

Länsförsäkringar Hypotek

Interim Report January–September 2018

The period in brief, Group

- Operating profit increased 42% to SEK 819.1 M (575.4) and the return on equity strengthened to 7.8% (6.8).
- Net interest income increased 18% to SEK 1,822 M (1,539).
- Credit losses amounted to SEK -1.2 M (-0.6), net, corresponding to a credit loss level of -0.00% (-0.00).
- Lending increased 14% to SEK 215.6 billion (189.0).
- The Common Equity Tier 1 capital ratio amounted to 54.5% (55.9*) on 30 September 2018.
- The number of customers rose 9% to 270,000 (248,000).

Figures in parentheses pertain to the same period in 2017.
* Pertains to 30 June 2018.

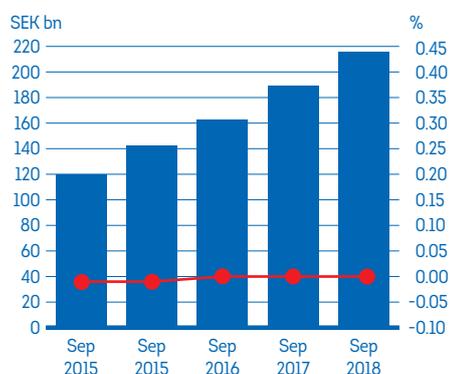
President's comment

Länsförsäkringar Hypotek continued to grow and we further improved our position in the mortgage market. Lending is increasing at a steady rate with high credit quality, while credit losses remain very low. Operating profit performed positively. The number of customers is continuing to grow and market shares in mortgage lending are steadily increasing. We are closely monitoring the macroeconomic risks related to rising household indebtedness and we are carefully following trends in the housing market. Housing prices appear to have stabilised but it is too early to draw any far-reaching conclusions about the current status of the market. However, we still believe that more and clearer initiatives are needed from a political perspective in order to develop the functionality of the housing market and to stimulate increased movement in the future.

Anders Borgcrantz

President of Länsförsäkringar Hypotek

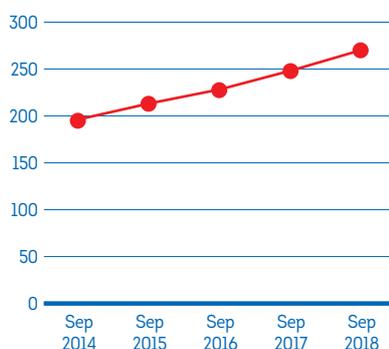
Loans to the public



● Loans, SEK billion ● Loan losses, %

Customer trend

Number of customers, 000s



Key figures

	Q3 2018	Q2 2018	Q3 2017	Jan-Sep 2018	Jan-Sep 2017	Full-year 2017
Return on equity, %	7.8	8.8	6.7	7.8	6.8	6.9
Return on total capital, %	0.46	0.52	0.39	0.47	0.38	0.40
Return on total assets, %	0.36	0.40	0.30	0.37	0.30	0.31
Investment margin, %	1.04	1.04	1.06	1.05	1.03	1.03
Cost/income ratio before credit losses	0.09	0.08	0.11	0.09	0.12	0.11
Common Equity Tier 1 capital ratio, %	54.5	55.9	54.5	54.5	54.5	56.3
Total capital ratio, %	57.8	59.3	60.0	57.8	60.0	59.8
Share of credit-impaired loan receivables (stage 3), %	0.08	0.08	-	0.08	-	-
Reserve ratio for loan receivables stage 1, %	0.00	0.00	-	0.00	-	-
Reserve ratio for loan receivables stage 2, %	0.07	0.07	-	0.07	-	-
Reserve ratio for loan receivables stage 3, %	1.02	1.06	-	1.02	-	-
Reserve ratio for loan receivables stage 3, incl. withheld remuneration to regional insurance companies, %	5.12	5.28	-	5.12	-	-
Credit loss level, %	-0.00	-0.00	0.00	-0.00	-0.00	-0.00

Income statement, quarterly

SEK M	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Net interest income	624.0	612.2	585.4	561.4	540.4
Net commission	-304.9	-285.4	-321.7	-309.3	-305.3
Net gains/losses from financial items	-15.9	5.2	0.0	11.8	-11.3
Other operating income	0.0	0.0	0.0	0.0	0.0
Total operating income	303.3	332.1	263.8	264.0	223.8
Staff costs	-3.4	-3.8	-4.5	-3.3	-4.1
Other administration expenses	-23.0	-23.4	-23.2	-22.4	-21.3
Total operating expenses	-26.3	-27.2	-27.7	-25.8	-25.4
Profit before credit losses	276.9	304.8	236.1	238.2	198.4
Credit losses, net	0.5	0.5	0.3	-0.6	-0.8
Operating profit	277.4	305.3	236.4	237.6	197.6

Market commentary

The global economy continued to strengthen during the third quarter of the year despite the dominating news of a drawn-out trade war between the US and China, sluggish Brexit negotiations, concern about Italy's government finances and unrest in emerging markets driven in part by the strong USD.

The US economy was strong, supported by its expansive fiscal policy. Inflation was stable and salaries rose, albeit at a modest rate, which combined with the strong economy prompted the Federal Reserve in September to lift its key interest rate for the third time this year. Further tightening in monetary policy is expected to gradually continue. The European economy continued to strengthen with growth surpassing the trend, despite a slight downturn in the growth rate during the year. Monetary policy remains supportive and the ECB has its sights set on unwinding its asset purchase programme after the end of the year and is not expected to

raise interest rates until after the summer of 2019. In Italy, unease concerning the government's economic policy and the effects on its finances led to higher government bond rates.

The favourable economic climate in Sweden persisted, although growth is expected to fall mainly on the back of lower housing investments. The CPIF-based inflation rate remained around the Riksbank's target, but price increases are being largely driven by rising energy prices and the trend in underlying inflation was weaker than the Riksbank had anticipated. However, the Riksbank is focusing on the strong economy and stable inflation expectations and is indicating that it intends to raise interest rates in December or February. The change in tone of the Riksbank's view of future rate rises helped strengthen the SEK against both the USD and the EUR. The uncertain parliamentary situation in Sweden following the elec-

tion did not have any appreciable effect on the financial market since fiscal policy is not expected to change to any great extent by the government that is formed.

On the whole, long-term government bond rates rose in the third quarter, mainly due to the central banks continuing to indicate a firmer belief that the economy is developing in the right direction, which could result in monetary stimulus packages continuing to be dialled down. Rates on covered bonds also increased during the quarter. The equities markets performed strongly on a global level in the third quarter and the Stockholm Stock Exchange and US stock markets were stronger than the global index, while emerging markets and Europe performed more weakly. The stabilising trend for housing prices continued and the price level increased slightly during the quarter.

January-September 2018 compared with January-September 2017

Growth and customer trend

Loans to the public rose 14%, or SEK 26.6 billion, to SEK 215.6 billion (189.0), with continued very high credit quality. The number of customers rose 9%, or 22,000, to 270,000 (248,000), and 88% (87) of retail mortgage customers have Länsförsäkringar as their primary bank.

Earnings and profitability

Operating profit increased 42% to SEK 819.1 M (575.4), primarily due to higher net interest income. The investment margin strengthened to 1.05% (1.03). Profit before credit losses rose 42% to SEK 817.9 M (574.8). Return on equity strengthened to 7.8% (6.8).

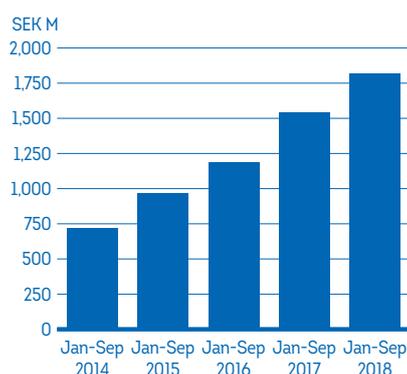
Operating profit and return on equity



Income

Operating income increased 38% to SEK 899.2 M (652.4) due to higher net interest income. Net interest income rose 18% to SEK 1,822 M (1,539). Net losses from financial items amounted to SEK -10.7 M (-54.7) due to changes in fair value. Net commission increased 10% to SEK -911.9 M (-832.0), 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 81.3 M (77.6). The cost/income ratio was 0.09 (0.12) before credit losses and 0.09 (0.12) after credit losses.

Credit losses

Länsförsäkringar Hypotek applies IFRS 9 Financial Instruments from 1 January 2018. This accounting standard replaced IAS 39 and the new model for calculating loss allowances had 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 -1.2 M (-0.6), net, corresponding to a credit loss level of -0.00% (-0.00).

Credit-impaired loan receivables (stage 3) before provisions amounted to SEK 188.6 M, corresponding to a share of credit-impaired loan receivables of 0.08%. The estimated value of collateral for credit-impaired loan receivables was SEK 178.9 M. The total recognised loss allowance for loan receivables under IFRS 9 amounted to SEK 5.4 M, of which SEK 1.9 M pertained to credit-impaired loan receivables. The reserve ratio for credit-impaired loan receivables amounted to 1.02%. In addition to the recognised loss allowance for loan receivables, SEK 21.4 M of the remuneration to the regional insurance companies' credit-risk commitments for generated business is withheld in accordance with the settlement model, of which SEK 7.7 M pertains to credit-impaired loan receivables. Including the withheld remuneration to the regional insurance companies, the loss allowance for loan receivables totalled SEK 26.8 M. The reserve ratio for credit-impaired loan receivables, including withheld remuneration to regional insurance companies, amounted to 5.12%.

For further information on the effect of IFRS 9 and credit losses and credit-impaired loan receivables, refer to notes 1, 6 and 8.

Loans

All loans are granted in Sweden, in SEK and have a well-diversified geographic distribution. Loans to the public increased 14%, or SEK 26.6 billion, to SEK 215.6 billion (189.0). The credit quality of the loan portfolio, comprising 71% (71) single-family homes, 25% (24)

tenant-owned apartments and 4% (5) multi-family housing, remained favourable. On 31 August 2018, the market share of retail mortgages strengthened to 6.6% (6.1) according to Statistics Sweden.

Cover pool

The cover pool, which forms the basis of issuance of covered bonds, contains SEK 205.9 billion, corresponding to 96% of the loan portfolio. The 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 1.24 M (1.17). The weighted average loan-to-value ratio, LTV, was 58% (56) and the nominal, current OC (overcollateralisation) amounted to 33% (35). 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% (64) on 30 September 2018. 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, Q1 2018), the assets in Länsförsäkringar Hypotek's cover pool continue to maintain the highest collateral score among all Swedish covered-bond issuers, and are among the foremost in Europe.

Cover pool	30 Sep 2018	30 Sep 2017
Cover pool, SEK billion	216	189
OC ¹ , nominal, current level, %	33	35
Weighted average LTV, %	58	56
Collateral	Private homes	Private homes
Seasoning, months	58	58
Number of loans	377,426	346,508
Number of borrowers	166,585	153,465
Number of properties	166,439	153,163
Average commitment, SEK 000s	1,236	1,173
Average loan, SEK 000s	545	519
Interest rate type, variable, %	74	68
Interest rate type, fixed, %	26	32
Loans past due 60 days	None	None

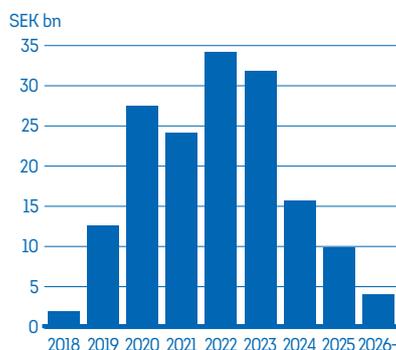
¹ OC is calculated using nominal values and excludes accrued interest rates. Debt securities in issue in other currencies than SEK are translated into SEK using the swap rate. Debt securities in issue include repurchase agreements.

Funding

Länsförsäkringar Hypotek continuously issues bonds to refinance future new loans and current funding falling due. The funding structure is favourable and the maturity pro-

file is well diversified. Debt securities in issue increased 16% to SEK 169.4 billion (145.7). Issued covered bonds during the period totalled a nominal SEK 31.8 billion (28.9) and repurchases of a nominal SEK 9.8 billion (3.9) were executed. Matured covered bonds amounted to a nominal SEK 7.0 billion (6.8).

Maturity profile



● Covered bonds

Liquidity

On 30 September 2018, liquid assets totalled SEK 10.2 billion (9.7). The liquidity situation remains healthy and contractual undertakings can be met for more than two years without needing to secure new funding in the capital market. Liquid assets comprised 100% (100) Swedish covered bonds with the credit rating of AAA/Aaa.

Rating

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

Capital ratio¹

Länsförsäkringar Hypotek AB (SEK M)	30 Sep 2018	30 Jun 2018
IRB Approach	16,964	15,936
retail exposures	13,483	12,479
exposures to corporates	3,482	3,457
Standardised Approach	1,629	1,677
Operational risks	1,131	1,131
Total REA	20,316	19,449
Common Equity Tier 1 capital	11,077	10,871
Tier 1 capital	11,077	10,871
Total capital	11,738	11,532
Common Equity Tier 1 capital ratio	54.5%	55.9%
Tier 1 ratio	54.5%	55.9%
Total capital ratio	57.8%	59.3%

The Common Equity Tier 1 capital ratio amounted to 54.5% (55.9). Common Equity Tier 1 capital strengthened again this quarter, with continued profit generation.

On 30 September 2018, the total Risk Exposure Amount (REA) amounted to SEK 20,316 M (19,449).

For more information on capital adequacy, see note 12.

Internally assessed capital and buffer requirements

The internally assessed capital requirement for Länsförsäkringar Hypotek AB on 30 September 2018 amounted to SEK 2,752 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 5,034 M as at 30 September 2018. The Swedish Financial Supervisory Authority decided to change the method for application of the current risk weight floor by replacing the Pillar II requirement with Pillar I. The change will enter into force on 31 December 2018. The countercyclical capital buffer at 2% of REA totalled SEK 406 M. This capital conservation buffer that is to correspond to 2.5% of REA amounted to SEK 508 M on 30 September 2018. The capital used to meet the internal capital requirement including buffer, meaning own funds, amounted to SEK 11,738 M.

¹ The comparative period pertains to 30 June 2018. 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 sections on funding and liquidity, and in note 12.

Interest-rate risk

On 30 September 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 115.5 M (37.5).

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. 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.

Third quarter of 2018 compared with second quarter of 2018

Operating profit declined 9% to SEK 277.4 M (305.3), due to net losses from financial items and higher commission expense attributable to increased remuneration to the regional insurance companies based on a healthy volume trend. Return on equity amounted to 7.8% (8.8). Operating income declined 9% to SEK 303.3 M (332.1). Net interest income rose 2% to SEK 624.0 M (612.2), mainly attributable to increased volumes. Net losses from financial items amounted to SEK -15.9 M (gains: 5.2) as a result of changes in fair value. Net commission amounted to SEK -304.9 M (-285.4). Operating expenses amounted to SEK 26.4 M (27.2) and the cost/income ratio before credit losses to 0.09% (0.08). Credit losses amounted to SEK -0.5 M (-0.5).

Events after the end of the period

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

Rating

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

¹⁾ Pertains to the company's covered bonds.

Income statement

SEK M	Note	Q3 2018	Q2 2018	Change	Q3 2017	Change	Jan-Sep 2018	Jan-Sep 2017	Change	Full-Year 2017
Interest income		851.8	836.1	2%	719.7	18%	2,460.2	2,075.0	19%	2,832.5
Interest expense		-227.8	-223.9	2%	-179.3	27%	-638.5	-535.9	19%	-731.9
Net interest income	3	624.0	612.2	2%	540.4	15%	1,821.7	1,539.1	18%	2,100.6
Commission income		0.6	0.6		0.7	-14%	1.9	1.8	6%	2.4
Commission expense		-305.5	-286.0	7%	-306.0		-913.8	-833.8	10%	-1,143.7
Net commission income	4	-304.9	-285.4	7%	-305.3		-911.9	-832.0	10%	-1,141.3
Net gains/losses from financial items	5	-15.9	5.2		-11.3	41%	-10.7	-54.7	-80%	-43.0
Other operating income		-	-		-		-	-		-
Total operating income		303.3	332.1	-9%	223.8	36%	899.2	652.4	38%	916.4
Staff costs		-3.4	-3.8	-11%	-4.1	-17%	-11.7	-12.4	-6%	-15.7
Other administration expenses		-23.0	-23.4	-2%	-21.3	8%	-69.5	-65.1	7%	-87.5
Administration expenses		-26.3	-27.2	-3%	-25.4	4%	-81.2	-77.5	5%	-103.2
Depreciation and impairment of tangible assets		0.0	0.0		0.0		-0.1	-0.1		-0.2
Total operating expenses		-26.4	-27.2	-3%	-25.4	4%	-81.3	-77.6	5%	-103.4
Profit before credit losses		276.9	304.8	-9%	198.4	40%	817.9	574.8	42%	813.0
Credit losses, net	6	0.5	0.5		-0.8		1.2	0.6		0.0
Operating profit		277.4	305.3	-9%	197.6	40%	819.1	575.4	42%	813.0
Appropriations		0.1	-		-		0.1	6.2		-200.0
Tax		-61.0	-68.4	-11%	-43.5	40%	-181.5	-127.9	42%	-135.9
Profit for the period		216.4	236.8	-9%	154.1	40%	637.6	453.7	41%	477.1

Statement of comprehensive income

SEK M	Q3 2018	Q2 2018	Change	Q3 2017	Change	Jan-Sep 2018	Jan-Sep 2017	Change	Full-Year 2017
Profit for the period	216.4	236.8	-9%	154.1	40%	637.6	453.7	41%	477.1
Other comprehensive income									
Items that have been reclassified or may subsequently be reclassified to the income statement									
Cash-flow hedges	17.8	-53.3		-22.2		-47.1	-136.3	-65%	-126.9
Change in fair value of debt instruments measured at FVOCI	-8.3	-0.7		-6.6	26%	-1.1	9.3		7.0
Tax attributable to items that have been transferred or can be transferred to profit for the period	-2.0	11.9		6.3	-62%	10.6	27.9	-62%	26.4
Total other comprehensive income for the period, net after tax	7.5	-42.1		-22.5		-37.6	-99.1	-62%	-93.5
Total comprehensive income for the period	223.9	194.7	15%	131.6	70%	600.0	354.6	69%	383.6

Balance sheet

SEK M	Note	30 September 2018	31 December 2017	30 September 2017
Assets				
Loans to credit institutions	7	8,908.7	2,859.2	3,221.6
Loans to the public	8	215,637.2	197,654.8	188,977.8
Bonds and other interest-bearing securities		10,210.8	9,837.9	9,650.9
Derivatives	9	5,498.8	4,681.3	4,223.4
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		116.9	207.5	255.9
Tangible assets		0.6	0.5	0.5
Deferred tax assets		38.0	27.7	29.7
Other assets		1.8	43.5	38.9
Prepaid expenses and accrued income		67.5	24.4	56.8
Total assets		240,480.2	215,336.6	206,455.6
Liabilities, provisions and equity				
Due to credit institutions	7	56,473.3	47,266.6	46,171.5
Debt securities in issue		169,447.9	152,811.9	145,715.7
Derivatives	9	483.7	683.9	748.1
Fair value changes of interest-rate-risk hedged items in the portfolio hedge		695.3	1,134.7	1,322.5
Deferred tax liabilities		-	-	-
Other liabilities		179.0	133.4	132.7
Accrued expenses and deferred income		1,308.9	2,031.9	1,325.8
Provisions		1.4	1.1	1.1
Subordinated liabilities		661.0	661.0	1,001.0
Total liabilities and provisions		229,250.6	204,724.4	196,418.5
Untaxed reserves		658.6	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		-106.7	-69.1	-74.6
Retained earnings		6,896.0	9,461.1	9,121.1
Profit for the period		637.6	477.1	453.7
Total equity		10,571.1	9,953.4	9,584.6
Total liabilities, provisions and equity		240,480.2	215,336.6	206,455.6
Other notes				
Accounting policies	1			
Segment reporting	2			
Pledged assets, contingent liabilities and commitments	10			
Fair value valuation techniques	11			
Capital-adequacy analysis	12			
Disclosures on related parties	13			
Financial effect due to change in accounting policy from IAS 39 to IFRS 9	14			

Cash-flow statement in summary, indirect method

SEK M	Jan-Sep 2018	Jan-Sep 2017
Cash and cash equivalents, 1 January	2,858.7	4,610.6
Operating activities		
Operating profit	819.1	575.4
Adjustment of non-cash items	-139.1	-491.8
Change in assets of operating activities		
Change in interest-bearing securities	-458.3	-435.6
Change in loans to the public	-17,959.9	-20,029.5
Change in other assets	-5,797.5	-1,987.7
Change in liabilities of operating activities		
Change in deposits and funding from the public	-	-
Change in debt securities in issue	14,675.3	18,310.7
Change in other liabilities	9,071.2	-886.5
Cash flow from operating activities	210.7	-4,945.0
Investing activities		
Change in property and equipment	-0.3	-0.2
Change in intangible assets	-	-
Shareholders' contributions paid	-	-
Cash flow from investing activities	-0.3	-0.2
Financing activities		
Amortisation of subordinated debt	-	-
Change in subordinated debt	-	-
Shareholders' contributions received	-	1,600.0
Cash flow from financing activities	-	1,600.0
Net cash flow for the period	210.4	-3,345.2
Cash and cash equivalents, 30 September	3,069.1	1,265.4

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 Swedish central bank that fall due on the following banking day.

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 2017	70.3	14.1	23.4	1.0	7,133.8	387.3	7,629.9
Profit for the period						453.7	453.7
Other comprehensive income for the period			7.3	-106.4			-99.1
<i>Comprehensive income for the period</i>			<i>7.3</i>	<i>-106.4</i>		<i>453.7</i>	<i>354.6</i>
Resolution by Annual General Meeting					387.3	-387.3	-
Unconditional shareholders' contribution received					1,600.0		1,600.0
Closing balance, 30 September 2017	70.3	14.1	30.8	-105.4	9,121.1	453.7	9,584.6
Opening balance, 1 October 2017	70.3	14.1	30.8	-105.4	9,121.1	453.7	9,584.6
Profit for the period						23.4	23.4
Other comprehensive income for the period			-1.9	7.4	340.0		345.5
<i>Comprehensive income for the period</i>			<i>-1.9</i>	<i>7.4</i>	<i>340.0</i>	<i>23.4</i>	<i>368.9</i>
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						637.6	637.6
Other comprehensive income for the period			-0.9	-36.7			-37.6
<i>Comprehensive income for the period</i>			<i>-0.9</i>	<i>-36.7</i>		<i>637.6</i>	<i>600.0</i>
Resolution by Annual General Meeting					477.1	-477.1	-
Bonus issue	3,059.6				-3,059.6		-
Closing balance, 30 September 2018	3,129.9	14.1	28.1	-134.7	6,896.0	637.6	10,571.1

¹ Effect due to change in accounting policy from IAS 39 - Financial Instruments: Recognition and measurement to IFRS 9 - Financial Instruments. However, hedge accounting takes place in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

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. Under IAS 39, reserves for financial guarantees, loan commitments and debt instruments measured at fair value through other comprehensive income are also not calculated.

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 probability of default (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 but, in line with the transitional measures, comparative figures have not 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.

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.

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.

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 standard primarily entails that the leases in which the Group is the lessee and that are currently classified as operating leases will instead need to be recognised in the balance sheet.

The Group will apply the transition method modified retrospectively, which entails that the marginal lending rate on the transition on 1 January 2019 is used to calculate the lease liability and that the comparative year is recognised according to the current IAS 17. Lease assets recognised in the balance sheet on transition will correspond to the lease liability. In connection with the transition, the Group will present the material leases that were previously classified as operating leases in the balance sheet

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	Q3 2018	Q2 2018	Change	Q3 2017	Change	Jan-Sep 2018	Jan-Sep 2017	Change	Full-Year 2017
Interest income									
Loans to credit institutions	8.8	15.3	-42%	8.7	1%	28.9 ¹	33.6	-14%	38.3
Loans to the public	908.7	889.9	2%	825.3	10%	2,670.1	2,416.3	11%	3,263.7
Interest-bearing securities	20.3	19.5	4%	18.1	12%	58.3 ¹	67.6	-14%	85.9
Derivatives	-86.0	-88.6	-3%	-132.4	-35%	-297.1	-442.5	-33%	-555.4
Other interest income	-	-		0.0		-	0.0		-0.1
Total interest income	851.8	836.1	2%	719.7	18%	2,460.2	2,075.0	19%	2,832.5
Interest Expense									
Due to credit institutions	-121.7	-121.3		-109.6	11%	-363.3 ¹	-323.6	12%	-438.1
Dept securities in issue	-471.5	-487.6	-3%	-444.0	6%	-1,440.9	-1,366.2	5%	-1,821.9
Subordinated liabilities	-2.4	-2.3	4%	-3.9	-38%	-6.8	-11.3	-40%	-15.2
Derivatives	406.3	426.0	-5%	407.2		1,294.5	1,249.9	4%	1,656.9
Other interest expense	-38.4	-38.6	-1%	-29.1	32%	-122.1	-84.6	44%	-113.7
Total interest expense	-227.8	-223.9	2%	-179.3	27%	-638.5	-535.9	19%	-731.9
Total net interest income	624.0	612.2	2%	540.4	15%	1,821.7	1,539.1	18%	2,100.6
Average interest rate on loans to the public during the period, %	1.7	1.7		1.8		1.7	1.8		1.8

¹ Of which negative interest of Loans to credit institutions SEK -6.0 M, Interest-bearing securities SEK -2.0 M and Due to credit institutions SEK 7.1 M. Interest income calculated according to the effective interest method amounts to SEK 851.8 M (836.1).

Note 4	Commission income								
SEK M	Q3 2018	Q2 2018	Change	Q3 2017	Change	Jan-Sep 2018	Jan-Sep 2017	Change	Full-Year 2017
Commission income									
Loans	0.6	0.6		0.7	-14%	1.9	1.8	6%	2.4
Total commission income	0.6	0.6		0.7	-14%	1.9	1.8	6%	2.4
Commission Expense									
Remuneration to regional insurance companies	-305.3	-285.9	7%	-305.9		-913.4	-833.5	10%	-1,143.3
Other commission	-0.2	-0.1		-0.1		-0.4	-0.3	33%	-0.4
Total commission expense	-305.5	-286.0	7%	-306.0		-913.8	-833.8	10%	-1,143.7
Total commission income	-304.9	-285.4	7%	-305.3		-911.9	-832.0	10%	-1,141.3

Note 5	Net gains / losses from financial items								
SEK M	Q3 2018	Q2 2018	Change	Q3 2017	Change	Jan-Sep 2018	Jan-Sep 2017	Change	Full-Year 2017
Interest-bearing assets and liabilities and related derivatives	-22.1	-0.7		-19.0	16%	-29.3	-75.9	-61%	-72.1
Other financial assets and liabilities	0.0	0.0		-0.3		0.0	-0.4		0.2
Interest compensation (refer to items measured at amortised cost)	6.2	5.9	5%	8.0	-23%	18.6	21.6	-14%	29.0
Total net gains / losses from financial items	-15.9	5.2		-11.3	41%	-10.7	-54.7	-80%	-43.0

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								
	Q 3 2018	Q 2 2018	Change	Q 3 2017	Change	Jan-Sep 2018	Jan-Sep 2017	Change	Full-Year 2017
Net credit losses, SEK M									
Change in loss allowance for loan receivables									
Stage 1 (not credit-impaired)	0.1	0.1				0.0			
Stage 2 (not credit-impaired)	-0.1	0.2				-0.1			
Stage 3 (credit-impaired)	-0.1	-0.2				0.0			
Total change in loss allowance for loan receivables	0.0	0.1		-0.3¹		-0.1	-0.4¹	-75%	-0.9¹
Expense for confirmed credit losses	-0.2	-0.2		-0.7	-71%	-0.5	-0.5		-1.1
Payment received for prior confirmed credit losses	0.6	0.6		0.2		1.8	1.5	20%	2.0
Net expense for the period for credit losses for loan receivables	0.4	0.5	-20%	-0.7		1.3	0.7	86%	0.0
Change in loss allowance for commitments	0.1	-0.1		-		0.0	-		-
Net expense for other credit losses for the period	0.0	0.0		-		0.0	-		-
Net expense of the modification result for the period	0.0	0.0		-		0.0	-		-
Net expense for credit losses for the period	0.5	0.5		-0.8		1.2	0.6		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.

Note 7	Loans / due to credit institutions
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On 30 September 2018, Loans to credit institutions amounted to SEK 8,908.7 M and was included in Stage 1. Loss allowance for credit losses amounted to SEK 0 M. Loans to credit institutions include deposits with the Parent Company of SEK 3,042.5 M (2,846.9). Balances in the Parent Company's bank accounts pertaining to the covered bond operations are recognised as Loans to credit institutions.

Due to credit institutions amounted to SEK 56,473.3 M on 30 September. Due to credit institutions includes borrowings from the Parent Company of SEK 50,576.9 M (47,213.8).

Note 8	Loans to the public Loan receivables are geographically attributable in their entirety to Sweden		
SEK M	30 September 2018	31 December 2017	30 September 2017
Corporate sector	6,617.3	6,864.6	6,950.9
Retail sector	209,025.2	190,818.0	182,054.3
Loans to the public before loss allowance	215,642.5	197,682.7	189,005.2
Loss allowance	-5.4	-27.9	-27.4
Loans to the public	215,637.2	197,654.8	188,977.8

Loans to the public				
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	-0.8	0.0	-0.1	-0.9
Change in loss allowance model or method	-0.1	0.0	0.0	-0.1
Decrease due to repayment	0.2	0.2	0.2	0.6
Change due to changed credit risk	0.7	-0.2	-0.3	0.2
Other adjustments	0.0	0.0	-	0.0
Decrease due to write-off	0.0	0.0	0.2	0.2
Closing balance, 30 September 2018	-1.9	-1.5	-1.9	-5.4
	Not credit-impaired		Credit-impaired	
	Stage 1	Stage 2	Stage 3	Total
Loans to the public before loss allowances	213,346.5	2,107.4	188.6	215,642.5
Loss allowance	-1.9	-1.5	-1.9	-5.4
Loans to the public	213,344.6	2,105.9	186.7	215,637.2
Withheld remuneration to the regional insurance companies	7.7	6.0	7.7	21.4

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 requirement is withheld on every occasion until the lending mediated by the regional insurance company has been regulated. On 30 September 2018, the total loss allowance for loan receivables amounted to SEK 26.8 M of which the company's recognised loss allowance for loan receivables accounted for SEK 5.4 M. The remainder of SEK 21.4 M was offset against the regional insurance companies' withheld funds, according to the model described above.

Note 9		Derivatives				
SEK M	30 September 2018		31 December 2017		30 September 2017	
	Nominal value	Fair value	Nominal value	Fair value	Nominal value	Fair value
Derivatives with positive values						
<i>Derivatives in hedge accounting</i>						
Interest-related	104,172.0	994.1	99,502.0	1,688.4	89,097.6	1,663.3
Currency-related	34,761.5	4,504.7	28,286.0	2,992.8	22,967.8	2,560.1
Total derivatives with positive values	138,933.5	5,498.8	127,788.0	4,681.3	112,065.4	4,223.4
Derivatives with negative values						
<i>Derivatives in hedge accounting</i>						
Interest-related	74,795.0	407.4	68,730.0	535.9	71,590.0	619.8
Currency-related	1,394.2	76.3	2,036.7	148.0	7,355.0	127.6
<i>Other derivatives</i>						
Interest-related	-	-	-	-	25,000.0	0.7
Total derivatives with negative values	76,189.2	483.7	70,766.7	683.9	103,945.0	748.1

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	30 September 2018	31 December 2017	30 September 2017	
For own liabilities, pledged assets	220,300.7	197,724.0	190,662.8	
Commitments	11,602.2	11,202.9	12,840.1	

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

SEK M	30 September 2018		31 December 2017		30 September 2017	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets						
Loans to credit institutions	8,908.7	8,908.7	2,859.2	2,859.2	3,221.6	3,221.6
Loans to the public	215,637.2	216,253.7	197,654.8	198,186.5	188,977.8	189,573.6
Bonds and other interest-bearing securities	10,210.8	10,210.8	9,837.9	9,837.9	9,650.9	9,650.9
Derivatives	5,498.8	5,498.8	4,681.3	4,681.3	4,223.4	4,223.4
Summa	240,255.5	240,872.0	215,033.2	215,564.9	206,073.7	206,669.5
Financial Liabilities						
Due to credit institutions	56,473.3	56,473.3	47,266.6	47,266.6	46,171.5	46,171.5
Debt securities in issue	169,447.9	172,098.1	152,811.9	156,434.7	145,715.7	148,292.8
Derivatives	483.7	483.7	683.9	683.9	748.1	748.1
Other liabilities	7.5	7.5	7.0	7.0	7.0	7.0
Subordinated liabilities	661.0	679.2	661.0	673.5	1,001.0	1,026.0
Total	227,073.4	229,741.8	201,430.4	205,053.2	193,643.3	196,245.4

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

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

Determination of fair value through published price quotations or valuation techniques where				
Level 1 includes Instruments with published price quotations				
Level 2 includes Valuation techniques based on observable market prices				
Level 3 includes Valuation techniques based on unobservable market price				
Financial instruments measured at fair value in the balance sheet				
30 September 2018, SEK M	Level 1	Level 2	Level 3	Total
Assets				
Bonds and other interest-bearing securities	10,210.8			10,210.8
Derivatives		5,498.8		5,498.8
Liabilities				
Derivatives		483.7		483.7
31 December 2017, 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
30 September 2017, SEK M				
Assets				
Bonds and other interest-bearing securities	9,650.9			9,650.9
Derivatives		4,223.4		4,223.4
Liabilities				
Derivatives		748.1		748.1

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 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	30 Sep 2018	31 Dec 2017	30 Sep 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	9,121.1
Accumulated Other comprehensive income	421.1	458.8	292.5
Interim profits, net, after deductions for foreseeable charge and dividends that have been verified by persons independent of the institution	637.7	477.1	453.7
Common Equity Tier 1 capital before legislative adjustments	11,084.8	10,467.2	9,937.6
Common Equity Tier 1 capital: legislative adjustments			
Additional value adjustments	-15.8	-14.5	-14.2
Fair value reserves related to gains or losses on cash-flow hedges	134.8	98.1	105.4
Negative amounts resulting from the calculation of expected loss amounts	-127.2	-94.4	-95.5
Total legislative adjustments of Common Equity Tier 1 capital	-8.3	-10.8	-4.3
Common Equity Tier 1 capital and additional Tier 1 instruments	11,076.5	10,456.4	9,933.3
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	1001.0
Total capital (total capital = Tier 1 capital + Tier 2 capital)	11,737.5	11,117.4	10,934.3
Total risk-weighted assets	20,315.7	18,589.1	18,222.4
Capital ratios and buffers			
Common Equity Tier 1 capital (as a percentage of the total risk-weighted exposure amount)	54.5 %	56.3 %	54.5 %
Tier 1 capital (as a percentage of the total risk-weighted exposure amount)	54.5 %	56.3 %	54.5 %
Total capital (as a percentage of the total risk-weighted exposure amount)	57.8 %	59.8 %	60.0 %
Institution-specific buffer requirements	9.0 %	9.0 %	9.0 %
<i>Of which: capital conservation buffer requirement</i>	2.5 %	2.5 %	2.5 %
<i>Of which: countercyclical capital buffer requirement</i>	2.0 %	2.0 %	2.0 %
<i>Of which: systemic risk buffer requirement</i>	-	-	-
<i>Of which: buffer for globally systemically important institution or for another systemically important institution</i>	-	-	-
Common Equity Tier 1 capital available for use as a buffer (as a percentage of the riskweighted exposure amount)	48.5 %	50.3 % ¹	48.5 % ¹

¹ Comparative figures have been adjusted.

SEK M	Capital-adequacy analysis, continued					
	30 Sep 2018		31 Dec 2017		30 Sep 2017	
	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement
Credit risk according to Standardised Approach						
Exposures to institutions	470.5	37.6	431.9	34.6	423.6	33.9
Covered bonds	1021.1	81.7	983.8	78.7	965.1	77.2
Other items	137.9	11.0	71.2	5.7	107.6	8.6
Total capital requirement and risk exposure amount	1,629.5	130.4	1,486.9	119.0	1,496.4	119.7
Credit risk according to IRB Approach						
<i>Retail exposures</i>						
Exposures secured by real estate collateral	350.6	28.0	431.1	34.5	430.9	34.5
Other retail exposures	13,110.1	1,048.8	11,737.3	939.0	11,331.6	906.5
Other retail exposures, small and medium-sized businesses	4.9	0.4	5.5	0.4	6.6	0.5
Other retail exposures	16.9	1.3	28.2	2.3	22.4	1.8
Total retail exposures	13,482.5	1,078.6	12,202.1	976.2	11,791.4	943.3
Exposures to corporates	3,481.7	278.5	3,314.7	265.2	3,365.2	269.2
Total capital requirement and risk exposure amount	16,964.2	1,357.1	15,516.8	1,241.3	15,156.6	1,212.5
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	591.4	47.3	670.2	53.6	654.1	52.3
Total capital requirement and risk exposure amount	20,315.7	1,625.3	18,589.1	1,487.1	18,222.2	1,457.8

Note 13	Disclosures on related parties
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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 assets 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	-	Loans and receivables	Amortised cost
Total assets	215,055.8		
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	7.0	Other financial liabilities	Other financial liabilities
Subordinated liabilities	661.0	Other financial liabilities	Other financial liabilities
Total liabilities	201,430.4		

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 October 2018

Anders Borgcrantz
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 30 September 2018 and the nine-month period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. My responsibility is to express a conclusion on this interim financial information report based on my review.

Scope of review

I conducted my review in accordance with International Standard on Review Engagements ISRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing practices and consequently does not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. Accordingly, I do not express an audit opinion.

Conclusion

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

Stockholm 25 October 2018

Dan Beitner
Authorized Public Accountant

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) after 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 loan receivables

Recognised loss allowance for loan receivables in relation to 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.

Financial calendar

Year-end report Länsförsäkringar Bank	7 February 2019
Year-end report Länsförsäkringar Hypotek	7 February 2019

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 October 2018 at 12:00 a.m. Swedish time.

For further information, please contact:

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