Profit before credit losses		**236.1**	**238.2**	**-1%**	**171.5**	**38%**	**813.0**
Credit losses, net	6	0.3	-0.6		0.7	-57%	0.0
Operating profit		**236.4**	**237.6**	**-1%**	**172.2**	**37%**	**813.0**
Appropriations		0.0	-206.2		6.2		-200.0
Tax		-52.0	-7.9		-39.2	33%	-135.9
Profit for the period		**184.4**	**23.4**		**139.2**	**33%**	**477.1**

Statement of comprehensive income

SEK M	Q 1 2018	Q 4 2017	Change	Q 1 2017	Change	Full-Year 2017
Profit for the period	**184.4**	**23.4**		**139.2**	**33%**	**477.1**
Other comprehensive income						
Items that have been reclassified or may subsequently be reclassified to the income statement						
Cash-flow hedges	-11.6	9.4		-65.0	-82%	-126.9
Change in fair value from available-for-sale financial assets	7.9	-2.3		0.8		7.0
Tax attributable to items that have been transferred or can be transferred to profit for the period	0.8	-1.5		14.1	-94%	26.4
Total other comprehensive income for the period, net after tax	**-2.9**	**5.6**		**-50.1**	-94%	**-93.5**
Total comprehensive income for the period	**181.5**	**29.0**		**89.1**		**383.6**

Balance sheet

SEK M	Note	31 March 2018	31 December 2017	31 March 2017
Assets				
Loans to credit institutions	7	5,855.0	2,859.2	9,747.2
Loans to the public	8	203,878.9	197,654.8	174,231.5
Bonds and other interest-bearing securities		10,584.3	9,837.9	9,617.9
Derivatives	9	6,161.0	4,681.3	5,348.9
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		207.5	207.5	415.5
Tangible assets		0.5	0.5	0.4
Deferred tax assets		30.2	27.7	14.0
Other assets		2.2	43.5	11.2
Prepaid expenses and accrued income		22.9	24.4	21.0
Total assets		**226,742.4**	**215,336.6**	**199,407.8**
Liabilities, provisions and equity				
Due to credit institutions	7	48,492.6	47,266.6	44,023.7
Debt securities in issue		162,328.0	152,811.9	138,997.7
Derivatives	9	465.7	683.9	1,082.1
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		1,188.6	1,134.7	2,624.5
Deferred tax liabilities		-	-	-
Other liabilities		126.1	133.4	89.8
Accrued expenses and deferred income		2,667.9	2,031.9	2,616.5
Provisions		1.3	1.1	1.0
Subordinated liabilities		661.0	661.0	1,001.0
Total liabilities and provisions		**215,931.3**	**204,724.4**	**190,436.3**
Untaxed reserves		**658.8**	**658.8**	**452.6**
Equity				
Share capital		3,129.9	70.3	70.3
Statutory reserve		14.1	14.1	14.1
Fair value reserve		-72.0	-69.1	-25.7
Retained earnings		6,896.0	9,461.1	8,321.1
Profit for the period		184.4	477.1	139.2
Total equity		**10,152.4**	**9,953.4**	**8,518.9**
Total liabilities, provisions and equity		**226,742.4**	**215,336.6**	**199,407.8**
Other notes				
Accounting policies	1			
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Cash-flow statement in summary, indirect method

SEK M	Jan-Mar 2018	Jan-Mar 2017
Cash and cash equivalents, 1 January	**2,858.7**	**4,610.6**[1]
Cash flow from operating activities	2,194.7	2,568.8
Cash flow from investing activities	0.0	0.0
Cash flow from financing activities	0.0	800.0
Cash flow for the period	**2,194.7**	**3,368.8**
Cash and cash equivalents, 31 March	**5,053.4**	**7,979.4**[1]

[1] Comparative figures have been restated if lending to the Parent Company is included in the cash flow.

Cash and cash equivalents are defined as loans to credit institutions and payable on demand as well as overnight loans and investments with the Riksbank that fall due on the following banking day. The change in cash flow from operating activities is largely attributable to Loans to the public amounting to SEK -6,201.7 M (–21,895.1) and Debt securities in issue to SEK 7,458.7 M (15,515.4). Changes to the cash flow from the financing activities are largely attributable to shareholder´s contribution received SEK 0.0 M (600.0).

Statement of changes in Shareholders' equity

	Restricted equity		Non-restricted equity				
			Fair value reserve				
SEK M	Share capital	Statutory reserve	Fair value reserve	Hedge reserve	Retained earnings	Profit for the period	Total
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						139.2	139.2
Other comprehensive income for the period			0.6	-50.7			-50.1
Comprehensive income for the period			*0.6*	*-50.7*		*139.2*	*89.1*
Resolution by Annual General Meeting					387.3	-387.3	-
Conditional shareholders' contribution received					800.0		800.0
Closing balance, 31 March 2017	**70.3**	**14.1**	**24.0**	**-49.7**	**8,321.1**	**139.2**	**8,518.9**
Opening balance, 1 April 2017	**70.3**	**14.1**	**24.0**	**-49.7**	**8,321.1**	**139.2**	**8,518.9**
Profit for the period						337.9	337.9
Other comprehensive income for the period			4.9	-48.3			-43.4
Comprehensive income for the period			*4.9*	*-48.3*		*337.9*	*294.5*
Resolution by Annual General Meeting							-
Conditional shareholders' contribution received					1,140.0		1,140.0
Closing balance, 31 December 2017	**70.3**	**14.1**	**28.9**	**-98.0**	**9,461.1**	**477.1**	**9,953.4**
Opening balance, 1 January 2018	**70.3**	**14.1**	**28.9**	**-98.0**	**9,461.1**	**477.1**	**9,953.4**
Effect due to change in accounting policy[1]			**0.1**		**17.4**		**17.5**
Opening balance, 1 January 2018 after adjustment for change in accounting policy	**70.3**	**14.1**	**29.0**	**-98.0**	**9,478.5**	**477.1**	**9,970.9**
Profit for the period						184.4	184.4
Other comprehensive income for the period			6.2	-9.1			-2.9
Comprehensive income for the period			*6.2*	*-9.1*		*184.4*	*181.5*
Resolution by Annual General Meeting					477.1	-477.1	-
Bonus issue	3,059.6				-3,059.6		-
Closing balance, 31 March 2018	**3,129.9**	**14.1**	**35.1**	**-107.1**	**6,896.0**	**184.4**	**10,152.4**

[1] Effect due to change in accounting policy from IAS 39 - Financial Instruments: Recognition and measurement to IFRS 9 - Financial Instruments.

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.

AMENDED ACCOUNTING POLICIES APPLIED FROM 1 JANUARY 2018

From 1 January 2018, the company applies the following accounting policies for the reporting of financial instruments (IFRS 9) and revenue from contracts with customers (IFRS 15).

IFRS 9 Financial instruments

IFRS 9 has replaced IAS 39 and contains new requirements for the classification and measurement of financial instruments, an expected loss impairment model and simplified conditions for hedge accounting.

Classification and measurement

Financial assets are classified according to one of the three measurement categories: amortised cost, fair value through other comprehensive income or fair value through profit and loss, and are based on the company's business models for the management of financial assets and the contractual terms of the assets.

The company's financial assets comprise:

- Derivative instruments
- Debt instruments

Derivative instruments

Derivative instruments are measured at fair value through profit and loss unless they are subject to the rules on hedge accounting. Accordingly, IFRS 9 does not entail any change in the recognition of derivative instruments.

Debt instruments

The business model used to manage a debt instrument and its contractual cash flow characteristics determines the classification of a debt instrument.

If a debt instrument is managed in a business model whose target is to realise the instrument's cash flows by obtaining contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, the instrument is measured at amortised cost. The company has made the assessment that the business model for the items that were in the Loans and receivables category under IAS 39 meets the criteria for being classified at amortised cost according to IFRS 9.

If the business model entails that the cash flows of the debt instrument are realised by both collecting contractual cash flows and by selling, the instrument is measured at fair value through other comprehensive income. The company's conclusion is that the business model for the holding of treasury bills and other eligible bills, bonds and other interest-bearing securities corresponds to the criteria for being classified at fair value through other comprehensive income. These holdings were classified as Available-for-sale financial assets under IAS 39.

If the objective of the business model is to realise the cash flows of the debt instrument by selling the instrument, it is measured at fair value through profit and loss. The company does not have any holdings which are held for sale.

A requirement for a financial asset to be measured at amortised cost or fair value through other comprehensive income is that the contractual cash flows solely comprise outstanding payment of the principal and interest on the principal. Financial assets that do not meet the requirement are measured at fair value through profit and loss regardless of the business model to which the asset is attributable.

Gains/losses from the sale of debt instruments are recognised in profit and loss on the row Net gains/losses from financial items.

Financial liabilities

For financial liabilities, the rules in IFRS 9 are primarily the same as the rules in IAS 39, which are described in note 2 of the 2017 Annual Report. The most significant difference relates to items that are voluntarily measured at fair value according to the fair value option. IFRS 9 does not entail any change to the recognition of financial liabilities since the company has not applied the fair value option.

The company's classification of financial assets and liabilities according to IFRS 9 and the differences compared with IAS 39 are presented in note 14.

Hedge accounting

The company has decided to apply the option entailing that the rules in IAS 39 will continue to apply for all hedging relationships. The accounting policies for hedge accounting applied by the company are detailed in note 2 of the 2017 Annual Report.

Expected credit losses

A reserve for credit losses ("loss allowance") is recognised for financial assets measured at amortised cost and debt instruments measured at fair value through other comprehensive income, financial guarantees and loan commitments. The initial loss allowance is calculated on initial recognition and is subsequently continuously adjusted over the lifetime of the financial asset. Initial recognition is defined in the company as the time of origination of the financial instrument, meaning when the original loan terms were set. This method differs from IAS 39 when the loss allowance is first calculated when a credit-impairing event occurs.

In the calculation of loss allowance under IFRS 9, the company takes into consideration several different future scenarios, including macro factors. This is a change compared with IAS 39 where the company primarily took into consideration the most probable outcome.

Model and definitions

The expected credit loss impairment model is based on dividing the financial assets into 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. 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.
- Stage 3 comprises credit-impaired assets or assets that were credit-impaired on initial recognition. The definition of credit-impaired is consistent with the company's regulatory definition of default.

Estimating the loss allowance for stage 1 is to correspond to the 12-month expected credit losses (ECL). For stages 2 and 3, estimating the loss allowance is to correspond to lifetime expected credit losses.

The calculations are primarily based on existing internal ratings-based models and take into account prospective information. The loss allowance is achieved by calculating the expected credit loss for the assets' 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 loss allowance 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 lifetime expected credit losses. All calculations of the loss allowance 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 reserve for financial assets measured at amortised cost is recognised as a reduction of the recognised gross amount of the asset. For financial guarantees and loan commitments, the reserve is recognised as a provision. The reserve for debt instruments measured at fair value through other comprehensive income is recognised as the fair value reserve in equity and does not impact the carrying amount of the asset. Derecognition reduces the recognised gross amount of the financial asset.

Loss allowance and derecognition of confirmed credit losses are presented in the income statement as credit losses, net.

Modified loans

Modified loans are defined as loans for which the contractual terms have been changed and the change in terms impacts the time and/or the amount of the contractual cash flows of the receivable. Modified loans are derecognised from the balance sheet if the terms of an existing contract have materially changed. A new loan with the new contractual terms is then recognised in the balance sheet.

Gains or losses arising on a modification are calculated as the difference between the present value of the outstanding cash flows calculated under the changed terms and discounted by the original effective interest rate and the discounted present value of the outstanding original cash flows.

Effect of transition to IFRS 9

The company applies IFRS 9 retrospectively, which entails that no comparative figures have been restated.

The effect of the transition from IAS 39 to IFRS 9 is recognised as an adjustment of equity (after tax) in the opening balance for 2018, see the table Statement of changes in equity. The effect on the balance sheet is presented in its entirety in note 14. The effect of the transition to IFRS 9 on own funds is marginal and the company has decided not to apply the capital adequacy rules that permit a phase-in of expected credit losses in own funds.

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.

IFRS 15 Revenue from Contracts with Customers

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). For the company, this standard encompasses items reported in commission income and other income.

Income is recognised when the performance obligation with the customer has been satisfied, which is when control of the good or service is passed to the customer. The company's obligations with customers are met on the date of transaction and on an ongoing basis over time. Income for obligations satisfied over time are distributed evenly over the period in which the obligation is fulfilled.

The company applies the future-oriented transition method, which entails that the effects of IFRS 15 are recognised as an adjustment to the opening balance of retained earnings. No such effects have arisen. The method also means that comparative figures for 2017 have not been restated.

NEW IFRS AND INTERPRETATIONS THAT HAVE NOT YET BEEN APPLIED

IFRS 16 Leases

IFRS 16 Leases will replace IAS 17 Leases on 1 January 2019. The largest change entailed by the new standard is that a lessee that currently recognises leases as operating leases is to instead recognise leases in its balance sheet. The company currently has a project in progress to analyse the effects of the standard.

In all other respects, the interim report has been prepared in accordance with the same accounting policies and calculation methods applied in the 2017 Annual Report.

Note 3 Net interest income

SEK M	Q 1 2018	Q 4 2017	Change	Q 1 2017	Change	Full-Year 2017
Interest income calculated according to the effective interest method						
Loans to credit institutions	4.8[1]	4.8		13.8	-65%	38.3
Loans to the public	871.5	847.4	3%	786.3	11%	3,263.7
Interest-bearing securities	18.5[1]	18.3	1%	25.3	27%	85.9
Derivatives	-122.5	-112.9	9%	-168.6	-27%	-555.4
Other interest income	-	0.0		0.0		-0.1
Total interest income	**772.2**	**757.5**	**2%**	**656.9**	**18%**	**2,832.5**
Interest Expense						
Due to credit institutions	-120.2[1]	-114.5	5%	-112.1	7%	-438.1
Dept securities in issue	-481.7	-455.7	6%	-454.4	6%	-1,821.9
Subordinated liabilities	-2.0	-3.8	-47%	-3.6	-44%	-15.2
Derivatives	462.2	407.0	14%	430.3	7%	1,656.9
Other interest expense	-45.0	-29.0	55%	-26.5	70%	-113.7
Total interest expense	**-186.8**	**-196.1**	**-5%**	**-166.3**	**12%**	**-731.9**
Total net interest income	**585.4**	**561.4**	**4%**	**490.6**	**19%**	**2,100.6**
Average interest rate on loans to the public during the period, %	1.7	1.8		1.8		1.8

[1] Of which negative interest of Loans to credit institutions SEK -1.3 M, Interest-bearing securities SEK -1.0 M and Due to credit institutions SEK 2.0 M.

Note 4 Commission income

SEK M	Q 1 2018	Q 4 2017	Change	Q 1 2017	Change	Full-Year 2017
Commission income						
Loans	0.6	0.6		0.6		2.4
Total commission income	**0.6**	**0.6**		**0.6**		**2.4**
Commission Expense						
Remuneration to regional insurance companies	-322.2	-309.8	4%	-260.1	24%	-1,143.3
Other commission	-0.1	-0.1		-0.1		-0.4
Total commission expense	**-322.3**	**-309.9**	**4%**	**-260.2**	**24%**	**-1,143.7**
Total commission income	**-321.7**	**-309.3**	**4%**	**-259.6**	**24%**	**-1,141.3**

Note 5 Net gains / losses from financial items

SEK M	Q 1 2018	Q 4 2017	Change	Q 1 2017	Change	Full-Year 2017
Interest-bearing assets and liabilities and related derivatives	0.0[1]	3.8		-40.0		-72.1
Other financial assets and liabilities	0.0	0.6		0.6		0.2
Interest compensation	0.0	7.4		6.3		29.0
Total net gains / losses from financial items	**0.0**	**11.8**		**-33.1**		**-43.0**

[1] The company applies hedge accounting for foreign currency debt securities in issue. The valuation principle for foreign currency debt securities in issue was changed in the first quarter of 2018. The purpose of this change is to achieve a better match between hedging instruments and hedged items.

Note 6	Credit losses

Net credit losses, SEK M	Q 1 2018	Q 4 2017	Change	Q 1 2017	Change	Full-Year 2017
Change in loss allowance for loan receivables						
Stage 1 (not credit-impaired)	-0.2					
Stage 2 (not credit-impaired)	-0.3					
Stage 3 (credit-impaired)	0.3					
Total change in loss allowance for loan receivables	**-0.2**	**-0.4** [1]	**-50%**	**0.4** [1]		**-0.9** [1]
Change in 12-month ECL allowance for the year (not credit-impaired)	-0.1	-0.6	-83%	-0.3	-67%	-1.1
Payment received for prior confirmed credit losses	0.6	0.5	20%	0.7	-14%	2.0
Net expense for the period for credit losses for loan receivables	**0.3**	**-0.6**		**0.7**	-57%	**0.0**
Change in loss allowance for commitments	0.0	-		-		-
Net expense for other credit losses for the period	-	-		-		-
Net expense of the modification result for the period	0.0	-		-		-
Net expense for credit losses for the period	**0.3**	**-0.6**		**0.7**	**-57%**	**0.0**

[1] Refers to change in loss allowance for loan receivables. The change has not been specified by stage since the comparative figures are recognised in accordance with IAS 39.

The settlement model regarding the commitment that the regional insurance companies have for expected credit losses related to the business that they have originated, entails that the regional insurance companies cover 80 % of the loss allowance requirement on the date when an impairment is identified for Länsförsäkringar Hypotek AB. Off-setting takes place against, and can amount to a maximum of, accrued commission. Remuneration corresponding to 80 % of the loss allowance requirment is withheld on every occasion until the lending mediated by the regional insurance company has been regulated. On 31 March 2018, the total loss allowance for loan receivables amounted to SEK 27 M of which the company's recognised loss allowance for loan receivables accounted for SEK 6 M. The remainder of SEK 21 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 5,044.1 (2,847.0) M. Due to credit institutions includes borrowings from the Parent Company of SEK 47,607.8 (47,213.8) 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 March 2018	31 December 2017	31 March 2017
Corporate sector	6,589.5	6,864.6	7,033.0
Retail sector	197,294.9	190,818.0	167,225.3
Loans to the public before reserves	**203,884.4**	**197,682.7**	**174,258.3**
Loss allowance	-5.5	-27.9	-26.7
Loans to the public	**203,878.9**	**197,654.8**	**174,231.5**
Fixed-interest period			
Remaining term of not more than 3 month	145,,159.7	137,312.8	110,136.1
Remaining term of more than 3 months but not more than 1 year	17,244.4	19,255.6	25,545.4
Remaining term of more than 1 year but not more than 5 years	40,080.9	39,448.8	37,319.9
Remaining term of more than 5 years	1,393.9	1,637.6	1,230.2
Loans to the public	**203,878.9**	**197,654.8**	**174,231.5**

Reconciliation of loss allowance	**Not credit-impaired**		**Credit-impaired**	
SEK M	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance, 1 January 2018	-1,.9	-1.4	-1.9	-5.3
Increase due to new or acquired loans	-0.3	0.0	0.0	-0.3
Change in loss allowance model or method	-0.1	0.0	0.0	-0.2
Decrease due to repayment	0.1	0.0	0.1	0.2
Change due to changed credit risk	0.1	-0.3	0.1	-0.1
Other adjustments	-	-	-	-
Decrease due to write-off	-	0.0	0.1	0.1
Closing balance, 31 March 2018	**-2.1**	**-1.6**	**-1.7**	**-5.5**
Loans to the public before loss allowances	201,688.4	2,041.7	154.2	203,884.4
Loans to the public after loss allowances	**201,686.3**	**2,040.1**	**152.5**	**203,878.9**

Note 9 Derivatives

	31 March 2018		31 December 2017		31 March 2017	
SEK M	**Nominal value**	**Fair value**	**Nominal value**	**Fair value**	**Nominal value**	**Fair value**
Derivatives with positive values						
Derivatives in hedge accounting						
Interest-related	108,472.0	1,823.5	99,502.0	1,,688.4	91,232,.0	2,528.4
Currency-related	33,318.0	4,337.5	28,286.0	2,992.8	23,517.5	2,819.9
Other derivatives						
Interest-related	-	-	-	-	10,000.0	0.6
Total derivatives with positive values	**141,790.0**	**6,161.0**	**127,788.0**	**4,681.3**	**124,749.5**	**5,348.9**
Derivatives with negative values						
Derivatives in hedge accounting						
Interest-related	61,180.0	444.5	68,730.0	535.9	61,085.0	819.8
Currency-related	2,036.7	21.2	2,036.7	148.0	7,981.7	262.2
Other derivatives						
Interest-related	-	-	-	-	1,000.0	0.1
Total derivatives with negative values	**63,216.7**	**465.7**	**70,766.7**	**683.9**	**70,066.7**	**1,082.1**

Financial hedging agreements were signed to hedge against interest-rate risks and currency risks stemming from the Group's operations. Hedge accounting is applied to funding, lending, deposits, bonds and other securities. Hedging instruments primarily comprise interest and currency interest-rate swaps.

Note 10	Pledged assets, contingent liabilities and commitments		
SEK M	31 March 2018	31 December 2017	31 March 2017
For own liabilities, pledged assets	205,735.8	197,724.0	175,064.8
Commitments	11,002.0	11,202.9	12,492.7

Assumptions comprise loans, credits and loan commitments approved but not disbursed. For more information regarding loss allowances, see note 6.

Note 11 Fair value valuation techniques

	31 March 2018		31 December 2017		31 March 2017	
SEK M	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets						
Loans to credit institutions	5,855.0	5,855.0	2,859.2	2,859.2	9,747.2	9,747.2
Loans to the public	203,878.9	204,364.7	197,654.8	198,186.5	174,231.5	174,664.5
Bonds and other interest-bearing securities	10,584.3	10,584.3	9,837.9	9,837.9	9,617.9	9,617.9
Derivatives	6,161.0	6,161.0	4,681.3	4,681.3	5,348.9	5,348.9
Summa	**226,479.2**	**226,965.0**	**215,033.2**	**215,564.9**	**198,945.5**	**199,378.5**
Financial Liabilities						
Due to credit institutions	48,492.6	48,492.6	47,266.6	47,266.6	44,023.7	44,023.7
Debt securities in issue	162,328.0	166,723.6	152,811.9	156,434.7	138,997.7	144,104.0
Derivatives	465.7	465.7	683.9	683.9	1,082.1	1,082.1
Other liabilities	7.0	7.0	7.0	7.0	7.2	7.2
Subordinated liabilities	661.0	683.1	661.0	673.5	1,001.0	1,105.3
Total	**211,954.3**	**216,372.0**	**201,430.4**	**205,053.2**	**185,111.7**	**190,322.3**

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 March 2018, SEK M	Level 1	Level 2	Level 3	Total
Assets				
Bonds and other interest-bearing securities	10,584.3			10,584.3
Derivatives		6,161.0		6,161.0
Liabilities				
Derivatives		465.7		465.7
31 December, SEK M				
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 March 2017, SEK M				
Assets				
Bonds and other interest-bearing securities	9,617.9			9,617.9
Derivatives		5,348.9		5,348.9
Liabilities				
Derivatives		1,082.1		1,082.1

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 2018 or 2017. 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 March 2018, SEK M	Level 1	Level 2	Level 3	Total
Assets				
Loans to the public		204,364.7		204,364.7
Liabilities				
Debt securities in issue		166,723.6		166,723.6
Subordinated liabilities		683.1		683.1
31 December 2017				
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 March 2017				
Assets				
Loans to the public		174,664.5		174,664.5
Liabilities				
Debt securities in issue		144,104.0		144,104.0
Subordinated liabilities		1,105.3		1,105.3

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 2018 or 2017. 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 Mar 2018	31 Dec 2017	31 Mar 2017
Common Equity Tier 1 capital: instruments and reserves			
Capital instruments and associated share premium reserves	3,129.9	70.3	70.3
Of which: share capital	*3,129.9*	*70.3*	*70.3*
Non-distributed earnings (Retained earnings)	6,896.0	9,461.0	8,321.1
Accumulated Other comprehensive income	455.9	458.8	341.3
Interim profits, net, after deductions for foreseeable charge and dividends that have been verified by persons independent of the institution	184.4	477.1	139.2
Common Equity Tier 1 capital before legislative adjustments	**10,666.2**	**10,467.2**	**8,871.9**
Common Equity Tier 1 capital: legislative adjustments			
Additional value adjustments	-16.4	-14.5	-15.0
Fair value reserves related to gains or losses on cash-flow hedges	107.1	98.1	49.7
Negative amounts resulting from the calculation of expected loss amounts	-120.2	-94.4	-89.5
Total legislative adjustments of Common Equity Tier 1 capital	**-29.4**	**-10.8**	**-54.8**
Common Equity Tier 1 capital and additional Tier 1 instruments	**10,636.9**	**10,456.4**	**8,817.1**
Tier 2 capital: instruments and provisions			
Capital instruments and associated share premium reserves	661.0	661.0	1,001.0
Tier 2 capital	**661.0**	**661.0**	**1,001.0**
Total capital (total capital = Tier 1 capital + Tier 2 capital)	**11,297.9**	**11,117.4**	**9,818.1**
Total risk-weighted assets	**19,408.8**	**18,589.1**	**17,562.4**
Capital ratios and buffers			
Common Equity Tier 1 capital (as a percentage of the total risk-weighted exposure amount)	54.8 %	56.3 %	50.2 %
Tier 1 capital (as a percentage of the total risk-weighted exposure amount)	54.8 %	56.3 %	50.2 %
Total capital (as a percentage of the total risk-weighted exposure amount)	58.2 %	59.8 %	55.9 %
Institution-specific buffer requirements	9.0 %	9.0 %	9.0 %
Of which: capital conservation buffer requirement	*2.5 %*	*2.5 %*	*2.5 %*
Of which: countercyclical capital buffer requirement	*2.0 %*	*2.0 %*	*2.0 %*
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)	50.3 %	51.8 %	45.7 %

Note 12	Capital-adequacy analysis, continued

SEK M	31 Mar 2018 Risk exposure amount	31 Mar 2018 Capital requirement	31 Dec 2017 Risk exposure amount	31 Dec 2017 Capital requirement	31 Mar 2017 Risk exposure amount	31 Mar 2017 Capital requirement
Credit risk according to Standardised Approach						
Exposures to institutions	452.2	36.2	431.9	34.6	505.1	40.4
Covered bonds	1,058.4	84.7	983.8	78.7	962.1	77.0
Other items	83.8	6.7	71.2	5.7	38.8	3.1
Total capital requirement and risk exposure amount	**1,594.5**	**127.6**	**1,486.9**	**119.0**	**1,506.0**	**120.5**
Credit risk according to IRB Approach						
Retail exposures						
Exposures secured by real estate collateral	435.4	34.8	431.1	34.5	450.3	36.0
Other retail exposures	12,263.1	981.1	11,737.3	939.0	10,503.3	840.3
Other retail exposures, small and medium-sized businesses	1.5	0.1	5.5	0.4	2.8	0.2
Other retail exposures	29.6	2.4	28.2	2.3	14.8	1.2
Total retail exposures	**12,729.6**	**1,018.4**	**12,202.1**	**976.2**	**10,971.2**	**877.7**
Exposures to corporates	3,197.9	255.8	3,314.7	265.2	3,352.3	268.2
Total capital requirement and risk exposure amount	**15,927.5**	**1,274.2**	**15,516.8**	**1,241.3**	**14,323.5**	**1,145.9**
Operational risk						
Standardised Approach	1,130.6	90.4	915.3	73.2	915.3	73.2
Total capital requirement for operational risk	**1,130.6**	**90.4**	**915.3**	**73.2**	**915.3**	**73.2**
Total capital requirement for credit valuation adjustments	**756.2**	**60.5**	**670.2**	**53.6**	**817.7**	**65.4**
Total capital requirement and risk exposure amount	**19,408.8**	**1,552.7**	**18,589.1**	**1,487.1**	**17,562.4**	**1,405.0**

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.

Note 14 **Financial effect due to change in accounting policy from IAS 39 to IFRS 9**

Balance sheet - Hypotek

SEK M	1 January 2018 IAS 39	Adjustment	1 January 2018 IFRS 9
Assets			
Loans to credit institutions	2,859.2		2,859.2
Loans to the public	197,654.8	22.6	197,677.4
Bonds and other interest-bearing securities	9,837.9		9,837.9
Derivatives	4,681.3		4,681.3
Fair value changes of interest-rate-risk hedged items in the portfolio hedge	207.5		207.5
Intangible assets	0.5		0.5
Deferred tax assets	27.7		27.7
Other assets	43.5	2.2	45.7
Prepaid expenses and accrued income	24.4		24.4
Total assets	**215,336.8**	**24.8**	**215,361.6**
Liabilities and equity			
Due to credit institutions	47,266.6		47,266.6
Debt securities in issue	152,811.9		152,811.9
Derivatives	683.9		683.9
Fair value changes of interest-rate-risk hedged items in the portfolio hedge	1,134.7		1,134.7
Other liabilities	133.4	7.1	140.5
Accrued expenses and deferred income	2,031.9		2,031.9
Provisions	1.1	0.2	1.3
Subordinated liabilities	661.0		661.0
Total liabilities	**204,724.5**	**7.3**	**204,731.8**
Untaxed reserves	**658.8**		**658.8**
Equity			
Share capital	70.3		70.3
Reserves	14.1		14.1
Fair value reserve	-69.1	0.1	-69.0
Retained earnings	9,461.1	17.4	9,478.5
Profit for the period	477.1		477.1
Total equity	**9,953.5**	**17.5**	**9,970.9**
Total liabilities and equity	**215,336.8**	**24.8**	**215,361.6**

The transition from IAS 39 to IFRS 9 entails that the company's equity increased SEK 17.5 M and the loss allowance declined SEK 22.6 M.

Note 14 Financial effect due to change in accounting policy from IAS 39 to IFRS 9, continuing

Financial assests and liabilities by category according to IFRS 9

SEK M	Carrying amount 1 January 2018	Category according to IAS 39	Category according to IFRS 9
Assets			
Loans to credit institutions	2,859.2	Loans and receivables	Amortised cost
Loans to the public	197,677.4	Loans and receivables	Amortised cost
Bonds and other interest-bearing securities	9,837.9	Available-for-sale financial assets	FVOCI
Derivatives	4,681.3		
of which: hedge accounting	4,681.3	Derivatives for hedge accounting	Derivatives for hedge accounting
of which: other	-	Held for trading	FVPL
Other assets	305.8	Loans and receivables	Amortised cost
Total assets	**215,361.6**		
Liabilities			
Due to credit institutions	47,266.6	Other financial liabilities	Other financial liabilities
Debt securities in issue	152,811.9	Other financial liabilities	Other financial liabilities
Derivatives	683.9		
of which: hedge accounting	683.9	Derivatives for hedge accounting	Derivatives for hedge accounting
of which: other	-	Held for trading	FVPL
Other liabilities	3,308.4	Other financial liabilities	Other financial liabilities
Subordinated liabilities	661.0	Other financial liabilities	Other financial liabilities
Total liabilities	**204,731.8**		

Reconciliation of loss allowance for transition to IFRS 9

SEK M	1 January 2018 IAS 39	Adjustment	1 January 2018 IFRS 9
Financial assets measured at amortised cost			
Loans to credit institutions	-	-	-
Loans to the public	27.9	-22.6	5.3
Other assets	0.0	0.0	0.0
Financial assets measured at FVOCI			
Bonds and other interest-bearing securities	-	0.1	0.1
Loan commitments and other credit commitments	-	0.2	0.2
Total loss allowance	**27.9**	**-22.3**	**5.6**

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, 25 April 2018

Anders Borgcrantz
President

Definitions

Glossary

Return on total assets
Profit for the year in relation to average total assets.

Own funds
Own funds comprises the sum of Tier 1 capital and Tier 2 capital, less items indicated in the capital adequacy rules. Own funds in relation to capital requirements.

Credit-impaired loan receivables
Loan receivables that have fallen due, have defaulted on issue or acquisition and thus are in stage 3 of the rules on expected credit losses under IFRS 9.

Common Equity Tier 1 capital
Common Equity Tier 1 capital comprises equity less intangible assets, goodwill, prudent valuation, investments in financial companies and IRB deficit.

Common Equity Tier 1 capital ratio
Common Equity Tier 1 capital in relation to the total risk exposure amount.

Tier 1 capital
The sum of Common Equity Tier 1 capital and Additional Tier 1 instruments.

Tier 1 ratio
Tier 1 capital in relation to the total risk exposure amount.

Risk Exposure Amount
The Risk Exposure Amount comprises assets in the balance sheet and off-balance sheet commitments valued in accordance with credit risk, market risk, operational risk and credit valuation adjustment risk in accordance with the capital adequacy rules.

Loan receivables
Comprises loans to the public and loans to credit institutions.

Fixed-interest period
The agreed period during which the interest rate on an asset or liability is fixed.

Small businesses
Companies with basic business requirements (loans, savings and payments).

Tier 2 capital
Primarily comprises fixed-term subordinated debt.

Total capital ratio
Total own funds in relation to the total risk exposure amount.

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. Investment margin and return on equity show the organisation's earnings in relation to various investment measures. The share of credit-impaired loan receivables, credit losses and performance measures concerning loss allowance are presented to provide an understanding of lending, collateral and credit risk. The common factor for all of the alternative performance measures is that they describe the development of the operations and aim to improve comparability between different periods. The measures may differ from similar performance measures presented by other organisations.

Share of credit-impaired loan receivables
Credit-impaired loan receivables (stage 3) before loss allowance in relation to loans to the public and credit institutions before loss allowance.

Credit loss level
Credit losses, net, for loan receivables in relation to loans to the public and credit institutions after loss allowance.

Investment margin
Net interest income in relation to average total assets.

Reserve ratio for credit-impaired loan receivables
Recognised loss allowance for credit-impaired loan receivables (stage 3) in relation to credit-impaired loan receivables before loss allowance.

Return on equity
Operating profit less standard tax in relation to average equity, adjusted for items in equity recognised in other comprehensive income and for Additional Tier 1 Capital loans.

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 March 2018 and the three-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 25 April 2018

Dan Beitner
Authorized Public Accountant

LF 04907 utg 55 Nordic Morning 207383 2018-04

Financial calendar

Interim report January–June Länsförsäkringar Bank	19 July 2018
Interim report January–June Länsförsäkringar Hypotek	19 July 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 25 April 2018 at 12:00 a.m. Swedish time.

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